City of Santa Clara
The Center of What's Possible

AGENDA ITEM #: 6.B.
PLANNING COMMISSION
STAFF REPORT

Meeting Date: **January 25, 2017**

File: PLN2017-21449
Location: City of Santa Clara, Citywide
Subject: Affordable Housing Nexus Study
CEQA Determination: Use of the City of Santa Clara General Plan EIR, adopted January 2011
Project Planner: Anna McGill, Associate Planner

EXECUTIVE SUMMARY:

For more than a year, Santa Clara has been participating in the Silicon Valley/Alameda County Affordable Housing Nexus Study, prepared as part of a coordinated program with twelve jurisdictions within Alameda and Santa Clara Counties. The purpose of the study was to establish linkages between the construction of new market rate residential units and new workplace buildings, and the resulting demand for affordable housing. In December 2016, Santa Clara released a draft of the part of the study specific to the City of Santa Clara, entitled "Summary, Context Materials and Recommendations/Affordable Housing Nexus Studies" (the "Summary").

The Summary provides the maximum supportable impact fee levels for residential (for-sale and rental) and non-residential (commercial, retail, hotel, light industrial) uses. While the Summary does not recommend setting fee levels at the maximum supportable levels, it provides examples of nearby jurisdictions' impact fee levels, in order to help Santa Clara choose a suitable fee or fee range. The Summary recommends setting an impact fee for residential development but does not provide specific fee recommendations. For non-residential developments, the Summary provides specific fee recommendations: $10-15 per square foot (psf) for office and $5-10 psf for other non-residential building types.

Based on the information in the Summary, and input at City outreach meetings, staff is recommending the following initial fee and dedication requirements:

For-Sale Residential

- 10 percent inclusionary requirement (moderate income) for 10 dwelling units (DU) and above (no in-lieu fee). This is the City's existing policy, which staff recommends the City retain.
- In-lieu fee may be used (rather than providing one affordable unit on site) for projects with 9 or fewer DU and for fractional units (set at 80-90% of maximum supported residential impact fees, as outlined in the Summary)

Rental Residential

- Residential impact fee between $25-35 psf.
- Voluntary provision of affordable units onsite (in lieu of paying impact fee).
- If additional conditions are met, voluntary affordable units can be provided offsite.

Non-Residential

- Office: $5-10 psf.
- Hotel: $0 psf.
- Retail: $0 psf.
- Light Industrial: $2-5 psf.

Other Considerations

- Fees due prior to issuance of building permits
- Rates will be subject to an automatic cost escalator to account for changes in the market
- Credit will be applied to projects with existing floor space or DU
- Possible exemptions, comparable to those of other cities, are listed in Table 4 of the Summary, including certain assembly uses (such as lodges, clubs, youth centers, and religious assemblies), day care and nurseries, education facilities and hospitals.
- Allow for a 6 months grace period before the requirement takes effect to accommodate upcoming or pipeline projects. During this grace period, projects that obtain Architectural Review approval would not be subject to the new requirements.

Overall, the general public was supportive of the affordable housing impact fees and requirements proposed. The residential rental fee was a concern for both the development community and general public, who both suggested fees more closely aligned with nearby jurisdictions at $17-20/sq. ft. Additionally, it was generally suggested by both the development community and the general public that impact fee levels proposed for non-residential building types were too low.

Following the Planning Commission's consideration of the Summary, the Planning Commissioners' recommendations and the Summary will be forwarded to the City Council in February 2017.

BACKGROUND

The Silicon Valley/Alameda County Affordable Housing was prepared as part of a coordinated work program for twelve jurisdictions within Alameda and Santa Clara Counties. Silicon Valley Community Foundation, along with Baird + Driskell Community Planners, organized and facilitated the multi-jurisdiction effort and Keyser Marston Associates (KMA) have prepared the analyses and has served as the main contracting entity with each participating jurisdiction. The report includes both a residential and non-residential nexus analysis. The residential nexus analysis supports linkages between the development of new market rate residential units and the demand for additional affordable housing. The non-residential analysis quantifies the impact of development of new workplace buildings, and the employees that work in them, on the demand for affordable housing. The conclusions of both analyses demonstrate the maximum supportable or legally defensible impact fee levels based on the impact of new residential and non-residential development on the need for affordable housing. The draft Santa Clara specific Summary, Context Materials and Recommendations (December 2016) is attached and is also available online at http://santaclaraca.gov/government/departments/community-development/housing-community-services-division/affordable-housing-requirements-update.

Santa Clara's Inclusionary Housing Policy (1992), which is set forth in the General Plan, requires new for-sale residential developments with ten or more dwelling units to provide at least 10 percent of their units at below-market rate (BMR). As discussed previously with the Planning Commission, the *Palmer/Sixth Street Properties v. City of Los* Angeles (2009) case prevents the City from applying its Inclusionary Housing Policy to new rental residential projects. Santa Clara does not currently have an impact fee for provision for affordable housing. The Nexus Study enables to 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 affordable housing policies.

FINDINGS AND RECOMMENDATIONS OF THE NEXUS STUDY

Setting an impact fee requires a balance whereby the City is able to collect meaningful funds to support the provision of affordable housing but does not stagnate development that would otherwise come forward. Some of the considerations for setting an impact fee include review of local policies within the General Plan (2010) and Housing Element (2014), the maximum supported fee levels within the nexus study and Summary, implemented impact fees in nearby jurisdictions and feedback from public outreach.

Residential

As previously noted, the residential nexus analysis quantifies the link between the development of new market rate residential units and the need for additional affordable housing in the City of Santa Clara.

Table A below represents the maximum fee that is supported to mitigate the impacts of new residential construction on the need for affordable housing. The study recommends that impact fees for rental projects be set below levels indicated below. The City's inclusionary housing policy would remain applicable to for-sale projects, but that policy applies only to development of 10 or more dwellings units. Consequently, the study also recommends applying an in-lieu fee to for-sale projects with 9 or fewer dwellings units at rates below those indicated in Table A.

Table A: Maximum Supported Residential Impact Fees, City of Santa Clara

	Single Family	Townhome	Condominium	Apartments
Per Market Rate Unit	$71,800	$66,800	$51,700	$43,400
Per Square Foot	$36.00	$39.30	$41.40	$48.30

The study compares Santa Clara's policies against nearby jurisdictions. Table B shows the inclusionary requirements in nearby jurisdictions for ownership units. Santa Clara's policy is fairly consistent with the cities analyzed in Table B, which fall within the 10-15 percent range. Some jurisdictions have chosen to adopt an in-lieu fee, rather than providing the affordable units onsite. Based on the prevalence of this practice, City staff is recommending that Santa Clara's ordinance allow an in-lieu fee for projects with nine or fewer dwellings units. City staff also recommends the application of an in-lieu fee when fractional units are required in conjunction with the application of the 10 percent affordable housing requirement.

Table B: Inclusionary Requirements in Nearby Jurisdictions - Ownership Units

City	Percent Required to be Affordable	Affordability Level	Fee	Fee by Right?
Santa Clara	10%	Very Low to Moderate	None	N/A
Campbell	15%	Low and Moderate	$34.50 psf	Only projects 6 du/ ac. or less
Los Altos	10%	Low and Moderate	None	N/A
Cupertino	15%	½ Moderate, ½ Median	$15 psf detached; $16.50 psf attached $20 psf multifamily	Projects under 7 units only
San Jose*	15%	Moderate	Affordability gap based on attached unit re-sales.	Yes
Mountain View	10%	Median	3% of sales price	Projects under 10 units only
Sunnyvale	12.5%	Moderate	7% of sales price	Projects under 20 units only
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

Table C below shows impact fees for residential rental dwelling units within nearby jurisdictions. The requirements of nearby jurisdictions range generally between $17-20/sq. ft.

Table C: Impact Fees in Other Jurisdictions – Rental Units

City	Impact Fee (per square foot)	Min. Project Size Subject to Fee
Cupertino	$20 ($25 for projects over 35 du/acre)	1 unit
San Jose	$17	3 units
Mountain View	$17	5 units
Sunnyvale	$17 ($8.50 for projects with 4 – 7 units)	4 units
Fremont	$17.50	2 units

Non-Residential

The non-residential nexus analysis is also referred to as the jobs-housing nexus analysis (or jobs housing linkage fee) and quantifies the impact of development of new workplace buildings, and the employees that work in them, on the demand for affordable housing. Because jobs in all buildings cover a range of compensation levels, there are housing needs at all affordability levels. The analysis quantifies the need for lower and moderate income housing created by each type of workplace building.

The non-residential nexus analysis found high supportable fees levels, as shown in Table D below. These supportable fee levels are significantly higher than the fee levels that City staff propose or that are recommended by KMA within the Summary report.

Table D: Maximum Supported Non-Residential Impact Fees

Building Type	Fee (per square foot)
Office	$142.70
High Tech Office	$158.80
Retail	$268.00
Hotel	$128.70
Light Industrial	$149.60
Warehouse	$47.80

As with the residential analysis, the study provides fee levels adopted for non-residential impact fees in nearby jurisdictions in Table E.

