

# Sunnyvale Housing Mitigation Fee Nexus Study

*The Economics of Land Use*



*presented to*

City of Sunnyvale

*presented by*

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September 24, 2014

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# Housing Mitigation Fee Background and Context

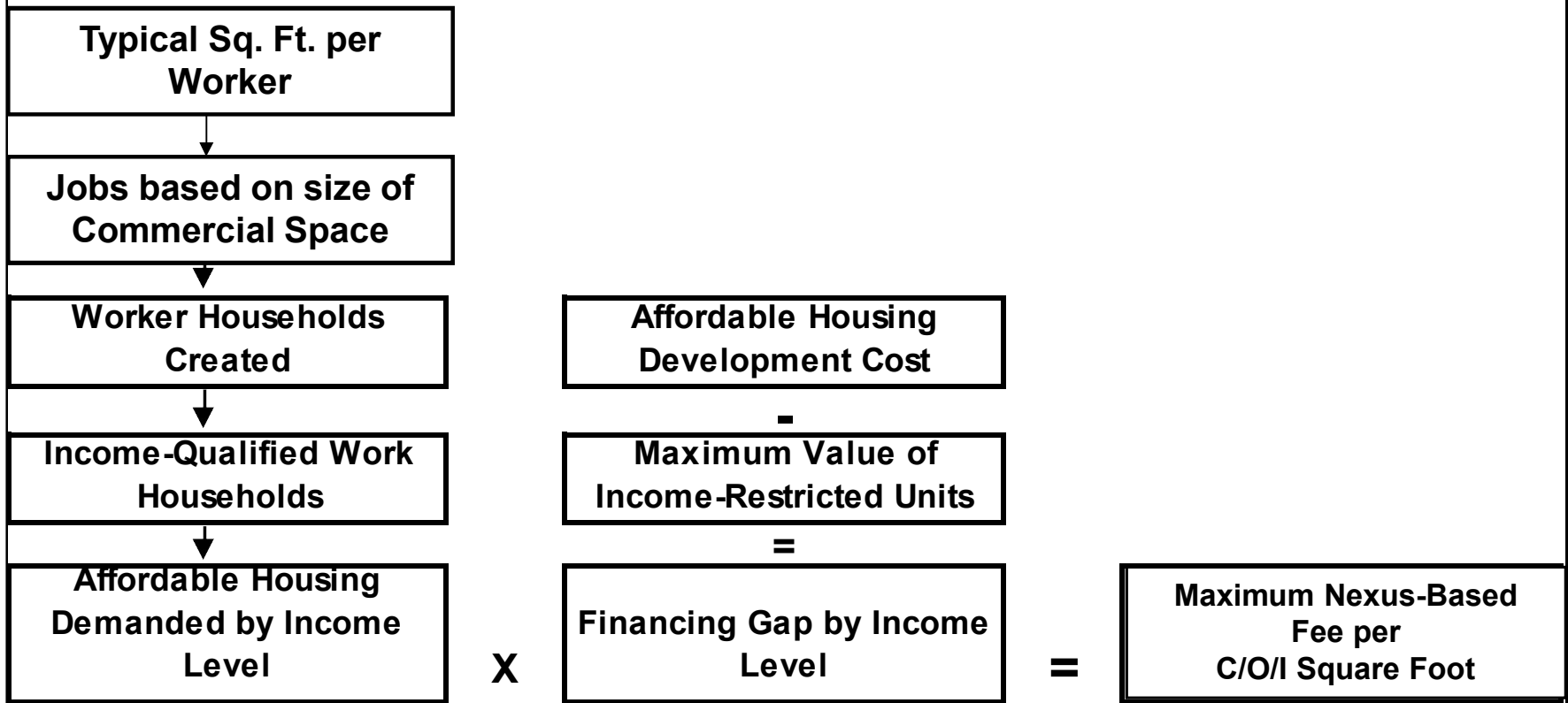
- Sunnyvale's existing Housing Mitigation Fee was adopted in 1983, last updated in 2003
  - \$9.49/SF for certain uses
- Economic circumstances have changed
  - Housing market conditions
  - Development economics
- Affordable housing resources have changed
  - Constrained City budgets
  - Federal and State funding for housing is less consistent
  - Inclusionary zoning has faced legal challenges

