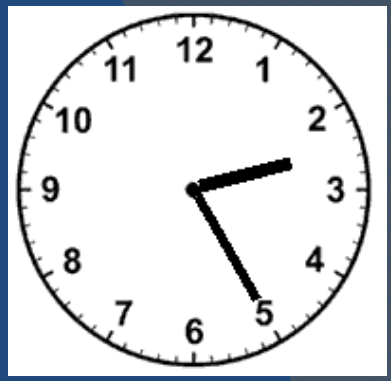
RENTAL HOUSING IMPACT FEE NEXUS STUDY

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

City	Fee Status/Amount
Cupertino	$3 / SF; nexus study in progress to update fees
Mountain View	$17 / SF
San Jose	$17 / SF
San Carlos	$2.38 to $28.27 / SF
Fremont	$19.50 / SF
Walnut Creek	$15 / SF
Berkeley	Approx. $28 / SF

Other Cities Surveyed

City	Fee Status/Amount
Saratoga, Los Altos Hills, Los Altos, Santa Clara, Milpitas, Morgan Hill, Gilroy, Los Gatos	No fee
Palo Alto	No fee; conducting a Nexus Study
Campbell	No fee; considering studying in the future

Background of Rental Impact Fee Nexus Study

Date	Step
July 2012	Council Direction: Prepare Nexus Study On Rental Impact Fee (RIF)
August 2013	Council Direction: Complete Commercial Fee Nexus Study *Before* Consideration of RIF Proposal
December 9, 2014	Commercial Fee Study Completed; Council Sets Fee At $7.50 - $15 / SF For Commercial Projects
January 2015	Commissions Consider RIF Study, HHSC Recommends $21 / SF (if Feasible)
February 9, 2015	Planning Commission Recommends $21 / SF

The Economics of Land Use

Affordable Housing Nexus Studies and Impact Fees

presented by

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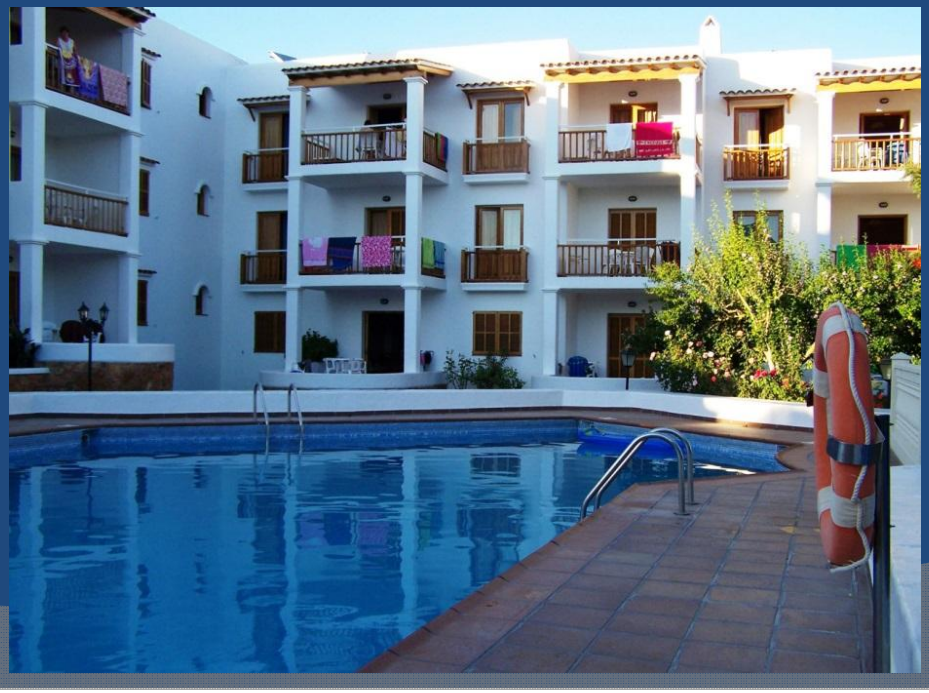
How does this work?