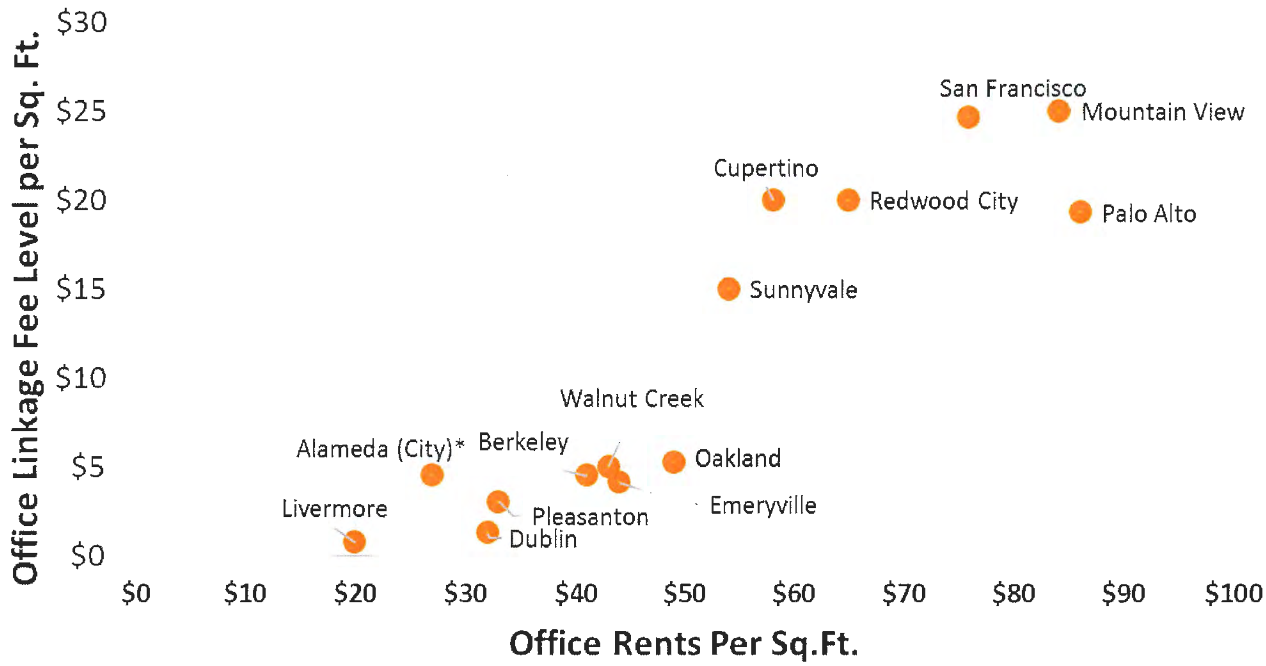
Table E: Non-Residential Housing Impact Fees-Nearby Jurisdictions

Jurisdiction	Office psf	Retail psf	Hotel psf	Industrial psf
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
Menlo Park	$15.57	$8.45	$8.45	$8.45
San Jose	N/A	N/A	N/A	N/A

Jurisdictions with the highest fee levels tend to be in areas with strong demand for non-residential space. San Jose chose not to adopt an impact fee for non-residential projects to incentivize this type of development within their city. Application of impact fees anywhere near the range of the maximum supportable levels would substantially hinder development, and jurisdictions must carefully consider such implications when determining the level of impact fees.

The graph below (Linkage fees vs. Office Rent in Alameda and Santa Clara Counties) shows office linkage fees (the building type that usually has the highest fees) in relation to office rent by city. Office rents are an indicator of market strength and a major driver of real estate values. Average office rent in Santa Clara is approximately $50 psf. Given the relationship between fee levels and office rents in other jurisdictions, a fee level between $5 and $15 psf in Santa Clara would be comparable to those in other jurisdictions.

Linkage fees vs. Office Rents in Alameda and Santa Clara Counties (& Selected Additions)



(annual full service asking rents for Class A space as of Q1 2016)

Lastly, the study provides potential market adjustment to absorb the illustrated fee levels, illustrated in Table F. These adjustments are not additive, meaning that each adjustment would independently be sufficient to absorb new fees. However, depending on market conditions and other factors, it could be expected that a combination of the above market adjustment would contribute to absorbing a new fee.

Table F: Fees as a Percent of Development Costs				
Building Type	2%	3%	4%	5%
Office (psf)	$11	$17	$23	$29
Hotel (psf)	$7	$11	$15	$19
Retail/Restaurant (psf)	$9	$13	$18	$22
Light Industrial (psf)	$5	$8	$11	$14

Overall, the nexus study recommends setting a non-residential impact fee between $10-15 psf for office uses and $5-10 psf for other non-residential building types.

COMMUNITY ENGAGEMENT MEETINGS

Planning staff conducted three public outreach meetings, one for the development stakeholder community and two for the general public the week of January 9, 2017 to January 13, 2017. The specific date and times of the meetings are listed below:

Development Stakeholder Meeting

- Monday, January 9, 2017 1:00pm, City Hall Council Chambers (1500 Warburton Avenue)

A range of concerns was expressed at the Development Stakeholder Meeting. One of the largest concerns was the fee level proposed for residential rental housing ($25-35/sq. ft.). Those concerned felt that this level of impact fee would discourage development from coming forward and suggested that the fee level should be placed more in line with nearby jurisdictions at $17-20/sq. ft. In response, staff indicated that a high rental in-lieu fee could encourage developers to provide ten percent of their units as affordable, which would create affordable units faster than would be the case if impact fees were collected. It was also suggested to spread the fees more evenly across residential and non-residential building types or to consider allowing for smaller units.

The development community urged planning staff to consider allowing for flexibility in the provision of affordable housing by design or provision of smaller unit types. Staff is considering options that will provide the maximum benefit for affordability requirements. For example, where a project is only able to provide a large or otherwise expensive affordable unit, the city could retain discretion to charge an impact fee instead of onsite provision or to allow offsite provision in order to secure the maximum affordable housing benefit.

Some stakeholders were concerned that most of the for-sale affordable housing were being set at moderate levels (80-120% of area median income (AMI)) and suggested spreading affordability at low (51-80% AMI) and very low (30-50% of AMI). As presented, on-site units would be restricted to moderate income levels; however, other jurisdictions have used a tiered system, where a lower percentage of overall units could be affordable if low or very low income units are provided. If on-site units focused on moderate income levels, monies collected may skew towards the provision of low and very low income units so that those segments of the population are provided with affordable housing options.

The development community also suggested allowing for a longer grace period for pipeline or upcoming projects. There were some concerns around when fees are paid. Those concerned suggested flexibility in paying fees prior to occupancy as opposed to before issuance of building permits.

Additionally, the development stakeholder community wanted the City to convey to the general public that the affordable housing fee does not exist in isolation and that developers are subject to other fees (such as the parks fee). They also wanted to City to convey to the public the type of market adjustments (such as rent increase) that would contribute to absorbing the fee. These suggestions were added to the presentations and explained at general public meetings.

Lastly, the development community wanted to understand how many affordable units would be created in the future. State Housing Element Law requires that each jurisdiction develop local housing programs designed to allow for the development of its share of existing and future regional housing needs for all income groups. Santa Clara's Regional Housing Needs Assessment (RHNA), 2014-2022 is outlined in Table G below.

Table G: Regional Housing Needs Assessment, 2014-2022

Income Group	*Units Assigned*	*Percent of Total*
Extremely Low	525	13%
Very Low	525	13%
Low	695	17%
Moderate	755	17%
Above Moderate	1,593	39%
Total	**4,093**	**100%**

Santa Clara keeps track of projects that are in the pipeline, either pending or conceptual projects that could come forward in the future. Approximately 14 residential projects consisting of approximately 3,500 DU are currently in the pending or conceptual stage. Further research and analyses may be conducted regarding non-residential pipeline projects, affordable housing fees that could be generated from future projects, and the potential number of affordable units that could be generated from said fees. The non-residential analyses are more difficult to complete, since usage of the fees in different programs or different sites may yield varying numbers of units.

Affordable Housing Advocate Group Meeting

- Wednesday, January 18, 2017 2:00pm, City Hall Council Chambers (1500 Warburton Avenue)

Overall, there was strong support from affordable housing advocates for proposed impact fees and noted support for the high residential rental fee to incentivize provision of affordable housing onsite. The group stressed the need to consider onsite provision of affordable housing that covered very low, low and moderate AMI levels. Both the development stakeholder group and affordable housing advocate group queried what rental impact fee would be equivalent to provision of 10 percent onsite. Following further analysis and discussion with KMA, provision of 10 percent affordable housing on site at 80 percent AMI would roughly equate to an impact fee level between $28-35 per square foot. The rate would be higher at $35 per square foot at a 60 percent AMI provision equivalent.

