KEYSER MARSTON ASSOCIATES

SUMMARY, CONTEXT MATERIALS AND RECOMMENDATIONS
AFFORDABLE HOUSING NEXUS STUDIES

Prepared for:
City of Union City

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I. INTRODUCTION

This Summary and Context Material report ("Summary Report") provides a concise version of the affordable housing nexus studies prepared by Keyser Marston Associates (KMA) and presents analyses designed to provide context for policy decisions.

The report has been prepared by KMA for the City of Union City, pursuant to contracts both parties have with the Silicon Valley Community Foundation. The report was prepared as part of a coordinated work program for twelve jurisdictions in Alameda and Santa Clara Counties. Silicon Valley Community Foundation with Baird + Driskell Community Planners organized and facilitated this multi-jurisdiction effort. Silicon Valley Community Foundation, which engaged KMA to prepare the analyses, serves as the main contracting entity with each participating jurisdiction, and has provided funding support for coordination and administration of the effort.

Two separate nexus technical reports accompany this Summary Report (entitled Residential Nexus Analysis and Non-Residential Nexus Analysis) which provide the nexus technical analyses and documentation to support adoption of affordable housing impact fees on residential and non-residential development in the City of Union City.

A. Background and Context

Union City adopted its Affordable Housing Ordinance in 2001, as articulated in Chapter 18.33 of the Code. This Ordinance requires residential projects to build 15% of units affordable to moderate and lower income households. Developers may seek City approval to satisfy the requirement through payment of an in lieu fee or alternative means of compliance, such as off-site construction. For projects of seven or more units, the in-lieu fee is now set at $180 per square foot of affordable unit owed (equivalent to $27 per square foot on market rate units), although we understand this has been subject to case by case negotiation. For projects with less than seven units, the fee is $160,000 per affordable unit owed, or fraction thereof (equivalent to $24,000 per market rate unit). Single-family detached, owner-occupied projects are exempt from the requirements.

The City does not have an affordable housing requirement that applies to non-residential projects; however, the analyses that have been prepared for the City will enable consideration of a new affordable housing impact fee applicable to non-residential development as well.

Since the 2009 *Palmer* court decision (described further in the Residential Nexus Analysis), the City has not had the ability to apply its inclusionary ordinance to rental projects, except through negotiation. A bill pending in the California Legislature, Assembly Bill 2502, referred to as the "Palmer Fix" would, if adopted, restore the ability of California cities to apply inclusionary requirements to rental projects.

The analyses summarized in this report will enable the City to consider adoption of an affordable housing impact fee applicable to rental apartments, a jobs housing linkage fee applicable to non-residential development and other updates to its affordable housing policies.

B. Organization of this Report

This report is organized into the following sections:

- Section I provides an introduction;
- Section II presents a summary of KMA's findings and recommendations;
- Section III summarizes the nexus analyses;
- Section IV presents analyses and materials prepared to provide context for policy decisions, including:

  A. Multifamily Apartment Financial Feasibility Analysis – presents the analysis and findings of the real estate financial feasibility analysis for apartments;

  B. On-site compliance cost analysis – analysis of the forgone revenue experienced by market rate residential projects in complying with the City's inclusionary requirements;

  C. Residential affordable housing requirements in other jurisdictions – provides a summary of existing inclusionary and impact fee requirements for 18 jurisdictions in Alameda and Santa Clara counties;

  D. Non-Residential Development Costs - Analysis of development costs for various types of non-residential development as context for consideration of potential impact fee levels for non-residential development; and

  E. Jobs housing linkage fee programs in other jurisdictions – provides information regarding 34 adopted linkage fee programs in jurisdictions throughout the Bay Area and elsewhere in California.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

In this section, KMA provides a summary of the analysis findings and recommendations for the City's consideration for updates to the City's affordable housing requirements applicable to residential and non-residential development. Recommendations reflect consideration of the following factors:

1. The findings of the nexus analysis. The nexus study establishes the maximum fee that may be charged to mitigate the impacts of new development on the need for affordable housing. Impact fees for rentals and non-residential development are limited to the maximums identified by the nexus. For-sale inclusionary requirements are generally not bound by nexus findings.
2. The City's policy objectives specified in the Housing Element.
3. The current requirements in neighboring jurisdictions.
4. Setting a fee high enough to support a meaningful contribution to affordable housing in Union City.
5. Setting a fee low enough to not discourage development.

A. Residential Findings and Recommendations

KMA's recommendations for updates to the City's Inclusionary Zoning Ordinance, including a new impact fee for rentals, are presented in this section, along with a summary of the factors considered by KMA.

1. Nexus Analysis Findings

The findings of the residential nexus analysis are summarized below. The findings per square foot refer to net residential area (exclusive of parking, corridors and other common areas).

Maximum Supported Residential Impact Fees, City of Union City

	Single Family - Large Lot	*Single Family - Smaller Lot*	*Townhome*	*Condominium*	*Apartments - Lower Density*	*Apartments - Higher Density*
Per Market Rate Unit	$76,700	$61,300	$53,500	$38,100	$41,000	$38,200
Per Square Foot*	$25.50	$27.80	$29.60	$34.60	$37.30	$42.50

Source: Keyser Marston Associates Residential Nexus Analysis.

KMA recommends that impact fees for rental projects and small for-sale projects be set below the levels shown above.

2. *Affordable Housing Requirements in Other Jurisdictions*

KMA assembled and summarized the affordable housing requirements for 18 jurisdictions in Santa Clara and Alameda Counties including those participating in the multi jurisdiction work program plus nine additional cities selected by the participants. The following is a condensed version focusing on selected comparisons. A complete summary is provided in Section IV and Table 3 at the end of this report.

Rentals: Overview of Adopted Rental Housing Impact Fees in Alameda County

The chart below shows selected examples of cities in Alameda County that have adopted impact fees for rental development following the 2009 Palmer decision (which eliminated the ability to apply inclusionary requirements to rental projects). Most East Bay cities have not adopted housing impact fees for rental development. For those that have, there is a wide range in fee levels for rental projects and fees are expressed differently by jurisdiction, with some fees levied on a per market rate unit basis and others on a per square foot basis. The minimum size project subject to the fee ranges from twenty units for Hayward down to single units for Oakland. Union City does not currently have an impact fee for rentals.

Impact Fees in Other Jurisdictions – Rental Units		
City	***Impact Fee***	***Min. Project Size Subject to Fee***
Fremont	$17.50/sq. ft.	2 units
Hayward	$3.24/sq. ft.	20 units
Berkeley	$28,000 / unit (proposed to increase to $34,000 / unit)	5 units
Oakland	$12,000 - $22,000/unit	1 unit

*See Table 3 for more detail.

Ownership Affordable Housing Requirements

For ownership projects, Union City's onsite requirements are generally within the same range of the other cities. Alameda, Albany and San Leandro all have requirements at 15%. Berkeley is at 20%; Oakland has two options: 5% at Very Low or 10% at Low to Moderate; Hayward's requirement is 7.5% for attached and 10% for detached. The table below briefly summarizes the programs.

Inclusionary Requirements in Other Jurisdictions – Ownership Units				
City	***Affordable Units Required (Percent)***	***Affordability Level***	***Fee In-Lieu of Providing Units***	***Fee by Right?***
Albany	15%	½ Low and ½ Very Low	(Market Value – Affordable Price) * Units Owed	5 & 6 unit projects only
Hayward	7.5% (attached) 10% (detached)	Moderate	$3.24 psf (attached) $4 psf (detached)	Yes
San Leandro	15%	60% Moderate, 40% Low	(Median Sale Price – Affordable Price) * Units Owed	Projects under 7 units only
Union City	15%	60% Moderate, 30% Median, 10% Low	<7 units: $160,000 / affordable unit owed 7+ units: $180 psf of affordable unit owed (Lower fees negotiated)	With City approval.
Alameda	15%	47% Moderate, 27% Low, 27% Very Low	$18,431 per unit	Projects under 10 units only
Berkeley	20%	Low	62.5% * (Sale Price – Aff. Price) * units owed	Yes
Dublin	7.5% plus fee 12.5% w/o fee	60% Moderate, 40% Low	$127,061 / affordable unit owed	Yes (partial)
Fremont	Attached 3.5% + fee Detached: 4.5% + fee	Moderate	With on-site units: Attached: $18.50 psf Detached: $17.50 psf If no on-site units: Attached: $27 psf Detached: $26 psf	Yes
Oakland	Option A: 5% Option B: 10%	Option A: Very Low Option B: Low – Moderate	MF: $12-$22,000 / unit SF: $8-$23,000 / unit	Yes
Pleasanton	MF: 15% SF: 20%	MF: Low SF: Moderate	MF: $2,783 /unit SF <1,500 sf: $2,783/unit SF>1,500 sf: $11,228/unit	Yes

MF: Multi-family; SF: Single family
See Table 2 for more detail.

3. Multifamily Apartment Financial Feasibility

The analysis indicates that multifamily rental projects are generally feasible at this time. However, unlike some locations within the Bay Area that have seen significant rental development, the market for new rentals in Albany, San Leandro, Union City, and unincorporated Alameda County is still emerging. For rental projects in these communities to absorb a new fee, additional improvement in the economics of these projects would generally be necessary. One way markets can adjust to a new fee is through downward pressure on land prices created when developers price new fees into the economics of their projects and adjust what they can afford to pay for land. When market rents are rising, this condition also helps projects absorb increased fees. The table below illustrates various potential improvements to project economics that would be sufficient to absorb illustrative fee levels of $10, $20 and $30 per square foot. Calculations are also shown for each $1 in new fees so calculations can be made for any fee level that may be considered. Adjustments are not additive. Each would independently be sufficient to absorb new fees. Depending on the market cycle and other factors, a combination of the above market adjustments would be expected to contribute in absorbing a new fee.

Potential Market Adjustments to Absorb Illustrative Fee Levels				
	Each $1 Fee	$10 Fee	$20 Fee	$30 Fee
Increase in Rents/Income	0.19%	1.9%	3.7%	5.6%
Decrease in Direct Costs	0.38%	3.8%	7.7%	11.5%
Decrease in Land Values (based on $45/sf)	1.80%	18.0%	35.9%	53.9%

By way of example, to absorb a $10 per square foot fee on multi-family apartments, the land price would need to be reduced by 18%, or from the current level of $45/sf in the prototypical project down to $38/sf. (See Financial Feasibility Analysis, starting page 19, for more information).

4. Market Context

Union City has been the location of substantial residential development of all types in recent decades. The market suffered significantly in the recession when the median sale price fell from $635,000 in 2006 to $350,000 at the bottom in 2011. The market now appears to have fully recovered with the median sales price exceeding $700,000 by the end of 2015 after particularly strong increases for three straight years.

Newly built single family detached homes are now selling for the $400 per square foot range, with townhomes and condominiums close to the same range. Rentals achieve rents in the range of $2,600 for a 900 square foot unit or a little under $2.90 per square foot. Larger units command closer to $2.55 per square foot in rent.

See Appendix A: Residential Market Survey, appended to the Residential Nexus Analysis, for more detail and supporting data.

5. Program Recommendations

Following are the KMA preliminary recommendations for updating Union City's affordable housing requirements. These recommendations are based on Union City's residential market, the multifamily financial feasibility analysis, nexus analysis results, and programs in nearby jurisdictions.

a. ***Requirements for ownership projects* – We understand the City is interested in exploring options for modifying its inclusionary program to encourage projects to comply through fee payment. Many cities have become interested in encouraging fees in recent years, especially in response to the loss of affordable housing funds with elimination of redevelopment. Fees can be used to assist stand-alone affordable projects, usually leveraged with other funding sources such as tax credits. The City's existing in-lieu fee, is $180 per square foot per affordable unit owed, for projects of seven or more units, which equates to $27 per square foot applied to the market rate units in the project. Union City's fees are approximately the same as neighboring Fremont where market prices are higher and well above the modest fees in Hayward where prices are lower on average.**

   The analysis of on-site compliance cost (pages 24 through 26) indicates fees at the current level would be preferred by developers as a lower cost compliance alternative to providing 15% affordable units on-site for all of the ownership project types except condominiums (which is not a housing type the City is currently seeing). We also understand the City has had feedback from developers that current fees create a challenge for project feasibility and that alternative profit sharing agreements have been negotiated in lieu of providing units. Based on the analysis findings and our understanding of the City's objectives, KMA recommends Union City:

   - **Maintain the current 15% on-site requirement; but consider adjusting the affordability level mix to result in a cost more consistent with the fee level selected.**
   - **Consider allowing fee payment by right rather than requiring special approval; and**
   - **Consider reducing in-lieu fees to the $15 to $20 per square foot range for ownership units. (Fee levels apply to net residential area and excludes parking and common areas.)**

b. ***Fees for Small Projects* – Consider modifying the fee structure for projects of one to six units to a per square foot fee.**

   - **Per square foot fees are simple and fair in that larger units pay larger fees. Currently, small projects are subject to a flat fee that equates to $24,000 per**

market rate unit, this is equivalent to approximately $12 to $13 per square foot when applied to the average small lot single family or townhome unit.

