DEVELOPMENT SERVICES DEPARTMENT/ PLANNING DIVISION

MEMORANDUM

DATE: April 3, 2012

TO: Chairperson and Members of the Planning Commission

FROM: Russ Cunningham, Senior Planner

SUBJECT: **PLANNING COMMISSION PUBLIC WORKSHOP TO DISCUSS AFFORDABLE HOUSING IN CONJUNCTION WITH PROPOSALS TO EXCEED BASE DENSITY (GPA12-00001/ZA12-00001/LCPA12-00001)**

Background

In the spring of 2011, the City Council directed City staff to explore "voluntary incentives for affordable housing," concurrent with the adoption of a revised methodology for calculating the City's affordable housing in-lieu fee. To this end, City staff convened an affordable housing ad hoc committee to discuss ways to incent affordable housing in numbers exceeding those achieved over the past decade, during which the City facilitated the production of 565 new affordable units along with the rehabilitation and deed restriction of another 300 existing residential units.

Comprised of affordable housing advocates, for-profit and non-profit affordable housing developers, representatives of the Building Industry Association (BIA), real estate professionals, members of the City's Planning and Housing Commissions, and City staff from Neighborhood Services and Development Services, the ad hoc committee convened six times between March and October 2011. Over the course of these six meetings, the committee considered enhancement of the City's density bonus provisions (i.e. density bonus incentives beyond those prescribed by state law), the donation of City-owned property, the deferral of impact fees, streamlining of the development review process, relaxation of development standards in exchange for augmented affordable housing fees (coined the "O-ZIP" concept by the BIA), and new affordable housing requirements for proposals to exceed the City's base density allowances.

The City's current density bonus provisions do not reflect changes to state density bonus law adopted in 2005. Program 3 of the City's current Housing Element (approved in 2009) indicates that the City will update its density bonus provisions to accord with state law. As part of this update, staff has incorporated several additional provisions that reflect input received from the ad hoc committee, including language from the State Model Density Bonus Ordinance that gives the City the discretion to allow the off-site provision of required affordable units when doing so is deemed to be in the public interest

On January 9, 2012, staff introduced to the Planning Commission the concept of requiring that proposals to exceed base density allowances fulfill their affordability requirements under the City's Inclusionary Housing Ordinance without the option of paying the in-lieu fee. The Planning Commission requested a public workshop to discuss the economic impact of this concept on the development community.

Density Ranges

While residential density allowances are commonly expressed as a single density maximum for each zoning designation, land use and zoning standards in the City of Oceanside establish density ranges intended to motivate higher-quality development in exchange for a higher density allowance.

TABLE 1

Density Ranges

Zoning Designation	Base Density	Maximum Density
RE-A	0.5	0.9
RE-B	1	3.5
RS	3.6	5.9
RM-A	6.0	9.9
RM-B	10.0	15.0
RM-C	15.1	20.9
RH	21.0	28.9
RHU/R-3	29	43

Proposals to exceed base density allowances require issuance of a Conditional Use Permit. The Land Use Element of the General Plan outlines several criteria to be considered in the evaluation of proposals to exceed base density allowances. These criteria applied to proposals to exceed base density allowances are appended to this memorandum as Attachment 3.

While residential uses are allowed in many of the City's commercial zoning districts – either in conjunction with mixed-use development or as standalone projects of a minimum scale – residential densities in commercial zones are not expressed as ranges. In non-coastal commercial zones that permit residential uses (i.e., those governed by the 1992 Zoning Ordinance), the density allowance is expressed simply as a maximum of 29 dwelling units per acre. Within the Coastal Zone and the City's downtown area (governed by the 1986 Zoning Ordinance and the Redevelopment Zoning Ordinance, respectively), the density allowance in commercial zones is set at a maximum of 43 dwelling units per acre.

