



# HAYWARD AFFORDABLE HOUSING ORDINANCE STUDY

PUBLIC DRAFT REPORT

Prepared for:

City of Hayward  
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# I. EXECUTIVE SUMMARY

The City of Hayward uses a variety of policy tools in its efforts to produce affordable housing and meet the State of California’s Regional Housing Needs Allocation (RHNA) requirements. One such tool is the City’s Affordable Housing Ordinance (AHO). The AHO seeks to increase the production of affordable housing via requirements that housing developers either include deed-restricted affordable housing units as part of their projects or provide other contributions. The primary ways developers can comply with Hayward’s AHO are by dedicating a certain percentage of their project’s units as “inclusionary” deed-restricted affordable housing, or by paying an “in-lieu” fee that the City can use to fund affordable housing programs and production. The City may also, at its discretion, approve an alternative mitigation proposed by a project developer.

The City of Hayward initiated this study of the AHO’s inclusionary and in-lieu fee requirements to ensure the AHO optimizes the production of affordable housing. Strategic Economics completed a development financial feasibility analysis to evaluate the impacts of current AHO requirements and potential changes to these requirements on a variety of housing development “prototypes” under varying submarket conditions found within Hayward. The analysis also included an “affordability gap analysis” to identify corresponding in-lieu fee levels. Another component of the analysis compared inclusionary and in-lieu fee requirements across several peer communities and examined recent affordable housing production in those communities.

The AHO study incorporated input and feedback from a variety of stakeholders and decisionmakers. A Technical Advisory Committee (TAC), consisting of five developers with local experience, met twice to vet analysis assumptions, results, and recommendations. City staff gathered community input on housing priorities via a survey activity conducted at two Fair Housing Workshops and a Housing Fair. The Homelessness-Housing Task Force (HHTF) reviewed analysis results and provided policy guidance, and the recommendations described in this report were presented to the Planning Commission for comment on December 8, 2022. The City of Hayward intends to use the results of this study to inform potential changes to the affordability requirements and in-lieu fee levels specified in its AHO.

The current Hayward AHO applies to all projects with at least two units. For ownership housing projects that are less than 35 units per acre, the AHO requires that ten percent of units in a project be dedicated to moderate-income households. For ownership housing projects at a density of 35 units per acre or greater, the AHO requires that 7.5 percent of units are dedicated to moderate-income households. For rental projects, the AHO requires that at least six percent of units in a development are designated as affordable units—split evenly between very low-income households and low-income households. These rental requirements are the same regardless of density.

**FIGURE 1: CURRENT AHO INCLUSIONARY REQUIREMENTS (SHARE OF TOTAL PROJECT UNITS)**

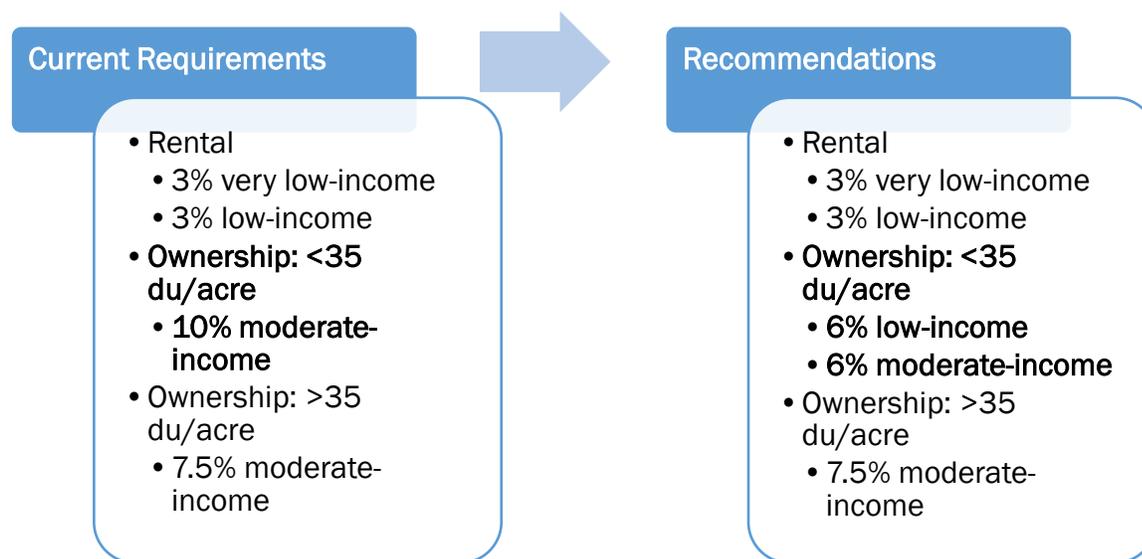
Type of Project	Required Affordability Level as a Share of Total Dwelling Units			Total Inclusionary Requirement
	Very Low	Low	Moderate	
Ownership Projects				
Less than 35 dwelling units per acre			10%	<b>10%</b>
35 or more dwelling units per acre			7.5%	<b>7.5%</b>
Rental Projects				
All densities	3%	3%		<b>6%</b>

Source: City of Hayward AHO, 2017; Strategic Economics, 2023.

