



Developer Workshop

Proposed Modifications to Affordable Housing Inclusionary Requirements



May 24, 2021

Process



- Keyser Marston Associates, Inc. prepared an evaluation of the proposed modifications
- May 24th Developer Workshop
- June 8th Planning Commission Meeting, Informational Item only
- Return to Planning Commission, Date TBD, formal recommendation to Council required
- August/September 2021 return to City Council with a report and recommendation

Purpose



- The City is considering modifying its affordable housing inclusionary program to deepen the overall level of affordability of for-sale inclusionary units.
- Obtain feedback from the Development Community

Current Requirement



Requires new for-sale residential projects to either:

- 1) restrict 10% or 15% of total units at affordable sales prices to Moderate-Income households;
- 2) or pay a fee in-lieu of providing on-site units.

The City's inclusionary requirements are codified in Chapter 14.04 of the City's municipal code.

Alternative Program Changes



A. Under the first alternative, the Moderate-Income category would be stratified into two sub-categories, with a blended average price set at 100% of the Area Median Income.

B. Under the second alternative, the inclusionary requirement would include a component of Low-income units as well as a lower-price structure for Moderate-income units.

Keyser Marston Associates, Inc. (KMA) Evaluation:



- The additional financial cost to new for-sale residential projects to provide the proposed deeper levels of on-site affordable units; and
- Changes to current in-lieu fee levels that would approximate the cost of providing the proposed deeper levels of on-site affordable units.

California Housing and Community Development (HCD) income limits



HCD Income Table
(Effective April 26, 2021)

Household size	1	2	3	4	5	6	7	8
Extremely Low 0-30%	\$34,800	\$39,800	\$44,750	\$49,700	\$53,700	\$57,700	\$61,650	\$65,650
Very Low 30-50%	\$58,000	\$66,300	\$74,600	\$82,850	\$89,500	\$96,150	\$102,750	\$109,400
Lower 50-80%	\$82,450	\$94,200	\$106,000	\$117,750	\$127,200	\$136,600	\$146,050	\$155,450
Median	\$105,900	\$121,050	\$136,150	\$151,300	\$163,400	\$175,500	\$187,600	\$199,700
Moderate 80-120%	\$127,100	\$145,250	\$163,400	\$181,550	\$196,050	\$210,600	\$225,100	\$239,650

Maximum Prices for Inclusionary Units:



Maximum Home Prices of Inclusionary Units: Current Program						
		Number of Bedrooms In Unit				
		2	3	4	5	6
% of Units Set Aside						
Projects Located Outside of Downtown						-
Upper End of Moderate Income (120% of AMI)	15%	\$581,842	\$651,001	\$704,718	\$758,643	\$820,738
Projects Located in Downtown						
Upper End of Moderate Income (120% of AMI)	10%	\$581,842	\$651,001	\$704,718	\$758,643	\$820,738

In-lieu Fee Payment



The City's ordinance provides for some projects with approval by the City Council to make a payment in-lieu of providing on-site inclusionary units. The current in-lieu fee schedule is \$19.70 per habitable square foot for for-sale projects outside of downtown and \$13.20 per habitable square foot for projects located within downtown.

Summary of Proposed Alternative Affordable Inclusionary Requirements



The overall inclusionary requirement of 10% for downtown projects and 15% for projects outside of downtown would not change but affordability would be deepened.

Alternative A



Two bands of Moderate-Income units would be established. The first band would be priced to be affordable to households that earn up to 100% of the Area Median Income (AMI), the second band would be targeted to households earning up to 120% of the AMI.

Projects located outside of the Downtown would be required to set-aside 7.5% of units as “Median Income” units and 7.5% as Moderate-Income units (15%).

Projects located within the Downtown, would be required to set-aside 5% of units as Median Income units and 5% as Moderate-Income units (10%).

Median-income units would be priced at 90% of the AMI, and Moderate-Income units would be priced at 110% of AMI. The blended price of Moderate-Income units would decline from the current level of 120% of AMI to 100% of AMI.

Alternative B



Adds a Low-Income component to the inclusionary requirement.

