

DISCUSSION DRAFT ONLY – SUBJECT TO CHANGE

Draft Residential Nexus Feasibility Study Findings and AHO Options

Community Services Commission
September 20, 2017

Introduction

- On June 3, 2003, the City Council adopted an Inclusionary Housing Ordinance (the “IHO-2003”).
- In 2010, the City adopted an Interim Relief Ordinance.
- The Relief Ordinance reduced the IHO-2003 requirements in for-sale projects and exempted rental housing developments from all requirements.

Introduction

- On January 27, 2015, the City Council adopted the current Affordable Housing Ordinance (the “AHO”).
- The AHO requirements applies to residential developments of twenty units or more. Council separately adopted Affordable Housing Impact Fees (the “Fees”).
- AHO Fees and requirements are lower than those of nearby jurisdictions. They reflect Relief Ordinance levels which Council decided to keep at the time of adoption of the AHO.

Introduction

- Since the adoption of the AHO, rising home prices and rents have strengthened the housing market in Hayward.
- The escalation in prices and rents has exacerbated local housing affordability challenges.
- The City Council has directed staff to re-evaluate the AHO for potential requirement increases. To this end, staff recommended that a Nexus and Feasibility Study (the “Study”) be updated.

KMA Assignment

1. **Financial Feasibility** – analyzes economic feasibility of projects and ability to sustain increased requirements
2. **Residential Nexus**
 - a. Establishes maximum fees for rental projects
 - b. Based on impact of new market rate housing on need for affordable housing
3. **Context Materials**
 - a. Requirements in other jurisdictions
 - b. On-site compliance – cost to provide onsite affordable units
4. **Draft Recommendations and Options for AHO Update**

Legal Context

San Jose (June 2015)

- Inclusionary programs upheld
- For-sale requirements not bound by nexus analysis
- Status of inclusionary clarified since prior update (Feb. 2015)

Palmer (2009)

- Cannot require inclusionary units in rental projects
- Impact fees supported by a nexus study are an alternative to inclusionary requirements
- Will change if Governor signs AB 1505 (“Palmer Fix”)

Financial Feasibility Analysis

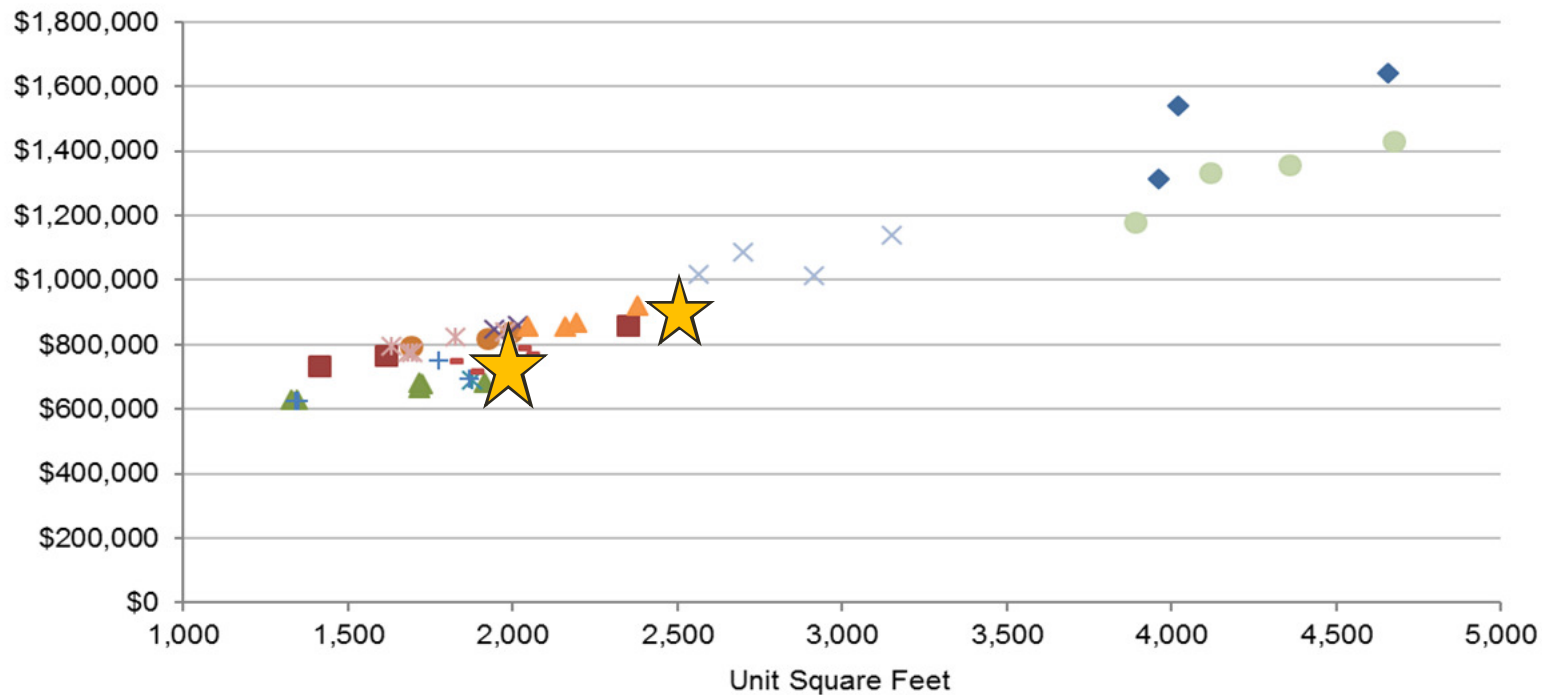
- Residual value analysis – evaluates amount projects can afford to pay for sites vs. land costs in Hayward
- “Prototypical” project analysis
- Near term time horizon