## INCLUSIONARY POLICY RECOMMENDATIONS AND RELATED CONCLUSIONS

Strategic Economics recommends maintaining current inclusionary requirements for rental products and high-density ownership products, while increasing the required inclusionary percentage and deepening affordability requirements for low-density ownership products. The recommendation for ownership projects that are less than 35 dwelling units per acre (single family homes and townhomes) is to increase the required total inclusionary percentage from ten percent to 12 percent, split evenly between low-income households and moderate-income households. This is a departure from the current AHO policy, which only requires that these ownership products provide affordable units for moderate-income households. Figure 2 summarizes these changes.

FIGURE 2: RECOMMENDED CHANGES TO INCLUSIONARY REQUIREMENTS



These recommendations were informed by the following stakeholder input and analysis conclusions:

- The majority of the analyzed rental housing prototypes are currently not feasible within Hayward, regardless of the level of AHO requirements or submarket “tier.” This aligns with current development conditions, as developers have not proposed any major market-rate rental projects since adoption of Hayward’s current AHO requirements. Reduction or elimination of affordable housing requirements is not expected to significantly improve feasibility for these multifamily products due to their wide gap between achievable revenues and construction costs.
- The recommended requirements are within a typical range of seven “peer” cities for which Strategic Economics reviewed inclusionary policies and affordable housing production outcomes.
  - As shown in the Existing AHO and Comparison to Peer Cities analysis on page 14, Hayward’s current inclusionary requirements are relatively lower than peer communities, yet these low requirements led to production of a relatively high number of affordable low- and moderate-income housing units. Inclusionary requirements should be set at a level that does not encourage developers to build projects in nearby communities instead of Hayward. Inclusionary on-site units were also the primary

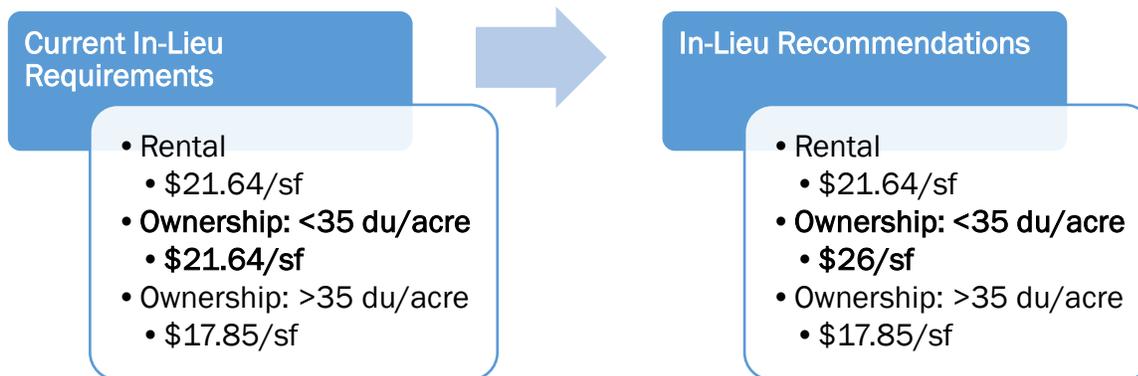
means by which Hayward and peer communities produce deed-restricted housing for moderate-income households.

- The peer cities and policy analyses also suggested the importance of maintaining inclusionary requirements at a level that supports the financial feasibility of new development.
  - Some jurisdictions, such as Fremont, may be able to sustain higher inclusionary requirements because they have higher market-rate rents that could support the cost of affordable units.
  - In Hayward, the Inclusionary Policy Alternatives Findings on page 35 indicate that single-family homes and townhomes are only marginally feasible at a 15 percent requirement—the level used by some peer communities.
- The City’s Homelessness-Housing Task Force (HHTF) expressed a preference for maintaining existing rental requirements to ensure developers are obligated to provide inclusionary or in-lieu fee contributions if development conditions improve in the future.
- A condominium prototype (a higher-density ownership product) is not currently feasible under any market tier within Hayward, and developers are not proposing condominiums in Hayward.
- Strategic Economics found through sensitivity testing that a 12 percent requirement for low and moderate-income households applicable to low-density ownership products (single-family homes and townhomes) would allow projects to maintain feasibility while also sustaining increases in construction costs of up to four percent. In contrast, a higher required percentage would result in these projects becoming infeasible with the slightest negative change in development conditions. See the Sensitivity Analysis section on page 36 for further details.
- The HHTF expressed a preference for increasing ownership requirements, but not to such a point that they block housing development if project costs and revenues shift in the near term.