Projects outside of Downtown would be required to restrict 5% of their units to Low-income households, 5% to Median-income households and 5% to Moderate-Income households (15%).

Projects within the downtown would be required to restrict 5% of their units to Low-Income households and 5% of their units to Moderate-Income households (10%).

Low-Income units would be priced at 70% of the Area Median Income (AMI), Median-income units would be priced at 90% of the AMI, and Moderate-Income units would be priced at 110% of AMI.

The blended average level of affordability of the inclusionary units would deepen from the current program level of 120% of AMI to 90% of AMI.

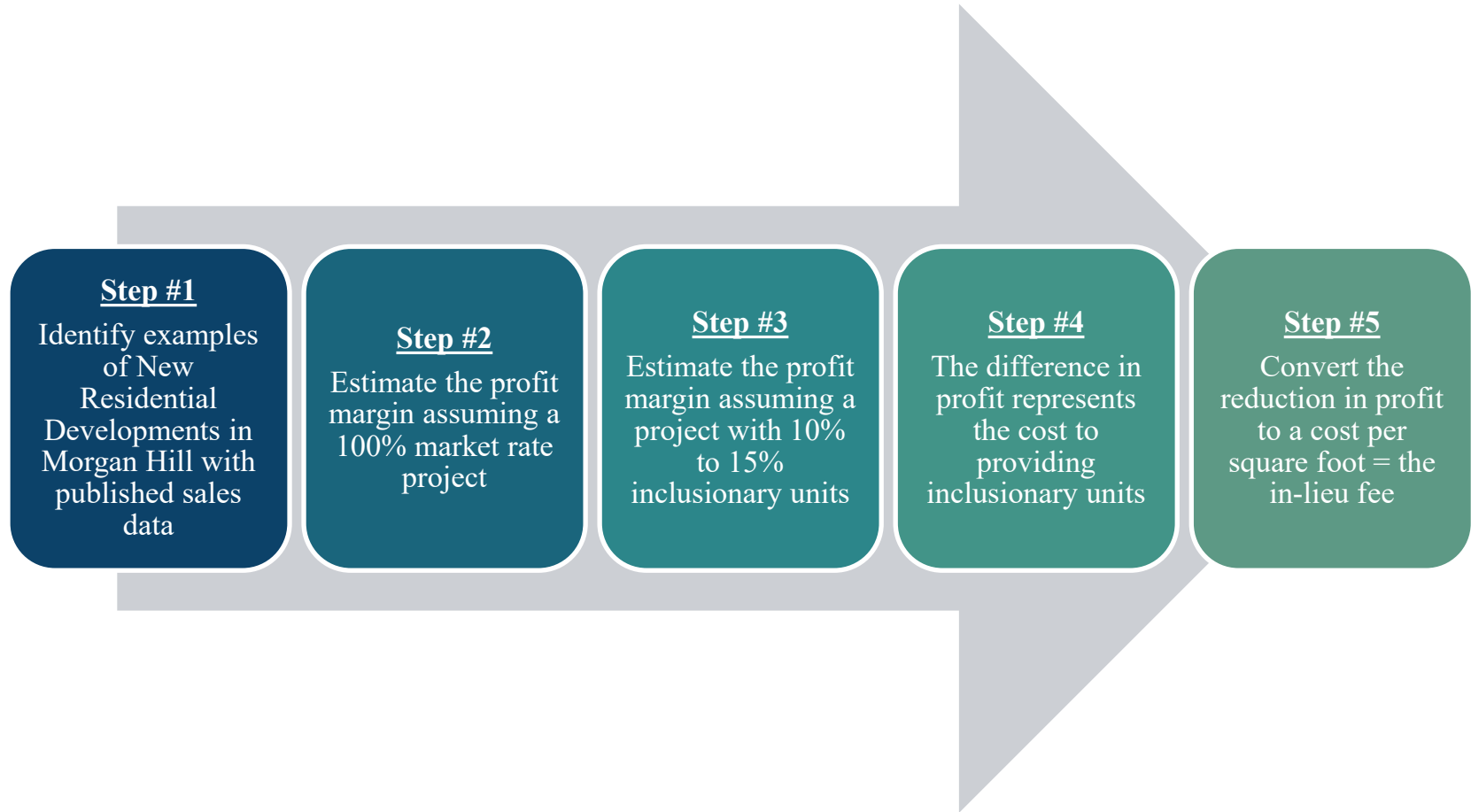
Alternative A & B Pricing



Alternative A: the blended average price for 3-bedroom inclusionary units located outside of downtown would be \$521,600, which is approximately \$129,000 less than the current maximum price for a Moderate-income three-bedroom unit.