Residential Prototypes and Pricing Estimates

	Typical Density	Average Unit Size	Average Price/Rent	Price / Rent \$/SF
Single Family Detached	10 du/acre	2,500 sq. ft.	\$950,000	\$380/SF
Townhomes/Attached	20 du/acre	2,000 sq. ft.	\$800,000	\$400/SF
Condominiums (Stacked Flats)	50 du/acre	1,000 sq. ft.	\$590,000	\$590/SF
Apartments	60 du/acre	900 sq. ft.	\$2,800	\$3.11/SF

New Home Sales Prices

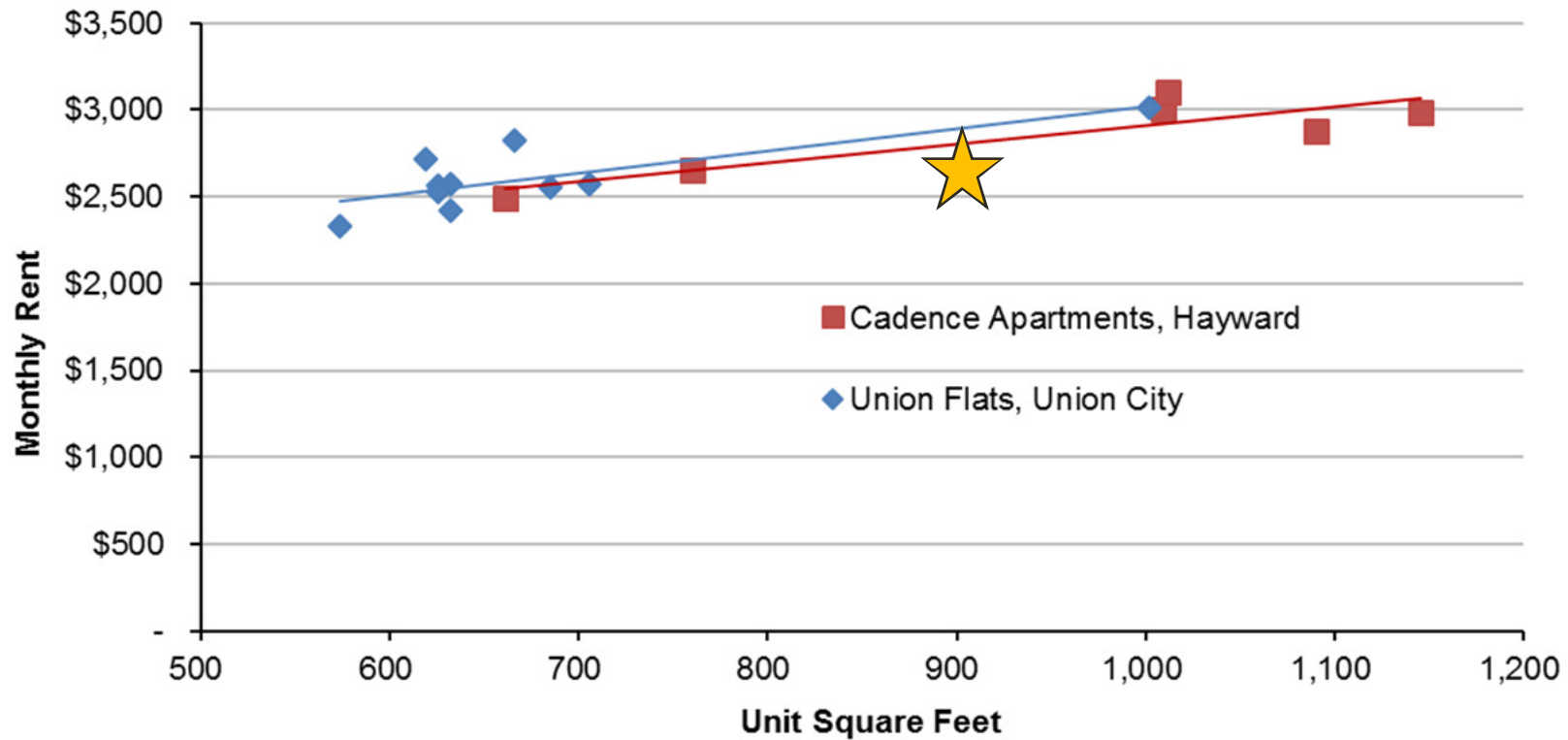
Sale Prices of New Home Developments
City of Hayward