- **Consider revising fees to the recommended fee range of $15 to $20 per square foot, the same as for the larger projects.**
- **If there is a desire to encourage small infill projects, a fee structure that decreases as the number of units in the project decreases might be considered. For example, the fee on a six-unit project could be 90% of that of that for projects of seven units and above, a five-unit project would be 80%, etc.**

***c. Additions* – The nexus analysis enables the City to consider applying affordable housing impact fees to additions to existing units. If the City applies fees to additions, a minimum size threshold for fee application might be considered to limit application to additions that add significantly to the size of the dwelling unit.**

***d. Rentals* – While the nexus analysis supports much higher fees, we suggest a fee in the $10 to $12 psf range. This is below the $17.50 psf in Fremont but above the $3.24 psf fee in Hayward. Since the market for new rentals in Union City is still emerging, the City may wish to consider a phase in period of two to three years. The City may also consider directing staff to monitor the pipeline of submittals for rental projects during the phase in period and report to Council prior to any fee increases going into effect. Monitoring could include reporting on the status of pipeline projects, rent increases citywide and vacancy levels, lease up experience in newer projects and other market indicators.**

B. Non-Residential Affordable Housing Impact Fees

The analysis prepared by KMA will enable the City of Union City to consider adoption of a new affordable housing fee applicable to non-residential development in the City. The following section provides KMA's recommendations regarding a fee range should the City choose to move forward with establishing a new jobs housing linkage fee, along with a summary of the factors considered by KMA.

1. Nexus Analysis Findings

The KMA non-residential nexus analysis found very high supportable fee levels. The high fee levels supported by the analysis are not unusual for high cost areas such as Union City. The nexus analysis establishes only the maximums for impact fees and will bear little relationship to the fee levels the City may ultimately select. The table below indicates the nexus analysis results.

Maximum Fee Per Square Foot of Building Area

Building Type	Maximum Supported Fee Per Square Foot
Office	$144.90
Retail	$250.30
Hotel	$117.70
Light Industrial	$113.30
Warehouse	$40.90

Note: Nexus findings are not recommended fee levels.
See Non-Residential Nexus Analysis for detail.

In our opinion, fee levels for cities should be selected based on a combination of the strength of the local real estate for the building types that will pay the fee, and local policy objectives. We also believe it is appropriate to take into account the fee levels in neighboring jurisdictions and cities that are comparable to Union City in real estate demand.

2. Fees in Other Jurisdictions

The chart below summarizes fee levels for jurisdictions in Santa Clara and Alameda counties that have adopted non-residential fees. The jurisdictions with the highest fees tend to be in areas with very strong demand for non-residential space, such as San Francisco, Palo Alto, Mountain View, and other cities located on the Peninsula or in Silicon Valley. In the East Bay, fee levels are generally more moderate. Newark's fee is $3.59 per square foot for commercial and $0.69 per square foot for industrial. Oakland has a fee of $5.24 per square foot applicable to office and warehouse only (other uses are exempt). Emeryville adopted a fee in 2014 at $4.10 applicable to all types of non-residential development. Berkeley has a fee of $4.50 (and $2.25 for industrial). Other cities in the East Bay that do not currently have affordable housing fees on non-residential development but that may also consider a new fee as part of this multi-jurisdiction effort include Fremont, Hayward, Albany, San Leandro, and unincorporated Alameda County. More details can be found in Section IV and Table 4.

Non-Residential Housing Impact Fees – Santa Clara Co. & Alameda County

Non-Residential Linkage Fees	Office $/SF	Retail $/SF	Hotel $/SF	Industrial $/SF
Santa Clara Co.				
Mountain View	$25.00	$2.68	$2.68	$25.00
Cupertino	$20.00	$10.00	$10.00	$20.00
Palo Alto	$19.85	$19.85	$19.85	$19.85
Sunnyvale	$15.00	$7.50	$7.50	$15.00
Alameda Co.				
Newark	$3.59	$3.59	$3.59	$0.69
Emeryville	$4.10	$4.10	$4.10	$4.10
Pleasanton	$3.04	$3.04	$3.04	$3.04
Dublin	$1.27	$1.02	$0.43	$0.49
Oakland	$5.24	N/A	N/A	N/A
Berkeley	$4.50	$4.50	$4.50	$2.25

3. Total Development Costs

KMA estimated the total development cost associated with each building type and examined fee levels in the context of total costs. Total costs include construction, all permits and fees, land, financing and other. This facilitates an evaluation of whether the amount is likely to affect development decisions. Four non-residential prototype projects were selected for review of total development costs. The prototypes include office, hotel, retail, and light industrial. The cost estimates were prepared based on local information and our firm's extensive work with real estate projects throughout the Bay Area. More detail on the analysis can be found in Section IV. The results are summarized below:

Total Development Costs – Non-Residential	
Building Type	*Cost*
Office	$325 - $425 per sq.ft.
Hotel	$300 - $400 per sq.ft.
Retail / Restaurant / Service	$300 - $400 per sq.ft.
Light Industrial	$200 - $350 per sq.ft.

One useful way to evaluate alternative fee levels is to examine them as a percent of total development costs. For example, at 1% to 3% of costs, we would see the following fee levels:

Fees as a Percent of Development Costs			
Building Type	*1%*	*2%*	*3%*
Office	$4 psf	$7 psf	$11 psf
Hotel	$3 psf	$7 psf	$10 psf
Retail / Restaurant	$3 psf	$7 psf	$10 psf
Light Industrial	$2 psf	$4 psf	$7 psf

4. Market Context

Market conditions in Union City for all non-residential development types are strong when viewed from the regional or statewide perspective. Within the inner Bay Area, Union City falls into the more moderate market strength range, particularly in contrast to the very powerful market conditions across the Bay in San Mateo and Santa Clara Counties.

Union City's industrial sector continues to exhibit unique strength across a broad range of building types ranging from flex space to warehouses. Demand for pure office uses is far weaker than the demand for industrial uses in the City.

Retail and hotel uses serve both the local population and the visitor base generated by the office and industrial sectors.

5. Recommended Fee Levels for Non-Residential

Given the maximums established by the nexus analysis, the market strength of Union City and the fees in neighboring jurisdictions, should the City decide to proceed with a non-residential affordable housing fee, KMA recommends consideration of fees within the $3 to $5 per square foot range for all types of non-residential development. A reduced rate of $0.50 to $1 is suggested for industrial and warehouse, particularly if the City is seeking to encourage these uses and in recognition of the low rent / low cost nature of these structures which makes them more sensitive to increased fees. In our opinion, fees adopted within any low to moderate range will have little bearing on development decisions in Union City. While higher fees could likely be sustained without significantly limiting development activity, we believe the recommended range represents a good starting point for a new adoption in Union City.

III. SUMMARY OF NEXUS ANALYSES

This section provides a concise summary of the residential and non-residential nexus analyses prepared for the City of Union City. The analyses provide documentation necessary for adoption of new affordable housing impact fees applicable to residential and non-residential development. The analyses establish maximum supportable impact fee levels based on the impact new residential and non-residential development has on the need for affordable housing. Findings represent the results of an impact analysis only and are <u>not</u> recommended fee levels.

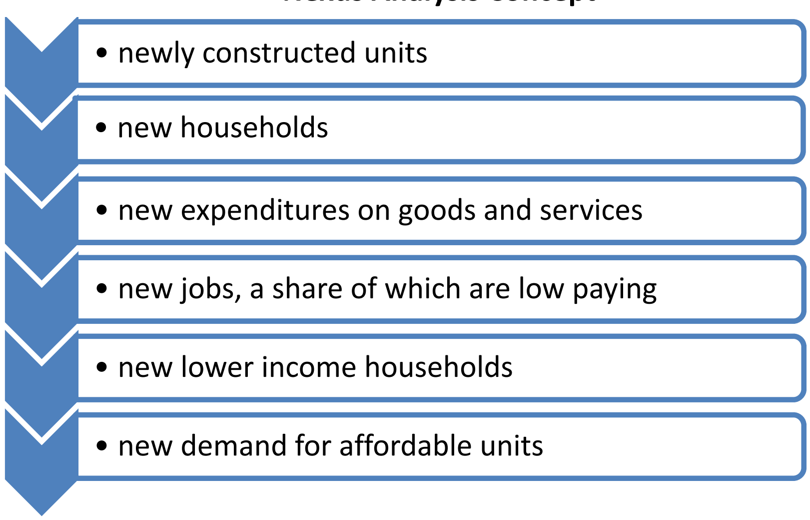
While nexus findings represent upper limits for impact fee-type requirements, inclusionary program requirements, including applicable in-lieu fees, are not bound by nexus findings based on the ruling by the California Supreme Court in the San Jose inclusionary housing case. Under current law, inclusionary requirements cannot be applied to rental units; however, this could change if currently proposed legislation is enacted (AB 2502).

Full documentation of the analyses can be found in the reports titled <u>Residential Nexus Analysis</u> and <u>Non-Residential Nexus Analysis</u>.

A. Residential Nexus Analysis Summary

The residential nexus analysis establishes maximum supportable impact fee levels applicable to residential development. The underlying concept of the residential nexus analysis is that the newly constructed units represent net new households in Union City. These households represent new income in the City that will consume goods and services, either through purchases of goods and services or "consumption" of governmental services. New consumption generates new local jobs; a portion of the new jobs are at lower compensation levels; low compensation jobs relate to lower income households that cannot afford market rate units in Union City and therefore need affordable housing.

Nexus Analysis Concept



1. Market Rate Residential Prototypes

In collaboration with City staff, a total of six market rate residential prototypes were selected: four ownership prototypes and two rental prototypes. The intent of the selected prototypes is to identify representative development prototypes likely to be developed in Union City in the immediate to mid-term future.

A summary of the six residential prototypes is presented below. Market survey data, City planning documents and other sources were used to develop the information. Market sales prices and rent levels were estimated based on KMA's market research.

Prototypical Residential Units for City of Union City

	Single Family - Large Lot	*Single Family - Smaller Lot*	*Townhome*	*Condominium*	*Apartments - Lower Density*	*Apartments - Higher Density*
Avg. Unit Size	3,000 SF	2,200 SF	1,800 SF	1,100 SF	1,100 SF	900 SF
Avg. No. of Bedrooms	4.00	3.30	3.00	2.00	2.00	1.50
Avg. Sales Price / Rent	$1,170,000	$800,000	$700,000	$450,000	$2,800 /mo.	$2,600 /mo.
Per Square Foot	$390 /SF	$364 /SF	$389 /SF	$409 /SF	$2.55 /SF	$2.89 /SF

2. Household Expenditures and Job Generation

Using the sales price or rent levels applicable to each of the six market rate residential prototypes, KMA estimates the household income of the purchasing/renting household. Household income is then translated to income available for expenditures after deducting taxes, savings and household debt, which becomes the input to the IMPLAN model. The IMPLAN model is used to estimate the employment generated by the new household spending. The IMPLAN model is an economic model widely used for the past 35 years to quantify the impacts of changes in a local economy. For ease of presentation the analysis is conducted based on an assumed project size of 100 market rate units.

A 20% downward adjustment is made to the IMPLAN employment estimates based on the expectation that a portion of jobs may be filled by existing workers who already have housing locally. The 20% adjustment is based upon job losses in declining sectors of the local economy over a historic period. Workers from declining sectors are assumed to fill a portion of the new jobs in sectors that serve residents.

The translation from market rate sales prices and rent levels for the prototypical units to the estimated number of jobs in sectors such as retail, restaurants, health care and others providing goods and services to new residents is summarized in the table below.

Household Income, Expenditures, Job Generation, and Net New Worker Households						
	Single Family - Large Lot	*Single Family - Smaller Lot*	*Townhome*	*Condominium*	*Apartments - Lower Density*	*Apartments - Higher Density*
Avg. Sales Price / Rent	$1,170,000	$800,000	$700,000	$450,000	$2,800	$2,600
Gross Household Income	$227,000	$155,000	$142,000	$98,000	$117,000	$109,000
Net Annual Income available	$131,700	$105,400	$96,600	$71,500	$74,000	$69,000
Total Jobs Generated [from IMPLAN] (100 Units)	97.7	78.2	68.3	49.1	52.3	48.8
Net New Jobs after 20% reduction for declining industries	78.2	62.6	54.6	39.3	41.9	39.0

See Residential Nexus Analysis report for full documentation.