Alternative B: the blended price for 3-bedroom inclusionary units located outside of Downtown would approximate \$435,300, which is \$216,000 less than the current maximum price for a Moderate-income three-bedroom unit. Low-income units would range in price from \$232,500 for a two-bedroom unit to \$339,400 for a six-bedroom unit.

Approach to Calculating In-Lieu Fees



Sample Attached / Condo developments

Attached Townhomes	Avg. Price	Avg. SF	Bedroom Count	Homes offered	Price Per SF
Madison Gate	\$779,900	1,783	3	50	\$437
Veneto	\$773,000	1,981	3.7	60	\$390
The Gables	\$795,990	1,718	3.3	37	\$463
Los Colinas	\$961,333	1,906	4	32	\$504
Valencia	\$934,333	2,036	4	84	\$459
Average	\$848,911	1,885	3.50		\$450
3 Beds	\$824,379	1,944	3		\$424
4 Beds	\$908,110	2,035	4		\$446

Sample Detached Developments

Detached Units	Developer	Avg. Price	Avg. SF	Bedroom Count	Homes offered	Price Per SF
Veneto	Van Daele Homes	\$1,019,175	2,791	3	14	\$365
Borello Ranch Estates	Toll Brothers	\$2,346,852	4,477	4.3	107	\$524
Average		\$1,683,014	3,634	3.64		\$463
3 Beds		\$1,459,782	3,213	3		\$454
4 Beds		\$2,186,245	3,830	4		\$571
5 Beds		\$2,756,995	5,932	5		\$465
6 Beds		\$2,765,995	5,921	6		\$467

Proposed Maximum Inclusionary Home Prices

Maximum Price	Bedroom Count				
	3.0	3.5	4.0	4.5	5.0
90% AMI	\$ 456,891	\$ 475,988	\$ 495,084	\$514,285	\$533,486
110% AMI	\$ 586,298	\$ 610,569	\$ 634,840	\$659,216	\$683,591
Average, 100% AMI	\$ 521,595	\$ 543,278	\$ 564,962	\$586,750	\$608,539

Calculation of In-lieu Fee – Attached Homes– Alternative A Inclusionary Requirements, Outside of Downtown

All Market Rate Units			
Total Units	100	Bedrooms	3.5
Inclusionary Rqmt	0		
	<u>Market Rate</u>	<u>Affordable</u>	<u>Total</u>
Units	100	0	100
SF	1,885	1,697	188,500
Price Per Du	\$848,911	\$543,278	
Transaction costs (3%)	\$25,467	\$16,298	
Cost per DU	\$764,020	\$721,999	
Price Per sf	\$450	\$320	
Cost per sf	\$405	\$426	
Revenues	\$82,344,367	\$0	\$82,344,367
Costs	\$76,401,990	\$0	\$76,401,990
Profit	\$5,942,377	\$0	\$5,942,377

On-site Affordable Units			
Total Units	100	Bedrooms	3.5
Inclusionary Rqmt	15%		
	<u>Market Rate</u>	<u>Affordable</u>	<u>Total</u>
Units	85	15	100
SF	1,885	1,697	90%
Price Per Du	\$848,911	\$543,278	
Transaction costs (3%)	\$25,467	\$16,298	
Cost per DU	\$764,020	\$721,999	
Price Per sf	\$450	\$320	
Cost per sf	\$405	\$426	105%
Revenues	\$69,992,712	\$7,904,699	\$77,897,410
Costs	\$64,941,692	\$10,829,982	\$75,771,674
Fractional Fee		\$0	\$0
Profit	\$5,051,020	-\$2,925,284	\$2,125,737