The group voiced concern regarding the impact fee levels for non-residential building types and recommending setting an impact fee level for retail and hotel uses. As these building types generally produce lower wage jobs, it was discussed that there is a greater need to set an impact fee to mitigate the impact generated from these building types.

The group gave support to other considerations such as fees being collected at issuance of building permit and viewed six months as a reasonable grace period between adoption and fees taking effect. Advocates supported certain exemptions but discouraged large-scale exemptions for area plans and PD zoning areas. Lastly, the group requested further outreach and the opportunity to provide written comments following the release of a draft ordinance.

General Public Meetings

- Monday, January 9, 2017 at 4:00pm, Santa Clara Senior Center (1303 Fremont Street)
- Thursday, January 12, 2017 at 7:00pm, City Hall Council Chambers (1500 Warburton Avenue)

Overall, the general public recognized the problem of housing affordability throughout the city and recognized the need for varying affordability levels of housing. Members of the public expressed the desire to have professions such as teachers and civil servants live closer to where they work and that the provision of more affordable housing could alleviate congestion pressures on the transportation network for those having to commute long distances to get to work.

Residents suggested that the rental residential rate proposed ($15-35 psf) was set too high and encouraged setting it lower, in line with other jurisdictions. They also supported higher impact fee levels for non-residential building types and including impact fee levels for retail and hotel building types, as Santa Clara is currently experiencing a jobs surplus citywide. Residents were in support of reviewing fees against a cost escalator to adjust for changes in the market.

Lastly, residents expressed concern around the need for more affordable housing options for retirees and seniors, especially as the baby boom generation continues to enter retirement age. One main concern expressed was the need to incorporate services and infrastructure within affordable residential projects to accommodate the increase in residents. Concerns were expressed about providing the adequate parking within such projects to meet residents' needs.

Written feedback was also submitted to staff and is attached to this report.

RECOMMENDATION AND NEXT STEPS:

This Planning Commission meeting serves as an outreach opportunity to receive input from the Commissioners and the general public. It is recommended that the Planning Commission considers the results of the Summary, public outreach and proposed impact fees and provide comments to the City Council.

Following input and direction from the City Council in February 2017, staff anticipates completion of additional research and/or outreach, as necessary, and will draft an ordinance for Council consideration.

Documents Related to this Report:

1) *Santa Clara Affordable Housing Nexus Studies Summary (December 2016)*
2) *Written Comments from the General Public*

Attachment 1

KEYSER MARSTON ASSOCIATES

PRELIMINARY DRAFT

SUMMARY, CONTEXT MATERIALS AND RECOMMENDATIONS
AFFORDABLE HOUSING NEXUS STUDIES

Prepared for:
City of Santa Clara

Prepared by:
Keyser Marston Associates, Inc.

December 2016

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I. INTRODUCTION

This Summary, Context Materials, and Recommendations report ("Summary Report") provides a concise version of the affordable housing nexus studies prepared by KMA and presents analyses designed to provide context for policy decisions. It also outlines recommendations for the City of Santa Clara regarding the City's affordable housing policies for residential development and consideration of a potential new affordable housing impact fee for non-residential development.

The report has been prepared by Keyser Marston Associates, Inc. (KMA) for the City of Santa Clara, 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 Santa Clara.

A. Background and Context

Santa Clara's Inclusionary Housing Policy was established in 1992 and is described in the City's General Plan. The Policy is for 10% of the total units in a new development be affordable to very low to moderate income households. The Policy applies to projects with ten or more units and there is no in-lieu fee. Historically, redevelopment has been the major resource for developing affordable units in the City, but that resource has been eliminated. 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 policy to rental projects, except through negotiation. However, 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 policy;

  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 Santa Clara.
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 Housing Policy, 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.

Maximum Supported Residential Impact Fees, City of Santa Clara				
	Single Family	*Townhome*	*Condominium*	*Apartments*
Per Market Rate Unit	$71,800	$66,800	$51,700	$43,400
Per Square Foot*	$36.00	$39.30	$41.40	$48.30

* Applies to net rentable / sellable area exclusive of garage space, external corridors and other common areas.
Source: Keyser Marston Associates Residential Nexus Analysis.

KMA recommends that impact fees for rental projects be set below the levels shown above and that in-lieu fees applicable to for-sale projects that have ten or fewer units in the project be set below the levels identified 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 4 at the end of this report.

Rentals: Overview of Adopted Rental Housing Impact Fees in Santa Clara County

The chart below shows selected examples of cities that have adopted impact fees for rental development following the 2009 *Palmer* decision (which eliminated the ability to apply inclusionary requirements to rental projects). Requirements are clustered around $17 per square foot, with Mountain View, Sunnyvale, and Fremont all following San Jose's lead in establishing a rental impact fee requirement at this level. Cupertino's fees are $20 per square foot for projects up to 35 dwelling units per acre and $25 per square foot for projects over 35 units per acre. The minimum size project subject to the fee ranges from five units for Mountain View down to single units for Cupertino.

Impact Fees in Other Jurisdictions – Rental Units		
City	*Impact Fee*	*Min. Project Size Subject to Fee*
Cupertino	$20 / sq. ft. ($25 for projects over 35 du/acre)	1 unit
San Jose	$17/sq. ft.	3 units
Mountain View	$17/sq. ft.	5 units
Sunnyvale	$17/sq. ft. ($8.50 for projects with 4 – 7 units)	4 units
Fremont	$17.50/sq. ft.	2 units

*See Table 3 for more detail.

Ownership Affordable Housing Requirements

For ownership projects, Santa Clara's policy is fairly consistent with the other cities. The onsite requirements for the cities analyzed are also in the 10% – 15% range, with the exception of Fremont, which has a combined onsite obligation and fee payment. Unlike most of the other communities, the City of Santa Clara's program is technically voluntary, although compliance is strongly encouraged. The following table briefly summarizes the programs.

Inclusionary Requirements in Other Jurisdictions - Ownership Units				
City	*Percent*	*Affordability Level*	*Fee*	*Fee by Right?*
Santa Clara	10%	Very Low to Moderate	None	N/A
Campbell	15%	Low and Moderate	$34.50	Only projects 6 du/ ac. or less
Los Altos	10%	Low and Moderate	None	N/A
Cupertino	15%	½ Moderate, ½ Median	$15 detached; $16.50 attached $20 multifamily	Projects under 7 units only
San Jose*	15%	Moderate	Affordability gap based on attached unit re-sales.	Yes
Mountain View	10%	Median	3% of sales price	Projects under 10 units only
Sunnyvale	12.5%	Moderate	7% of sales price	Projects under 20 units only
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

*Suspended during litigation but to be reinstated in 2016
See Table 3 for more detail.

3. *Multifamily Apartment Financial Feasibility*

The analysis indicates that the economics of multifamily rental projects are currently robust and projects are generally feasible at this time. Even in a strong market, rising land costs tend to absorb any "surplus" projects may have in their pro formas; however, the market is able to adjust to new costs such as increased fees in a variety of ways. One way markets can adjust 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 helps projects absorb increased fees. The table below illustrates how relatively modest improvements in project economics are sufficient to absorb illustrative fee levels of $10, $20, $30 and $40 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.

Potential Market Adjustments to Absorb Illustrative Fee Levels	Each $1 Fee	$10 Fee	$20 Fee	$30 Fee	$40 Fee
Increase in Rents/Income	0.14%	1.4%	2.8%	4.2%	5.6%
Decrease in Direct Costs	0.31%	3.1%	6.3%	9.4%	12.5%
Decrease in Land Values (based on $120/sf)	1.02%	10.2%	20.5%	30.7%	40.9%

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.

4. Market Context

Residential market conditions in the City of Santa Clara are consistent with the county overall, which is to say in the context of the region or state, demand is very strong. The median price for units sold in recent years has been a little higher than the county as a whole. The median unit sold for a little under $900,000 by the end of 2015.

The City of Santa Clara experiences strong developer interest for all types of residential projects – single family detached, townhomes, condominiums and rentals. The detached units tend to be smaller than in many of the neighboring cities to the west, averaging under 2,000 square feet and selling at a price in the range of $550 psf. As is typical, townhomes are smaller selling for a little more when examined on a per square foot level, and condominiums smaller yet again, selling in the $580 psf range on average.

Santa Clara has also experienced recent development of rental apartments. The survey indicated rents comparable to countywide averages for newly built units, or approximately $3.60 psf for a 900 square foot unit.

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

5. Program Recommendations

KMA recommends that the City of Santa Clara consider the findings in this report, conduct public outreach, and evaluate the adoption of an impact fee for residential development.

B. Non-Residential Affordable Housing Impact Fees

The analysis prepared by KMA will enable the City of Santa Clara 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 Santa Clara. 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	$142.70
High Tech Office	$158.80
Retail	$268.00
Hotel	$128.70
Light Industrial	$149.60
Warehouse	$47.80

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 Santa Clara in real estate demand.