3. Compensation Levels of Jobs and Household Income

The output of the IMPLAN model – the numbers of jobs by industry – is then entered into the Keyser Marston Associates jobs housing nexus analysis model to quantify the compensation levels of new jobs and the income of the new worker households. The KMA model sorts the jobs by industry into jobs by occupation, based on national data, and then attaches local wage distribution data to the occupations, using recent Alameda County data from the California Employment Development Department (EDD). The KMA model also converts the number of employees to the number of employee households, recognizing that there is, on average, more than one worker per household, and thus the number of housing units in demand for new workers is reduced. For purposes of the adjustment from jobs to housing units, the average of 1.6 workers per working household in Alameda County is used.

Adjustment from No. of Workers to No. of Households						
	Single Family - Large Lot	*Single Family - Smaller Lot*	*Townhome*	*Condominium*	*Apartments - Lower Density*	*Apartments - Higher Density*
Net New Jobs (100 Units)	78.2	62.6	54.6	39.3	41.9	39.0
Divide by No. of Workers per Worker Household	1.60	1.60	1.60	1.60	1.60	1.60
Net new worker households (100 Units)	48.9	39.2	34.2	24.6	26.2	24.4

The output of the model is the number of new worker households by income level (expressed in relation to the Area Median Income, or AMI) attributable to the new residential units and new households in Union City. Four categories of addressed: Extremely Low (under 30% of AMI), Very Low (30% to 50% of AMI), Low (50% to 80% of AMI) and Moderate (80% to 120% of AMI).

Following are the numbers of worker households by income level associated with the Union City prototype units.

New Worker Households per 100 Market Rate Units						
	Single Family - Large Lot	*Single Family - Smaller Lot*	*Townhome*	*Condominium*	*Apartments - Lower Density*	*Apartments - Higher Density*
Extremely (0%-30% AMI)	6.4	5.1	4.6	3.3	3.5	3.3
Very Low (30%-50% AMI)	12.3	9.9	8.6	6.1	6.6	6.2
Low (50%-80% AMI)	12.1	9.7	8.3	6.0	6.4	6.0
Moderate (80%-120% AMI)	8.1	6.5	5.5	4.0	4.2	4.0
Total, Less than 120% AMI	**38.9**	**31.1**	**27.0**	**19.3**	**20.7**	**19.3**
Greater than 120% AMI	10.0	8.0	7.1	5.3	5.5	5.1
Total, New Households	**48.9**	**39.2**	**34.2**	**24.6**	**26.2**	**24.4**

See Residential Nexus Analysis report for full documentation.

Housing demand is distributed across the lower income tiers. The finding that the greatest number of households occurs in the Very Low and Low income tiers is driven by the fact that a large share of the jobs most directly associated with consumer spending tend to be low-paying, such as food preparation, administrative, and retail sales occupations.

4. Nexus Supported Maximum Fee Levels

The next step in the nexus analysis takes the number of households in the lower income categories associated with the market rate units and identifies the total subsidy required to make housing affordable. This is done for each of the prototype units to establish the 'total nexus cost,' which is the Maximum Supported Impact Fee conclusion of the analysis. For the purposes of the analysis, KMA assumes that affordable housing fee revenues will be used to subsidize affordable rental units for households earning less than 80% of median income, and to subsidize affordable ownership units for households earning between 80% and 120% of median income.

Affordability gaps, or the needed subsidy amounts, are calculated for each of the income tiers. Then the affordability gaps (which is the difference between total development cost and unit value based on the affordable rent or sales price) are multiplied by the number of households in each income tier to produce the total nexus cost (i.e. mitigation cost.).

The Maximum Supported Impact Fees are calculated at the per-unit level and the per-square-foot level and are shown in the table below.

Maximum Supported Residential Impact Fees, City of Union City						
	Single Family - Large Lot	*Single Family - Smaller Lot*	*Townhome*	*Condominium*	*Apartments - Lower Density*	*Apartments - Higher Density*
Per Market Rate Unit	$76,700	$61,300	$53,500	$38,100	$41,000	$38,200
Per Square Foot*	$25.50	$27.80	$29.60	$34.60	$37.30	$42.50

* Applies to net rentable / sellable area exclusive of garage space, external corridors and other common areas.

These costs express the maximum supported impact fees for the six residential prototype developments in Union City. These findings are not recommended fee levels.

B. Non-Residential Nexus Analysis Summary

The non-residential nexus analysis quantifies and documents the impact of the construction of new workplace buildings (office, retail, hotels, etc.) on the demand for affordable housing. It is conducted to support the consideration of a new affordable housing impact fee or commercial linkage fee applicable to non-residential development in the City of Union City.

Full documentation of the nexus analysis is contained in the report entitled Non-Residential Nexus Analysis.

The workplace buildings that are the subject of this analysis represent a cross section of typical commercial buildings developed in Union City in recent years and expected to be built in the near term future. For purposes of the analysis, the following five building types were identified:

- Office
- Hotel
- Retail / Restaurant / Service
- Light Industrial
- Warehousing

The nexus analysis links new non-residential buildings with new workers; these workers demand additional housing, a portion of which needs to be affordable to the workers in lower income households. The analysis begins by assuming a 100,000 square foot building for each of the five building types and then makes the following calculations:

- The total number of employees working in the building is estimated based on average employment density data.
- Occupation and income information for typical job types in the building are used to calculate how many of those jobs pay compensation at the levels addressed in the analysis. Compensation data is from California EDD and is specific to Alameda County. Worker occupations by building type are derived from the 2014 Occupational Employment Survey by the U.S. Bureau of Labor Statistics.
- New jobs are adjusted to new households, using Alameda County demographics on the number of workers per household. We know from the Census that many workers are members of households where more than one person is employed and there is also a range of household sizes; we use factors derived from the Census to translate the number of workers into households of various size. Household income is calculated depending on the number of workers per household.
- The number of Extremely Low-, Very Low-, Low-, and Moderate-Income households generated by the new development is calculated and divided by the 100,000 square foot building size to arrive at coefficients of housing units per square foot of building area. The household income categories addressed in the analysis are the same as those in the Residential Nexus Analysis.

- The number of lower income households per square foot is multiplied by the affordability gap, or the cost of delivering housing units affordable to these income groups. This is the Maximum Supported Impact Fee for the non-residential land uses.

The Maximum Supported Impact Fees for the five building types are as follows:

Building Type	Maximum Supported Fee Per Square Foot
Office	$144.90
Retail	$250.30
Hotel	$117.70
Light Industrial	$113.30
Warehouse	$40.90

Note: Nexus findings are <u>not</u> recommended fee levels.
See <u>Non-Residential Nexus Analysis</u> for detail.

The results of the analysis are heavily driven by the density of employees within buildings in combination with the occupational make-up of the workers in the buildings. Retail has both high employment density and a high proportion of low paying jobs.

These figures express the maximum supported impact fee per square foot for the five building types. They are <u>not</u> recommended levels for fees; they represent only the maximums established by this analysis, below which impact fees may be set.

Adjustments are not additive. Each would independently be sufficient to absorb new fees. Depending on the market cycle and other factors, a combination of the above market adjustments would be expected to contribute in absorbing a new fee.

IV. CONTEXT MATERIALS

The purpose of this section is to provide information that may be useful to policy makers in considering potential amendments to the City's affordable housing requirements for residential development and potential adoption of a new affordable housing impact fee applicable to non-residential development. The following analyses and summary materials are included:

- **Multifamily Apartment Feasibility Analysis** – Section A. presents the analysis and findings regarding the financial feasibility of new multifamily market rate apartments;

- **Inclusionary Program Compliance Costs** – Section B. analyzes the cost to a market rate residential project of complying with the City's existing inclusionary policy;

- **Residential Affordable Housing Requirements in Other Jurisdictions** – Section C. provides a summary of inclusionary and impact fee requirements in other Santa Clara and Alameda county jurisdictions;

- **Non-Residential Development Cost Context –** Section D. evaluates total development costs associated with four prototypical building types to facilitate an evaluation of whether fee amounts are likely to affect development decisions; and

- **Jobs Housing Linkage Fee Programs in Other Jurisdictions** – Section E. provides information regarding adopted linkage fee programs in jurisdictions throughout the Bay Area and elsewhere in California.

A. Multifamily Apartment Financial Feasibility Analysis

In adopting or amending affordable housing requirements, cities typically consider a variety of public policy goals including seeking a balance between producing a meaningful amount of new affordable units and establishing requirements at a level that can be sustained by new market rate projects. This section addresses the potential impacts that new housing impact fees could have on the feasibility of new multi-family apartment projects. The analysis is specific to four of the participants in the multi-jurisdiction nexus study effort including Albany, San Leandro, Unincorporated Alameda County and Union City.

The financial feasibility analysis is focused on rental projects because the City's inclusionary housing requirements for rental projects have not been enforceable since the 2009 *Palmer* decision, except through negotiation, and adoption of a new rental impact fee would represent an additional cost that would need to be absorbed within the economics of rental projects. In contrast, feasibility of for-sale projects was not analyzed as the City's inclusionary housing policy is already reflected in development economics of new for-sale projects.

Before describing the feasibility analysis, it is useful to put the feasibility analysis into perspective by summarizing how it can be used and where limitations exist in its ability to inform a longer-term policy direction:

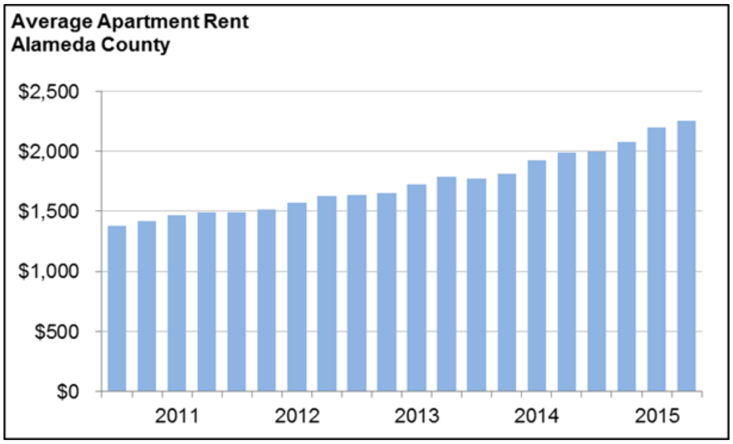
- Prototypical Nature of Analysis – This financial feasibility analysis, by its nature, can only provide a general assessment of development economics because it is based on prototypical projects rather than specific projects. Every project has unique characteristics that will dictate rents supported by the market as well as development costs and developer return requirements. This feasibility analysis is intended to reflect prototypical apartment projects in the inner East Bay but it is recognized that the economics of some projects will likely look better and some likely worse than those of the prototype analyzed.

- Near Term Time Horizon – This feasibility analysis is a snapshot of real estate market conditions as of early 2016. The analysis is most informative regarding near term implications a housing impact fee could have for projects that have already purchased sites and are currently in the pre-development stages. Real estate development economics are fluid and are impacted by constantly changing conditions regarding rent potential, construction costs, land costs, and costs of financing. A year or two from now, conditions will undoubtedly be different.

- Adjustments to Land Costs over Time – Developers purchase development sites at values that will allow for financially feasible projects. If a housing fee is put in place, developers will "price in" the requirement when evaluating a project's economics and negotiating the purchase price for development sites. Given that the requirements will apply to all or most projects, it is possible that downward pressure on land costs could result as developers adjust what they can afford to pay for land. This downward pressure on land prices can, at least to some degree, bring costs back into better balance with the overall economics supported by projects.

Apartment Market Context

Like most parts of the Bay Area, Alameda County has experienced improving apartment market conditions (for new development) in recent years as exhibited by rising rents and occupancy rates. The improvement in market conditions is attributable to robust regional job growth and the overall strength of the regional economy.



Source: RealAnswers

Notwithstanding the strong housing market, new market rate (non-subsidized) apartment construction activity in Alameda County has been limited outside of certain cities such as Oakland, Berkeley, and Emeryville. In many parts of the county, alternative residential development types, particularly single family for-sale housing, produce superior economic returns at a lower risk than multi-family apartments. Additionally, appropriately zoned land for higher density apartments is often in more densely developed infill areas where there can be challenges of parcel assembly, tenant relocation, infrastructure adequacy, and environmental remediation. Even though higher densities are generally encouraged in areas near public transit and mixed-use downtown areas, which do provide economic advantages for multi-family projects, market conditions do not yet exist for feasibility of many apartment projects. However, it is noted that new market rate apartments are in the current development pipeline in several Alameda County jurisdictions.