Proposal

Staff recommends that the City's Inclusionary Housing Ordinance be amended to eliminate the in-lieu fee option for proposals to exceed the City's base density allowances. Under staff's recommendation, proposals to exceed base density would be required to restrict ten percent of dwelling units associated with the base density allowance as affordable to lower-income households. Given the large disparity between the base and maximum allowable density for the RE-B zoning designation, which allows maximum densities three and a half times above the base density allowance of one dwelling unit per acre, staff recommends that proposals to exceed the RE-B base density allowance be required to restrict 20 percent of dwelling units associated with the base density allowance as affordable to lower-income households.

Exemptions

Staff recommends that projects involving fewer than ten dwelling units under the base density allowance be allowed to meet affordability requirements through payment of the in-lieu fee. Staff further recommends that projects involving fewer than 20 units under the base density allowance be allowed to pay the in-lieu fee for any fractional affordability requirement. For example, a 20,000 square-foot property under R-3 zoning would have a base density allowance of 13 units and a maximum density allowance of 19 units, resulting in a 1.3-unit affordability requirement for a proposal to exceed base density. Under staff's recommendation, the project would provide be required to provide one affordable unit, with the option of paying the in-lieu fee for the residual 0.3 fractional unit requirement. It is staff's position that these exemptions are necessary to support the economic feasibility of smaller-scale projects, which will likely make up a significant share of the City's future housing growth. The following table illustrates how the proposed requirements would impact proposals to exceed base densities on one-acre properties under the City's various zoning designations.

TABLE 2
Proposed Affordability Requirements for One-Acre Housing Development

Zoning Designation	Base Density	Maximum Density	Affordability Requirement
RE-A	0.5	0.9	In-Lieu Fee
RE-B	1	3.5	In-Lieu Fee
RS	3.6	5.9	In-Lieu Fee
RM-A	6.0	9.9	In-Lieu Fee
RM-B	10.0	15.0	1 Unit
RM-C	15.1	20.9	1 Unit
RH	21.0	28.9	2 Units
RHU/R-3	29	43	3 Units

Options for Meeting Affordability Requirements

Recognizing the need for flexibility, creativity and collaboration in the provision of affordable housing, staff recommends that projects subject to this new requirement be afforded a range of options for meeting it.

- Inclusion of required affordable units within the associated market-rate project;

- Provision of required affordable units at an off-site location, either as an independent project or in collaboration with other developers seeking to fulfill similar affordability requirements;
- Purchase, rehabilitation and deed restriction of existing market-rate units;
- Subsidy of an entitled affordable housing project, through the funding of the residual "gap" representative of the number of affordable units required;
- Donation of land of sufficient size and under appropriate zoning to accommodate the number of affordable units required.

The options enumerated above reflect suggestions that emerged last year during the deliberations of the affordable housing ad hoc committee. While many of these options were considered for inclusion in the City's updated Density Bonus Ordinance, the California Department of Housing and Community Development (HCD) is not supportive of an explicit allowance for the off-site provision of affordable units with the context of state density bonus law. However, the recommended affordable housing provisions associated with proposals to exceed base density are <u>not</u> within the context of state density bonus law, thereby giving the City full discretion – under its local land use authority – to afford such flexibility.

With each of the options enumerated above, there are logistic and administration considerations that would have to be resolved to ensure proper implementation. For affordable units physically integrated into an otherwise market-rate housing development, mechanisms for monitoring rental rate limits and tenant qualifications would have to be established. For the subsidy of an entitled affordable housing project, appropriate "gap" figures would have to be initially calculated and then periodically adjusted to reflect current market conditions. Standards would have to be adopted for the rehabilitation of existing market-rate units. Staff has not attempted to work out such details, and would thus welcome Planning Commission input on how to implement the above options most effectively.

Concessions

To partially mitigate the economic impact of the proposed affordable housing provisions, and thereby render proposals to exceed base density allowances more economically feasible, staff recommends that such proposals be afforded the option of one of the following two concessions to applicable development standards:

- Reduced parking requirements, consistent with the findings of the 2010 SANDAG publication "Parking Strategies for Smart Growth" and the recent affordable housing parking study commissioned by the City of San Diego; or
- One additional story and an additional eight feet of building height above the height limit of the surrounding zone.

