



# RENTAL HOUSING IMPACT FEE NEXUS STUDY

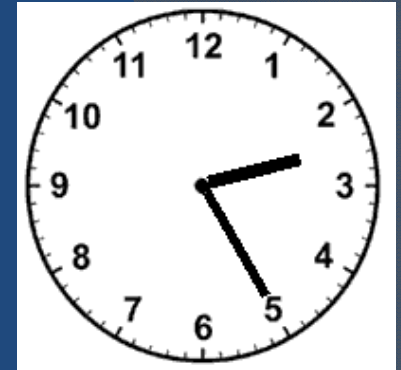
## Council Study Session

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
<u>Building Permit Fees:</u>	<u>\$375,000</u>
<b>TOTAL:</b>	<b>\$2,099,000</b>

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
<b>Cupertino</b>	\$3 / SF; nexus study in progress to update fees
<b>Mountain View</b>	\$17 / SF
<b>San Jose</b>	\$17 / SF
<b>San Carlos</b>	\$2.38 to \$28.27 / SF
<b>Fremont</b>	\$19.50 / SF
<b>Walnut Creek</b>	\$15 / SF
<b>Berkeley</b>	Approx. \$28 / SF

# Other Cities Surveyed

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

# Background of Rental Impact Fee Nexus Study

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

# Affordable Housing Nexus Studies and Impact Fees

*The Economics of Land Use*



Oakland  
Denver  
Los Angeles  
Sacramento

*presented by*

Darin Smith and  
Michael Nimon

**Economic & Planning Systems, Inc.**  
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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



**NOW HIRING**

**Apply Today**

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
<b>Subsidy Required / Unit</b>	<b>\$146,223</b>
<i>Data from Table 3 of the EPS Nexus Study</i>	

# 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			
	<i>Fee per Unit</i>	<i>Fee/SF<sup>1</sup></i>	<i>Very Low</i>	<i>Low</i>	<i>Median</i>	<i>Total</i>
<b>Studio</b>	<b>\$47,154</b>	<b>\$98</b>	14.1%	3.0%	1.1%	<b>18.2%</b>
<b>1 BR</b>	<b>\$47,563</b>	<b>\$60</b>	14.3%	2.8%	1.1%	<b>18.2%</b>
<b>2 BR</b>	<b>\$66,042</b>	<b>\$55</b>	20.3%	3.0%	2.0%	<b>25.3%</b>
<b>3 BR</b>	<b>\$85,343</b>	<b>\$61</b>	26.2%	4.1%	1.4%	<b>31.7%</b>

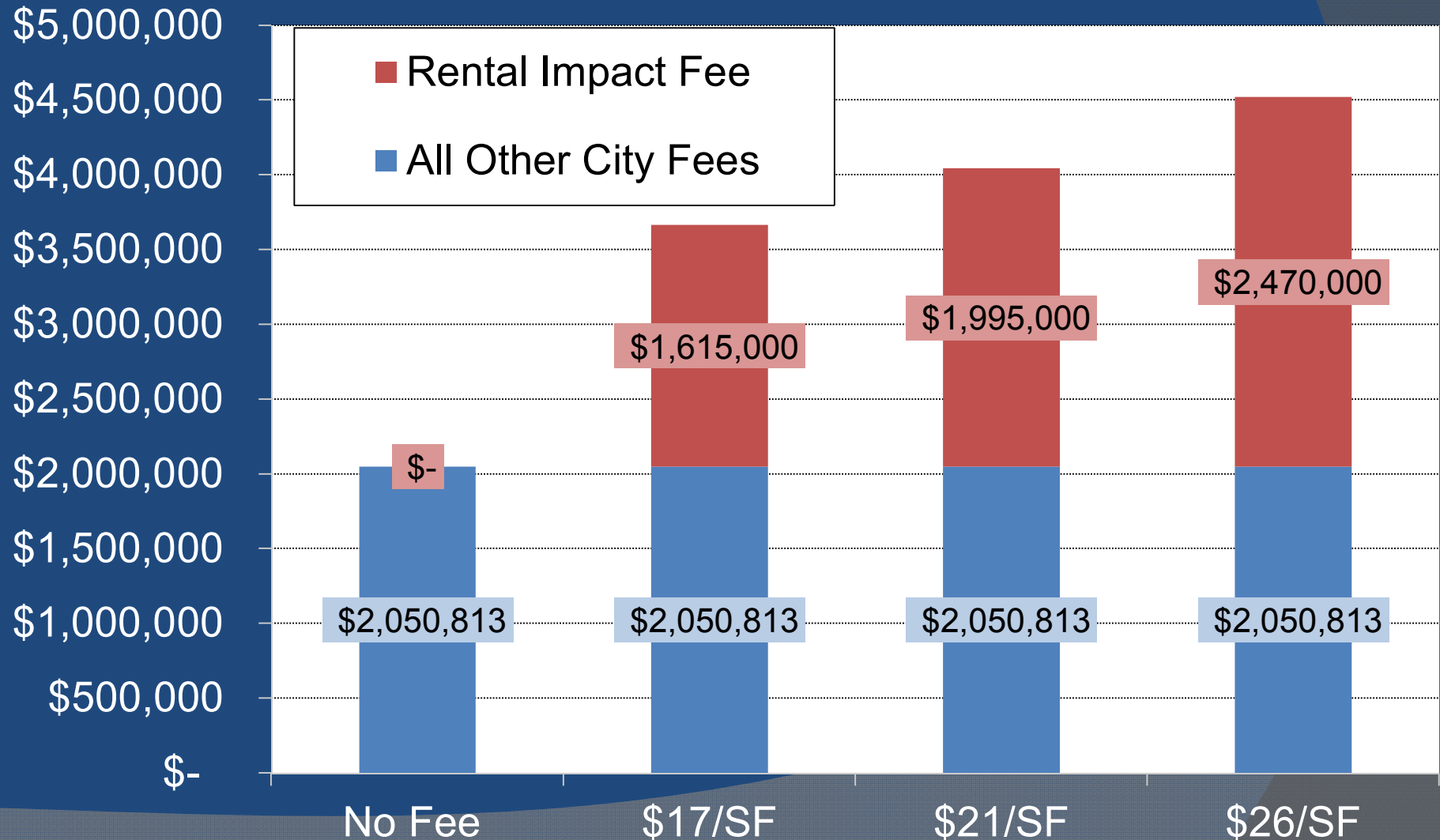
1. Fee/SF calculated by dividing the fee per unit by average SF of various unit types. **Source: EPS, Inc.**