Financial Feasibility Analysis

The financial feasibility analysis estimates the costs to develop a new apartment project and the rental income that could be generated by the project upon completion. If the rental income is sufficient to support the development costs and generate a sufficient profit margin, the project is considered feasible. This approach to financial feasibility, known as a pro forma approach or income approach, is common practice in the real estate industry and is utilized in one form or another by all developers when analyzing new construction projects.

This analysis organizes the pro forma as a “land residual analysis”, meaning the pro forma solves for what the project can afford to pay for a development site based on the income projections and the non-land acquisition costs of the project. It then compares the residual land values with land costs in the current market in order to test whether developers can afford to buy land and develop projects. The following describes the assumptions utilized in the analysis and the conclusions drawn therefrom.

- The direct construction costs of development include all contractor labor and material costs to construct the project including general requirements, contractor fees, and contingencies. As shown in Table 1 below, the direct construction costs are estimated at $234,000/unit. This estimate has been made based on third party construction data sources, such as RS Means, and by cost estimates for similar building types elsewhere in the market. Indirect costs of development include architecture and engineering (A&E) costs, municipal fees and permits costs, taxes, insurance, overhead, and debt financing costs. These costs have been estimated at $76,000/unit.

- Rental income for the apartment prototype has been estimated based on apartment rent comps. Rents are estimated at $2,540/month, or $2.82/square foot/month. After a vacancy factor, operating expenses, and property taxes, the net operating income (NOI) is estimated at $21,600/unit/year. Using this NOI and applying a 6% project return, the project value/supported investment is estimated at $360,000/unit.

- The residual land value is derived by subtracting the development costs before land acquisition from the project value/supported investment. As shown in Table 1, the residual land value without a housing fee for the apartment prototype at 40 units per acre is approximately $50,000/unit or $46/square foot of land area.

Once the residual land values have been estimated, the values can be compared to prevailing land values in the market to determine whether the prototypes are financially feasible. In other words, if the residual land values are equal to or higher than market land values, then projects are generally feasible. Conversely, if the residual land values are less than market land values, some improvement in market conditions (lower development costs or higher housing values) will be needed for feasibility.

Land Value Supported

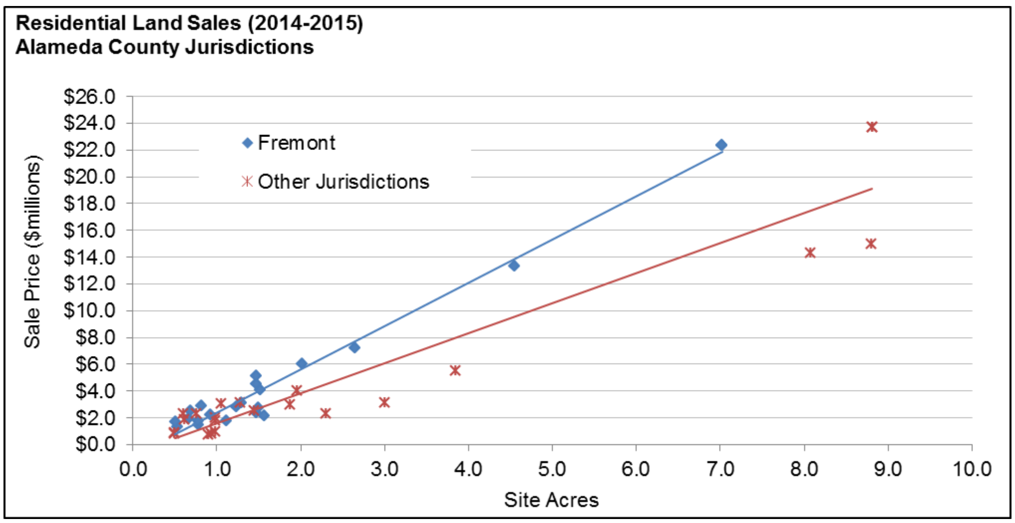
The feasibility analysis summarized in Table 1 on the next page indicates that apartment projects, assumed at 40 units per acre on average, can afford to pay on average $46/square foot for land with no affordable housing fee in place. The analysis also tested the land value supported with illustrative fee scenarios of $10 to $30 per net square foot. As shown, the supported land value decreases by approximately $8 - $9 per square foot of land for each $10 per square foot in fees added. The highest illustrative fee tested of $30 per square foot is estimated to bring the residual land values down to $21 per square foot, which would represent a reduction in supported land value of more than 50%.

Table 1. Summary of Apartment Feasibility Analysis
Alameda County Jurisdictions

Program		
Average Unit Size	900 sf (NSF)	
Average Bedrooms	1.5 bedrooms	
Density	40 du/acre	
Parking	Surface & Structure	
Development Costs	**$/NSF**	**Total**
Directs	$260	$234,000
Indirects		
A&E	$13	$12,000
Fees & Permits (excl. Affordable)	$27	$24,000
Overhead & Administration	$10	$9,000
Other Indirects	$23	$21,000
Debt Financing Costs	$11	$10,000
Total Indirects	$84	$76,000
Total Costs before Land	$344	$310,000
Operating Income	**$/NSF**	**Total**
Gross Income ($2,540 rent + other income)	$35	$31,600
(Less) Vacancy (5%)	($2)	($1,600)
(Less) Operating Expenses & Taxes	($9)	($8,400)
Net Operating Income (NOI)	$24	$21,600
Threshold Return on Cost	6.0% ROC	
Total Supported Private Investment	$400	$360,000
Residual Land Value	**$/Land SF**	**$/Unit**
No Affordable Housing Fee	$46	$50,000
Land Values With Illustrative Fee Scenarios		
Illustrative Fee at $10/square foot	*$38*	*$41,000*
Illustrative Fee at $20/square foot	*$29*	*$32,000*
Illustrative Fee at $30/square foot	*$21*	*$23,000*

Prevailing Land Values

In order to assess prevailing land values for residential development in Alameda County, KMA reviewed relevant land sale comparables (comps) in 2014 and 2015 as well as recent residential land appraisals. The sale prices of these comps, which were located in San Leandro, Union City, Hayward, San Lorenzo, and Castro Valley, ranged from approximately $20-$60/square foot with a median price of $41/square foot. There were no reported land sales in Albany, however land values in Albany would generally be higher than in the other participating Alameda County jurisdictions due to the higher apartment rents that can be achieved there. In general, land values will be higher in superior locations such as those with convenient proximity to job centers, public transit, retail and commercial services, and freeway access, as well as for sites that are of ideal size and configuration and have appropriate entitlements for near-term residential development.



Fremont comps included in order to contribute to a larger dataset. Other jurisdictions include Hayward, San Leandro, Union City, Castro Valley, and San Lorenzo. Median sale price of other jurisdictions = $41/square foot. Data indicated is based on availability (detail for the aggregated cities is not available.).

Based on the fact that the land sales reviewed for this analysis occurred in 2014 and 2015, the values today would be higher after accounting for land value appreciation. We estimate and values to be in the $45 to $50 per square foot range, although some sites will be above this level and others below based on site specific considerations. Land values are within the same range as the $46 per square foot land value supported by the economics of new multifamily apartment projects as estimated in Table 1. As noted in the beginning of this section, due to the prototype approach to this analysis, some apartment projects will probably support a somewhat higher land value and some projects will support a somewhat lower land value based on location, site, and other individual project considerations.

Feasibility Conclusion

The analysis indicates that multifamily rental projects are generally feasible at this time. This conclusion is based on the finding that apartment projects in the Alameda County jurisdictions (San Leandro, Union City, Albany, and unincorporated Alameda County) can afford to pay on average $46/square foot for land, or within the same range as current land values estimated at $45 to $50 per square foot. Apartment projects in the pipeline in the cities of San Leandro and Union City are also demonstration of an emergent market for new rentals. Albany has also seen a small four-unit rental. No new rentals were being proposed in the unincorporated areas of Alameda County as of the time of the market survey. However, unlike some locations within the Bay Area that have seen significant rental development, the market in Albany, San Leandro, Union City, and unincorporated Alameda County is still emerging and, in our opinion, remains fragile at this point.

Potential Market Adjustments to Absorb New Fees

To illustrate the impacts a potential new rental housing impact fee could have to financial feasibility, KMA used the pro forma analysis to test the impact of a $10/square foot fee on the economics of a new multifamily rental project. The analysis in Table 1 indicates a $10 fee would have the effect of reducing the $46/square foot residual land value to $38/square foot, which is somewhat below the estimated land value range of $45 to $50 per square foot. This is an indication that a new affordable housing fee would begin to challenge feasibility for some projects and that some combination of market adjustments such as increases in rents and / or adjustments in land values would be required for a new fee to be absorbed.

A potential fee of $10/square foot represents about 2.5% of total development costs, including land, for the apartment prototype analyzed. Since the feasibility analysis is a snapshot in time analysis based on current market conditions, in can be instructive to consider how relatively modest improvements in project economics (e.g. continued strong increases in rents paired with more moderated increases in construction costs) can help to absorb a new fee. By way of illustration, a $10/square foot fee could be absorbed by any of the following market adjustments:

- An approximately 2% increase in rents
- An approximately 4% decrease in direct construction costs
- An approximately 18% decrease in land costs

Additional examples of potential market adjustments at illustrative fee levels of $1, $20 and $30 per square foot are shown in the table below. These calculations can be made for any fee level that may be considered. Note that adjustments are not additive. Each would be independently sufficient to absorb the fee increase. Depending on the market cycle and other factors, a combination of the above market adjustment would be expected to contribute to absorbing the new fee.

Potential Market Adjustments to Absorb Illustrative Fee Levels				
	Each $1 Fee	$10 Fee	$20 Fee	$30 Fee
Increase in Rents/Income	0.19%	1.9%	3.7%	5.6%
Decrease in Direct Costs	0.38%	3.8%	7.7%	11.5%
Decrease in Land Values (based on $45/sf)	1.80%	18.0%	35.9%	53.9%

B. On-Site Compliance Cost Analysis

The inclusionary program in Union City requires developers of new for-sale projects to set aside 15% of units for Moderate, Median and Low income households. KMA estimated the foregone revenue for the developer when units are sold at affordable prices; this is referred to as the 'onsite compliance costs.' KMA notes that the 'cost' is compared to the hypothetical condition of no requirement. As Union City has long had its inclusionary program in place, land values for residential development have adjusted to absorb this cost, as any developer acquiring land knows how the obligation will affect their project's economics. A primary purpose of the onsite compliance analysis is to enable an understanding of the cost associated with complying with the City's existing inclusionary requirements, which is often useful as context for consideration of potential fee obligations.

KMA modeled the City's current onsite obligation, which is 9% of units at Moderate, 4.5% at Median and 1.5% at Low. With current market rate sales prices, the cost to a developer associated with designating affordable units ranges from $28,000 to $123,000 per market rate unit or $26 to $41 per net square foot, depending on the prototype. Table 2 presents our estimates of onsite compliance costs for ownership units.

Rental projects were not included in the analysis because inclusionary requirements for rentals have not been enforceable since the 2009 Palmer decision.

These figures should not be interpreted as recommended fee levels.

TABLE 2
COST OF ONSITE COMPLIANCE AND EQUIVALENT IN-LIEU FEES
RESIDENTIAL NEXUS ANALYSIS
CITY OF UNION CITY, CA

		Prototype 1 Single Family Detached - Larger Lot		Prototype 2 Single Family Detached - Smaller Lot		Prototype 3 Townhome		Prototype 4 Condominium	
Unit Size[1]		3,000 sq ft		2,200 sq ft		1,800 sq ft		1,100 sq ft	
Number of Bedrooms[1]		4		3.3		3		2	
Market Rate		***Per SF***	***Per Unit***	***Per SF***	***Per Unit***	***Per SF***	***Per Unit***	***Per SF***	***Per Unit***
Sales Prices[1]		$390	$1,170,000	$364	$800,000	$389	$700,000		$450,000
Affordable Prices [2]			***Per Unit***		***Per Unit***		***Per Unit***		***Per Unit***
At Moderate Income (110% AMI)			$382,200		$363,790		$336,100		$288,400
At Median Income (100% AMI)			$342,850		$326,435		$299,800		$255,550
At Low Income (70% AMI)			$185,800		$177,750		$154,500		$124,650
Affordability Gap [3]			***Per Unit***		***Per Unit***		***Per Unit***		***Per Unit***
Per Affordable Moderate Unit			$787,800		$436,210		$363,900		$161,600
Per Affordable Median Unit			$827,150		$473,565		$400,200		$194,450
Per Affordable Low Unit			$984,200		$622,250		$545,500		$325,350
Cost of Onsite Compliance [4]		***Per SF***	***Per Unit***	***Per SF***	***Per Unit***	***Per SF***	***Per Unit***	***Per SF***	***Per Unit***
Inclusionary Percentage @	9.0% Mod								
and	4.5% Med	$41	$122,887	$32	$69,903	$33	$58,943	$26	$28,175
and	1.5% Low								

1. See Residential Nexus Analysis Table A-1.
2. Estimate calculated by KMA based on standard affordable pricing assumptions. May not reflect City's actual pricing methodology.
3. The difference between the market rate sales prices and the restricted affordable price.
4. Equivalent cost per market rate unit or square foot.