2. Fees in Other Jurisdictions

The chart below summarizes fee levels for jurisdictions in Santa Clara County and the Peninsula 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 Palo Alto, Mountain View, and other cities within Silicon Valley and the San Francisco Peninsula. Nearby cities that do not currently have affordable housing fees on non-residential development but may consider a new fee as part of this multi-jurisdiction effort include Campbell, Los Altos, Saratoga, Fremont, Milpitas, and Santa Clara County. San Jose, neighbor to the City of Santa Clara and by far the largest city in in the County, has voted not to pursue a non-residential fee at this time. More details can be found in Section IV and Table 4.

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

Non-Residential Fees	Office $/SF	Retail $/SF	Hotel $/SF	Industrial $/SF
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
Menlo Park	$15.57	$8.45	$8.45	$8.45

See Table 4 for more details including features such as exemptions and size thresholds.

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 Silicon Valley and 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	$525 - $625 per sq.ft.
Hotel	$325 - $425 per sq.ft.
Retail / Restaurant / Service	$400 - $500 per sq.ft.
Light Industrial	$250 - $300 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 2% to 5% of costs, we would see the following fee levels:

Fees as a Percent of Development Costs				
Building Type	*2%*	*3%*	*4%*	*5%*
Office	$11 psf	$17 psf	$23 psf	$29 psf
Hotel	$7 psf	$11 psf	$15 psf	$19 psf
Retail / Restaurant	$9 psf	$13 psf	$18 psf	$22 psf
Light Industrial	$5 psf	$8 psf	$11 psf	$14 psf

4. Market Context

Santa Clara is a major employment center for Silicon Valley and is home to major names in the tech sector such as Intel and Nvidia. The City had in excess of 1 million square feet of office space under construction or just completed as of the first quarter of 2016. Office rents for Class A space are in the range of $50 PSF / year on average, near the middle of the range for Silicon Valley and above the average for San Jose as well as for most of the East Bay.

The City's retail market is exhibiting strength with the recent redevelopment of a shopping center along the El Camino Real and completion of the mixed use Santa Clara Square project which includes a new whole foods.

The robust hotel market in the City is driven by the City's status as a center for business, its convention center, the recently completed Levi Stadium, Santa Clara University, as well as proximity to the San Jose airport.

The City can expect to remain a focus of the development activity in Silicon Valley in the future with the recently approved City Place Santa Clara project which includes 5.7 million square feet of office, 1.1 million square feet of retail, 250,000 square feet of food and beverage, 190,000 square feet of entertainment space, 700 hotel rooms and 1,680 residential units adjacent to Levi Stadium.

5. Recommended Fee Levels for Non-Residential

Given the maximums established by the nexus analysis, the strength of Santa Clara's office, retail and hotel markets, 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 range of $10 to $15 per square foot for office and $5 to $10 per square foot for all other non-residential development. Adoption of fees in this range would put Santa Clara in the same range as neighboring Sunnyvale. While neighboring San Jose does not have a fee, we believe the many advantages of a Santa Clara location such as access to lower cost power through Silicon Valley Power will allow Santa Clara to remain an attractive location for new development. In our opinion, fees adopted within any moderate range would likely have little bearing on development decisions in Santa Clara. While higher fees (up to, say, $20 for office) could probably be sustained without significantly limiting development activity, we believe the recommended range represents a good starting point for a new adoption.

The table below presents the recommended range:

KMA Recommended Fee Range, Non-Residential, City of Santa Clara	
Land Use	*Recommended Fee*
Office	$10.00 to $15.00 psf
Other Non-Residential	$5.00 to $10.00 psf

III. SUMMARY OF NEXUS ANALYSES

This section provides a concise summary of the residential and non-residential nexus analyses prepared for the City of Santa Clara. 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 not 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 Residential Nexus Analysis and Non-Residential Nexus Analysis.

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 Santa Clara. 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 Santa Clara and therefore need affordable housing.

Nexus Analysis Concept

- newly constructed units
- new households
- new expenditures on goods and services
- new jobs, a share of which are low paying
- new lower income households
- new demand for affordable units

1. Market Rate Residential Prototypes

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

A summary of the four 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 Santa Clara	*Single Family*	*Townhome*	*Condominium*	*Apartments*
Avg. Unit Size	2,000 SF	1,700 SF	1,250 SF	900 SF
Avg. No. of Bedrooms	3.50	3.00	2.00	1.50
Avg. Sales Price / Rent	$1,100,000	$950,000	$725,000	$3,200 /mo.
Per Square Foot	$550 /SF	$559 /SF	$580 /SF	$3.56 /SF

2. Household Expenditures and Job Generation

Using the sales price or rent levels applicable to each of the four 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. "Downsized" 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	*Townhome*	*Condominium*	*Apartments*
Avg. Sales Price / Rent	$1,100,000	$950,000	$725,000	$3,200
Gross Household Income	$211,000	$187,000	$145,000	$131,000
Net Annual Income available	$135,000	$125,300	$98,600	$83,000
Total Jobs Generated [from IMPLAN] (100 Units)	81.4	75.5	58.6	49.3
Net New Jobs after 20% reduction for declining industries (100 units)	65.1	60.4	46.9	39.4

(1) Includes the share of income spent on housing as the required input to the IMPLAN model is income after taxes but before deduction of housing costs.

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 Santa Clara 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 1.72 workers per working household in Santa Clara County is used.

Adjustment from No. of Workers to No. of Households				
	Single Family	*Townhome*	*Condominium*	*Apartments*
Net New Jobs (100 Units)	65.1	60.4	46.9	39.4
Divide by No. of Workers per Worker Household	1.72	1.72	1.72	1.72
Net new worker households (100 Units)	37.9	35.2	27.3	23.0

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 Santa Clara. 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 Santa Clara prototype units.

New Worker Households per 100 Market Rate Units				
	Single Family	*Townhome*	*Condominium*	*Apartments*
Extremely (0%-30% AMI)	6.8	6.3	4.9	4.2
Very Low (30%-50% AMI)	10.3	9.5	7.4	6.2
Low (50%-80% AMI)	8.7	8.1	6.2	5.2
Moderate (80%-120% AMI)	5.6	5.2	4.0	3.3
Total, Less than 120% AMI	**31.3**	**29.1**	**22.4**	**18.9**
Greater than 120% AMI	6.6	6.1	4.8	4.1
Total, New Households	**37.9**	**35.2**	**27.3**	**23.0**

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 jobs 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 are calculated for each of the income tiers; the nexus costs are calculated by multiplying the affordability gaps by the number of households in each income level.

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 Santa Clara				
	Single Family	*Townhome*	*Condominium*	*Apartments*
Per Market Rate Unit	$71,800	$66,800	$51,700	$43,400
Per Square Foot*	$36.00	$39.30	$41.40	$48.30

* 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 four residential prototype developments in Santa Clara. 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 Santa Clara.

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 Santa Clara in recent years and expected to be built in the near term future. For purposes of the analysis, the following six building types were identified:

- Office
- High Tech Office
- Hotel
- Retail / Restaurant / Service
- Light Industrial
- Warehouse

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 six 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 Santa Clara 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 Santa Clara 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 six building types are as follows:

Building Type	Maximum Supported Fee Per Square Foot
Office	$142.70
High Tech Office	$158.80
Retail	$268.00
Hotel	$128.70
Light Industrial	$149.60
Warehouse	$47.80

Note: Nexus findings are not recommended fee levels.
See Non-Residential Nexus Analysis 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 six building types. They are not recommended levels for fees; they represent only the maximums established by this analysis, below which impact fees may be set.

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 the cities of Santa Clara and Milpitas.

The financial feasibility analysis is focused on rental projects because the City's inclusionary housing policy for rental projects has 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:

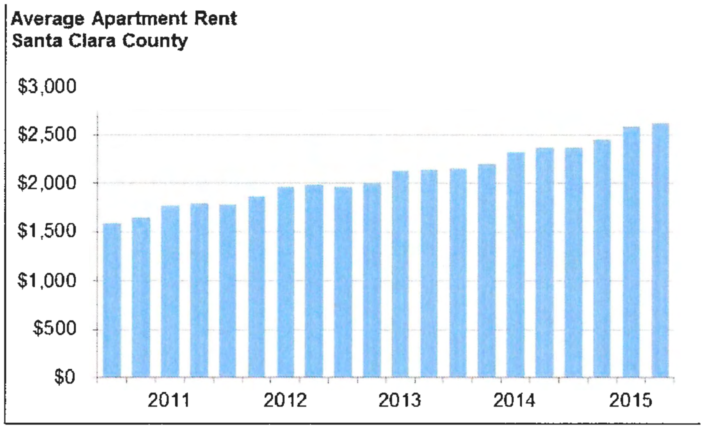
- Prototypical Nature of Analysis – This financial feasibility analysis, by its nature, can only provide a general assessment of development economics because it is based on prototypical projects rather than specific projects. Every project has unique characteristics that will dictate rents supported by the market as well as development costs and developer return requirements. This feasibility analysis is intended to reflect prototypical apartment projects in the cities of Santa Clara and Milpitas 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, Santa Clara 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

Many parts of Santa Clara County have experienced significant new investment in market rate apartment development in recent years due to the rapid rise in job growth and apartment rental rates as well as the availability of low cost investment capital (debt and equity).