# EPS Scope of Services

1. Update nexus calculation for commercial uses, including office/R&D/light industrial, retail, and lodging
2. Establish "Maximum Fees" for commercial uses
3. Survey fees and practices in comparable jurisdictions
4. Test feasibility impacts of fees at various levels
5. Work with staff to suggest updated fee schedule

# Housing Mitigation Fee Illustration of Methodology

## Approach to Calculating Affordable Housing "Nexus" Relationships



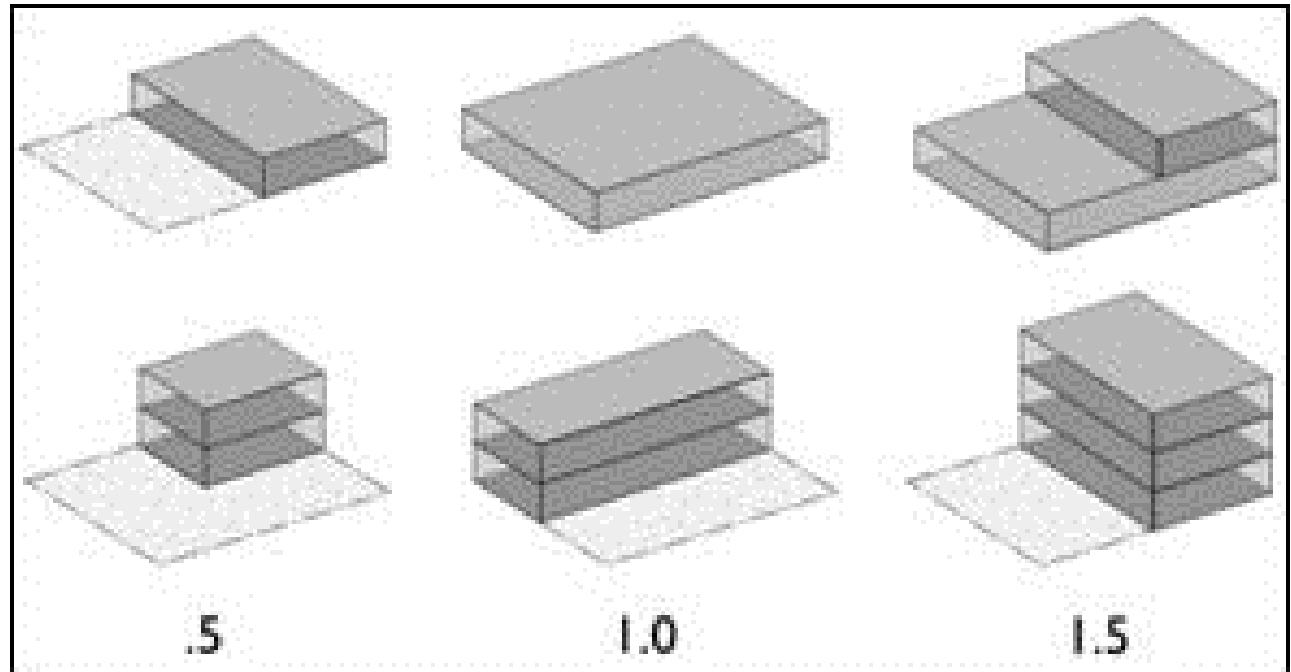
\*Figure format based on A.F. Cray's "The Use of Residential Nexus Analysis in Support of California's Inclusionary Housing Ordinances: A Critical Evaluation"; November 2011

# Current Housing Mitigation Fee

- \$9.49 per SF for new developments (office/R&D and light industrial) in industrial zoning districts
- Applies only to new building area that exceeds Floor Area Ratio (FAR) limits
  - Example: If zoning allows 0.3 FAR by right, fee only applies to any new building area above 0.3 FAR.
- Projects of any kind (i.e., office/R&D, hospitality or retail) located in other zoning districts are not subject to the fee

# Illustration of Floor Area Ratio (FAR)

- Floor area ratio (FAR) is the ratio of the total floor area of building(s) on a site to the site (property) area.
- To calculate FAR, divide total floor area by site area.
- Typically expressed as a decimal (0.5 or 1.0 FAR).



$$\frac{\text{FLOOR (Total building area, in sq. ft.)}}{\text{AREA (of site, in sq. ft)}} = \text{FAR}$$