TABLE 2C
ESTIMATED AFFORDABLE HOME PRICES - Low Income
RESIDENTIAL NEXUS ANALYSIS
CITY OF UNION CITY, CA

	CONDO	TOWNHOME	SFD
Unit Size	2-Bedroom Unit	3-Bedroom Unit	3-Bedroom Unit
Household Size	3-person HH	4-person HH	4-person HH
100% AMI Alameda County 2016	$84,250	$93,600	$93,600
70% of AMI	$58,975	$65,520	$65,520
% for Housing Costs	30%	30%	30%
Available for Housing Costs	$17,693	$19,656	$19,656
(Less) Property Taxes	($1,750)	($2,156)	($2,436)
(Less) HOA	($4,200)	($3,000)	$0
(Less) Utilities	($1,560)	($1,932)	($3,156)
(Less) Insurance	($700)	($800)	($800)
(Less) Mortgage Insurance	($1,593)	($1,985)	($2,228)
Income Available for Mortgage	$7,890	$9,784	$11,037
Mortgage Amount	$118,400	$146,800	$165,600
Down Payment (homebuyer cash)	$6,250	$7,700	$8,700
Supported Home Price	$124,650	$154,500	$174,300
Key Assumptions			
- Mortgage Interest Rate [1]	5.30%	5.30%	5.30%
- Down Payment [2]	5.0%	5.0%	5.0%
- Property Taxes (% of sales price) [3]	1.40%	1.40%	1.40%
- HOA (per month) [4]	$350	$250	$0
- Utilities (per month) [5]	$130	$161	$263
- Mortgage Insurance (% of loan amount)	1.35%	1.35%	1.35%

(1) Mortgage interest rate based on 15-year Freddie Mac average; assumes 30-year fixed rate mortgage.
(2) Down payment amount is an estimate for Low Income homebuyers.
(3) Property tax rate is an estimated average for new projects.
(4) Homeowners Association (HOA) dues is an estimate for the average new project.
(5) Utility allowances from Alameda County Housing Authority (2016).

TABLE 2B
ESTIMATED AFFORDABLE HOME PRICES - Median Income
RESIDENTIAL NEXUS ANALYSIS
CITY OF UNION CITY, CA

	CONDO	TOWNHOME	SFD
Unit Size	2-Bedroom Unit	3-Bedroom Unit	3-Bedroom Unit
Household Size	3-person HH	4-person HH	4-person HH
100% AMI Alameda County 2016	$84,250	$93,600	$93,600
% for Housing Costs	35%	35%	35%
Available for Housing Costs	$29,488	$32,760	$32,760
(Less) Property Taxes	($3,570)	($4,200)	($4,480)
(Less) HOA	($4,200)	($3,000)	$0
(Less) Utilities	($1,560)	($1,932)	($3,156)
(Less) Insurance	($700)	($800)	($800)
(Less) Mortgage Insurance	($3,281)	($3,848)	($4,104)
Income Available for Mortgage	$16,177	$18,981	$20,220
Mortgage Amount	$242,800	$284,800	$303,400
Down Payment (homebuyer cash)	$12,750	$15,000	$16,000
Supported Home Price	$255,550	$299,800	$319,400
Key Assumptions			
- Mortgage Interest Rate (1)	5.30%	5.30%	5.30%
- Down Payment (2)	5.0%	5.0%	5.0%
- Property Taxes (% of sales price) (3)	1.40%	1.40%	1.40%
- HOA (per month) (4)	$350	$250	$0
- Utilities (per month) (5)	$130	$161	$263
- Mortgage Insurance (% of loan amount)	1.35%	1.35%	1.35%

(1) Mortgage interest rate based on 15-year Freddie Mac average; assumes 30-year fixed rate mortgage.
(2) Down payment amount is an estimate for Median Income homebuyers.
(3) Property tax rate is an estimated average for new projects.
(4) Homeowners Association (HOA) dues is an estimate for the average new project.
(5) Utility allowances from Alameda County Housing Authority (2016).

TABLE 2A
ESTIMATED AFFORDABLE HOME PRICES - Moderate Income
RESIDENTIAL NEXUS ANALYSIS
CITY OF UNION CITY, CA

	CONDO	TOWNHOME	SFD
Unit Size	2-Bedroom Unit	3-Bedroom Unit	3-Bedroom Unit
Household Size	3-person HH	4-person HH	4-person HH
100% AMI Alameda County 2016	$84,250	$93,600	$93,600
110% of AMI	$92,675	$102,960	$102,960
% for Housing Costs	35%	35%	35%
Available for Housing Costs	$32,436	$36,036	$36,036
(Less) Property Taxes	($4,032)	($4,704)	($4,984)
(Less) HOA	($4,200)	($3,000)	$0
(Less) Utilities	($1,560)	($1,932)	($3,156)
(Less) Insurance	($700)	($800)	($800)
(Less) Mortgage Insurance	($3,686)	($4,320)	($4,563)
Income Available for Mortgage	$18,259	$21,280	$22,533
Mortgage Amount	$274,000	$319,300	$338,100
Down Payment (homebuyer cash)	$14,400	$16,800	$17,800
Supported Home Price	$288,400	$336,100	$355,900
Key Assumptions			
- Mortgage Interest Rate (1)	5.30%	5.30%	5.30%
- Down Payment (2)	5.0%	5.0%	5.0%
- Property Taxes (% of sales price) (3)	1.40%	1.40%	1.40%
- HOA (per month) (4)	$350	$250	$0
- Utilities (per month) (5)	$130	$161	$263
- Mortgage Insurance (% of loan amount)	1.35%	1.35%	1.35%

(1) Mortgage interest rate based on 15-year Freddie Mac average; assumes 30-year fixed rate mortgage.
(2) Down payment amount is an estimate for Moderate Income homebuyers.
(3) Property tax rate is an estimated average for new projects.
(4) Homeowners Association (HOA) dues is an estimate for the average new project.
(5) Utility allowances from Alameda County Housing Authority (2016).

C. Residential Affordable Housing Requirements in Other Jurisdictions

The affordable housing requirements adopted by other jurisdictions are almost always of interest to decision making bodies. Cities inevitably want to know what their neighbors have in place for affordable housing requirements, and often want to examine other cities that are viewed as comparable on some level. The body of information on other programs not only presents what others are adopting, but also illustrates the broad range in program design and customized features available to meet local needs.

The work program design for Multi Jurisdiction Nexus Studies anticipated wide interest in the comparison jurisdictions to be covered. To keep the comparison task manageable, the participating cities and counties voted as to which cities were of greatest interest for inclusion in the comparison survey. For the most part, the participants selected their neighbors and the larger cities of the local region as being of most interest. It was a given that the existing requirements of all participant cities and counties would also be included. Ultimately, eight cities in Santa Clara County and ten cities in Alameda County were selected for inclusion in the comparison material.

A four-page chart summarizes the key features of the eighteen cities in the survey. Neither of the two participating counties have yet adopted affordable housing requirements. The chart was designed to focus on the major components of each city's program that would be most relevant to decision making by the participating jurisdictions, primarily the thresholds, the fee levels and on-site affordable unit requirements.

Findings from the Survey

Thresholds for On-Site Affordable Requirement

- Whether or not for-sale development projects have the choice "as of right" between paying a fee or doing on-site units is a critical feature of any program. In the eight Santa Clara jurisdictions, six require on-site units and offer no fee "buy out" without a special City Council procedure. Only San Jose and Milpitas offer the fee choice at this time. In contrast, of the ten Alameda jurisdictions, most offer fee payment "as of right."

- Most fee options are less costly to the developer than providing on-site units. High fees are necessary if the choice between building units or paying fees is to be at all competitive. The high fee cities, such as Fremont, aim to present a real choice and achieve some on-site compliance units as well as fee revenues.

- With the loss of redevelopment and tax increment resources dedicated to housing, many cities have revised their programs to generate more fee revenues. Programs can be revised to so as to alter options or incentives for projects to provide on-site units versus pay a fee based on the City's preferences.

- The loss of redevelopment has also motivated some cities to lower minimum project sizes to collect fees on very small projects, even single units. Several Santa Clara cities in the chart have adjusted their thresholds down to three to five units for fee payment, and the recently updated Cupertino program goes down to single units. The nexus analysis fully demonstrates the impact generated by single units, and as a result, some cities view charging very small projects and single units a matter of fairness and equity in an "everybody contributes" approach to meeting affordable housing challenges.

- Following the *Palmer* decision, impact fees have been the only avenue for instituting affordable housing requirements on rentals. On-site affordable units are sometimes permitted or encouraged as an alternative to fee payment.

Fee Levels

- Impact fee levels for rentals in the cities of north and west Santa Clara County cluster in the $15 to $20 per square foot range for rentals, notably San Jose, Mountain View, Sunnyvale, and Cupertino. Most other cities have not yet adopted impact fees on rentals.

- Fees on for sale units, where permitted, in the Santa Clara cities reflect a range of approaches and levels. Several Silicon Valley cities charge fees as a percent of sales price, a practice not used much outside of Silicon Valley. The percent of sales prices reflects the higher impacts of higher priced units, borne out in the nexus analysis. The approach also scales fees in proportion to the revenue projects would forgo were a portion of units to be made affordable on-site.

- In the East Bay, Fremont is notable for its higher fees and obligation to provide both units and pay fees. Hayward has a lower fee structure. Oakland is a new adoption that will phase in fees up to $23,000 per market rate unit, less than Berkeley but higher than neighbors to the south.

- East of the hills, some programs like Pleasanton, have been in place for decades but are more modest than most of the newer ones. Dublin is, in many ways, its own special case, with vigorous development activity and affordable unit requirements.

On-Site Requirements

- The Santa Clara cities (excluding Milpitas) have programs in the 10% to 20% range, with 15% most common.

- For the Santa Clara County programs, the affordability level applicable to for-sale projects is usually in the moderate income range, with pricing of on-site units ranging from 90% to 120% AMI, depending on the city. A few cities do seek some units down to Low Income.

- In Alameda cities, on-site requirements are most commonly at the 15% level. Berkeley has a 20% requirement, while Hayward and Oakland have lower requirements. The Fremont percentage is lower but a fee is owed in addition to on-site units.

Other General Comments

- Impact / in-lieu fees are presented at adopted levels. Where a multi-year phase-in has been adopted, such as the new Oakland program, the full phase in amount is shown with clarification in the bottom comment section of the chart. Fees on rentals are included only when they have been adopted as impact fees, following the *Palmer* California Supreme Court ruling which precludes on-site requirements and their in-lieu fee alternatives.

- Fees are expressed in different ways from one city to the next. Some fees are charged per square foot, some are a flat fee per market rate unit, and some are charged per affordable unit owed, which is almost always over $100,000 in the Bay Area. To convert per unit owed to per market rate unit, one can multiply the per unit amount by the percentage requirement.

- On-Site Requirement/Option for Rentals. Many city codes continue to include on-site requirement language for rental projects because codes have not been updated since the *Palmer* ruling and requirements are not being applied (except through negotiation). These requirements are not included in the chart.

- The income levels of the affordable units that are required are summarized in terms of both “eligibility” or “qualifying” levels and the pricing level that is used to establish the purchase price or rent level of the unit. The pricing level is the critical one insofar as the developer’s obligation is concerned. The most typical choice for pricing level is to be consistent with the affordable housing cost definitions in the California Health & Safety Code 50052.5 and 50053.

- Virtually all cities that have on-site requirements for for-sale residential projects without the choice of fee payment, do allow fee payment with special City Council approval. Therefore, the chart notes this feature only by way of a footnote. The City’s practice in granting such approvals may be more consequential than what may be written.

For more complete information on the programs, please consult the website and code language of the individual cities.

TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
PARTICIPATING JURISDICTIONS: ALAMEDA COUNTY[1]
AFFORDABLE HOUSING NEXUS ANALYSES

	Albany	Fremont	Hayward	San Leandro	Union City
Year Adopted / Updated	2005	Est. 2002, update 2015, full phase-in 2017	Update 2015	2004	Est. 2001, update 2006
Minimum Project Size					
For In-lieu/Impact Fee	**FS:** 5 units	**FS/R:** 2 units	**FS/R:** 20 units	**FS:** 2 units	n/a
For Build Requirement	**FS:** 7 units	no build req.	no build req.	**FS:** 7 units	**FS:** 1 unit
Impact / In-Lieu Fee	**FS:** (Market Value - Affordable Price) x units owed	**FS:** *Attached* $27.00 no units, $18.50 w/ aff units *Detached* $26.00 no units, $17.50 w/ aff units, **R:** $17.50 no map, $27.00 w/ map	**FS:** *Attached* $3.24/sf, *Detached* $4/sf **R:** $3.24/sf	**FS:** (Median Sale Price - Affordable Price) x units owed	**FS:** <7 units: $160,000 /du owed, 7+ units: $180 /sf owed
Onsite Requirement/Option					
Percent of Total Units	**FS:** 15%	**FS:** *Attached* 3.5% plus $18.50/sf *Detached* 4.5% plus $17.50/sf **R:** 12.9%	**FS:** *Attached* 7.5%, *Detached* 10% **R:** *Attached* 7.5%, *Detached* 10%	**FS:** 15%	**FS:** 15%
Income Level for Qualification	FS: <10 units: Low 10+ units: 50% Low, 50% Very Low	FS: Moderate Income R: 19% Extremely Low, 33% Very Low, 25% Low, 24% Moderate	FS: Moderate Income R: 50% Low, 50% Very Low	FS: 60% Moderate, 40% Low	FS: 60% Moderate, 30% Median, 10% Low.
Income Level for Pricing(% AMI)	Not specified.	FS: Moderate @ 110% AMI (120% w/approval) R: Low @ 60% AMI, Very Low @ 50% AMI, Extremely Low @ 30% AMI	**FS:** Moderate **@** 110% AMI **R:** Low @ 60% AMI Very Low @ 50% AMI	FS: Moderate **@** 110% AMI, Low @ 70% AMI	FS: Moderate **@** 110% AMI, Median not specified (80-100%) Low @ 70% AMI
Fractional Units	<0.5: pay fee, >0.5: provide unit	pay fee or provide unit	pay fee or provide unit	<0.5: round down, >0.5: round up	pay fee or provide unit
Comments		Full phase-in levels shown. Rental projects with a subdivision map pay the higher fee. FS projects req. to provide onsite units and pay fee.		Fee calculated based on current median sales price. No fees owed since 2008.	Fee payment with City approval only. Single-unit, owner occupied projects exempt.

Abbreviations:	R = Rental	FS = For Sale	/sf = per square foot	MF = Multi-Family
	du = Dwelling Unit	Ac = Acre	AMI =Area Median Income	SF = Single Family

1. Alameda County (not displayed) does not currently have an affordable housing requirement.

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction.
Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
NON-PARTICIPATING JURISDICTIONS: ALAMEDA COUNTY
AFFORDABLE HOUSING NEXUS ANALYSES

	Alameda (city)	Berkeley	Dublin	Oakland	Pleasanton
Year Adopted / Updated	2003	Est. 1986, rental fee 2011, update proposed 2016	Est. 1997, update 2005	2016	Est. 1978, update 2000.
Minimum Project Size					
For In-lieu/Impact Fee	**FS:** 5 units	**FS/R:** 5 units	**FS/R:** 20 units	**FS/R:** 1 unit	**FS/R:** 15 units
For Build Requirement	**FS:** 10 units	no build req.	**FS/R:** 20 units (partial)	no build req.	no build req.
Impact / In-Lieu Fee	**FS:** $18,431/du	**FS:** 62.5% x (Sale Price - Affordable Price) x units owed **R:** *Current* $28,000/du *Proposed* $34,000/du	**FS/R:** $127,061 per aff unit owed (in addition to on-site)	**FS/R:** *MF* $12,000-$22,000, *SF Attached* $8,000-$20,000, *SF Detached* $8,000-$23,000	**FS/R:** *MF* $2,783/du, *SF* <1,500 sq ft: $2,783/du, >1,500 sq ft: $11,228/du
Onsite Requirement/Option					
Percent of Total Units	**FS:** 15%	**FS:** 20% **R:** *Current* 10%, *Proposed* 20%	**FS/R:** 7.5%, plus fee (12.5% without fee)	**FS/R:** *Option A* 5% or *Option B* 10%	**FS/R:** *MF* 15% *SF* 20%
Income Level for Qualification	**FS**: 47% Moderate, 27% Low, 27% Very Low	FS: Low R: *Current* Very Low *Proposed* 1/2 Very Low, 1/2 Low	FS: 60% Moderate, 40% Low R: 50% Moderate, 20% Low, 30% Very Low	FS/R: *Option A* Very Low *Option B* Low and Moderate	FS: *MF* Low *SF* Moderate
Income Level for Pricing(% AMI)	**FS:** Moderate @ 110%, Low @ 70%, Very Low @ 50%	**FS:** Low @ 80% **R:** Low at 81%, Very Low at 50%.	**FS:** Moderate @ 110%, Low @ 70% R: Moderate @ 110%, Low @ 80%, Very Low @ 50%	FS: Moderate @ 110%, Low @ 70%, Very Low @ 50% R: Moderate 110%, Low @ 60%, Very Low @ 50%	**FS:** *MF* 80% AMI *SF* 120% AMI
Fractional Units	<0.5: round down, >0.5: round up	pay fee	<0.5: round down, >0.5: round up	pay fee or provide unit	<0.5: round down, >0.5: round up
Comments		Council has directed City Manager to draft ordinance with proposed changes to rental program.		Fees vary by neighborhood. Fees phased in through 2020. Full fee levels shown. On-site: May choose Option A or B. Based on draft ordinance prepared for April 19, 2016 council meeting.	

Abbreviations:

Abbreviations:	R = Rental	FS = For Sale	/sf = per square foot	MF = Multi-Family
	du = Dwelling Unit	Ac = Acre	AMI =Area Median Income	SF = Single Family

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction.
Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
PARTICIPATING JURISDICTIONS: SANTA CLARA COUNTY[1]
AFFORDABLE HOUSING NEXUS ANALYSES

	Campbell	Los Altos	Milpitas	Santa Clara City
Year Adopted / Updated	2006	Est. 1995, update 2009	2015	Est. 1991, update 2006
Minimum Project Size				
For In-lieu/Impact Fee	**FS,** <6du/Ac: 10 units FS, >6 du/Ac: n/a	n/a	**FS/R:** 5 units	n/a
For Build Requirement	**FS,** <6du/Ac: n/a **FS,** >6du/Ac: 10 units	**FS:** 5 units	no build req.	**FS:** 10 units
Impact / In-Lieu Fee	**FS:** $34.50 /sf	none	**FS/R:** 5% building permit value	**FS:** *Fractional units only* (Market Value - Affordable Price) x fractional unit
Onsite Requirement/Option				
Percent of Total Units	**FS:** 15%	**FS:** 10%	**FS/R:** 5%	**FS:** 10%
Income Level for Qualification	FS: Low and Moderate	FS: Moderate If <10 units, one unit at Low.	FS/R: Low and Very Low	**FS:** Moderate
Income Level for Pricing(% AMI)	FS: Moderate @ 110% Low @ 70%	Not Specified.	Not specified.	Not specified.
Fractional Units	<0.5: round down, >0.5: round up	provide unit	not specified	pay fee or provide unit
Comments	code does not specify allocation between Low and Moderate; staff indicates approximately 50/50 allocation has been the experience.	<4 du/Ac: no requirement. Also, requirements may be waived by City Council for projects of 9 units or less.	In-lieu/impact fee introduced as temporary measure while City prepares formal nexus study. Fee has not yet been assessed.	

Abbreviations:	R = Rental	FS = For Sale	/sf = per square foot	MF = Multi-Family
	du = Dwelling Unit	Ac = Acre	AMI =Area Median Income	SF = Single Family

1. Santa Clara County and Saratoga do not currently have an inclusionary housing requirement.

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction.
Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

TABLE 3
COMPARISON OF AFFORDABLE HOUSING REQUIREMENTS - RESIDENTIAL
NON-PARTICIPATING JURISDICTIONS: SANTA CLARA COUNTY
AFFORDABLE HOUSING NEXUS ANALYSES

	Cupertino	**Mountain View**	**San Jose**	**Sunnyvale**
Year Adopted / Updated	Est. 1992, update 2015	Est. 1999, rental impact fee in 2012, update 2015	Est. 2010. Rental Fee 2014.	Update 2015
Minimum Project Size				
For In-lieu/Impact Fee	**FS/R:** 1 unit	**FS:** 3 units **R:** 5 units **Mixed FS/R:** 6 units	**FS:** 20 units **R:** 3 units	**FS:** 8 units **R:** 4 units
For Build Requirement	**FS:** 7 units	**FS:** 10 units	no build req.	**FS:** 20 units
Impact / In-Lieu Fee	**FS:** *Detached* $15/sf, *Attached* $16.50/sf, *MF* $20/sf **R:** *<35 du/Ac* $20/sf, *>35 du/Ac* $25/sf	**FS:** 3% of sales price **R:** $17/sf	**FS:** based on affordability gap **R:** $17 /sf	**FS:** 7% of sales price **R:** $8.50/sf (4-7 units), $17/sf (8+ units)
Onsite Requirement/Option				
Percent of Total Units	**FS/R:** 15%	**FS/R:** 10%	**FS:** 15%	**FS:** 12.5% **R:** On-site credits (see below)
Income Level for Qualification	FS: 1/2 Median 1/2 Moderate R: 40% Low, 60% Very Low	FS: Median R: Low	FS: Moderate	FS: Moderate
Income Level for Pricing(% AMI)	**FS:** Moderate @ 110%, Median @ 90% **R:** Low @ 60%, Very Low @ 50% AMI	**FS:** One unit: 90% AMI Multiple units: 80 - 100% AMI **R:** Ranges btwn 50-80% AMI	Moderate @ 110% AMI	Moderate @ 100% AMI
Fractional Units	<.5 unit owed: pay fee .5+ unit owed: round up	pay fee or provide unit	**R:** pay fee **FS:** pay fee or provide unit	pay fee or provide unit
Comments			Inclusionary zoning to be reinstated 2016. Downtown highrises exempt from impact fee for five years.	On-site rental: developer credited $300,000/du (Very Low), $150,000/du (Low). Projects with fewer than 20 units are eligible to pay in-lieu fee.

Abbreviations:	R = Rental	FS = For Sale	/sf = per square foot	MF = Multi-Family
	du = Dwelling Unit	Ac = Acre	AMI =Area Median Income	SF = Single Family

Notes: This chart presents an overview, and as a result, terms are simplified. For use other than general comparison, please consult the code and staff of the jurisdiction.
Virtually all cities that do not allow fee payment by right allow developers to seek Council approval of fee payment instead of on-site units, in addition to providing options for off-site construction and land dedication.

D. Non-Residential Development Cost Context

The non-residential development cost context analysis considers the impacts a new affordable housing fee could have on the cost of development for new office, retail, hotel, and light industrial projects in Alameda County. The analysis enables an understanding of the relative cost burdens new fees have on various types of commercial and industrial development projects and can be useful in scaling fees by type of project.

For commercial and industrial development, the analysis considers the potential fee as a percentage of total development costs rather than the full feasibility analysis included for the multi-family apartments. One of the primary reasons a full feasibility analysis is not performed for the commercial land uses is because there is typically greater variation in the cost and rent structures for commercial projects than for housing projects. Development costs and rents can vary widely for office and retail projects due to the specialized nature of tenant improvements and lease terms from one tenant to another. Costs and revenues also vary widely for hotel projects due to the fact that hotel products range from lower cost limited service and budget hotels to highly amenitized full service and boutique hotels. Finally, affordable housing requirements applicable to non-residential development typically represents a smaller percentage of overall project cost compared to residential requirements. For these reasons, the utility of a full feasibility analysis for commercial projects is generally more limited than for housing projects. Instead an understanding of the total development cost context has generally proved sufficient to guide the selection of fee levels on non-residential projects.

1. Commercial Market Context

Like the residential market, commercial projects in Alameda County have experienced strengthening conditions in recent years. Some new industrial, office, retail, and hotel projects have been built or are in the planning stages in parts of the county, however office and hotel development in particular have not kept pace with the magnitude of activity in other parts of the Bay Area, notably San Francisco, Santa Clara, and San Mateo counties. It would be expected that interest in new development of office and hotel projects will eventually lead to more development activity in Alameda County as the regional economy continues to improve.