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

Development Assumptions	42 units / acre
Costs	
Land/Acre	$4,094,000
Land/Unit	$97,476
Construction & Soft Costs	$325,394
Total Cost/Unit	$422,870
Total Supportable Unit Value (80% AMI)	$276,647
Subsidy Required / Unit	**$146,223**

Data from Table 3 of the EPS Nexus Study

Nexus Study Results

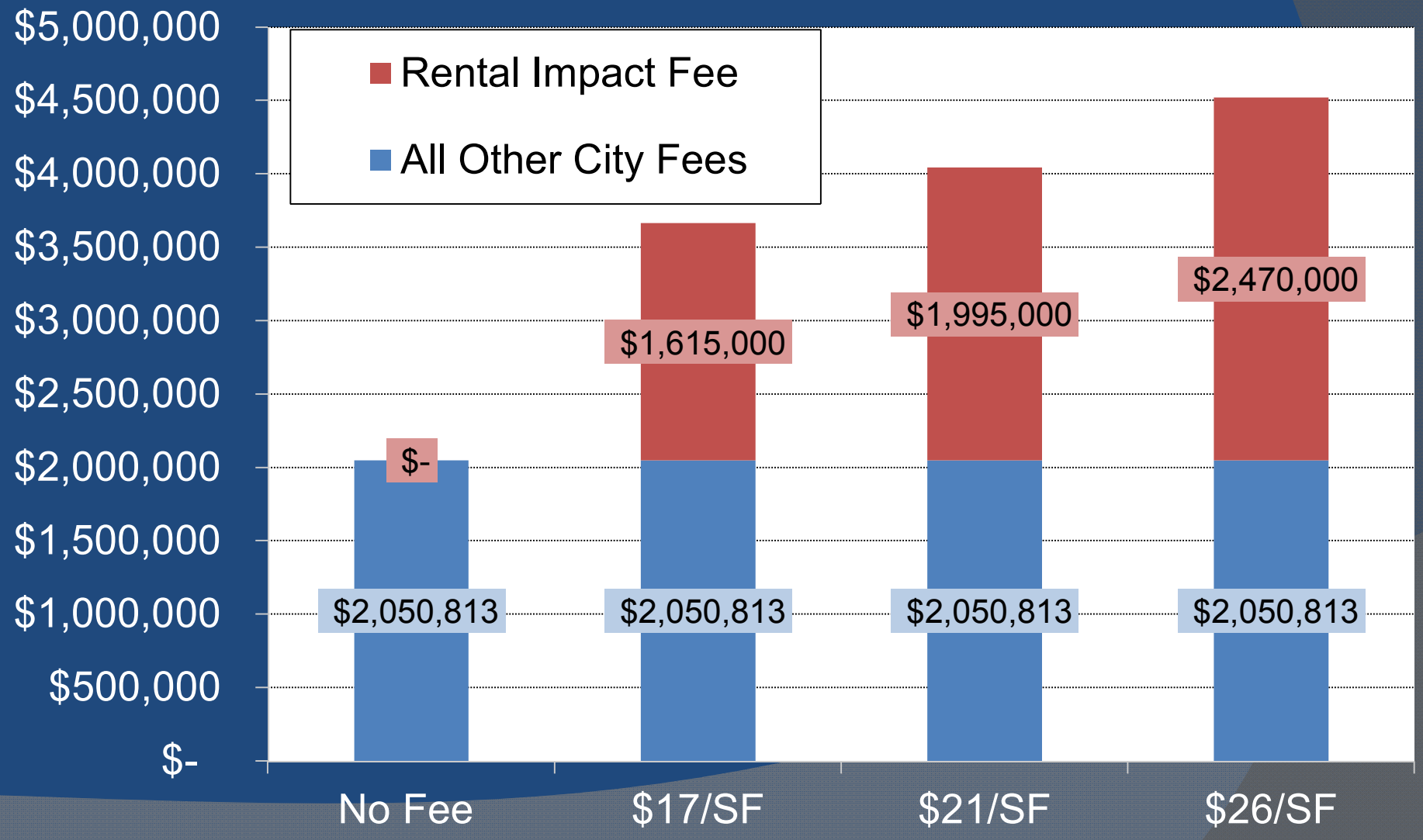
Maximum Supportable Nexus-Based Housing Fees, or Unit Requirements In-Lieu of Fees

Unit Type	Maximum Nexus-Based Fee		% Affordable Units Required, by Income Level			
	Fee per Unit	*Fee/SF* [1]	*Very Low*	*Low*	*Median*	*Total*
Studio	**$47,154**	$98	14.1%	3.0%	1.1%	**18.2%**
1 BR	**$47,563**	$60	14.3%	2.8%	1.1%	**18.2%**
2 BR	**$66,042**	$55	20.3%	3.0%	2.0%	**25.3%**
3 BR	**$85,343**	$61	26.2%	4.1%	1.4%	**31.7%**