# Housing Mitigation Fee Nexus Study Updates

- **Worker housing demand estimates**
  - Typical local wages by occupation and industry
  - Worker densities (square feet/employee)
  - Household formation rates
- **Housing development economics**
  - Costs for property acquisition, construction, other fees
  - Housing values under current financing standards
- **Additional uses and application**
  - Added retail and lodging to office/light industrial/R&D
  - Calculated based on net new building square footage, not just SF in excess of FAR limits

# Housing Mitigation Fee Nexus Study Findings

- Many jobs are created in lower-wage positions
  - Retail workers are typically low-income
  - Lodging has low-wage jobs, but lower employment density
  - Office/R&D/light industrial has more higher-income workers, but still many lower-wage employees as well
- Most retail and lodging workers can't afford market-rate home prices
  - Median Sunnyvale home sale price ~\$875,000 (1)  
(1) Include single family, townhome, and condo sales. Source: DQ News
  - Average Sunnyvale rent ~\$2,233  
Source: RealFacts



# Existing HMF vs. Updated Maximum Fees

Land Use	Fee per sq.ft.	
	Existing (1)	Maximum
Office/R&D/Light Industrial	\$9.49	\$113.99
Retail	na	\$295.23
Lodging	na	\$76.22

(1) Applies to square footage above base zoning allowance

# Housing Mitigation Fee Comparison

Item	Office	R&D	Industrial	Retail	Lodging
Sunnyvale Existing Fee [1]	\$9.49	\$9.49	\$9.49	-	-
EPS Maximum Fee Calculation [2]	\$113.99	\$113.99	\$113.99	\$295.23	\$76.22
<u>Silicon Valley</u>					
Cupertino	\$5.56	\$5.56	\$5.56	\$5.56	\$5.56
Menlo Park [3]	\$14.92	\$14.92	\$8.10	\$8.10	\$8.10
Mountain View [4]	\$10.00	\$10.00	\$10.00	\$2.47	\$2.47
Palo Alto	<u>\$19.31</u>	<u>\$19.31</u>	<u>\$19.31</u>	<u>\$19.31</u>	<u>\$19.31</u>
<b>Silicon Valley Average</b>	<b>\$12.45</b>	<b>\$12.45</b>	<b>\$10.74</b>	<b>\$8.86</b>	<b>\$8.86</b>
<u>San Francisco</u>	\$24.03	\$16.01	\$18.89	\$22.42	\$17.99
<u>North Bay [5]</u>	\$3.14	\$3.64	\$1.99	\$4.06	\$2.37
<u>East Bay [6]</u>	<u>\$3.14</u>	<u>\$2.76</u>	<u>\$2.27</u>	<u>\$2.59</u>	<u>\$2.42</u>
<b>Bay Area Nexus Fee Average [7]</b>	<b>\$6.05</b>	<b>\$6.46</b>	<b>\$4.68</b>	<b>\$5.57</b>	<b>\$4.58</b>

# Housing Mitigation Fee Notes

- [1] Applies to square footage in excess of allowable FAR.
- [2] EPS max fee calculation based on full building square footage.
- [3] Fees only apply to buildings of 10,000 square feet or more. This analysis assumes fees for a 10,000 square foot building.
- [4] For office/high-tech/industrial uses, Mountain View applies fee of \$5.00/sqft up to 10,000 sqft and \$10.00/sqft for square footage above 10,000. Similarly, for hotel/retail/entertainment uses, \$1.27/sqft is applied below 25,000 sqft and \$2.47/sqft for square footage exceeding 25,000. This analysis assumes fees for a building exceeding 25,000 square feet.
- [5] Includes cities of Napa, Madera, Cotati, Petaluma, St. Helena, as well as Marin, Napa, and Sonoma counties.
- [6] Includes cities of Walnut Creek, Oakland, Berkeley, Alameda, Dublin, Livermore, and Pleasanton.
- [7] Does not include Sunnyvale or jurisdictions that do not charge a nexus-based commercial linkage fee.