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 $288,000/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 $104,000/unit.

- Rental income for the apartment prototype has been estimated based on apartment rent comps. Rents are estimated at $3,100/month, or $3.44/square foot/month. After a vacancy factor, operating expenses, and property taxes, the net operating income (NOI) is estimated at $26,400/unit/year. Using this NOI and applying a 5.5% project return, the project value/supported investment is estimated at $480,000/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 60 units per acre is approximately $88,000/unit or $121/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

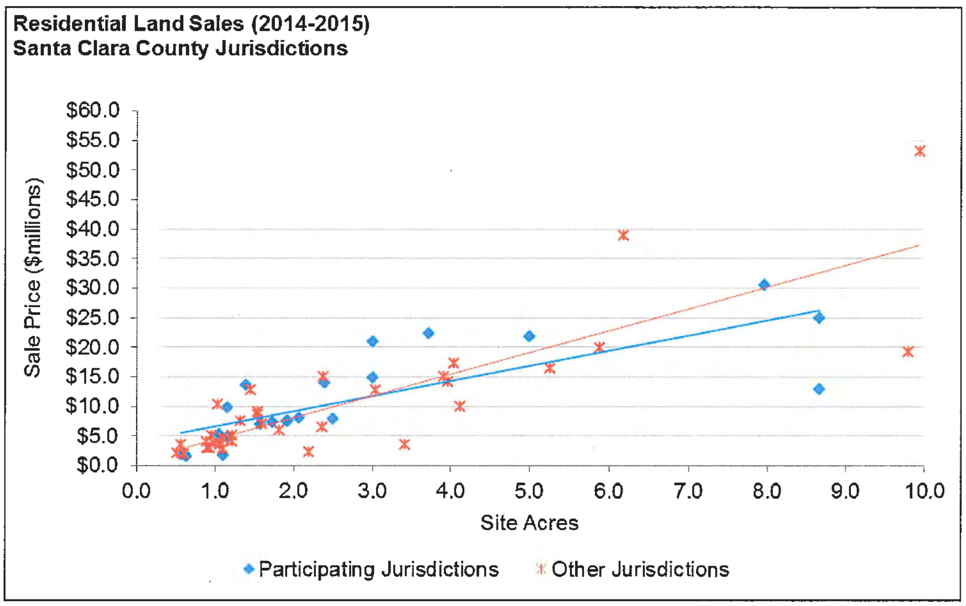
The feasibility analysis summarized in Table 1 on the next page indicates that apartment projects in the City of Santa Clara, assumed at 60 units per acre on average, can afford to pay on average $121/square foot for land with no affordable housing fee in place. The analysis also tested the land value supported with illustrative fee scenarios of $10 to $40 per net square foot. As shown, the supported land value decreases by approximately $12 - $13 per square foot of land for each $10 per square foot in fees added. The highest illustrative fee tested of $40 per square foot, which is approaching the maximum supported by the nexus, is estimated to bring the residual land values down to $72 per square foot.

Table 1. Summary of Apartment Feasibility Analysis
East Santa Clara County Jurisdictions

Program		
Average Unit Size	900 sf (NSF)	
Average Bedrooms	1.5 bedrooms	
Density	60 du/acre	
Parking	Structure	
Development Costs	**$/NSF**	**Total**
Directs	$320	$288,000
Indirects		
A&E	$16	$14,000
Fees & Permits (excl. Affordable)	$42	$38,000
Overhead & Administration	$13	$12,000
Other Indirects	$29	$26,000
Debt Financing Costs	$16	$14,000
Total Indirects	$116	$104,000
Total Costs before Land	$436	$392,000
Operating Income	**$/NSF**	**Total**
Gross Income ($3,100 rent + other income)	$43	$38,500
(Less) Vacancy (5%)	($2)	($1,900)
(Less) Operating Expenses & Taxes	($11)	($10,200)
Net Operating Income (NOI)	$29	$26,400
Threshold Return on Cost	5.50% ROC	
Total Supported Private Investment	$533	$480,000
Residual Land Value	**$/Land SF**	**$/Unit**
Land Value: No Affordable Housing Fee	$121	$88,000
Land Values With Illustrative Fee Scenarios		
Illustrative Fee at $10/square foot	*$109*	*$79,000*
Illustrative Fee at $20/square foot	*$96*	*$70,000*
Illustrative Fee at $30/square foot	*$84*	*$61,000*
Illustrative Fee at $40/square foot	*$72*	*$52,000*

Prevailing Land Values

In order to assess prevailing land values for residential development, KMA reviewed relevant land sale comparables (comps) in 2014 and 2015 as well as recent residential land appraisals. The median sale price of the land comps located within the participating Santa Clara County jurisdictions was $92/square foot. 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.



Land sales in participating jurisdictions include cities of Santa Clara, Milpitas, Campbell, and Saratoga.
Median sale price in participating jurisdictions = $92/square foot.
Land sales in other jurisdictions include Mountain View, Sunnyvale, San Jose, and Cupertino.

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 land values are in the $100 to $120 per square foot range, or within the same range as the $121 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 the economics of multifamily rental projects are strong under current market conditions and that projects are generally feasible. This finding is consistent with recent development activity in Santa Clara and Milpitas which includes several recently completed apartment projects with additional rental projects currently under construction.

Potential Market Adjustments to Absorb New Fees

In a strong market, developers are often faced with increasing competition for building sites. These conditions can drive up the cost of land and will have a tendency to absorb any "surplus" projects might have had in their economics. Construction costs can also rise when development activity is strong. As a result, even under the strongest of conditions, projects usually do not have a "surplus" in their pro formas available to absorb new fees. However, markets are able to adjust to new fees just as they adjust to other changing market conditions such as rents and construction costs. Just as strong feasibility conditions contribute to increasing land prices, a new fee can contribute to downward pressure on land prices as developers must build the new fee into the economics of their projects and may adjust what they are willing to pay for land as a result. This can help offset, at least to some degree, the increased cost of a new fee.

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 $20/square foot fee could be absorbed by any of the following market adjustments:

- An approximately 3% increase in rents
- An approximately 6% decrease in direct construction costs
- An approximately 21% decrease in land costs

Additional examples of potential market adjustments at illustrative fee levels of $1, $10, $30 and $40 per square foot are shown in the table below. These calculations can be made for any fee level that may be considered.

Potential Market Adjustments to Absorb Illustrative Fee Levels	Each $1 Fee	$10 Fee	$20 Fee	$30 Fee	$40 Fee
Increase in Rents/Income	0.14%	1.4%	2.8%	4.2%	5.6%
Decrease in Direct Costs	0.31%	3.1%	6.3%	9.4%	12.5%
Decrease in Land Values (based on $120/sf)	1.02%	10.2%	20.5%	30.7%	40.9%

B. On-Site Compliance Cost Analysis

The inclusionary policy in Santa Clara requires developers of new for-sale projects to set aside 10% of units as affordable. KMA estimated the foregone revenue for the developer when units are sold at affordable prices (assumed at the moderate income level for purposes of the estimate); this is referred to as the 'onsite compliance costs.' KMA notes that the 'cost' is compared to the hypothetical condition of no requirement. As Santa Clara has long had its inclusionary policy 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 policy, which is often useful as context for consideration of potential fee obligations.

KMA modeled the City's current policy of requiring 10% of the units as affordable. Table 2 presents our estimates of onsite compliance costs for ownership units. With current market rate sales prices, the cost to a developer associated with designating 10% of units at Moderate ranges from $37,000 to $68,000 per market rate unit or $30 to $34 per net square foot, depending on the prototype. Rental projects were not included in the analysis because inclusionary requirements for rentals have not been enforceable since the 2009 Palmer decision (except through negotiation). These figures should not be interpreted as recommended fee levels.

TABLE 2
COST OF ONSITE COMPLIANCE AND EQUIVALENT IN-LIEU FEES
RESIDENTIAL NEXUS ANALYSIS — **Working Draft**
CITY OF SANTA CLARA, CA

		Prototype 1 Single Family Detached		Prototype 2 Townhome		Prototype 3 Condominium	
Unit Size[1]		2,000 sq ft		1,700 sq ft		1,250 sq ft	
Number of Bedrooms[1]		3.5		3		2	
Market Rate		***Per SF***	***Per Unit***	***Per SF***	***Per Unit***	***Per SF***	***Per Unit***
Sales Prices[1]		$550	$1,100,000	$559	$950,000	$580	$725,000
Affordable Prices [2]			***Per Unit***		***Per Unit***		***Per Unit***
At Moderate Income (110%)			$420,875		$407,050		$354,850
Affordability Gap [3]			***Per Unit***		***Per Unit***		***Per Unit***
Per Affordable Moderate Unit			$679,125		$542,950		$370,150
Cost of Onsite Compliance - Market Rate Units		***Per SF***	***Per Unit***	***Per SF***	***Per Unit***	***Per SF***	***Per Unit***
Inclusionary Percentage @	10.0% Mod	$34	$67,913	$32	$54,295	$30	$37,015

1. See Residential Nexus Analysis Table A-1.
2. Estimate calculated by KMA based on standard affordable pricing assumptions and may not reflect City's methodology.
3. The difference between the market rate sales prices and the restricted affordable price.