Similar to those required under state density bonus law, these concessions would not preclude the City from applying conditions of approval to mitigate potentially adverse impacts that might arise from them. For example, allowing an additional story would not preclude the City from requiring that building façades be articulated, or that certain finish materials or other architectural features be incorporated. Allowing a reduction in the number of required parking stalls would not preclude the City from requiring that these parking stalls be configured and/or screened in a certain way. In short, these concessions would not compromise the City's wherewithal, through the discretionary review process, to condition project approvals to address community concerns and avoid adverse impacts.

Staff does not consider the concessions outlined above as being appropriate for single-family development, and thus these concessions have not been factored into the pro forma analysis discussed in a forthcoming section of this memorandum.

Impact Fee Deferral

In exchange for the provision of affordable units, staff recommends that proposals to exceed base densities be allowed to defer the payment of impact fees for a period of not less than three years, with these fees amortized through annual assessments on the property tax bill. Staff has not, as yet, formally analyzed the fiscal impact that such deferrals would have on City revenues, but such an analysis could be conducted should the Planning Commission direct staff to formalize its recommendations.

Summary

Appended to this memorandum as Attachment 1 is a one-page summary of these recommendations. The same summary will be included in staff's presentation at the workshop.

Economic Feasibility Analysis

To help stakeholders better understand the economic impact of the recommended changes to the City's affordable housing provisions, the Planning Division engaged Keyser Marston Associates (KMA) to conduct pro forma analysis of two residential development scenarios that represent the most prevalent kinds of new housing growth the City is expected to experience in the years ahead. Summary tables outlining the findings of KMA's pro forma analysis are appended to this memorandum as Attachment 3. Detailed pro forma assumptions and inputs can be provided upon request.

One of these scenarios involves high-density infill rental housing, which is expected to become a more common phenomenon on relatively small, underutilized properties within and adjacent to the City's transit-served commercial corridors (e.g. Coast Hwy, Oceanside Boulevard). The infill scenario analyzed by KMA unfolds on a 20,000 square-foot lot bearing an R-3 zoning designation. The second scenario involves greenfield for-sale single-family development, for which limited opportunities still exist in peripheral areas of the City (e.g. north of the San Luis Rey River). The greenfield scenario analyzed by KMA unfolds on a 10-acre property with an RE-B zoning designation. Both scenarios compare the economic impact of proposed affordable housing standards with the economic impact of the current in-lieu fee option.

The findings of the pro forma analysis support previous economic analyses which have shown that residential densities in the range of 30 to 50 dwelling units per acre are typically not economically feasible in the current housing market, given the incremental construction costs incurred when structured or subterranean parking is required. More specifically, with regard to the economic impact of the proposed affordable housing provisions, the pro forma analysis arrives at the following conclusions:

- **Scenario A (High Density Infill Rental Housing)**
    - Under the status quo (i.e. with the in-lieu fee option), exceeding the base density allowance of 29 du/acre and achieving the maximum allowable density of 43 du/acre would reduce the profitability of the project by two-tenths of a percentage point, from a 5.4% rate of return to a 5.2% rate of return;
    - When the proposed affordable housing provisions are applied, the estimated profit margin decreases by another one-tenth of a percentage point, from a 5.2% rate of return to a 5.1% rate of return;
    - With the proposed parking concessions, the estimate profit margin for the same project increases by one-tenth of a percentage point, back to the 5.2% rate of return estimated for projects developed under the status quo;
    - With the proposed building height and story-count concessions, the profit margin for the same project increases by nearly a full percentage point, to a 6.0% rate of return.

- **Scenario B (Greenfield For-Sale Single-Family Housing)**
    - Under the status quo, exceeding the base density allowance of one du/acre and achieving the maximum allowable density of 3.5 du/acre would increase the profitability of the project by more than 1.5 percentage points, from a 9.5% rate of return to an 11.1% rate of return;
    - When the proposed affordable housing provisions are applied, the estimated profit margin decreases by roughly one percentage point, to a 10.2% rate of return;
    - As noted above, no concessions were analyzed under Scenario B.