# Fee Levels Tested for Feasibility

*by Product Type per sq.ft.*

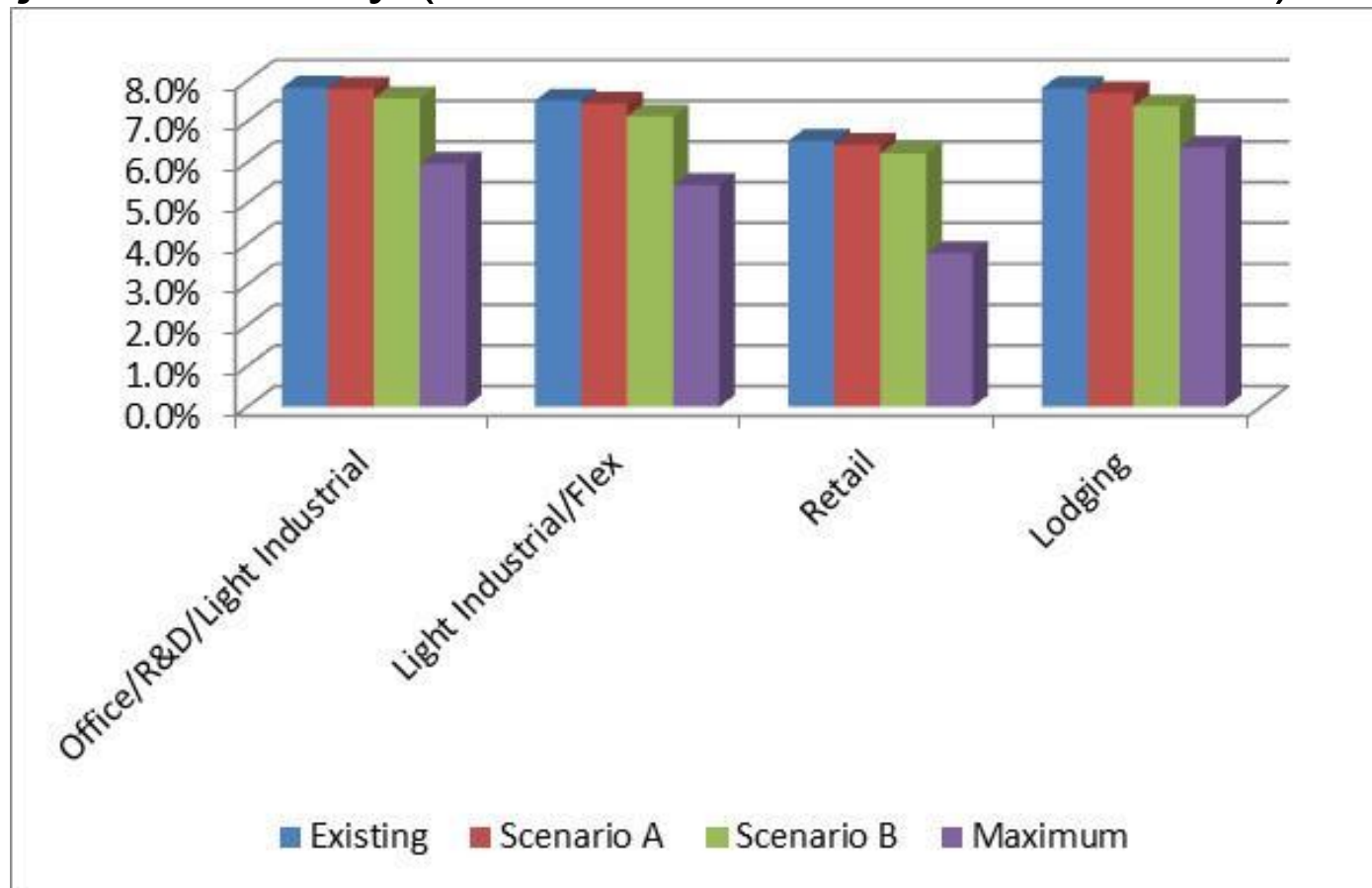
Land Use	Existing (1)	Maximum	Scenario A		Scenario B
			Below 25,000 sq.ft.	Above 25,000 sq.ft.	
Office/R&D/Light Industrial	\$9.49	\$113.99	\$5.00	\$10.00	\$20.00
Retail	na	\$295.23	\$5.00	\$10.00	\$20.00
Lodging	na	\$76.22	\$3.00	\$6.00	\$20.00

(1) Applies to the square footage above that already entitled under existing zoning, which varies by location. For the purpose of to development above 0.3 FAR.

