RENTAL HOUSING IMPACT FEE
NEXUS STUDY

Council Study Session
February 10, 2015
Agenda

- General Context
- Nexus Study
  - Background
  - Findings
- Fee Alternatives
- Feasibility Study
- Projected Impact
General Context

30+ year history of comprehensive City housing programs

- Homebuyer Programs
- Housing Rehabilitation
- Affordable Rentals
- Homeless Assistance
- New construction, acquisition, rehabilitation
Projects Funded with Housing Mitigation Fees (HMF)

Funding for New Construction:

- **2009**: Fair Oaks Plaza (124 new units) $4.6M in HMF
- **2013**: Armory Project (117 new units) $8.1M in HMF
- **2015** *(Proposed Project, Pending Approval)*: 460 Persian Dr. (60 new units) Requested $5M in HMF
Projects Funded with HMF

Funding for Rehabilitation/Preservation

- Homestead Park (78 units): $5M in HMF
- Morse Court (35 units): $1M in HMF
- Jackson St. Habitat Homes (2 units): $132,000 in HMF
Funding Trends

- Federal Grants
  ~ $1M / year and decreasing

- Linkage Fees ("HMF")
  $1 - $7M / year, highly variable based on development trends

- BMR In-Lieu Fees
  Newer revenue source; increasing due to 2012 code changes

- RDA Housing Set-Aside
  Initial deposits began in January; projected for ~15 years
Development Costs

Recent City fees for 97-unit rental project:

- Park In-Lieu Fees: $1,500,000
- Sense of Place Fees: $100,000
- Traffic Impact Fees: $124,000
- Building Permit Fees: $375,000

Total: $2,099,000

School Fees: $275,000
Land Costs: $3-5 Million / acre
Nexus Study Background

Q: What is a Rental Impact Fee?
A: A fee paid by developers on new market-rate apartment projects

Q: What is the money used for?
A: To subsidize new or rehabilitated affordable housing developments
Background, cont.

Q: Why do cities need a rental impact fee?
A: To address the *increased* demand for affordable housing created by new market-rate rental developments.

Q: What other cities have a rental impact fee?
A: San Jose, Mountain View, Cupertino, and various cities outside of Silicon Valley
### Rental Impact Fees in Other Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Fee Status/Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cupertino</td>
<td>$3 / SF; nexus study in progress to update fees</td>
</tr>
<tr>
<td>Mountain View</td>
<td>$17 / SF</td>
</tr>
<tr>
<td>San Jose</td>
<td>$17 / SF</td>
</tr>
<tr>
<td>San Carlos</td>
<td>$2.38 to $28.27 / SF</td>
</tr>
<tr>
<td>Fremont</td>
<td>$19.50 / SF</td>
</tr>
<tr>
<td>Walnut Creek</td>
<td>$15 / SF</td>
</tr>
<tr>
<td>Berkeley</td>
<td>Approx. $28 / SF</td>
</tr>
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</table>
## Other Cities Surveyed

<table>
<thead>
<tr>
<th>City</th>
<th>Fee Status/Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saratoga, Los Altos Hills, Los Altos, Santa Clara, Milpitas, Morgan Hill, Gilroy, Los Gatos</td>
<td>No fee</td>
</tr>
<tr>
<td>Palo Alto</td>
<td>No fee; conducting a Nexus Study</td>
</tr>
<tr>
<td>Campbell</td>
<td>No fee; considering studying in the future</td>
</tr>
</tbody>
</table>
## Background of Rental Impact Fee Nexus Study

<table>
<thead>
<tr>
<th>Date</th>
<th>Step</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2012</td>
<td>Council Direction: Prepare Nexus Study On Rental Impact Fee (RIF)</td>
</tr>
<tr>
<td>August 2013</td>
<td>Council Direction: Complete Commercial Fee Nexus Study <em>Before</em> Consideration of RIF Proposal</td>
</tr>
<tr>
<td>December 9, 2014</td>
<td>Commercial Fee Study Completed; Council Sets Fee At $7.50 - $15 / SF For Commercial Projects</td>
</tr>
<tr>
<td>January 2015</td>
<td>Commissions Consider RIF Study, HHSC Recommends $21 / SF (if Feasible)</td>
</tr>
<tr>
<td>February 9, 2015</td>
<td>Planning Commission Recommends $21 / SF</td>
</tr>
</tbody>
</table>
Affordable Housing
Nexus Studies and Impact Fees

presented by
Darin Smith and
Michael Nimon
How does this work?

1. Developer proposes to build new 100-unit apartment complex

2. 100 new households move into new apartment complex
3. 300 new residents patronize local businesses: restaurants, cafes, salons, pet groomers, grocery stores.

4. Shop owners hire new staff, start new businesses to meet increased demand.
5. Most new workers paid lower-income wages, can’t afford local rents, need subsidized housing

Monthly salary @ $10/hour = $1,733
Average rent = $2,385

Local affordable housing stock can’t accommodate increased demand
6. Affordable housing needed by new workers is an “impact” of new apartment development.