While acknowledging the extent to which the current cost of land, labor and building materials undercuts the economic feasibility of many housing development projects, staff interprets the KMA pro forma analyses as demonstrating that the proposed affordable housing provisions would have a less-than-significant economic impact on proposals to exceed base densities. While it could be argued that the proposed provisions would make difficult economic circumstances even more difficult for the development community, the pro forma analyses appear to show that the proposed provisions would not be a principal factor in one's decision to remain below or exceed a base density allowance.

At the same time, staff recognizes that the logistical and administrative challenges associated with the proposed provisions could be a disincentive to seek densities above the base allowance if the City does not set clear and consistent standards and protocols for meeting the associated requirements. To this end, staff seeks suggestions from the Planning Commission and other stakeholders as to how to make fulfillment of these requirements as straightforward as possible.

Concomitant General Plan and Zoning Text Amendments

In order to effectively implement the recommended changes to the City's Inclusionary Housing Ordinance, staff finds that the following General Plan and Zoning Text Amendments would be necessary:

- **Land Use Element of the General Plan**
  - Amend Policy 2.32 (Potential Range of Residential Densities) to modify the criteria to be applied to proposals to exceed base density.
- **Land Use Plan of the Local Coastal Program**
  - Amend Chapter 3, Section I (C)(3) (High Density Residential Land Uses) to change the allowable density range for high density residential uses from 15-43 du/acre to 29-43 du/acre;
- **1986 Zoning Ordinance**
  - Amend Section 313(4) (Zoning Consistency Matrix) to change the allowable density range for the R-3 zoning designation from 15-43 du/acre to 29-43 du/acre;
  - Amend Section 1506.E (Residential Uses in Commercial Zones) to replace the maximum density allowance of one dwelling unit per 1,000 square feet of lot area with an allowable density range of 29-43 du/acre.
- **1992 Zoning Ordinance**
  - Amend Section 1120 (Commercial Land Use Regulations) to allow mixed-use development in the CL, CS-L and CP zoning districts;
  - Amend Section 3042 (Mixed-use Plans) to replace the maximum density allowance for mixed-use development of 29 du/acre with an allowable density range of 29-43 du/acre;
  - Amend Section 1050(B) to remove the requirement that proposals to exceed base density allowances be subject to approval of a Conditional Use Permit.

The recommended changes to the General Plan would, in staff's estimation, make the proposed affordable housing provisions less onerous on the development community, without compromising important community values such as land use compatibility and the preservation of neighborhood character. The recommended changes to zoning standards would allow for consistent implementation of the proposed provisions, while broadening opportunities for housing in commercial zones in conjunction with mixed-use development.

Future Funding for Affordable Housing

With the recent demise of the City's redevelopment agency, as mandated by state law, the City has lost a major source of funding for affordable housing, that being the twenty percent (20%) "set-aside" of tax increment revenue generated by an expanding property tax base in the downtown area. This revenue source has provided a portion of funding for 386 affordable housing units the City has either produced or preserved over the past decade. With the recent dissolution of redevelopment agencies, there is no longer any ongoing tax increment "set-aside" funding for affordable housing.

An additional source of local funding for affordable housing over the past decade has been the affordable housing in-lieu fee, an option available to housing developers who are otherwise required to provide ten percent (10%) of all new for-sale dwelling units as affordable to lower-income households. Between 2002 and 2010, the amount of the in-lieu fee remained unchanged at $10,275 per unit. Under a revised methodology for calculation of the in-lieu fee approved in 2011, the currently in-lieu fee is $1.15 per square foot. Using this figure, a 2,500 square foot residential unit would result in a $2,875 in-lieu fee.

In 2000 and 2006, California voters approved bond measures that allocated approximately $5 billion for affordable housing statewide. Dedicated to the construction, rehabilitation and preservation of nearly 12,000 shelter spaces and 58,000 affordable apartments, as well as mortgage assistance for over 57,000 California families, all of these bond funds have now been awarded. With state government facing significant budget shortfalls, no new statewide bond measures for affordable housing have been formally proposed.