- Scenario A: Fees could be discounted by 50% for the first 25,000 SF of a project (similar to Mountain View)
- Scenario B: \$20/SF for all uses (similar to Palo Alto)

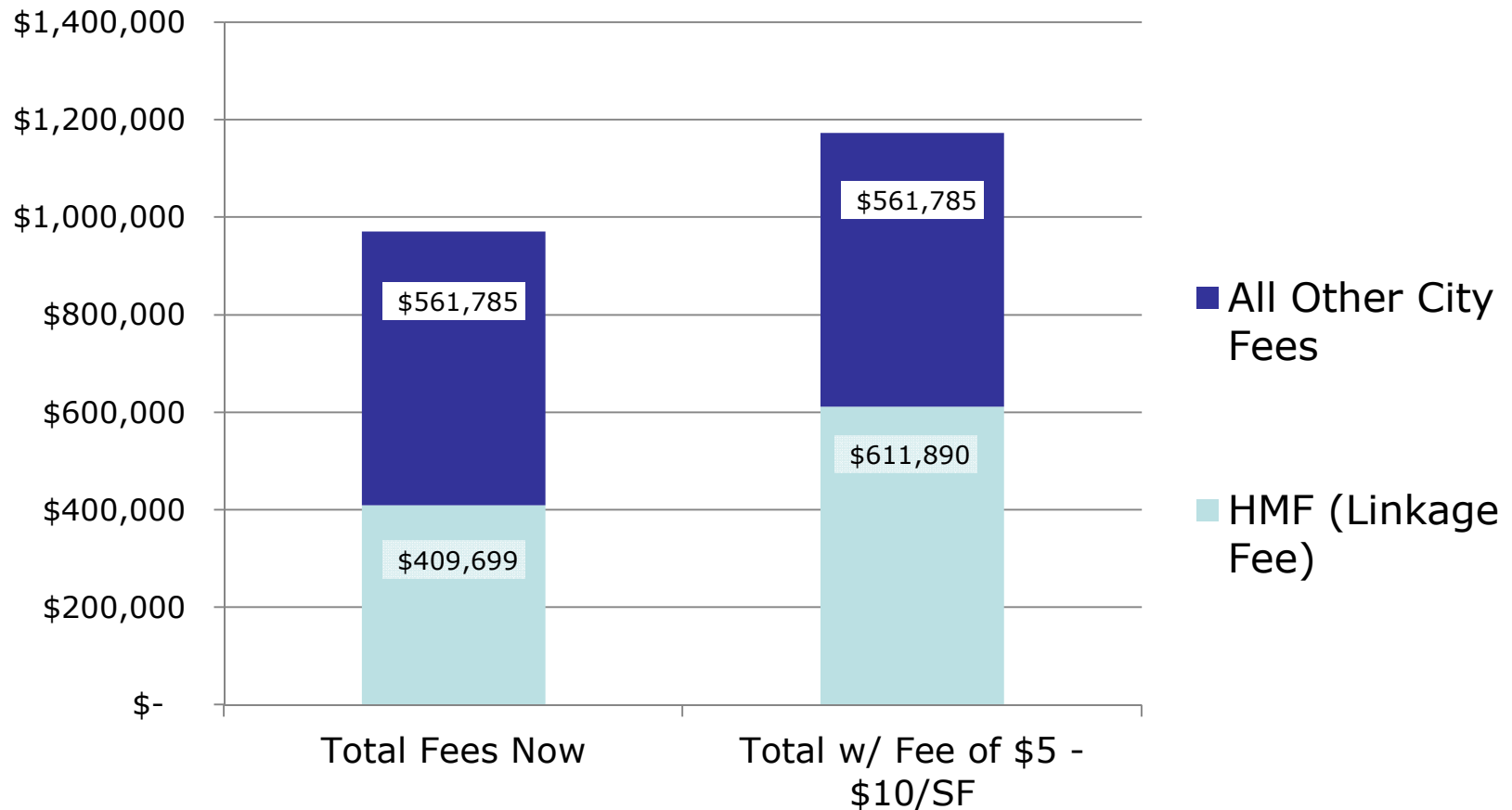
# Feasibility Test Findings

- Fees at the tested levels would have marginal impacts on project feasibility (return on costs at stabilization)