2. Development Cost Analysis

For the development cost analysis, KMA utilized the following four commercial prototypes.

- Office development with surface parking at 0.45 floor area ratio (FAR)
- Hotel development with surface parking at 0.50 FAR
- Retail development with surface parking at 0.30 FAR
- Light industrial development with surface parking at 0.35 FAR

In preparing these prototypes it is acknowledged that there could be some differences in overall density from one jurisdiction to another as these prototypes are intended to reflect averages for the participating jurisdictions in Alameda County. However, for purposes of the development cost assessment it is not necessary to analyze every variation of project density or building prototype being built or proposed to be built in Alameda County. The utility of the analysis lies with an understanding of the general range of development costs for new commercial projects and the impact that a new fee can have relative to those costs.

The estimates of total development costs for the commercial prototypes are shown in the following table. The costs include estimates for land acquisition, direct construction costs, and indirect and financing costs of development. In assembling the development cost estimates, KMA utilized a variety of data sources, including the following:

- Land appraisals, CoStar land comps;
- Third party construction cost data sources such as RS Means and Engineering News Record (ENR);
- Pro forma data for current non-residential projects in the Bay Area.

Non-Residential Development Costs
Alameda County Jurisdictions

	Office		Hotel		Retail		Light Industrial	
Building Square Feet	100,000		75,000		75,000		100,000	
Hotel Rooms			125 rooms					
Parking	Surface		Surface		Surface		Surface	
Floor Area Ratio (FAR)	0.45 FAR		0.50 FAR		0.30 FAR		0.35 FAR	
Land Area	5.10 acres		3.44 acres		5.74 acres		6.56 acres	
	$/SF	Total	$/SF	Total	$/SF	Total	$/SF	Total
Land Acquisition	$44	$4,440,000	$40	$3,000,000	$67	$5,000,000	$43	$4,290,000
	$20	/land sf	$20	/land sf	$20	/land sf	$15	/land sf
Directs	$217	$21,670,000	$195	$14,630,000	$175	$13,130,000	$144	$14,430,000
Indirects								
A&E	$13	$1,300,000	$12	$880,000	$11	$790,000	$9	$870,000
FF&E/Tenant Improvements	$59	$5,850,000	$58	$4,380,000	$36	$2,700,000	$19	$1,900,000
Fees & Permits (excl. Afford)	$9	$910,000	$11	$790,000	$15	$1,110,000	$6	$610,000
Other Indirects & Financing	$21	$2,050,000	$19	$1,420,000	$18	$1,360,000	$13	$1,330,000
Total Indirects & Financing	$101	$10,110,000	$100	$7,470,000	$79	$5,960,000	$47	$4,710,000
Total Costs	$362	$36,220,000	$335	$25,100,000	$321	$24,090,000	$234	$23,430,000
Total Cost Range	$325 - $425/sf		$300 - $400/sf		$300 - $400/sf		$200 - $250/sf	

As shown, total development costs for the non-residential prototypes range from a low of approximately $200-$250/square foot for the light industrial prototype to a high of approximately $325-$425 for the office prototype. Since the prototypes analyzed assume surface parking, the total costs would be higher for higher density projects that have a structured parking garage (standalone garage, podium, or underground parking). These types of projects could have developments close to or even in excess of $500/square foot.

3. Affordable Housing Fees Supported

In general, affordable housing fees on non-residential projects fall within a range of 1% to 5% of total development costs, with the upper portion of the range generally reserved for cities that have very strong market conditions driving non-residential development projects. As noted in Section E., current affordable housing fees on non-residential projects are generally below $5/square foot for East Bay jurisdictions that have such fees.

The table below summarizes the range of potential fees on non-residential projects expressed as a percentage of total development cost. As an example, at 1% of total development cost a new housing fee would range from approximately $2.25/square foot for light industrial uses to $3.75/square foot for office uses. As is common in jobs housing linkage fee programs, light industrial projects tend to have lower fees than higher intensity/higher value projects such as office projects because it is generally more difficult for lower cost projects to absorb new fees.

Relative Fee Burdens*

	Office	Hotel	Retail	Light Industrial
Total Cost Range	$325 - $425/sf	$300 - $400/sf	$300 - $400/sf	$200 - $250/sf
Fee at 1% of Total Cost	$3.75	$3.50	$3.50	$2.25
Fee at 2% of Total Cost	$7.50	$7.00	$7.00	$4.50
Fee at 3% of Total Cost	$11.25	$10.50	$10.50	$6.75
Fee at 4% of Total Cost	$15.00	$14.00	$14.00	$9.00
Fee at 5% of Total Cost	$18.75	$17.50	$17.50	$11.25

*Fees calculated at 1-5% of mid-point of cost range.

As was done in the apartment feasibility section of this report, the following table summarizes how newly adopted fees can be absorbed by relatively minor improvements in development economics over time. For example, a newly added fee of $5/square foot for the office prototype could be absorbed by a roughly 1% increase in rental income ($5/square foot x 0.2%), a roughly 2.5% decrease in direct construction costs ($5/square foot x 0.5%), or a roughly 11.5% decrease in land values ($5/square foot x 2.3%). It is noted however that construction costs and rents tend to move in the same direction. Therefore, increases in rents would need to exceed increases in costs in order to produce a net gain in a project's economics.

Potential Market Adjustments to Absorb Every $1/SF Fee

	Office	Hotel	Retail	Light Industrial
Increase in Rents/Income	0.2%	0.3%	0.3%	0.4%
Decrease in Direct Costs	0.5%	0.5%	0.6%	0.7%
Decrease in Land Values	2.3%	2.5%	1.5%	2.7%

Adjustments are not additive. Each would independently be sufficient to absorb new fees. Depending on the market cycle and other factors, a combination of the above market adjustments would be expected to contribute in absorbing a new fee.

E. Jobs Housing Linkage Fees in Other Jurisdictions

Information on other jobs housing linkage fee programs in nearby or comparable cities is often helpful context in considering new or updated fees. The following section provides information assembled regarding other programs in the Bay Area and elsewhere in California including information on customized features such as size thresholds, exemptions, and build options.

More than 30 cities and counties in California have commercial linkage fees, with the majority of these programs within the Bay Area and greater Sacramento. In Southern California, a few cities have linkage fee programs, of which San Diego is the largest example. Several communities in Massachusetts have linkage fees, including Boston and Cambridge. Seattle recently expanded its linkage fee program city-wide. Boulder, Colorado adopted a new city-wide program last year. Portland and Denver are each in the process of exploring new linkage fee adoptions.

Silicon Valley and the Peninsula, which has some of the strongest real estate market conditions in the Bay Area, is where many of the jurisdictions with the highest fee levels are found. For office, fee levels range from $15 (Sunnyvale) to $25 per square foot (Mountain View). Several cities have recently updated fee levels (Cupertino, Mountain View, Sunnyvale), or newly adopted fees (Redwood City). For retail and hotel, fee ranges are much broader as some jurisdictions have adopted similar fee levels across all building types while others have lower fee levels for retail and hotel.

Within the East Bay, fees have been adopted at a more moderate range. For office, fee levels for communities in the inner East Bay (west of the hills) range from $3.59 (Newark) to $5.24 (Oakland). Retail fees range from $2.30 (Alameda) to $4.50 (Berkeley). Oakland's program covers only office and warehouse and exempts other uses such as retail.

The table on the following page provides an overview of fee levels for selected examples in Santa Clara County, the Peninsula, and the East Bay. A more complete overview of these programs, and many others, is presented on Table 4 at the end of this section.

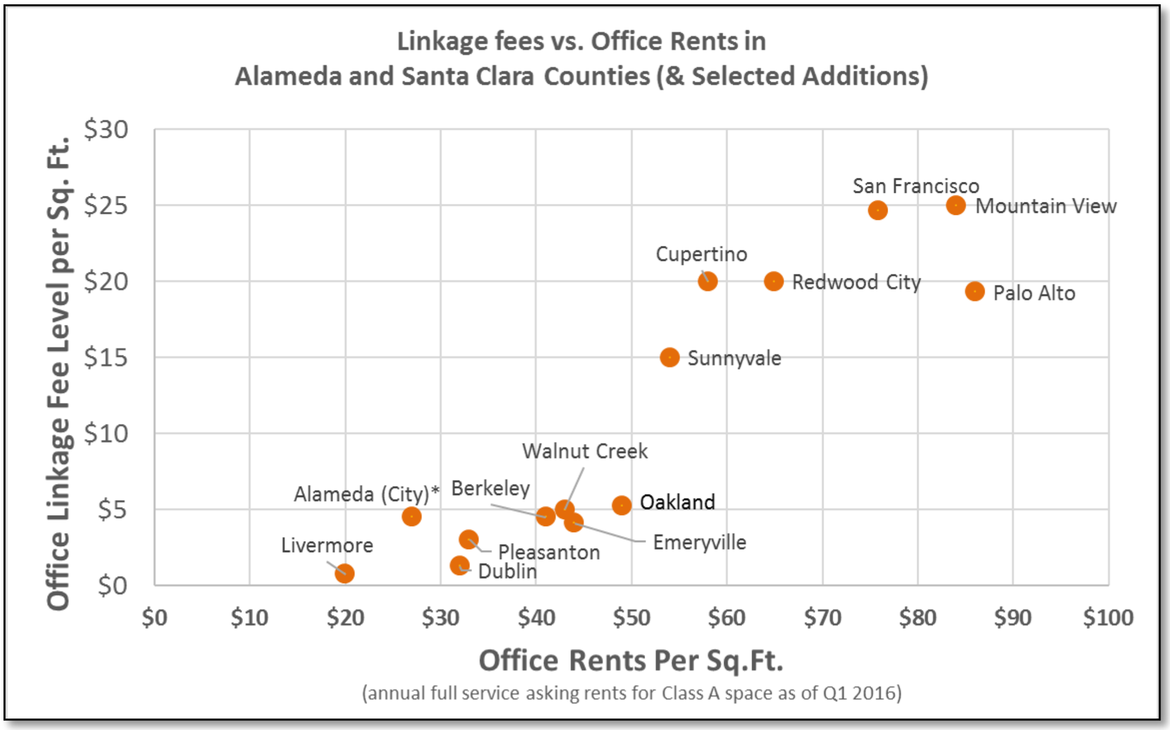
Affordable Housing Fee Levels in Selected Communities

Non-Residential Linkage Fees	Office $/SF	Retail $/SF	Hotel $/SF	Industrial $/SF
Santa Clara Co. & Peninsula				
Mountain View	$25.00	$2.68	$2.68	$25.00
Cupertino	$20.00	$10.00	$10.00	$20.00
Palo Alto	$19.85	$19.85	$19.85	$19.85
Sunnyvale	$15.00	$7.50	$7.50	$15.00
San Francisco	$24.61	$22.96	$18.42	$19.34
Redwood City	$20.00	$5.00	$5.00	N/A
East Bay: West of Hills				
Oakland	$5.24	N/A	N/A	N/A
Berkeley	$4.50	$4.50	$4.50	$2.25
Alameda (City)	$4.52	$2.30	$1.85	$0.78
Emeryville	$4.10	$4.10	$4.10	$4.10
Newark	$3.59	$3.59	$3.59	$0.69
East Bay: East of Hills				
Walnut Creek	$5.00	$5.00	$5.00	N/A
Pleasanton	$3.04	$3.04	$3.04	$3.04
Dublin	$1.27	$1.02	$0.43	$0.49
Livermore	$0.76	$1.19	$1.00	$0.24

N/A = No fee or no applicable category

As a way to provide context in terms of the market conditions in each of the communities, the chart on the following page shows office linkage fees (the building type that usually has the highest fees) in relation to office rents by city. Office rents are an indicator of market strength and major driver of real estate values.

Office Linkage Fees vs. Average Office Rents in Selected Communities



*Rents for City of Alameda apply to Class B/C space (Class A rents not aivailable)
Sources: Office rents from market research reports prepared by Colliers International.

Union City has not historically had a significant office space concentration and local brokerage firm do not monitor office rents in the City. Industrial and warehouse uses represent a much more significant component of non-residential space in Union City.