In February 2012, state legislation was introduced to impose a $75 fee on the recordation of real-estate documents to permanently fund a statewide trust fund to support the development, acquisition, rehabilitation, and preservation of affordable housing. At present, it is uncertain if or when this funding source will materialize, or how future affordable housing efforts in Oceanside would access such funding.

At the federal level, the Low Income Housing Tax Credit (LIHTC) program has contributed considerably to the funding of affordable housing in Oceanside. Under the LIHTC program, affordable housing development in Oceanside has been granted more than $26 million in tax credits since 2005, This source of funding has been utilized for projects such as La Mision, Lil Jackson, Shadow Way, Country Club, and Cape Cod Villas

The LIHTC program remains an important funding source for affordable housing. The proposed Mission Cove affordable housing project will likely benefit from LIHTC funding, as would the type of project to be discussed by BIA member Jim Schmid at the workshop. However, as essential as the LIHTC program has been to the feasibility of affordable housing projects, the criteria for LIHTC funding has tended to inflate the cost of affordable housing, and, in turn, the amount of local subsidy needed to qualify such projects for tax credit financing and render them economically feasible.

Taken together, these facts regarding local, state, and federal funding for affordable housing speak to the ongoing challenge of producing and preserving adequate housing for Oceanside's lower-income households. While the provision of affordable housing remains a matter of national and statewide concern, diminishing resources at both the federal and state levels are placing a greater burden on local governments to identify creative and practical ways to meet the housing needs of their lower-income households.

Building Industry Response

Throughout the development of these recommendations, City staff has maintained regular dialogue with building industry representatives and other ad hoc committee participants. The proposed affordable housing provisions reflect a number of suggestions from the Building Industry Association (BIA), including the menu of options for fulfilling affordability requirements and the elimination of the CUP requirement for proposals to exceed base density. Appended to this memorandum as Attachment 2 is BIA correspondence that responds to staff's recommendations and proffers an alternative that involves a two-tiered approach to affordable housing in-lieu fees. While staff does not support the BIA's suggestion that the proposed provisions operate as a voluntary program, staff sees opportunity for concurrence on several BIA points, including the suggestion that incentives like parking reductions and increased height maximums be established as by-right allowances (with the caveat that appropriate mitigation of potential adverse impacts be determined through the discretionary review process).

Recommendation

In light of the economic and logistical challenges the City of Oceanside faces in facilitating the development of affordable housing for both current and future residents – challenges magnified by recent changes in state law – staff finds that the provision of affordable housing in exchange for densities in excess of base allowances would serve as a reasonable and effective component of the City's overall affordable housing strategy. Staff thus recommends that the Planning Commission direct staff to further refine the proposed affordable housing provisions and return these provisions to the Planning Commission for its formal review and approval as soon as possible.

City of Oceanside
Planning Commission
April 3, 2012

Affordable Housing in Conjunction with Proposals to Exceed Base Density

Staff Recommendation:

For proposals to exceed base density allowances, require that ten percent of dwelling units associated with the base density allowance be reserved as affordable, <u>without the option of paying the current affordable housing in-lieu fee</u>

Options for Fulfilling Affordable Housing Requirements:

On-site construction of new affordable units
Off-site construction of new affordable units
Gap financing for a qualified affordable housing project
Acquisition, rehabilitation and deed restriction of existing market-rate units
Donation of land of adequate size and zoning to accommodate required affordable units

Exemptions:

Projects of fewer than 10 units under the base density allowance have the option of paying in-lieu fees
Projects of fewer than 20 units under the base density allowance receive a waiver of fractional unit requirements

Incentives:

Reduced parking requirements consistent with the findings of regional parking studies
One additional story and an additional eight feet of building height
Deferral of development impact fees (amortized over a period of not less than three years)

Regulatory Changes

Eliminate CUP requirement for proposals to exceed base density
Revise General Plan criteria for proposals to exceed base density
Create density ranges for zoning designations that have only density maximums

Oceanside Affordable Housing Discussion Memo
BIA Comments:

The industry still requires that the program be voluntary. However, it will agree to a two tiered Affordable Fee program should a builder elect to not directly provide affordable housing stock in the City of Oceanside.

