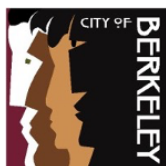




Updating Affordable Housing Requirements

May 2021



Overall Goals

- A. **Center Racial and Economic Equity**
- B. **Encourage a Mix of Units and Fees**
- C. **Continue Public Value Capture**
- D. **Continue Progress on Housing Goals**
- E. **Work Within Administrative Capacity**
- F. **Respond to Council Referrals**



Fees vs Units

Est. reduction in value due to 1 onsite unit:

~\$425,000*

**Current fee of \$39,746/unit
Equates to fee per onsite unit:**

\$198,730

Approx. local cost to subsidize an affordable unit:

\$150,000 to \$225,000

** Based on hypothetical project*

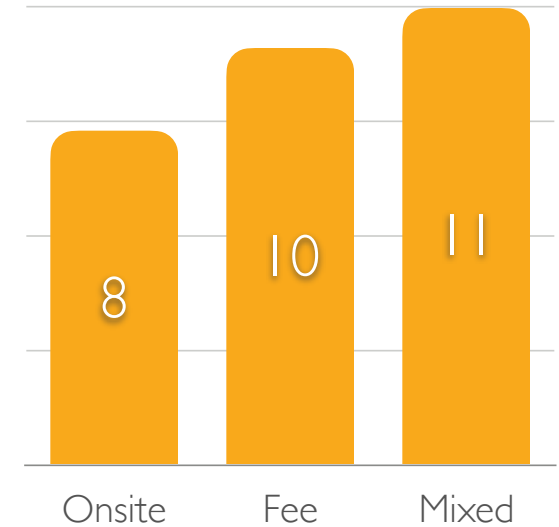
Berkeley Compliance

2013 - 2020

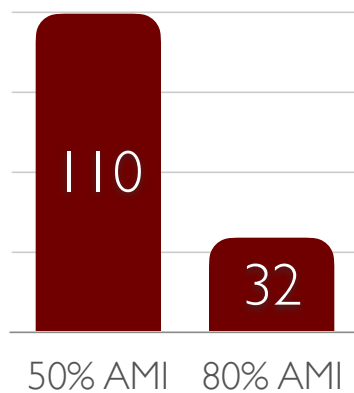
Summary

Total Projects	29
Fees Collected	\$11,391,000
Affordable Units	142

Compliance Option (# of Projects)



Affordable Units



Many projects provide 11% Very Low Income Units to qualify for the **State Density Bonus** and pay the fee for the remainder.

Financial Feasibility

What is the current housing development environment?

How might our recommended policies affect this environment?

How can we incentivize affordable housing development without making market-rate development impossible?

Rental Prototype

Stories 6

Site Area 0.5 Acres

Units 72

Average Unit Size 733 SF

Parking Spaces 36

Building Area 68,950 SF

Commercial Area 3,000 SF



Condo Prototype

Stories 6

Site Area 0.5 Acres

Units 56

Average Unit Size 934 SF

Parking Spaces 28

Building Area 61,490 SF

Commercial Area 0 SF



Key Assumptions

For rental and
condo projects

DEVELOPMENT COSTS

Construction Costs: \$400 per SF

Land Costs: \$8,000,000 per acre

Parking Costs: \$50,000 per space

Rents

Studio: \$3,100

1 br: \$4,000

2 br: \$4,500

Prices

1 br: \$725,000

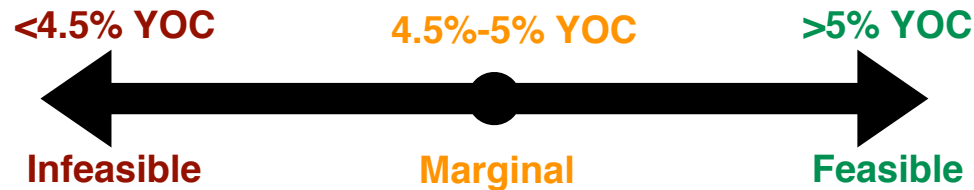
2 br: \$925,000

3 br: \$1,100,000

Feasibility Margins

Rental

Yield on Cost (YOC) is a common measure of return for rental projects. It is the Net Operating Income divided by the Total Development Cost



Condo

Profit as a % of Cost is the standard measure of return for condo projects. It is the Profit divided by the Total Development Cost



Results - Rental

Scenario	Base Units	Bonus Units	LI Units	VLI Units	Fee \$	Yield on Cost
Current Policy						
\$39,746 Per Unit Fee	72	0	0	0	\$2,861,712	5.08%
Onsite Units	72	0	7	7	\$0	4.94%
Mixed Compliance - 11% VLI	72	25	0	8	\$2,265,522	5.07%
Mixed Compliance - 15% VLI	72	36	0	11	\$2,106,538	5.10%
Proposed Alternatives						
\$45 Per Foot Fee	72	0	0	0	\$2,967,750	5.07%
\$55 Per Foot Fee	72	0	0	0	\$3,627,250	4.99%
Mixed Compliance (Weighted) - 11% VLI	72	25	0	8	\$2,350,809	5.10%
Mixed Compliance (Weighted) - 15% VLI	72	36	0	11	\$2,184,925	5.12%

Results - Condo

Scenario	Total Units	LI Units	Fee \$	Profit % of Cost
<i>Current Policy</i>				
Current Fee (based on sale prices)	56	0	\$3,810,847	8.00%
Onsite Units	56	11	\$0	1.13%
<i>Proposed Alternatives</i>				
\$45 Per Foot Fee	56	0	\$2,767,050	10.88%
\$55 Per Foot Fee	56	0	\$3,381,950	9.16%



Note About COVID-19

The pandemic has increased the level of economic uncertainty.

