RENTAL HOUSING IMPACT FEE AND NEXUS STUDY

Stakeholder Outreach Meeting

January 2015
Agenda

- Context
- Nexus Study
- Options
- Next Steps
Context of Nexus Study

- Sunnyvale’s 30+ Years of Comprehensive Housing Programs
- Trends
- Development Environment
- Legal Context
Ongoing Housing Efforts

- Homebuyer Programs
- Home Improvement
- Rental Programs
- Homelessness Prevention & Recovery
- Capital Projects: New construction, acquisition, rehabilitation
Housing-Supportive Policies

- Density Bonus
- Inclusionary Zoning
- Flexible & Mixed-Use Zoning
- Station Area Plans & Priority Development Areas
- Certified Housing Element & Adequate Sites
- Nationally-Recognized Streamlined Permitting
Trends: Funding

- **Federal CDBG & HOME Grants**
  ~ $1M / year and decreasing

- **Linkage Fees (“HMF”)**
  $1 - $7M / year, highly variable based on commercial development trends

- **BMR In-Lieu Fees**
  Not a major revenue source prior to 2012; now increasing due to 2012 code changes (fractional unit fees)

- **Deferred RDA Housing Set-Aside**
  Initial deposits to begin in 2015; for ~15 years
Trends: Affordability

Housing Costs:
- Apt. rents increased 11.7% in past 12 months
- Average Sunnyvale Apt. Rent: $2,351 / Month

Source: RealFacts, 3Q 2014

Affordability:
Average Rents Affordable only to Moderate Income Households
Recent Local Rent Trends

Sources: Sunnyvale Vacancy & Rent Surveys, HUD User FMR
Development Environment

Fees for 97-unit apartment project

- Park In-Lieu Fees: $1.5 Million
- Sense of Place Fees: $100,000
- Traffic Impact Fees: $124,000
- Building Permit Fees: $375,000
- School Impact Fee: $275,000

Land Costs: $3-5 Million / acre
Permit Issuances UP
Legal Context

- 2009 Palmer v. L.A. Decision Strikes Down Inclusionary Rental Programs
- Numerous challenges to ownership and/or rental inclusionary programs
  - Sunnyvale, Palo Alto, San Jose, Mountain View programs challenged between 2008-2013
- State Dissolves Redevelopment Agencies
### Background of Rental Impact Fee Nexus Study

<table>
<thead>
<tr>
<th>Date</th>
<th>Step</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>July 2012</strong></td>
<td>Council Directs Staff to Prepare Nexus Study on Rental Impact Fee</td>
</tr>
<tr>
<td><strong>August 2013</strong></td>
<td>Council Study Session on Nexus Study; Council Directs Staff to Complete Commercial Linkage Fee Nexus Study before Preparing Rental Impact Fee Proposal</td>
</tr>
<tr>
<td><strong>December 9, 2014</strong></td>
<td>Linkage Fee Nexus Study Completed; Council Directs Staff to Prepare Ordinance with Rate of $7.50 to $15 / SF for Commercial Projects</td>
</tr>
</tbody>
</table>
Methodology

Household Spending per Market-Rate Unit

Jobs Created per Market-Rate Unit

Worker Households Created

Income-Qualified Work Households

Affordable Housing Demanded by Income Level

Affordable Housing Development Cost

Maximum Value of Income-Restricted Units

Financing Gap by Income Level

Maximum Nexus-Based Fee per Market-Rate Unit

*Figure format based on A.F. Cray’s “The Use of Residential Nexus Analysis in Support of California’s Inclusionary Housing Ordinances: A Critical Evaluation”; November 2011
Nexus Study Observations

- Most jobs created through new resident spending are in lower-income groups:
  - Majority in retail and personal/household services
  - Average wages are less than $35,000/year
- Government jobs created are typically moderate-income or above; don’t require housing subsidy (for rental)
Nexus Study Observations

Rents in Newer Apartments are NOT Affordable to Lower Income Households

<table>
<thead>
<tr>
<th># of Bedrooms</th>
<th>Low Income Limit (80% AMI)</th>
<th>Rents Affordable to Low Income Tenants</th>
<th>Average Rents in Recent Projects [1]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$67,900</td>
<td>$1,698</td>
<td>$2,700</td>
</tr>
<tr>
<td>2</td>
<td>$76,400</td>
<td>$1,910</td>
<td>$3,700</td>
</tr>
<tr>
<td>3</td>
<td>$84,900</td>
<td>$2,123</td>
<td>$4,600</td>
</tr>
</tbody>
</table>

[1] 3Q 2014 rents for Lawrence Station Apts, Loft House, Via, and Solstice
Annual Income Needed to Rent a Newer Market-Rate Apartment in Sunnyvale

1-BR $2,700
2-BR $3,700
3-BR $4,600

$108,000
$148,000
$184,000
Nexus Study Observations

Subsidies needed to build apartments 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>Subsidy Required / Unit</td>
<td>$146,223</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>Units Required, by Income Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fee per Unit</td>
<td>Fee/SF [1]</td>
</tr>
<tr>
<td>Studio</td>
<td>$47,154</td>
<td>$98</td>
</tr>
<tr>
<td>1 BR</td>
<td>$47,563</td>
<td>$60</td>
</tr>
<tr>
<td>2 BR</td>
<td>$66,042</td>
<td>$55</td>
</tr>
<tr>
<td>3 BR</td>
<td>$85,343</td>
<td>$61</td>
</tr>
</tbody>
</table>

[1] Fee/SF calculated by dividing the maximum fee per unit by average SF of various unit types, as shown on Table 4. **Source: EPS, Inc.**
# Rental Impact Fees in Nearby Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Fee Status/Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cupertino</td>
<td>$3 per SF; currently conducting a Nexus Study</td>
</tr>
<tr>
<td>Mountain View</td>
<td>$17 per SF, eff. Feb. 2015</td>
</tr>
<tr>
<td>San Jose</td>
<td>$17 per SF</td>
</tr>
<tr>
<td>San Carlos</td>
<td>Range of $2.38 to $28.27 per SF</td>
</tr>
<tr>
<td>Fremont</td>
<td>$19.50 per SF</td>
</tr>
<tr>
<td>Walnut Creek</td>
<td>$15 per SF</td>
</tr>
<tr>
<td>Berkeley</td>
<td>$28,000 per unit</td>
</tr>
</tbody>
</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>
Options Considered

- Fee of $17-26 per SF on new market-rate rental units
- Option to provide affordable units in lieu of fee
- Fee sunsets if *Palmer* decision reversed through legislation
- Payable prior to building permit issuance or at occupancy
Recently Funded Projects

New Projects:
- Fair Oaks Plaza (124 new units): $4.6M in HMF + $1.4M HOME
- Armory Project (117 new units): $8.1M in HMF + $2.25M HOME
Recently Funded Projects

Rehabilitation Projects

- Homestead Park (78 units): $5M HMF
- Morse Court (35 units): $1M
- Jackson St. Habitat Homes (2 units): $132,000
- Bill Wilson Group Homes (10 units): $45,000
- Stoney Pine Apartments (21 units): $99,000
Next Steps

- January 28: HHSC Public Hearing
- February 9: PC Public Hearing
- February 10: City Council Study Session
- March 17: City Council Public Hearing
More Information:

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