# Feasibility Issues

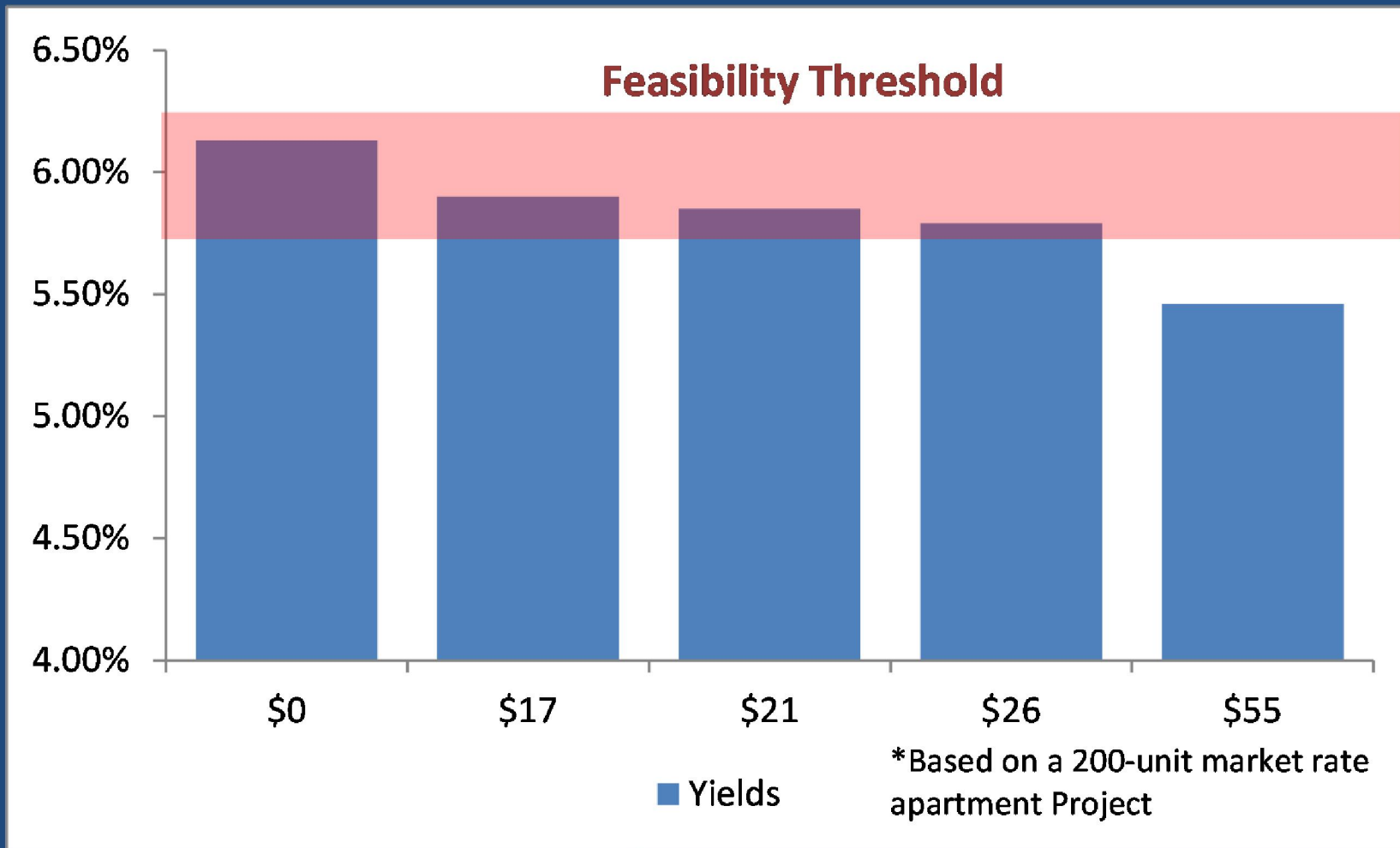




# Total City Fees Now vs. Total Fees with RIF, for 100-unit apartment project



# Developer Yields Under Various Rental Impact Fee Levels\*



# Projections



# Projected Market-Rate Apartment Production in Sunnyvale, Next 10 Years

## Apartment Unit Deliveries

2000-2014	1,033
<u>2015 (expected)</u>	<u>1,374</u>
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)	<u>Equivalent Units (2)</u>	
		<i>VLI (50% AMI)</i>	<i>Low (60% AMI)</i>
\$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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