Source: Real Estate Economics (July 2017)

Apartment Rents

Apartment Rent Comparables - Newly Built Properties Hayward, Union City



Source: Real Estate Economics (July 2017)

Financial Feasibility: Land Values

Residential Land Sale Comparables (2015-2017)

City of Hayward

	Address	Acres	DU/Acre	Sale Price	\$/Unit (rounded)	Sale Price \$ / Sq.Ft.
1	22471-22491 Maple Ct	0.6	73	\$1,950,000	\$44,300	\$74
2	Mission Seniors	5.1	40	\$6,500,000	\$32,000	\$29
3	27794 Mission Blvd	0.2	38	\$400,000	\$44,400	\$39
4	21339 Oak St	1.7	35	\$2,050,000	\$35,300	\$28
5	25501 Mission Blvd*	7.6	31	\$15,800,000	\$66,700	\$47
6	22836 Watkins St	0.3	23	\$500,000	\$83,300	\$43
7	24755 O'Neil Ave	0.8	20	\$735,000	\$45,900	\$21
8	396 Grove Way	0.4	11	\$505,000	\$101,000	\$26
9	1332 E St	0.2	10	\$240,000	\$120,000	\$26

Source: CoStar, RealQuest, Loopnet

*Mission Crossings project. Density figure based on 140 residential units and 93 hotel rooms.

Financial Feasibility: Residual Values

Rental Feasibility Prototypes	Sales Price / Supported Investment	(Less) Total Development Cost Per Unit	Residual Value Per Unit	Residual Value Per Square Foot of Land	Feasibility Conclusion
Single Family	\$950,000	(\$804,400)	\$145,600	\$33	Feasible
Townhomes	\$800,000	(\$722,300)	\$77,700	\$36	Feasible
Condos (Stacked)	\$590,000	(\$563,600)	\$26,400	\$30	Marginal
Apartments	\$418,000	(\$381,800)	\$36,200	\$50	Feasible

Note: development costs include existing fees

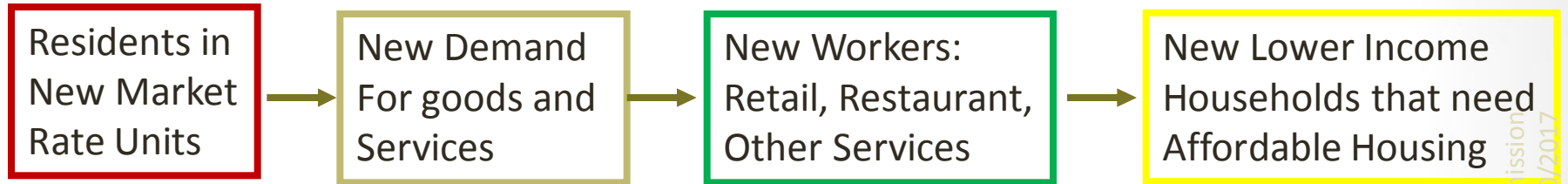
Sensitivity Testing: Market Adjustments to Absorb Increased Requirements

Market Adjustments Sufficient to Absorb Increased Requirement
Representing Cost of \$20/sq. ft.