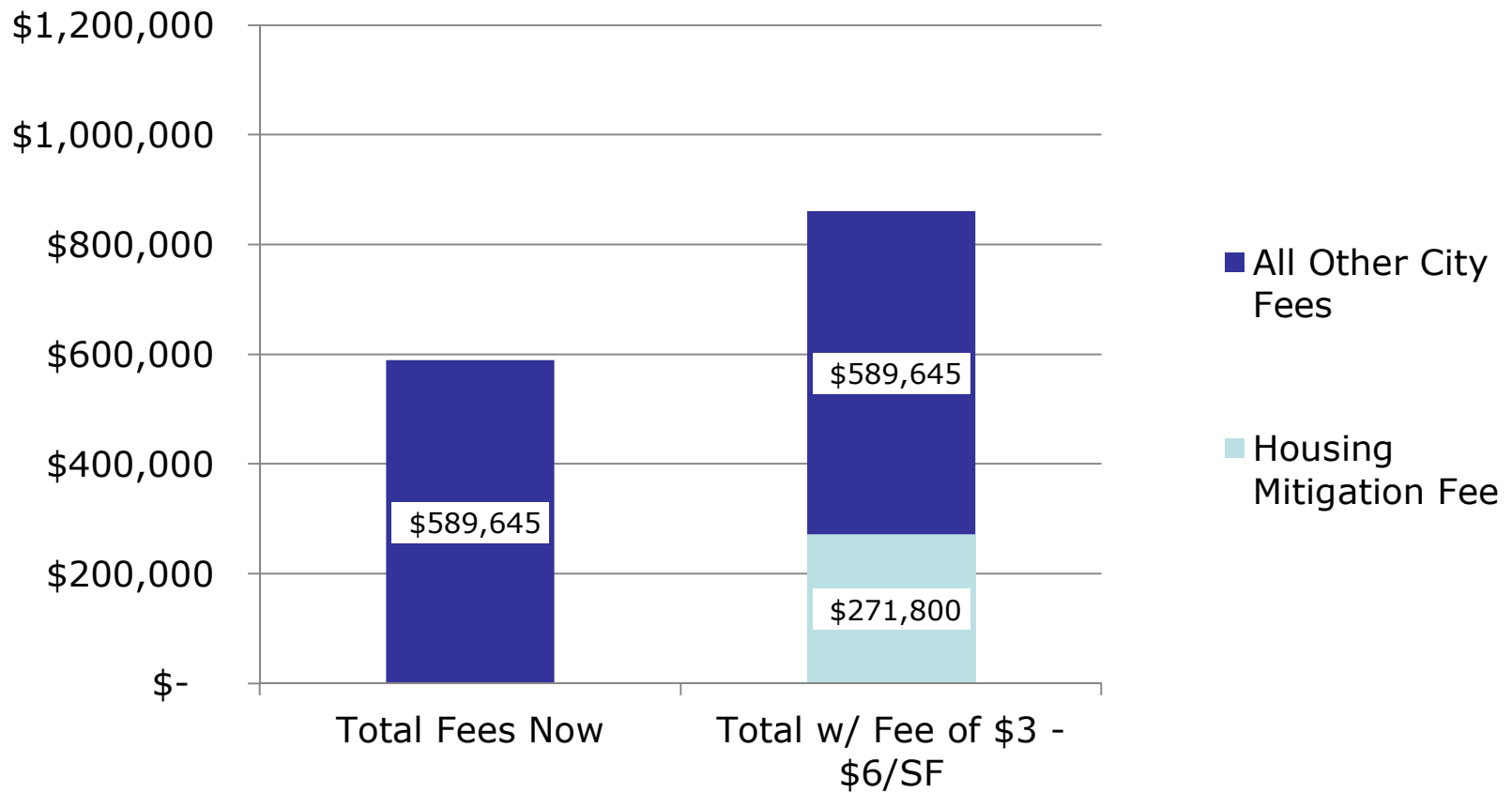
# Current Total Fees vs. Total Fees Including Tested Linkage Fee of \$5-\$10 / nnSF