Tier 1: Pay fees as currently contemplated in the existing ordnance for all units in a project that are at, or below base density.

Tier 2: Pay an increased fee of $10,000 per unit, for every unit approved above the base density.

> Example: Assume that a project is approved at 28 units per acre, in a zone that allows a range of between 18 – 47 units per acre. Under this scenario the project would pay the existing fee on the first 18 units per acre, plus an additional $10,000 for the 8 units above the base density.

The following comments relate to your 1 page handout that you provided to us on March 14, 2012 (Copy attached).

- First, participation should give the builder the "Right" to utilize all the concessions in development standards (as grouped by Urban or Suburban), vs. make the project "eligible". Our members need underwriting certainty for equity partners and lenders. Additionally, this will garner greater participation by builders.

- Those who participate must be given assurance that participation is in lieu of paying the Tier 1 and Tier 2 affordable fees.

- On-site and Off-site construction of units: The units constructed should be of size and specification criteria as specified within HUD requirements (for sale homes), and/or TCAC requirements (for rental homes). There should not be a requirement to provide comparable scale and scope affordable units for the market rate homes that are being mitigated. Such requirements are wasteful and overly burden a builder in electing to participate in the program.

- Clarify that should a builder provide "Gap Financing", such provision may only be for a portion of the gap, due to other funding sources, or multiple builders participating in the construction of one affordable project.

- Land Donation: The land donated should be assumed to have the maximum allowable density within the zoning.

Concessions:

IN THE "STAFF RECOMMENDED CHANGES" DOCUMENT, IT SAYS "PROPOSALS TO EXCEED BASE DENSITY ALLOWANCES ARE ELIGIBLE FOR CONCESSIONS...." IT SHOULD SAY THAT "PROPOSALS TO EXCEED BASE DENSITY ALLOWANCES SHALL BE ELLIGIBLE TO RECEIVE ALL OF THE FOLLOWING CONCESSIONS...."

Urban (need to clarify the applicable zones)

- Projects that provide onsite Affordable units would adhere to project parking requirements pursuant to the affordable housing parking study commissioned by the City of San Diego.

- Building Height: We are assuming that the project would get one additional inhabitable living floor, plus an additional 8 feet to permit the construction of a less costly roof structure. Is this the intent?

Suburban

- Affordable project's built in the Suburban area's will also provide parking as outlined in the affordable housing parking study commissioned by the City of San Diego (only applicable to the affordable units, not market rate).

- Affordable project's built in the Suburban area's will also get the advantage of the height incentives included above (only applicable to the affordable units, not market rate).

- Lot Sizes: Minimum lot sizes would be reduced to allow for a property owner to achieve a density as permitted in a property's zoning.

- Sideyard SetBacks: There would be an allowable reduction in side yard setbacks of 20% on 50% of the market rate units. For example, if the setback is 5', it can be reduced to 4' on 50% of the units. If the setback is 10', it can be reduced to 8' on 50% of the units.

- Rearyard Setbacks: On single story homes, the rear yard setback reduced by 15%. For example, if a setback requirement is 25', the allowable setback on single story homes would be 21.25'.

Impact Fee Deferral: Remove limitation to onsite units – all units constructed via the program should be eligible for a fee deferral. All deferred fees to be paid out of project cash flow, subordinate to the property's operating expenses and debt service. The deferral period should not exceed 25 years from the time that the project is placed into service.

Process: What will be the process to get this program enacted. Will CEQA review, etc. be required.