	Single Family	Townhome	Condo	Apartments
Rent / Sales Price Increase	4.1%	4.9%	2.7%	2.3%
Land Values Decrease	26%	42%	37%	41%

Residential Nexus: **Concept**

Concept:



Residential Nexus Findings

	Single Family	Townhomes	Condo	Apartment
Maximum Supportable Impact Fee Per Unit*	\$72,200	\$63,400	\$44,900	\$40,400
Maximum Supportable Impact Fee Per Sq.Ft.*	\$28.90	\$31.80	\$44.90	\$44.90

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

Other Cities: For-Sale Requirements

City	Affordable	Fee	Fee Amount
	Percentage	By Right?	
Hayward	7.5% (attached) 10% (detached)	Yes	\$3.87* psf (attached) \$4.61 psf* (detached)
San Leandro	15%	small projects only	Based on affordability gap calculation
Union City	15%	Yes**	\$22 psf (Year 2 full phase-in level)**
Fremont	Attached 3.5% + fee Detached: 4.5% + fee	Yes	Attached: \$27 psf (w/ no on-site units) Detached: \$26 psf (w/ no on-site units)
Alameda	15%	small projects only	\$19,076 / unit
Oakland	5% at Very Low or 10% at Low- Mod	Yes	MF: \$12-\$22,000 / unit (varies by zone) SF: \$8-\$23,000 / unit (varies by zone)
Berkeley	20%	Yes	Based on affordability gap calculation

*Add 10% if developer elects to defer payment until certificate of occupancy.

**Reflects Council direction for update. Amendment to ordinance not yet adopted.

Other Cities: Rental Fees

City	Fee Level	Minimum Project Size Subject to Fee
Hayward	\$3.63/sq. ft.*	20 units
Union City	\$14 / Square Foot (Year 3 full phase-in level)**	1 unit
Oakland	\$12,000 to \$22,000 per unit (varies by zone)	1 unit
Fremont	\$17.50/sq.ft.	2 units
Berkeley	\$34,000 per unit (\$37,000 if pay at C/O)	5 units

*Add 10% if developer elects to defer payment until certificate of occupancy.

**Reflects Council direction for update. Amendment to ordinance not yet adopted.

Onsite Compliance Cost Analysis

Developer Cost (\$/Sq.Ft.)	Single Family		Stacked	
	Detached	Townhomes	Condos	Apartments
For Each 1% of Units Made Affordable	\$2.10	\$2.05	\$2.47	\$3.64
Current Onsite Requirement / Option (10% single family, 7.5% attached)	\$21	\$15.35	\$18.50	\$27.33
KMA DRAFT Recommendation (10% ownership, 7.5% stacked condos, 7.5% @80% for rentals)	\$20.96	\$20.50	\$18.50	\$20.08

- Evaluates forgone developer revenue from inclusion of affordable units
- Existing fees (\$3.63 - \$4.61/SF) are well below cost to provide units

Ownership Program DRAFT Recommendations

Assumption: City's goal is on-site units rather than fees.

	Single Family	Attached For-Sale	Higher Density Stacked Condos
On-site Requirement	10%	10%	7.5%
Allow Fee payment?	No except for larger lot single family and projects less than 10 units	No except projects less than 10 units	Consider allowing
Fee Level Range	\$15 to \$20	\$15 to \$20	\$15 to \$20

Smaller Projects

- Expand program to cover projects of two units or more
- Step in fees for projects of 2 - 9 units

Rental Program DRAFT Recommendations

Assumption: City’s goal is on-site units rather than fees.

	<u>IF</u> Governor Signs AB 1505	Current Law
On-site Requirement	7.5% @ 80% AMI <i>or</i> 5% - 6% @ Low / Very Low	7.5% @ 80% AMI <i>or</i> 5% - 6% @ Low / Very Low
Allow Fee payment?	Yes for projects under +/- 100 units	Yes, fee is primary requirement
Fee Level Range	\$15 to \$20	Projects under +/- 100 units: \$15 to \$20 Projects over +/- 100 units: \$20+ to incentivize onsite

- **If on-site units are not the goal for rentals, the City may wish to consider lower fees of \$10 - \$15 to keep requirements in line with nearby jurisdictions**

Next Steps

- Key Stakeholders Meeting: 09/21
- City Council Work Session: 10/17
- Introduction of Draft AHO Amendments at City Council Public Hearing during Regular Meeting: 11/07
- Adoption of AHO Amendments: 11/28
- Effective: 30 days after

Questions?