TABLE 2A WORKING DRAFT
ESTIMATED AFFORDABLE HOME PRICES - Moderate Income
RESIDENTIAL NEXUS ANALYSIS
CITY OF SANTA CLARA, CA

	Condo	Townhome	SFD	SFD
Unit Size	2-Bedroom Unit	3-Bedroom Unit	3-Bedroom Unit	4-Bedroom Unit
Household Size	3-person HH	4-person HH	4-person HH	5-person HH
100% AMI Santa Clara County 2016	$96,400	$107,100	$107,100	$115,650
Annual Income @ 110%	$106,040	$117,810	$117,810	$127,215
% for Housing Costs	35%	35%	35%	35%
Available for Housing Costs	$37,114	$41,234	$41,234	$44,525
(Less) Property Taxes	($4,083)	($4,681)	($4,658)	($5,014)
(Less) HOA	($4,200)	($3,000)	($1,800)	($1,800)
(Less) Utilities	($1,116)	($1,776)	($3,144)	($3,552)
(Less) Insurance	($700)	($800)	($800)	($900)
(Less) Mortgage Insurance	($4,550)	($5,211)	($5,198)	($5,603)
Income Available for Mortgage	$22,466	$25,766	$25,635	$27,657
Mortgage Amount	$337,100	$386,700	$384,700	$415,000
Down Payment (homebuyer cash)	$17,750	$20,350	$20,250	$21,800
Supported Home Price	$354,850	$407,050	$404,950	$436,800
Key Assumptions				
- Mortgage Interest Rate [1]	5.30%	5.30%	5.30%	5.30%
- Down Payment [2]	5.00%	5.00%	5.00%	5.00%
- Property Taxes (% of sales price) [3]	1.15%	1.15%	1.15%	1.15%
- HOA (per month) [4]	$350	$250	$150	$150
- Utilities (per month) [5]	$93	$148	$262	$296
- Mortgage Insurance (% of loan amount)	1.35%	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 Santa Clara 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.

1. 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. To the north of Fremont, the cities of Hayward and Union City have lower fee structures. 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.

2. *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: SANTA CLARA COUNTY[1]
AFFORDABLE HOUSING NEXUS ANALYSES

Draft

	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: 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%	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		<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

Draft

	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; du = Dwelling Unit; FS = For Sale; Ac = Acre; /sf = per square foot; AMI =Area Median Income; MF = Multi-Family; 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: ALAMEDA COUNTY[1]
AFFORDABLE HOUSING NEXUS ANALYSES

Draft

	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; du = Dwelling Unit; FS = For Sale; Ac = Acre; /sf = per square foot; AMI =Area Median Income; MF = Multi-Family; 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

Draft

	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:				
	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 Santa Clara 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 Santa Clara County have experienced strengthening conditions in recent years due to robust job growth and the strength of the overall regional economy. According to a recent market report from Newmark Cornish & Carey, as of Q1 2016 there was about 9.5 million square feet of office development in construction in Silicon Valley out of a total office inventory of 75 million square feet. New retail, hotel and industrial projects are also being built or are in the planning stages in various parts of the county.

2. Development Cost Analysis

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

- Office development with structured parking at 1.00 floor area ratio (FAR)
- Hotel development with surface and structured parking at 1.00 FAR
- Retail development with surface parking at 0.30 FAR
- Light industrial development with surface parking at 0.40 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 Santa Clara 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. 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
Santa Clara County Participating Jurisdictions

	Office		Hotel		Retail		Light Industrial	
Building Square Feet	100,000		75,000		75,000		100,000	
Hotel Rooms			125 rooms					
Parking	Structure		Surface & Structure		Surface		Surface	
FAR	1.00 FAR		1.00 FAR		0.30 FAR		0.40 FAR	
Land Area	2.30 acres		1.72 acres		5.74 acres		5.74 acres	
	$/SF	Total	$/SF	Total	$/SF	Total	$/SF	Total
Land Acquisition	$115	$11,500,000	$45	$3,380,000	$200	$15,000,000	$88	$8,750,000
	$115	/land sf	$45	/land sf	$60	/land sf	$35	/land sf
Directs	$348	$34,750,000	$227	$17,000,000	$175	$13,130,000	$143	$14,250,000
Indirects								
A&E	$21	$2,090,000	$14	$1,020,000	$11	$790,000	$9	$860,000
FF&E/Tenant Improvements	$59	$5,850,000	$58	$4,380,000	$36	$2,700,000	$19	$1,900,000
Fees & Permits (excl. Afford)	$5	$540,000	$8	$590,000	$7	$520,000	$5	$480,000
Other Indirects & Financing	$33	$3,280,000	$21	$1,580,000	$26	$1,930,000	$16	$1,570,000
Total Indirects & Financing	$118	$11,760,000	$101	$7,570,000	$79	$5,940,000	$48	$4,810,000
Total Costs	$580	$58,010,000	$373	$27,950,000	$454	$34,070,000	$278	$27,810,000
Total Cost Range	$525 - $625/sf		$325 - $425/sf		$400 - $500/sf		$250 - $300/sf	

As shown, total development costs for the non-residential prototypes range from a low of approximately $250-$300/square foot for the light industrial prototype to a high of approximately $525-$625 for the office prototype.

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 as high as $20-$25/square foot (for office projects) in Santa Clara County jurisdictions that have such fees. Current fees for other non-residential projects, such as retail and hotel, tend to be more in the $5-$10 / square foot range.

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 3% of total development cost, a new housing fee would range from approximately $8 / square foot for light industrial uses to $17/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. Exceptions include some Silicon Valley cities where distinctions between office and industrial have become blurred and both are charged at the same rate.

Relative Fee Burdens*

	Office	Hotel	Retail	Light Industrial
Total Cost Range	$525 - $625/sf	$325 - $425/sf	$400 - $500/sf	$250 - $300/sf
Fee at 1% of Total Cost	$5.75	$3.75	$4.50	$2.75
Fee at 2% of Total Cost	$11.50	$7.50	$9.00	$5.50
Fee at 3% of Total Cost	$17.25	$11.25	$13.50	$8.25
Fee at 4% of Total Cost	$23.00	$15.00	$18.00	$11.00
Fee at 5% of Total Cost	$28.75	$18.75	$22.50	$13.75

*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 $20/square foot for the office prototype could be absorbed by a roughly 3% increase in rental income ($20/square foot x 0.15%), a roughly 6% decrease in direct construction costs ($20/square foot x 0.29%), or a roughly 17% decrease in land values ($20/square foot x 0.87%). 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	0.15%	0.23%	0.19%	0.31%
Decrease in Direct Costs	0.29%	0.44%	0.57%	0.70%
Decrease in Land Values	0.87%	2.22%	0.50%	1.14%

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.

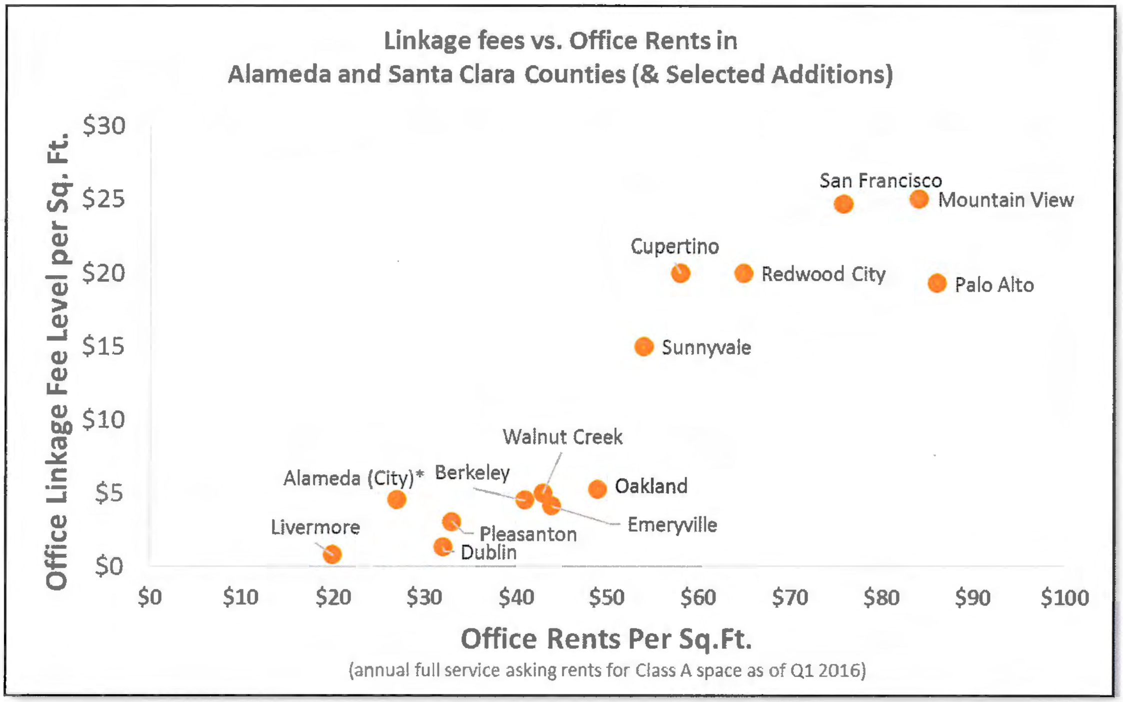
Affordable Housing Fee Levels in Selected Communities

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 available)
Sources: Office rents from market research reports prepared by Colliers International.