## 124,000 SF Office/R&D Project in Industrial Zone



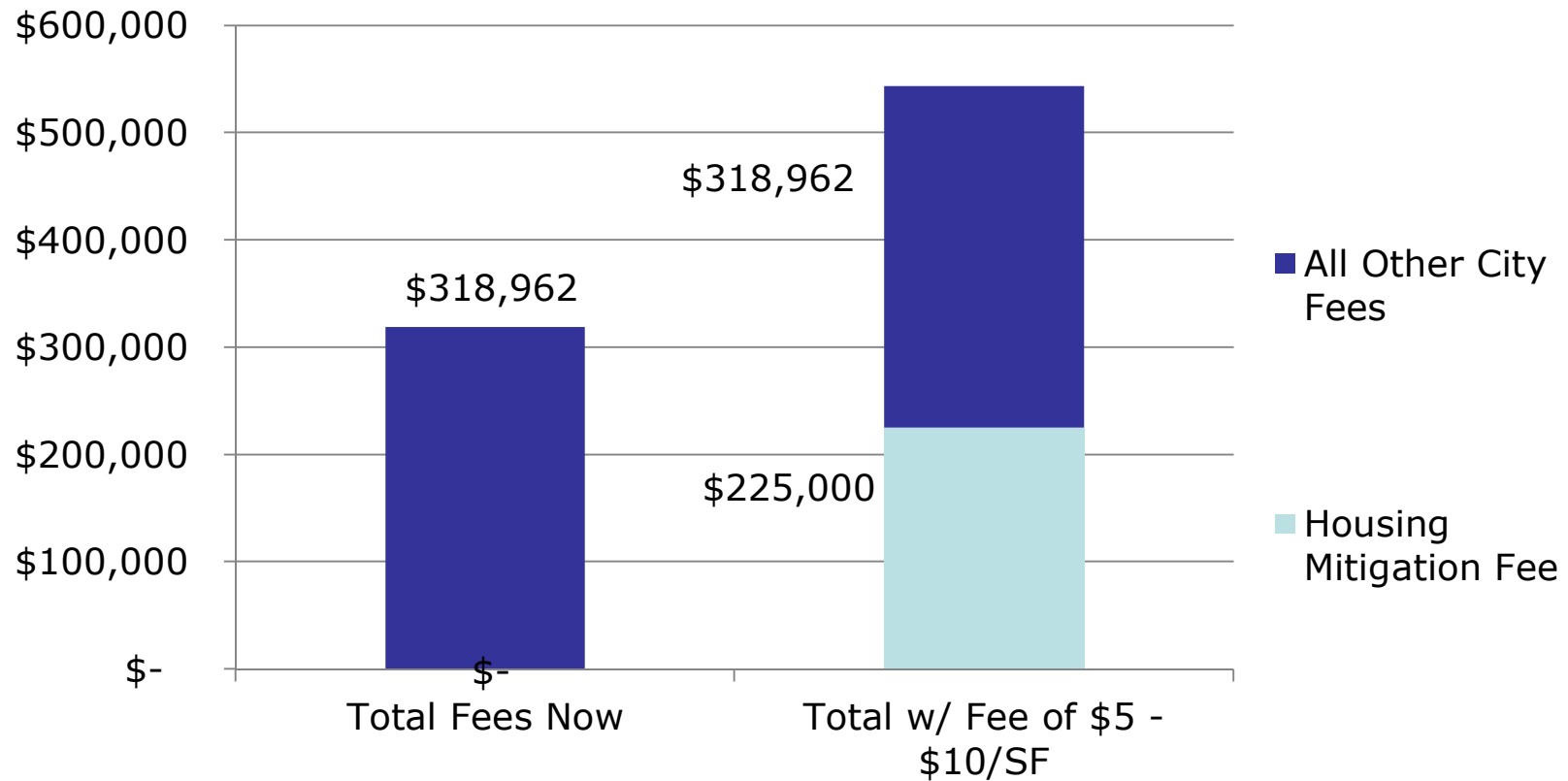
# Current Total Fees vs. Total Fees Including Tested Linkage Fee of \$3-\$6 / nnSF

## 73,000 SF Hotel Project in Commercial Zone



# Current Total Fees vs. Total Fees Including Tested Linkage Fee of \$5-\$10 / nnSF

## 45,000 SF Retail Project in Commercial Zone





# Next Steps

Date/Time	Meeting	Location
Oct. 13 at 7 p.m.	Joint Study Session, <i>Planning &amp; Housing Commissions</i>	City Hall, West Conference Room
Oct. 22 at 7 p.m.	Public Hearing, <i>Housing &amp; Human Services Commission</i>	City Hall, West Conference Room
Oct. 27 at 8 p.m.	Public Hearing, <i>Planning Commission</i>	City Hall, Council Chambers
Oct. 28 at 6 p.m.	Study Session, <i>City Council</i>	City Hall, West Conference Room
Dec. 9 at 7 p.m.	Public Hearing, <i>City Council</i>	City Hall, Council Chambers