Ordinance or Program Features

Linkage fee programs often includes features to address a jurisdiction's policy objectives or specific concerns. The most common are:

- *Minimum Threshold Size* – A minimum threshold sets a building size over which fees are in effect. Programs with low fees often have no thresholds and all construction is subject to the fee. Thresholds, which reduce fees for smaller projects, are more common for programs with more significant fees. Some jurisdictions establish a building size over which the fee applies. Sometimes the fee applies to the whole building, and sometimes the fee applies only to the square foot area over the threshold. Thresholds are often employed to minimize costs for small infill projects in older commercial areas, when such infill is a policy objective. There is also some savings in administrative costs. The disadvantage is lost revenue. Oakland and Berkeley are examples of communities employing thresholds while Alameda, Newark, and others do not. Mountain View has a reduced charge for the first 10,000 square feet of office space and the first 25,000 square feet of retail or hotel development.

- *Geographic Area Variations and Exemptions* – Some cities with linkage fee programs exclude specific areas such as redevelopment areas or have fees that vary based on geography. A geographic area variation can also be used to adjust the fee in jurisdictions where there is a broad difference in economic health from one subarea to the next. This is generally more common among large cities with a diverse range of conditions.

- *Specific Use Exemptions* – Some cities charge all building types while others choose to exempt specific uses. A common exemption is for buildings owned by non-profits which typically encompasses religious, educational/institutional, and hospital building types. Some programs identify specific uses as exempt such as schools and child care centers.

A more complete listing of the programs surveyed along with information about ordinance features such as exemptions and thresholds is contained in Table 4 at the end of this section.

TABLE 4
SUMMARY OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA

Jurisdiction	Yr. Adopted/ Updated	Fee Level (per Sq.Ft. unless otherwise noted)		Thresholds & Exemptions	Build Option/ Other	Market Strength	Comments
SAN FRANCISCO, PENINSULA, SANTA CLARA COUNTY							
San Francisco Population: 829,000	1981 Updated 2002, 2007	Retail / Entertainment Hotel Production Dist. Repair Office Research and Development Small Enterprise Workspace	$22.96 $18.42 $19.34 $24.61 $16.39 $19.34	25,000 gsf threshold Exempt: freestanding pharmacy < 50,000 SF; grocery < 75,000	Yes, may contribute land for housing.	Very Substantial	Fee is adjusted annually based on the construction cost increases.
City of Palo Alto Population: 66,000	1984 Updated 2002	Nonresidential Dvlpmt	$19.85	Churches; universities; recreation; hospitals, private educational facilities, day care and nursery school, public facilities are exempt	Yes	Very Substantial	Fee is adjusted annually based on CPI.
City of Menlo Park Population: 33,000	1998	Office & R&D Other com./industrial	$15.57 $8.45	10,000 gross SF threshold Churches, private clubs, lodges, fraternal orgs, public facilities and projects with few or no employees are exempt.	Yes, preferred. May provide housing on- or off-site.	Very Substantial	Fee is adjusted annually based on CPI.
City of Sunnyvale Population: 146,000	1984 Updated 2003 and 2015.	Industrial, Office, R&D: Retail, Hotel	$15.00 $7.50	Office fee is 50% on the first 25,000 SF of building area. Exemptions for Child care, education, hospital, non-profits, public uses.	N/A	Very Substantial	Fee is adjusted annually based on CPI.
Redwood City Population: 80,000	2015	Office Hotel Retail & Restaurant	$20.00 $5.00 $5.00	5,000 SF threshold 25% fee reduction for projections paying prevailing wage. Schools, child care centers, public uses exempt.	Yes. Program specifies number of units per 100,000 SF.	Very Substantial	Fee is adjusted annually based on ENR.
City of Mountain View Population: 77,000	Updated 2002 / 2012 /2014	Office/High Tech/Indust. Hotel/Retail/Entertainment.	$25.00 $2.68	Fee is 50% on building area under thresholds: Office <10,000 SF Hotel <25,000 SF Retail <25,000 SF	Yes	Very Substantial	Fee is adjusted annually based on CPI.
City of Cupertino Population: 60,000	1993, 2015	Office/Industrial/R&D Hotel/Commercial/Retail	$20.00 $10.00	No minimum threshold.	N/A	Very Substantial	Fee is adjusted annually based on CPI.

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EAST BAY							
City of Walnut Creek Population: 66,000	2005	Office, retail, hotel and medical	$5.00	First 1,000 SF no fee applied.	Yes	Very Substantial	Reviewed every five years.
City of Oakland Population: 402,000	2002	Office/ Warehouse	$5.24	25,000 SF exemption	Yes - Can build units equal to total eligible SF times .00004	Substantial	Fee due in 3 installments. Fee adjusted with an annual escalator tied to residential construction cost increases.
City of Berkeley Population: 116,000	1993 2014	Office Retail/Restaurant Industrial/Manufacturing Hotel/Lodging Warehouse/Storage Self-Storage R&D	$4.50 $4.50 $2.25 $4.50 $2.25 $4.37 $4.50	7,500 SF threshold.	Yes	Substantial	Annual CPI increase. May negotiate fee downward based on hardship or reduced impact.
City of Emeryville	2014	All Commercial	$4.10	Schools, daycare centers.	Yes	Substantial	Fee adjusted annually.
City of Alameda Population: 76,000	1989	Retail Office Warehouse Manufacturing Hotel/Motel	$2.30 $4.52 $0.78 $0.78 $1,108	No minimum threshold	Yes. Program specifies # of units per 100,000 SF	Moderate	Fee may be adjusted by CPI.
City of Pleasanton Population: 73,000	1990	Commercial, Office & Industrial	$3.04	No minimum threshold	Yes	Moderate	Fee adjusted annually.
City of Dublin Population: 50,000	2005	Industrial Office R&D Retail Services & Accommodation	$0.49 $1.27 $0.83 $1.02 $0.43	20,000 SF threshold	N/A	Moderate	
City of Newark Population: 44,000		Commercial Industrial	$3.59 $0.69	No min threshold Schools, recreational facilities, religious institutions exempt.	Yes	Moderate	Revised annually
City of Livermore Population: 84,000	1999	Retail Service Retail Office Hotel Manufacturing Warehouse Business Park Heavy Industrial Light Industrial	$1.19 $0.90 $0.76 $583/ rm $0.37 $0.11 $0.76 $0.38 $0.24	No minimum threshold Church, private or public schools exempt.	Yes; negotiated on a case-by-case basis.	Moderate	

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MARIN, NAPA, SONOMA, SANTA CRUZ							
County of Santa Cruz Population: 267,000	2015	All Non-Residential	$2.00	No minimum threshold	N/A	Substantial	
County of Marin Population: 257,000	2003	Office/R&D Retail/Rest. Warehouse Hotel/Motel Manufacturing	$7.19 $5.40 $1.94 $1,745/rm $3.74	No minimum threshold	Yes, preferred.	Substantial	
San Rafael Population: 59,000	2005	Office/R&D Retail/Rest./Pers. Services Manufacturing/LI Warehouse Hotel/Motel	$7.64 $5.73 $4.14 $2.23 $1.91	5,000 SF threshold. Mixed use projects that provide affordable housing are exempt.	Yes. Program specifies number of units per 1,000 SF.	Substantial	
Town of Corte Madera Population: 9,000	2001	Office R&D lab Light Industrial Warehouse Retail Com Services Restaurant Hotel Health Club/Rec Training facility/School	$4.79 $3.20 $2.79 $0.40 $8.38 $1.20 $4.39 $1.20 $2.00 $2.39	No minimum threshold	N/A	Substantial	
City of St. Helena Population: 6,000	2004	Office Comm./Retail Hotel Winery/Industrial	$4.11 $5.21 $3.80 $1.26	Small childcare facilities, churches, non-profits, vineyards, and public facilities are exempt.	Yes, subject to City Council approval.	Substantial	
City of Petaluma Population: 59,000	2003	Commercial Industrial Retail	$2.19 $2.26 $3.78	N/A	Yes, subject to City Council approval.	Moderate/ Substantial	Fee adjusted annually by ENR construction cost index.
County of Sonoma Population: 492,000	2005	Office Hotel Retail Industrial R&D Ag Processing	$2.64 $2.64 $4.56 $2.72 $2.72	First 2,000 SF exempt Non-profits, redevelopment areas exempt	Yes. Program specifies number of units per 1,000 SF.	Moderate	Fee adjusted annually by ENR construction cost index.
City of Cotati Population: 7,000	2006	Commercial Industrial Retail	$2.08 $2.15 $3.59	First 2,000 SF exempt Non-profits exempt.	Yes. Program specifies units per 1,000 SF	Moderate	Fee adjusted annually by ENR construction cost index.
County of Napa Population: 139,000	Updated 2014	Office Hotel Retail Industrial Warehouse	$5.25 $9.00 $7.50 $4.50 $3.60	No minimum threshold Non-profits are exempt	Units or land dedication; on a case by case basis.	Moderate / Substantial	
City of Napa Population: 79,000	1999	Office Hotel Retail Industrial, Wine Pdn Warehouse (30-100K) Warehouse (100K+)	$1.00 $1.40 $0.80 $0.50 $0.30 $0.20	No minimum threshold Non-profits are exempt	Units or land dedication; on a case by case basis.	Moderate/ Substantial	Fee has not changed since 1999. Increases under consideration.

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SACRAMENTO AREA							
City of Sacramento Population: 476,000	1989 Most recent update, 2005	Office Hotel R&D Commercial Manufacturing Warehouse/Office	$2.25 $2.14 $1.91 $1.80 $1.41 $0.82	No minimum threshold Mortuary, parking lots, garages, RC storage, Christmas tree lots, B&Bs, mini-storage, alcoholic beverage sales, reverse vending machines, mobile recycling, and small recyclable collection facilities	Pay 20% fee plus build at reduced nexus (not meaningful given amount of fee)	Moderate	North Natomas area has separate fee structure
City of Folsom Population: 73,000	2002	Office, Retail, Lt Industrial, and Manufacturing Up to 200,000 SF, 100% of fee; 200,000-250,000 SF, 75% of fee; 250,000-300,000 SF, 50% of fee; 300,000 and up, 25% of fee.	$1.54	No minimum threshold Select nonprofits, small child care centers, churches, mini storage, parking garages, private garages, private schools exempt.	Yes Provide new or rehab housing affordable to very low income households. Also, land dedication.	Moderate/ Substantial	Fee is adjusted annually based on construction cost index
County of Sacramento Population: 1,450,000	1989	Office Hotel R&D Commercial Manufacturing Indoor Recreational Centers Warehouse	$0.97 $0.92 $0.82 $0.77 $0.61 $0.50 $0.26	No minimum threshold Service uses operated by non-profits are exempt	N/A	Moderate	
City of Elk Grove Population: 158,000	1989 (inherited from County when incorporated)	Office Hotel Commercial Manufacturing Warehouse	none $1.87 $0.64 $0.72 $0.77	No minimum threshold Membership organizations (churches, non-profits, etc.), mini storage, car storage, marinas, car washes, private parking garages and agricultural uses exempt	N/A	Moderate	Office fee currently waived due to market conditions.
Citrus Heights Population: 85,000	1989 (inherited from County when incorporated)	Office Hotel R&D Commercial Manufacturing Indoor Recreational Centers Warehouse	$0.97 $0.92 $0.82 $0.77 $0.61 $0.50 $0.26	No minimum threshold Membership organizations (churches, non-profits, etc.), mini storage, car storage, marinas, car washes, private parking garages and agricultural uses exempt	N/A	Moderate	
Rancho Cordova Population: 67,000	1989 (inherited from County when incorporated)	Office Hotel R&D Commercial Manufacturing Indoor Recreational Centers Warehouse	$0.97 $0.92 $0.82 $0.77 $0.61 $0.50 $0.26	No minimum threshold Membership organizations (churches, non-profits, etc.), mini storage, car storage, marinas, car washes, private parking garages and agricultural uses exempt	N/A	Moderate	

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SOUTHERN CALIFORNIA							
City of Santa Monica Population: 92,000	1984 Updated 2002, 2015	Retail Office Hotel/Lodging Hospital Industrial Institutional Creative Office Medical Office	$9.75 $11.21 $3.07 $6.15 $7.53 $10.23 $9.59 $6.89	1,000 SF threshold Private schools, city projects, places of worship, commercial components of affordable housing developments exempt.	N/A	Very Substantial	Fees adjusted annually based on construction cost index.
City of West Hollywood Population: 35,000	1986	Non-Residential (per staff increase from $4 to $8 anticipated for FY16-17)	$8.00	N/A	N/A	Substantial	Fees adjusted by CPI annually
City of San Diego Population: 1,342,000	1990 Updated 2014	Office Hotel R&D Retail	$1.76 $1.06 $0.80 $1.06	No minimum threshold Industrial/ warehouse, non-profit hospitals exempt.	Can dedicate land or air rights in lieu of fee	Substantial	

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