By way of comparison, average asking rents for Class A office space in Santa Clara are currently around $50 per square foot.

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.

Attachment 1

TABLE 4

SUMMARY OF JOBS HOUSING LINKAGE FEE PROGRAMS, CALIFORNIA

DRAFT

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.

Note: This chart has been assembled to present an overview, and as a result, terms are simplified. The information is recent but not all data has been updated as of the date of this report. In some cases, fees are adjusted by an index (such as CPI) which may not be reflected. For use other than general comparison, please consult the code and staff of the jurisdiction.

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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 $2.25 Hotel $2.14 R&D $1.91 Commercial $1.80 Manufacturing $1.41 Warehouse/Office $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 $1.54 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.	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 $0.97 Hotel $0.92 R&D $0.82 Commercial $0.77 Manufacturing $0.61 Indoor Recreational Centers $0.50 Warehouse $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 none Hotel $1.87 Commercial $0.64 Manufacturing $0.72 Warehouse $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 $0.97 Hotel $0.92 R&D $0.82 Commercial $0.77 Manufacturing $0.61 Indoor Recreational Centers $0.50 Warehouse $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 $0.97 Hotel $0.92 R&D $0.82 Commercial $0.77 Manufacturing $0.61 Indoor Recreational Centers $0.50 Warehouse $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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Anna McGill

From:	sudsjain@zoho.com on behalf of Sudhanshu Jain <suds@sudsjain.com>
Sent:	Friday, January 13, 2017 4:39 PM
To:	Anna McGill
Cc:	Lee Butler; John Davidson; Teresa O'Neill
Subject:	Re: Powerpoint Slides from Nexus Outreach Meetings: Affordable Housing Requirements Update
Follow Up Flag:	Follow up
Flag Status:	Completed

I'm shocked that Staff has chosen to set fees well below what KMA has recommended especially when the supported fees (full mitigation) are $128/sqft for hotels.

Perhaps too much pressure from the Chamber of Commerce and not enough discussions with affordable housing advocates.

STAFF RECOMMENDATION:
Non-Residential Fee Considerations
- Office ($5-10/sq. ft.)
- Hotel ($0/sq. ft.)
- Retail ($0/sq. ft.)
- Light Industrial ($2-5/sq. ft.)

KMA recommendation:

The table below presents the recommended range:

KMA Recommended Fee Range, Non-Residential, City of Santa Clara	
Land Use	*Recommended Fee*
Office	$10.00 to $15.00 psf
Other Non-Residential	$5.00 to $10.00 psf

AND VALUES FOR OTHER CITIES:

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

Non-Residential Fees	Office $/SF	Retail $/SF	Hotel $/SF	Industrial $/SF
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
Menlo Park	$15.57	$8.45	$8.45	$8.45

See Table 4 for more details including features such as exemptions and size thresholds.

On 1/13/2017 4:08 PM, Anna McGill wrote:

Hello,

Many thanks for participating in the public outreach meetings held this week regarding the City of Santa Clara's Affordable Housing Nexus Study. The slides to the presentations can now be found on our website.

Please note the presentations for the community meetings on January 9th and January 12th have the same slides. As such, only the slides dated January 12, 2017 have been put on the website.

Best Regards,

Anna McGill | Associate Planner
Community Development Department
1500 Warburton Avenue | Santa Clara, CA 95050
O:408.615.2450 | D: 408.615.2458
City of Santa Clara
The Center of What's Possible

Anna McGill

From: Donna West <dwestsfo@gmail.com>
Sent: Friday, January 13, 2017 7:06 AM
To: Anna McGill
Cc: teresa.oneillSC@gmail.com
Subject: 2017 Jan Affordable Housing Survey Planning meeting
Attachments: Alzheimer's and Brain Awareness Month.pdf

Follow Up Flag: Follow up
Flag Status: Completed

Anna McGill, Associate Planner
(408) 615-2458
AMcGill@santaclaraca.gov

Dear Anna:

Dear Anna:

Thank you very much for this opportunity to attend the Affordable Housing Survey planning meeting last night, January 12, 2017. The presentation is excellent and easy to understand. The points I list in this email is missing from the prepared survey and crucial to the outcome.

I am grateful that I voted for our current City Council who works diligently to watch over the city assets. I am watching meetings remote and in person, this past six months and I sent two emails to the council. I asked and received a City Proclamation for awareness of the dreadful dementia disease for Alzheimer's Association in June 2016. (please see attached document copy) Again, thank you very much.

I am City of Santa Clara resident of more than 30 years, active City of Santa Clara Business License, active SB50 vendor withOUT paid contract opportunities.

I worked in the City of Mountain View, CA for recent three years, 2013 – 2016, running the payroll for a company of 200 employees until the company ceased in 2016. I am grateful for my tech savvy skills working with the computer, bookkeeping, payroll, and writer at my current baby boomer age. I drive in our current traffic every day.

Missing Survey points:

My own talking points to Congress (Mr. Honda and Mr. Khanna) as a volunteer legislative advocate with the Alzheimer's Association in San Jose, CA; include baby boomer generation doubling with retirement statistics in the next ten years. From this city presentation: there will be an additional 42 units of affordable housing for seniors. 1) Where am I, a baby boomer, downsizing in the City of Santa Clara? And where are care givers and people (patients) affected with diseases such as cancer, dementia, and Alzheimer's Disease currently living and downsizing? These challenges are to double over the next ten years.

- I agree to much more impact fees for new (future) housing and businesses.

- What about the current problems we have today, 2017? I drive to West San Jose and Cupertino to purchase groceries, restaurants and daily needs. This is because of the current crowds and traffic in Santa Clara. I am a victim of a stolen car in 2012 (Santa Clara police report).

- Job to Housing ratio quoted is estimated 2 units for 1 job in the City of Santa Clara. If there are jobs in Santa Clara and I am a current resident, where is my job? I am searching for work for more than a year. Are we able to set a priority for Santa Clara jobs for only the current residents of all ages?

I am excited to be a part of the solution – how may I assist? Online work applications do not help.

Sincerely and grateful for my expensive small housing unit,

Donna West

dwestsfo@gmail.com

(408) 564-0751 Email first

An interesting article about Technology Companies, Small Business, and Local Communities
http://hiddensiliconvalley.com/2017/01/08/how-do-silicon-valley-tech-companies-small-businesses-and-local-communities-support-each-other/

MidPen HOUSING
Building Communities. Changing Lives.

January 19, 2017

Steve Kelly, Chair
Santa Clara Planning Commission
City Hall – Council Chambers, 1500 Warburton Avenue
Santa Clara, CA 95050

Subject: Housing Impact Fees

Dear Planning Commission Chair Kelly,

MidPen Housing Corporation ("MidPen") is one of the nation's leading non-profit developers, owners and managers of high-quality affordable housing. In the forty-five years since it was founded, MidPen has developed over 100 communities and 7,500 homes for working and low-income families, seniors and special needs individuals throughout Northern California. Given our roots on the Peninsula and in Silicon Valley, the majority of these units are located in San Mateo and Santa Clara counties. We value our deep relationships with local partners, including the City of Santa Clara, which is the home of two of our communities, Riverwood Gardens and Riverwood Place, which together provide permanently affordable homes for 219 households. Yet the demand for more affordable homes is great, as evidenced by the nearly 500 families on the waiting lists for these two communities.

MidPen is submitting this letter in support of the adoption of residential and non-residential housing impact fees by the City of Santa Clara. These fees are based on the demand created by new employment for new below market housing and would contribute to the production of much-needed affordable and moderate income housing in Santa Clara. In the midst of a severe mismatch in our region between jobs and housing, we hope that the City will seize the opportunity to establish a new funding source to create housing opportunities at all income levels.