Scenario A – In-Fill Rental Apartments

Base Density @ 29.0 Units/Acre vs. Maximum Density @ 43.0 Units/Acre:
(1) Paying In-Lieu Fee; (2) Affordable Housing Developed On-Site @ 10% of Base Density

	Scenario A: In-fill Rental Apartments		
	Base Density @ 29.0 Units/Acre – Pay In-Lieu Fee	Maximum Density @ 43.0 Units/Acre – Pay In-Lieu Fee	Maximum Density @ 43.0 Units/Acre – Affordable Units @ 10% of Base Density
I. Project Description			
Number of Stories	3 stories	3 stories	3 stories
Total Units	13 units	19 units	19 units
Average Unit Size	885 SF	879 SF	879 SF
Parking Type	Tuck-under	Podium	Podium
Parking Spaces	25 spaces	36 spaces	36 spaces
Spaces/Unit	1.9 spaces/unit	1.9 spaces/unit	1.9 spaces/unit
II. Income Mix			
Market-Rate Units	13 units	19 units	18 units
Affordable Units	0 units	0 units	1 unit
Pay In-Lieu Fee?	Yes	Yes	No
III. Financial Performance			
Assumed Market Rent	$2.14/SF/mo. [1]	$2.20/SF/mo.	$2.20/SF/mo.
Developer ROI [2]	5.4%	5.2%	5.1%
Increase/Decrease from Base Density		($209,000) ($11,000/unit)	($351,000) ($18,500/unit)
Increase/Decrease from Maximum Density @ 43.0 Units/Acre – Pay In-Lieu Fee			($142,000) ($7,500/unit)
IV. Key Findings			
	Base density project requires break-even market rents of $2.14/SF/mo. – exceeding current market rents – to achieve adequate developer ROI.	Increasing project density to the maximum 43.0 units/acre will decrease the developer ROI. The higher-density project is less feasible due to higher construction costs. (This assumes that the developer can build at 43.0 units/acre and pay the in-lieu fee, i.e., no further requirements.)	Requiring the developer of a maximum 43.0 units/acre project to dedicate 1 affordable unit (10% of Base Density, rounded down) instead of paying the in-lieu fee further decreases the developer ROI – from 5.2% to 5.1%.

[1] Reflects break-even rent. Current market rent for new generation apartments estimated at $1.80/SF/month or say 15% lower.
[2] ROI = Unleveraged Return on Investment.

Scenario A – In-Fill Rental Apartments

Maximum Density @ 43.0 Units/Acre:
Affordable Housing Developed On-Site @ 10% of Base Density vs. Affordable Housing Developed Off-Site

	Scenario A: In-Fill Rental Apartments Maximum Density @ 43.0 Units/Acre	
	10% of Base Density	**Off-Site Affordable Housing Obligation**
I. Project Description		
Number of Stories	3 stories	3 stories
Total Units	19 units	19 units
Average Unit Size	879 SF	879 SF
Parking Type	Podium	Podium
Parking Spaces	36 spaces	36 spaces
Spaces/Unit	1.9 spaces/unit	1.9 spaces/unit
II. Income Mix		
Market-Rate Units	19 units	18 units
Affordable Units	1 unit	1 unit
Pay In-Lieu Fee?	No	No
III. Financial Performance		
Assumed Market Rent	$2.20/SF/mo.	$2.20/SF/mo.
Developer ROI [1]	5.1%	5.1%
Increase/Decrease from Base Density	($351,000) ($18,500/unit)	($310,000) ($16,300/unit)
IV. Key Findings		
		This scenario tests the impact of allowing the developer of a maximum 43.0 units/acre project to fund the gap for 1 off-site affordable unit. It has essentially the same impact on the developer ROI as the requirement that the developer dedicate 1 affordable unit on-site.

[1] ROI = Unleveraged Return on Investment.

Scenario A – In-Fill Rental Apartments

Maximum Density @ 43.0 Units/Acre:
(1) Parking Ratio @ 1.5 Spaces/Unit; (2) Four-Story Building with Larger Units