On-site Compliance Cost			
	<u>Per unit</u>	<u>Per SF</u>	<u>Total</u>
100% Mkt. Rate Profit	\$59,424	\$31.52	\$5,942,377
Profit W/ Affordable	<u>\$21,257</u>	<u>\$11.28</u>	<u>\$2,125,737</u>
Difference	\$38,166	\$20.25	\$3,816,640
		Per Affordable	\$250,000
		Per SF, all units	\$20.25
		Per unit, all units	\$38,200
		% of Price	4.50%

Calculation of In-Lieu Fee– Detached Homes - Alternative A Inclusionary Requirements - Outside of Downtown

All Market Rate Units				On-site Affordable Units			
Total Units	100	Bedrooms	3.64	Total Units	100	Bedrooms	3.64
Inclusionary Rqmt	0			Inclusionary Rqmt	15%		
	<u>Market Rate</u>	<u>Affordable</u>	<u>Total</u>		<u>Market Rate</u>	<u>Affordable</u>	<u>Total</u>
Units	100	0	100	Units	85	15	100
SF	3,634	2,726	363,400	SF	3,634	2,726	75%
Price Per Du	\$1,683,014	\$549,350		Price Per Du	\$1,683,014	\$549,350	
Transaction costs (3%)	\$50,490	\$16,480		Transaction costs (3%)	\$50,490	\$16,480	
Cost per DU	\$1,514,713	\$1,249,638		Cost per DU	\$1,514,713	\$1,249,638	
Price Per sf	\$463	\$202		Price Per sf	\$463	\$202	
Cost per sf	\$417	\$458		Cost per sf	\$417	\$458	110%
Revenues	\$163,252,358	\$0	\$163,252,358	Revenues	\$138,764,504	\$7,993,038	\$146,757,542
Costs	\$151,471,260	\$0	\$151,471,260	Costs	\$128,750,571	\$18,744,568	\$147,495,139
Profit	\$11,781,098	\$0	\$11,781,098	Fractional Fee		\$0	\$0
				Profit	\$10,013,933	-\$10,751,530	-\$737,597

On-site Compliance Cost			
	<u>Per unit</u>	<u>Per SF</u>	<u>Total</u>
100% Mkt. Rate Profit	\$117,811	\$32.42	\$11,781,098
Profit W/ Affordable	<u>-\$7,376</u>	<u>-\$2.03</u>	<u>-\$737,597</u>
Difference	\$125,187	\$34.45	\$12,518,695
		Per Affordable	\$830,000
		Per SF, all units	\$34.45
		Per unit, all units	\$125,000
	% of Price		7.43%

FINDINGS & RECOMMENDATIONS

DOWNTOWN PROJECTS



There is a significant cost differential between providing inclusionary attached townhome / condominium units and providing inclusionary large, detached units. Restricted home prices are based on bedroom count and are the same for both townhomes and large detached homes, regardless of square footage.

Per Square Foot Cost of Providing Inclusionary Units: Within the Downtown

	Detached Units	Attached Townhomes and Condos
Cost of Current Inclusionary Requirements	\$16.57 to \$19.33	\$4.00 to \$7.00
Cost of Alternative A Inclusionary Requirements	\$21.07 to \$22.97	\$10.82 to \$13.50
Cost of Alternative B Inclusionary Requirements	\$24.44 to \$25.69	\$15.84 to \$18.69

FINDINGS & RECOMMENDATIONS OUTSIDE OF DOWNTOWN PROJECTS



There is a cost differential between providing inclusionary attached townhome / condominium units and providing inclusionary large, detached units. The cost of providing the deeper levels of affordable housing under the proposed inclusionary alternatives is also significantly higher than the cost of meeting the current Moderate-income requirements.

Per Square Foot Cost of Providing Inclusionary Units: Outside of Downtown

	Detached Units	Attached Townhomes and Condos
Cost of Current Inclusionary Requirements	\$24.86 to \$29.00	\$6.00 to \$10.00
Cost of Alternative A Inclusionary Requirements	\$31.60 to \$34.45	\$16.23 to \$20.25
Cost of Alternative B Inclusionary Requirements	\$36.09 to \$38.08	\$22.92 to \$27.17

Accessory Dwelling Units (ADU)



The City's current program permits inclusionary units to be not less than the size of the smallest market rate unit of the same product type and bedroom count.