We commend staff for proposing a Residential Rental Impact Fee of $25-35/sq.ft., which is in line with neighboring communities, and a For-Sale Residential Fee for smaller projects that is close to the maximum supported fee. However, we would encourage the Planning Commission to consider an Office Impact Fee that is more in line with its peer jurisdictions and the Keyser Marston Associates (KMA) nexus study recommendation of $10-15/sq.ft., rather than the proposed $5-10/sq.ft. fee. The neighboring cities of Mountain View, Cupertino, Palo Alto, Menlo Park and Sunnyvale have adopted Office Impact Fees ranging from $15-25/sq.ft. Furthermore, KMA's study took into account the average office rents in Santa Clara and these neighboring jurisdictions to develop their recommendations and determined that a $10-15/sq.ft. fee would be economically feasible, and would likely have little impact on development decisions in Santa Clara.

Additionally, while KMA's analysis determined that a fee of $5-10/sq.ft. for all Non-Residential developments other than Offices is financially feasible and recommended, only a $2-5/sq.ft. Light Industrial Fee was proposed by staff. This proposed Light Industrial Fee is much lower than KMA's recommended fee and those adopted in neighboring jurisdictions, which range from $8.45-$25/sq.ft. We encourage the Planning Commission to consider a higher Light Industrial fee that is congruent with the KMA fee recommendation and those in peer cities.

MidPen HOUSING

Building Communities. Changing Lives.

Furthermore, no impact fees were proposed by staff for either Retail or Hotel uses, despite the local strength of these markets and the KMA analysis that fees in the range of $5-10/sq.ft. are recommended and economically feasible. In comparison, neighboring jurisdictions have adopted Retail and Hotel fees ranging from $2.68-$19.85/sq.ft. Since new retail and hotel businesses create many new low-salary jobs, they increase the demand for affordable housing. For these reasons, we recommend that Planning Commission adopt Hotel and Retail fees at levels consistent with peer jurisdictions and the nexus study recommendations.

The funds collected by these local impact fees can be leveraged significantly with external funding sources that support development of housing for 60% Area Median Income (AMI) levels and below. For this reason, and because the 10% inclusionary units that are built on-site are exclusively in the 80-120% AMI range, we recommend that the impact fees collected be targeted mainly to housing that is at or below 60% AMI.

The advantage of impact fees is that jurisdictions have the flexibility to set priorities for the use of the funds that align with locally relevant issues and solutions. We encourage the Planning Commission to consider how these funds can be used to address a range of unmet housing needs at different income levels in Santa Clara.

We greatly appreciate the City of Santa Clara's consideration of these housing impacts fees and continued leadership in advancing solutions to the housing crisis that is affecting our communities.

Sincerely,

Nevada V. Merriman
Director of Housing Development

MidPen Housing Corporation
MidPen Property Management Corporation
MidPen Resident Services Corporation

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Anna McGill

From:	Pilar Lorenzana <pilar@siliconvalleyathome.org>
Sent:	Thursday, January 19, 2017 7:31 PM
To:	Anna McGill; crabtree@santaclaraca.gov
Cc:	teresa.oneillSC@gmail.com; Nicole Montojo
Subject:	Initial Feedback on Proposed Affordable Housing Requirements Update
Follow Up Flag:	Follow up
Flag Status:	Flagged

Hello, Anna and Andrew.

Silicon Valley at Home (SV@Home) is the voice of affordable housing in Silicon Valley, representing a broad range of interests, from leading employers who are driving the Bay Area economy to labor and service organizations, to nonprofit and for-profit developers who provide housing and services to those most in need.

On behalf of our members, we want to thank you for your proactive engagement during the early stages of the policy development process. We appreciated the opportunity to provide initial feedback on the residential and non-residential nexus studies and the proposed housing impact and commercial linkage fees.

The notes below encapsulate key feedback provided during the meeting. We request that this email be included as part of the communication provided to the Planning Commission and the City Council.

- **Fee levels.** We support the suggested range of $25 to $35 per square foot housing impact fee. However, we do not support staff's proposal to exempt hotel and retail uses from the proposed commercial linkage fee. What is the rational behind exempting hotel and retail uses from the commercial linkage fee? These uses often pay lower-wages, creating jobs that increase the demand for affordable housing. Further, recently approved developments such as City Place will add a significant amount of jobs and will exacerbate the City's existing housing and affordable housing deficit. Given the nexus between new job-generating uses and the increased demand for affordable housing - and given the high maximum impact fee levels identified in the nexus study, we recommend increasing staff's proposed $5 to $10 per square foot commercial linkage fee.
- **Compliance options.** We support the principle of allowing the provision of on-site units as an alternative to the impact fee. We recommend that the City or its consultant conduct an analysis to determine how the proposed $25 to $35 per square foot impact fee compares to an 10% inclusionary requirement.
- **On-site affordability.** As we understood information presented by staff the 10% inclusionary requirement applies to households at 80% to 120% AMI. How does the proposed impact fee respond to the need for lower incomes households, especially those earning 60% AMI and below? We recommend that the resulting ordinance include provisions and alternatives that address very-low, low, and moderate-income households (e.g. by allowing partnerships with non-profits or land dedication for affordable housing developments).
- Other questions flagged during our conversation included:
    - How do the maximum/ceiling compare to other jurisdictions?
    - Given the high ceilings for office why are the recommended fees so much lower? At 2% rather than staff's quoted regional practice of 5%?

We look forward to future conversations on the impact fees. We strongly support and thank you for your effort to act on the completed nexus studies. Please keep us abreast of future conversations.

Sincerely,

Pilar Lorenzana
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Join us at our new office for Happy Housers and to celebrate our Open House on Thursday, January 26th. The fun begins at 5:30 p.m.! RSVP at https://svathomeopenhouse.eventbrite.com.

Lee Butler, Planning Manager
City of Santa Clara
1500 Warburton Avenue
Santa Clara, CA 95050

Dear Lee,

REthink Development and Ensemble Investments are contacting the City in regards to proposed affordable housing impact fees. We attended the development stakeholder meeting on January 9, and are concerned that feedback from the development community is not reflected in the staff report prepared for the January 25 Planning Commission meeting, or more importantly, in the proposed fees.

We offer the following input on the proposed fees, and would like the opportunity to discuss this issue further with the City before fees are adopted.

- Considering the jobs/housing imbalance in Santa Clara and the City's goals and policies for adding new market-rate housing, we believe that **<u>no</u>** or minimal additional affordable housing requirements or impact fees should be placed on new residential projects.
    - Santa Clara is badly in need of more housing. The proposed fees penalize new market-rate housing making it difficult if not infeasible to build in certain cases. Several precedents demonstrate that this approach is not effective, including policies in the cities of Portland.
    - Residential projects would be infeasible in some areas of the City, and commercial projects would be incentivized through the fee structure. This would result in commercial development instead of residential in many areas. In Tasman East in particular this might greatly slow development of residential units. With the already high fee structures of parks, schools, etc., adding an affordable housing impact fee for Tasman will make it comparatively more profitable and much less risky to continue existing industrial/manufacturing uses or convert existing structures to office, rather than develop residential.
    - Market-rate home prices and rents will increase as a result of the fees, increasing the cost of living in Santa Clara
    - The proposed fees would particularly difficult for smaller development projects, and could effectively stop this type of development because those developers don't have the size or breadth to undertake tax credit deals for their affordable housing.
    - The fees would reduce land values up to 40%, in many cases to a value below that of current improvements.
    - The General Plan projects development of 13,222 units of new housing between 2010 and 2025. To support the construction of these units, the Plan includes several policies; 5.3.2-P1 in particular specifies that the City will "encourage the annual construction of the housing units necessary to meet the City's regional housing needs assessment by reducing constraints to housing finance and development." The proposed residential fees conflict with this and other General Plan goals and policies relating to residential development.
    - More market rate housing will help all affordability levels because of supply and demand. Residents desiring to move to new mixed-use buildings will leave older properties where rents are naturally less, freeing up those units at more affordable levels.

- If new affordable housing impact fees for residential projects will be adopted, we strongly encourage the City to consider the following additional steps:
    - Complete additional studies, such as a feasibility study, to ensure that there are adequate incentives to ensure new market-rate housing. Currently, the proposed policy changes to not include any incentives.
    - Conduct additional outreach and create additional opportunities for the development community and other stakeholders, such as property owners, to engage with the City on this issue. As an example, the City of Oakland undertook a similar process to create an affordable housing impact fee in 2015/2016. Oakland's process was conducted over a 6 month period and included six impact fee stakeholder working group meetings. More information on Oakland's process is available here: https://goo.gl/0I27Te
    - Strongly consider phasing in the impact fee or level of affordable housing required over the next few years. Projects that have been working toward getting entitlements over the last few years – based on Specific Plans, of which the timing is out of developer control –should not be penalized for City processes taking time. Going from no impact fee to large fees will severely impact feasibility of development projects.
    - Consider creating impact fee zones, similar to the City of Oakland. Fee zones could be developed using General Plan land use designations, median home value, and other metrics.

We appreciate the City's careful consideration of the comments above, and look forward to working with the City to ensure that affordable housing is produced in Santa Clara while still supporting new market-rate housing development.

Sincerely,

Steve Edwards

Steve Edwards, Founder and Principal
REthink Development