7. Cities can require developers to address impacts of their developments by paying fees or providing infrastructure (roads, parks, schools, affordable housing).
Nexus study method:

1. Quantify spending of new unit residents based on incomes (imputed from new unit rents)
2. Translate resident spending into new low-wage jobs created
3. Translate low-wage jobs into lower-income households (= new affordable housing need)
4. Calculate City cost to subsidize needed affordable units
5. Apply that cost as fee on new market-rate apartment projects (per-unit or per-square foot basis)
Nexus Study Findings

- Most jobs created through new resident spending pay lower-income wages:
  - Majority in retail and personal/household services
  - Average wages in these jobs are less than $35,000/year

- Government jobs created are typically moderate-income or above; don’t require housing subsidy (for rental)
Nexus Study Findings

Market-rate rents are not affordable to lower-income households:

- Need annual income of $148,000 to rent newer 2-bedroom apartment in Sunnyvale (4 times average wage of a lower-income worker)
- Need annual income of $95,400 to rent average apartment in Sunnyvale (nearly 3 times average wage of a lower-income worker)
Nexus Study Findings

Fee based on subsidies needed to build modest rental units affordable to lower-income households

<table>
<thead>
<tr>
<th>Development Assumptions</th>
<th>42 units / acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs</td>
<td></td>
</tr>
<tr>
<td>Land/Acre</td>
<td>$4,094,000</td>
</tr>
<tr>
<td>Land/Unit</td>
<td>$97,476</td>
</tr>
<tr>
<td>Construction &amp; Soft Costs</td>
<td>$325,394</td>
</tr>
<tr>
<td>Total Cost/Unit</td>
<td>$422,870</td>
</tr>
<tr>
<td>Total Supportable Unit Value (80% AMI)</td>
<td>$276,647</td>
</tr>
<tr>
<td><strong>Subsidy Required / Unit</strong></td>
<td><strong>$146,223</strong></td>
</tr>
</tbody>
</table>

Data from Table 3 of the EPS Nexus Study
## Nexus Study Results

### Maximum Supportable Nexus-Based Housing Fees, or Unit Requirements In-Lieu of Fees

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Maximum Nexus-Based Fee</th>
<th>Fee/SF</th>
<th>% Affordable Units Required, by Income Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Fee per Unit</strong></td>
<td><strong>Fee/SF</strong></td>
<td><strong>Very Low</strong></td>
</tr>
<tr>
<td>Studio</td>
<td>$47,154</td>
<td>$98</td>
<td>14.1%</td>
</tr>
<tr>
<td>1 BR</td>
<td>$47,563</td>
<td>$60</td>
<td>14.3%</td>
</tr>
<tr>
<td>2 BR</td>
<td>$66,042</td>
<td>$55</td>
<td>20.3%</td>
</tr>
<tr>
<td>3 BR</td>
<td>$85,343</td>
<td>$61</td>
<td>26.2%</td>
</tr>
</tbody>
</table>

1. Fee/SF calculated by dividing the fee per unit by average SF of various unit types. **Source: EPS, Inc.**
Feasibility Issues
Total City Fees Now vs. Total Fees with RIF, for 100-unit apartment project

- **No Fee**
  - $2,050,813

- **$17/SF**
  - $1,995,000

- **$21/SF**
  - $2,470,000

- **$26/SF**
  - $2,050,813
Developer Yields Under Various Rental Impact Fee Levels*

*Based on a 200-unit market rate apartment Project
Projections
### Projected Market-Rate Apartment Production in Sunnyvale, Next 10 Years

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Apartment Unit Deliveries</strong></td>
<td></td>
</tr>
<tr>
<td>2000-2014</td>
<td>1,033</td>
</tr>
<tr>
<td>2015 (expected)</td>
<td>1,374</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,407</td>
</tr>
<tr>
<td><strong>15-Year Annual Average</strong></td>
<td>160</td>
</tr>
<tr>
<td>Estimated Growth, 2016-2025</td>
<td>1,600</td>
</tr>
</tbody>
</table>
### Potential Fee Revenues From New Apartment Growth, with Affordable Unit Equivalents

#### 10-Year Projection (2016-2025)

<table>
<thead>
<tr>
<th>Fee Level Revenue (1)</th>
<th>Potential Revenue (1)</th>
<th>VLI (50% AMI)</th>
<th>Low (60% AMI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>$17</td>
<td>$25.8M</td>
<td>85</td>
<td>104</td>
</tr>
<tr>
<td>$21</td>
<td>$31.9M</td>
<td>106</td>
<td>129</td>
</tr>
<tr>
<td>$26</td>
<td>$39.5M</td>
<td>131</td>
<td>159</td>
</tr>
<tr>
<td>$55</td>
<td>$83.6M</td>
<td>276</td>
<td>337</td>
</tr>
</tbody>
</table>

(1) Assumes 1,600 market rate units at 950 net SF/unit (2) Based on funding gaps in the EPS Nexus Study
Alternatives Considered

- Range of $10 - $26 / SF considered
- Alternatives include: $17/SF, $21/SF, or $26/SF
  - Include option for developers to provide affordable units in lieu of fee
  - Fee sunsets if Palmer decision reversed through legislation
  - Fee payable at building permit issuance or at occupancy
Next Steps

- March 17: Council Public Hearing on Fee Alternatives
- If Council gives direction to adopt RIF, staff will bring ordinance in June/July 2015
More Information:

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