We can't be sure if the pandemic will have persistent impacts on development feasibility.

Right now, construction costs are rising and rents are falling, but these trends might not be stable.

Rents and Construction Costs

Yield on Cost Sensitivity to Rents and Construction Costs

		Construction Costs										
		-10%	-8%	-6%	-4%	-2%	0%	2%	4%	6%	8%	10%
Rents	-10%	5.07%	4.96%	4.85%	4.75%	4.65%	4.56%	4.47%	4.38%	4.30%	4.22%	4.14%
	-8%	5.18%	5.07%	4.96%	4.85%	4.76%	4.66%	4.57%	4.48%	4.40%	4.32%	4.24%
	-6%	5.29%	5.18%	5.07%	4.96%	4.86%	4.76%	4.67%	4.58%	4.49%	4.41%	4.33%
	-4%	5.40%	5.29%	5.17%	5.07%	4.96%	4.86%	4.77%	4.68%	4.59%	4.50%	4.42%
	-2%	5.52%	5.40%	5.28%	5.17%	5.07%	4.96%	4.87%	4.77%	4.68%	4.60%	4.51%
	0%	5.63%	5.51%	5.39%	5.28%	5.17%	5.07%	4.97%	4.87%	4.78%	4.69%	4.61%
	2%	5.74%	5.62%	5.50%	5.38%	5.27%	5.17%	5.07%	4.97%	4.87%	4.78%	4.70%
	4%	5.85%	5.73%	5.60%	5.49%	5.38%	5.27%	5.17%	5.07%	4.97%	4.88%	4.79%
	6%	5.97%	5.84%	5.71%	5.59%	5.48%	5.37%	5.26%	5.16%	5.07%	4.97%	4.88%
	8%	6.08%	5.95%	5.82%	5.70%	5.58%	5.47%	5.36%	5.26%	5.16%	5.07%	4.97%
	10%	6.19%	6.06%	5.93%	5.80%	5.69%	5.57%	5.46%	5.36%	5.26%	5.16%	5.07%

Yield on Cost Sensitivity to the Parking Ratio

Parking Ratio				
0.00	0.25	0.50	0.75	1.00
5.34%	5.20%	5.07%	4.94%	4.82%

Proposed Changes

- 1.Consolidate Affordable Housing Requirements into a single framework
- 2.Calculate the fee on a per square foot basis
- 3.Evaluate the potential for higher fees when the market is stronger
- 4.Incentivize Extremely Low-Income (30% of AMI) units
- 5.Adjust the residual fee for mixed compliance projects
- 6.Standardize ownership fees
- 7.Standardize live-work requirements
- 8.Add a Land Dedication Option
- 9.Provide a Family Sized Units Option
- 10.Simplify the requirements for Condominium Conversions
- 11.Prohibit on-site units in certain situations
- 12.Reduce fees for small projects/missing middle projects
- 13.Administrative changes



1. Consolidate Affordable Housing Requirements

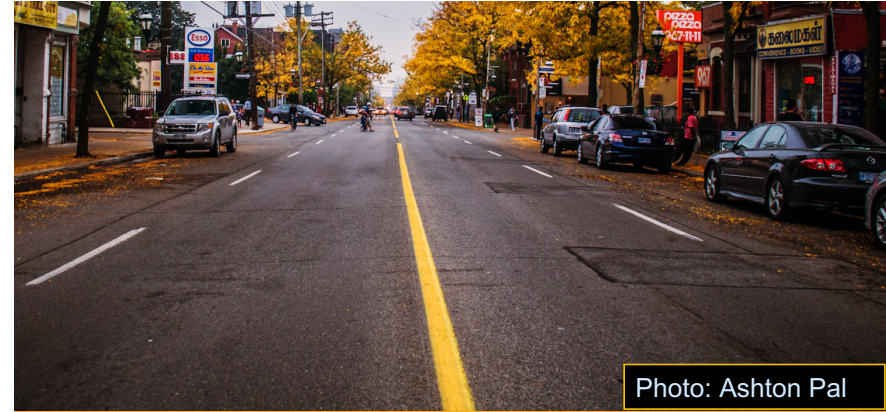
CURRENT RULES:

Inclusionary Housing Ordinance - sets affordable housing requirements and fees for ownership projects

Affordable Housing Mitigation Fee - sets affordable housing requirements and fees for rental projects

Condo Conversion Ordinance - imposes fees for converting any residential project to a condo project

Live/Work Ordinance - requires projects that include Live/Work units to make some of those units affordable



PROPOSED CHANGE:

Consolidate these requirements. Create a single “Affordable Housing Ordinance” that governs ownership, rental, condo conversion, and Live/Work projects

2. Switch to a Per Square Foot Fee

CURRENT RULE:

For rental projects, developers are charged an in lieu fee of \$39,746 per unit. The per unit fee is reduced for each affordable unit provided.