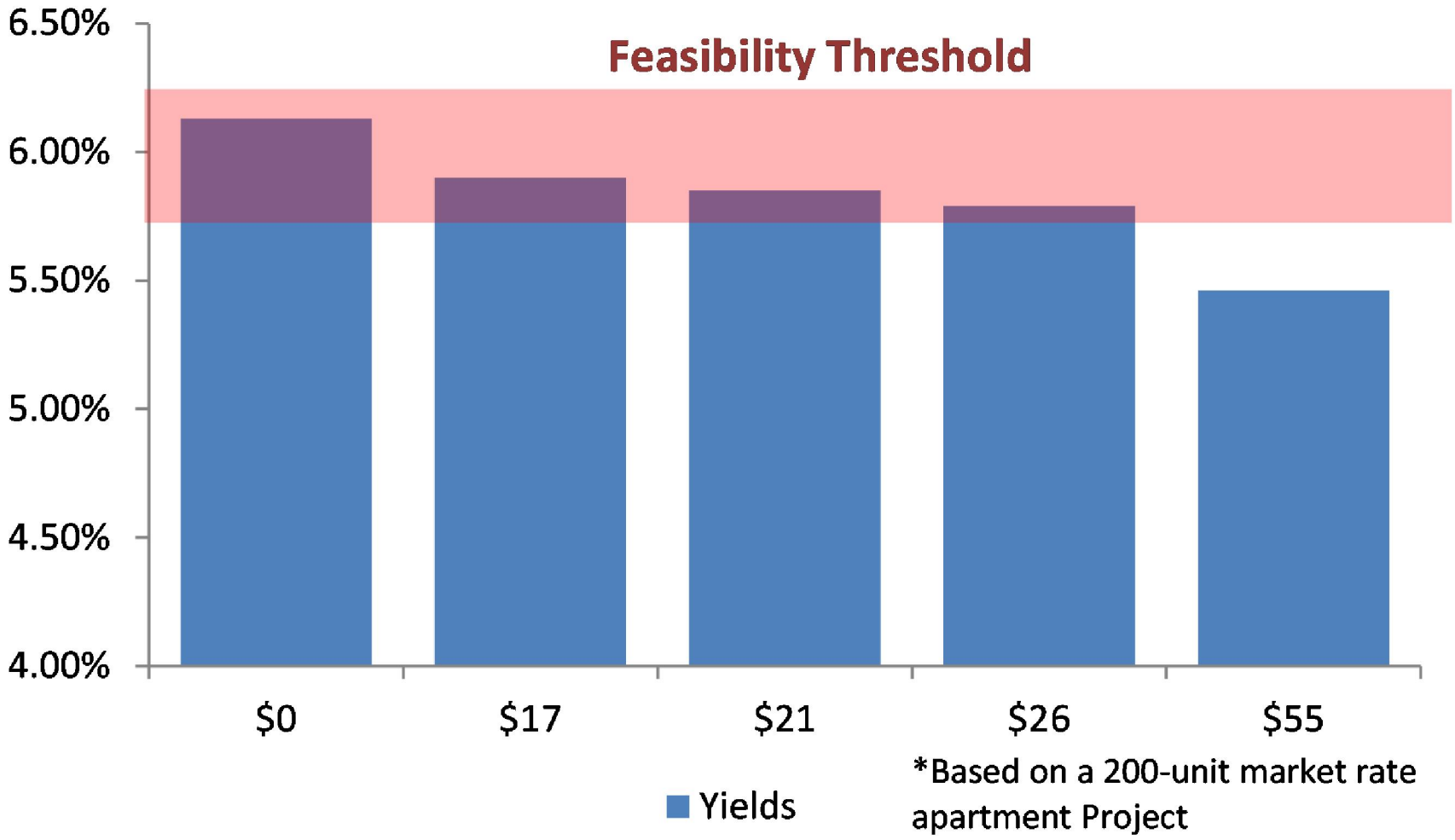
1. Fee/SF calculated by dividing the fee per unit by average SF of various unit types. ***Source: EPS, Inc.***

Feasibility Issues

Total City Fees Now vs. Total Fees with RIF, for 100-unit apartment project



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

Apartment Unit Deliveries	
2000-2014	1,033
2015 (expected)	1,374
Total	2,407
15-Year Annual Average	160
Estimated Growth, 2016-2025	1,600

Potential Fee Revenues From New Apartment Growth, with Affordable Unit Equivalents

10-Year Projection (2016-2025)

Fee Level	Potential Revenue (1)	Equivalent Units (2)	
		VLI (50% AMI)	*Low (60% AMI)*
$0	$0	0	0
$17	$25.8M	85	104
$21	$31.9M	106	129
$26	$39.5M	131	159
$55	$83.6M	276	337

(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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