	Scenario A: In-Fill Rental Apartments Maximum Density with Concessions Affordable Housing @ 10% of Base Density		
	Maximum Density @ 43.0 Units/Acre – Affordable Units @ 10% of Base Density	**Parking Ratio @ 1.5 Spaces/Unit**	**4-Story Building with Larger Units**
I. Project Description			
Number of Stories	3 stories	3 stories	4 stories
Total Units	19 units	19 units	19 units
Average Unit Size	879 SF	879 SF	1,145 SF
Parking Type	Podium	Podium	Podium
Parking Spaces	36 spaces	29 spaces	36 spaces
Spaces/Unit	1.9 spaces/unit	1.5 spaces/unit	1.9 spaces/unit
II. Income Mix			
Market-Rate Units	18 units	18 units	18 units
Affordable Units	1 unit	1 unit	1 unit
Pay In-Lieu Fee?	No	No	No
III. Financial Performance			
Assumed Market Rent	$2.20/SF/mo.	$2.20/SF/mo.	$2.20/SF/mo.
Developer ROI [1]	5.1%	5.2%	6.0%
Increase/Decrease from Base Density	($351,000) ($18,500/unit)	($175,000) ($9,200/unit)	$736,000 $38,700/unit
Increase/Decrease from Maximum Density @ 43.0 Units/Acre – Affordable Units @ 10% of Base Density		$176,000 $9,300/unit	$1,087,000 $57,200/unit
IV. Key Findings			
		This scenario tests the benefit of allowing the developer to build fewer parking spaces in order to offset the impact of developing 1 affordable unit on-site. This reduced parking ratio scenario yields a developer ROI of 5.2%, slightly better than the maximum density scenario with payment of the in-lieu fee.	This scenario tests the benefit of allowing the developer to build a taller building, i.e., 4 stories instead of 3 stories, in order to offset the impact of developing 1 affordable unit on-site. This enables the developer to build larger units and to command view premiums. This taller building scenario yields a developer ROI of 6.0% -- a significant improvement over all the scenarios tested. In other words, the value of the larger building more than offsets the affordability requirement.

[1] ROI = Unleveraged Return on Investment.

Scenario B – For-Sale Single-Family Homes

Base Density @ 1.0 Units/Acre vs. Maximum Density at 3.5 Units/Acre:
(1) Paying In-Lieu Fee; Affordable Housing Developed On-Site @ 20% of Base Density

	Scenario B: For-Sale Single-Family Homes		
	Base Density @ 1.0 Units/Acre – Pay In-Lieu Fee	Maximum Density @ 3.5 Units/Acre – Pay In-Lieu Fee	Maximum Density @ 3.5 Units/Acre – Affordable Units @ 20% of Base Density
I. Project Description			
Total Units	10 units	35 units	35 units
Average Unit Size	3,000 SF	2,257 SF	2,257 SF
Parking Type	Attached garage	Attached garage	Attached garage
Parking Spaces	30 spaces	88 spaces	88 spaces
Spaces/Unit	3.0 spaces/unit	2.5 spaces/unit	2.5 spaces/unit
II. Income Mix			
Market-Rate Units	10 units	35 units	35 units
Affordable Units	0 units	0 units	2 units
Pay In-Lieu Fee?	Yes	Yes	No
III. Financial Performance			
Assumed Market Price	$265/SF	$211/SF	$211/SF
Developer Profit	9.5%	11.1%	10.2%
Increase/Decrease from Base Density		$268,000 $7,700/unit	$119,000 $3,400/unit
Increase/Decrease from Maximum Density @ 43.0 Units/Acre – Pay In-Lieu Fee			($149,000) ($4,300/unit)
IV. Key Findings			
	The base density project – at 1.0 unit/acre – yields a satisfactory developer return of 9.5% of market value. This scenario assumes average home prices of $795,000, reflecting the large lot size.	Increasing the project density to the maximum 3.5 units/acre will increase the developer profit significantly. Fixed costs can be amortized over a larger unit count and the developer can achieve greater building efficiencies. (This assumes that the developer can build at 3.5 units/acre and pay in the in-lieu fee.)	This scenario assumes that the City requires the developer of a maximum 3.5 units/acre project to dedicate 2 affordable units (20% of Base Density) instead of paying the in-lieu fee. It is assumed that the developer will meet this obligation by funding the gap for 2 affordable units off-site. As a result, the developer loses some of the benefit derived in the previous scenario, but still exceeds the profit expectation from the base density scenario.