Based on available data, inclusionary detached homes have been in the range of 1,600 to 1,800 square feet and inclusionary attached townhomes /condominiums have ranged from 1,400 to 1,600 square feet.

Inclusionary units are separately owned by income eligible households. Accessory dwelling units (ADUs) range from 500 to 700 square feet, smaller and less costly to build. They are also not separately owned by income eligible households. Because of these differences, ADUs are not comparable to inclusionary units and do not count toward the inclusionary unit requirement.

Other Jurisdictions' Inclusionary Requirements and In-lieu Fee Provisions



City	Inclusionary Percent	Affordability Level	In-Lieu Fee**
Campbell	15%	Low and Moderate	\$34.50
Los Altos	15%	Majority Mod and some Low	TBD
Santa Clara	15%	Average 100% AMI	Detached: \$30 psf; Townhome \$25 psf; Condo: \$20 per sf
Cupertino	15%	50% Moderate, 50% Median	\$17.82 psf for detached; \$19.60 psf for small lot
San Jose*	15%	Moderate	Transitioning to \$25 per sf
Mountain View	15% general 15% to 20% for townhomes	Median for 15%; Moderate for 20%	\$54.50 per sf; \$125 per sf for townhomes
Sunnyvale	12.5%	Moderate	7% of sales price****
Palo Alto	15% < 5 acres; 20% > 5 acres	2/3 Median; 1/3 Moderate	\$77.62 psf; \$51.75 psf for attached and condos

RECOMMENDATIONS:



1. Consider Alternative A, if the City Desires to Deepen the Level of Affordability. Inclusionary homes would be offered at prices based on 90% of the AMI (which would be affordable to households earning up to 100% of the AMI) and 110% of the AMI (which would be affordable to households earning up to 120% of the AMI). The blended average level of affordability would average 100% of the AMI.
2. Consider Establishing Two In-Lieu Fee Rates: One Rate for Townhomes / Condominiums and One Rate for Large Single Family Detached Homes, given the significant difference in unit size and corresponding price.

RECOMMENDATIONS:



3. Fee Levels to Encourage Inclusionary Units Rather than Payment of In-Lieu Fees

Desired Level of Inclusionary Requirement	Detached Units	Attached Townhome and Condos
Downtown Project In-lieu Fee Schedule, Per SF		
Current Program (Prices at 120% AMI)	\$19.30	\$7.00
Alternative A (Avg. Blended Price at 100% AMI)	\$23.00 vs. Current: \$13.20	\$13.50 vs. Current \$13.20
Alternative B (Avg. Blended Price at 90% AMI)	Not Recommended	
Outside of Downtown Project In-Lieu Fee Schedule		
Current Programs (Prices @ 120% AMI)	\$29.00	\$10.00
Alternative A (Avg. Blended Price at 100% AMI)	\$34.50 vs. Current \$19.70	\$20.30 vs. Current \$19.70
Alternative B (Avg. Blended Price at 90% AMI)	Not Recommended	

QUESTIONS? COMMENTS....



CITY OF MORGAN HILL

NEXT STEPS



- Planning Commission June 8,
Informational Item
- Recommendation to City Council
August/September

HOUSING ENGAGEMENT EVENTS:



5:30 PM virtual community workshops:

- All Things Housing - Wednesday, May 19th *recorded*
- State Mandates for Housing Production - Wednesday, June 2nd
- Housing Affordability - Wednesday, June 16th
- Housing and Long-Term Sustainability - Wednesday, June 23rd

Additional events:

- Affordable Housing 101 in Spanish with English Translation - Tuesday, May 18th at 5:00 pm *recorded*
- A Model for Agricultural Workforce Housing in South County - Friday, May 28th at 10:00 am
- Creating Inclusive Communities through Design Form - Thursday, June 10th at 5:30 pm
- Hablando Vivienda con Nuestras Familias in Spanish with English Translation - Sunday, May 23rd *recorded*

<https://www.morgan-hill.ca.gov/2162/2021-Housing-Conversation>

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