PROPOSED CHANGE:

Switch to a per square foot fee. Developers are charged an in lieu fee of \$45 per square foot. The per square foot fee is reduced for each affordable unit.



3. Consider Raising the Fee

GOAL:

Encourage developers to provide affordable units onsite, instead of paying the full fee. Requires making the full fee more costly than providing some units onsite.

PROPOSED CHANGES:

Phase in a slightly higher fee when the housing market stabilizes. Conduct an updated feasibility analysis within 3 years to determine an appropriate fee.



4. Incentivize ELI Units

CURRENT RULES:

40% of VLI units in a project must be offered to Housing Choice voucher holders and 40% must be offered to Shelter + Care voucher holders.



Photo: Dan Reed

PROPOSED CHANGES:

Require all VLI Units to be offered to voucher holders before being marketed to other income eligible households.

Allow staff to designate one voucher program for each project to work with rather than requiring every project to work with both voucher systems

5. Adjust the Residual Fee

CURRENT RULES:

Developers who provide some affordable units onsite owe a fraction of the full fee. The full fee is reduced by the same amount for each LI or VLI unit, though it's more costly to provide VLI units.

PROPOSED CHANGES:

Restructure the residual fee formula so that providing VLI units reduces the full fee by twice as much as providing LI units



Photo: Sandra Fdzh

6. Standardize Fees for Ownership Projects

CURRENT RULES:

For ownership projects, the in lieu fee is 62.5% of the difference between the market price and the affordable price for each unit. This makes the fee for ownership projects higher than the fee for comparable rental projects.

PROPOSED CHANGES:

Apply the same \$45 per square foot fee to rental and ownership projects. Continue to require different income targeting for ownership units.



7. Standardize Live/Work Requirements

CURRENT RULES:

Live/Work projects are exempted from the IHO and AHMF rules. Instead, 20% of Live/Work units are required to be affordable to LI residents with no alternative compliance options.



PROPOSED CHANGES:

Remove the Live/Work exemption to the standard affordable housing requirements. Preserve rule requiring affirmative marketing to income-eligible trade workers

8. Add Land Dedication as a Compliance Option

CURRENT RULES:

To comply with affordable housing requirements, developers must provide units onsite or pay an in lieu fee.



PROPOSED CHANGES:

Add a land dedication option which authorizes the City Manager to approve the donation of land to the City or a nonprofit housing developer. The value of the donated land must be close to the in lieu fee owed.

9. Add a Family-Sized Units Option

GOAL:

Address the trend of market-rate projects providing smaller and smaller units. Incentivize the construction of 2BD+ “family-sized units.”

PROPOSED CHANGES:

Give developers the option to comply by providing affordable units that comprise 20% of the project’s gross floor area when 50% of affordable units are 2BD or 3BD.



Photo: Chapel Hill

10. Simplify the Condo Conversion Requirements

CURRENT RULES:

Fee charged for each converted unit that is not BMR. There is a complicated formula to calculate fee. Fee reductions are offered to developers who limit future rent increases.



PROPOSED CHANGES:

Calculate the fee as 8% of the market value of the converted units.

Reduce the conversion fee to 4% for owner occupied units including tenant purchasers

11. Prohibit Onsite Compliance for Extra Large Units

GOAL:

Reduce administrative burdens caused by extra large units and ensure contributions to the Housing Trust Fund.

PROPOSED CHANGES:

Prohibit projects with an average of more than 3 bedrooms per units from avoiding the fee by providing affordable units onsite. Such projects must choose an alternative compliance option.



11. Prohibit Onsite Compliance for Smaller Projects

GOAL:

Reduce administrative burdens caused by monitoring smaller projects. Encourage projects to include a significant number of units onsite.

PROPOSED CHANGES:

Prohibit projects that would include fewer than 5 BMR units from avoiding the fee by providing affordable units onsite. Such projects must choose an alternative compliance option.



Photo: Samekh

12. Reduce Fees for Smaller Projects

CURRENT RULE:

Projects with 1 to 4 units are exempt from affordable housing requirements.

PROPOSED CHANGES:

Eliminate the exemption for 1 to 4 unit projects and replace it with fee that gradually increases up to 25 units.



13. Administrative Changes

Cap Annual Rent Increases

Issue Administrative Citations for Compliance Violations

Implement Monitoring Fee for Ownership Units

Adjust Affordable Rent for Mandatory Fees





Thank You

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