## IN-LIEU FEE RECOMMENDATIONS AND RELATED CONCLUSIONS

**Strategic Economics recommends maintaining the current level of in-lieu fees for rental products and high-density ownership products, while increasing the fee for low-density ownership products to \$26 per habitable square foot.** The goal of these recommendations is to strike a balance between generating revenue for producing affordable units while ensuring that the fee does not prevent development activity. The recommended changes represent a relatively small increase in total development costs.

FIGURE 3: IN-LIEU FEE RECOMMENDATIONS



These recommendations were informed by the following stakeholder input and analysis conclusions:

- The affordability gap analysis found that the in-lieu fee amount required to build off-site deed-restricted affordable housing equivalent to the revised inclusionary requirements would be \$29.26 per square foot for single-family homes and \$16.92 per square foot for townhomes.
- Among other considerations, in-lieu fees should be set at a level that does not encourage developers to build projects in nearby communities instead of Hayward. The maximum effective in-lieu fee for *ownership* products among Hayward’s “peer” communities is \$44 per square foot of habitable space, but the median fee is closer to Hayward’s current level.
- The maximum in-lieu fee for *rental* products among Hayward’s peer communities is approximately \$30 per square foot, while the median fee is close to Hayward’s current level.
  - Based on the affordability gap, the in-lieu fee for rental products would be between \$29 per square foot and \$40 per square foot.
  - However, rental products are largely not feasible under existing AHO requirements; maintaining a lower in-lieu fee for rental projects increases the possibility of development occurring if conditions improve in the future.
- The Homelessness-Housing Task Force supported increasing AHO requirements on low-density ownership products while maintaining consistent requirements for high-density ownership housing and rental products.
- Analysis of affordable housing funding data for Hayward and Fremont demonstrated the importance of in-lieu fee revenues as a local funding source for production of 100 percent affordable housing projects. These projects can provide a deeper level of affordability than what can be achieved through inclusionary units. These projects can also provide permanent supportive housing units and housing units for extremely low-income households—serving community members who are at high risk for displacement or homelessness.

- Lastly, TAC members noted that financial considerations for in-lieu fees or provision of on-site units differ from project to project, and that flexibility is important for ensuring that they can find a feasible approach for future projects.

The full discussion of the research and findings described in this executive summary can be found throughout the remainder of this report. The “Existing AHO and Comparison to Peer Cities” section beginning on page 14 describes Hayward’s current AHO requirements and compares Hayward’s requirements and production of inclusionary housing to nearby East Bay communities. Further explanation of feasibility results, sensitivity testing, and in-lieu fee analysis is provided in the “Feasibility Analysis and In-Lieu Fee Results” section on page 31.

In addition, this report includes two appendices. Appendix A: Glossary of Key Terms includes a glossary of key terms and definitions which are otherwise also defined throughout the report narrative. Appendix B: Feasibility Analysis Details provides detailed tables describing the feasibility assumptions and results, including unit size calculations, cost calculations, and detailed pro forma results.

## II. INTRODUCTION

### Purpose of Study

Hayward's Affordable Housing Ordinance (AHO) provides a framework through which developers of new market-rate housing projects are required to provide affordable housing units or support the development of affordable housing through other means. This ordinance is a type of inclusionary housing policy. Inclusionary housing policies work by requiring market-rate developers to dedicate a portion of their project's total units to be permanently affordable to moderate-, low-, or very low-income households. In most communities, developers also have the option of complying with the requirements by paying a fee instead. This fee, known as an in-lieu fee, can be used to substitute for some or all of the required affordable units in the housing project. Developers may also propose an alternative means of complying with the AHO, with approval at the City's discretion.

The goal of this study was to identify potential changes to the AHO that would help maximize the production of affordable housing in Hayward. Hayward's AHO was most recently updated in 2017. At that time, the City of Hayward increased the AHO's in-lieu fee and reduced the project size threshold to which requirements apply. However, since that time, the COVID-19 pandemic altered market conditions for housing development, meaning that the development assumptions upon which the AHO requirements were changed are no longer the same. Therefore, the purpose of this study was to identify the current market context for development feasibility and to analyze how changes to the AHO could be structured to increase production of affordable housing without curtailing market-rate housing production due to unsupportable requirements.

The remainder of the report consists of five sections:

- **II: Introduction:** The remainder of the Introduction describes approaches to affordable housing production, financial feasibility, and how inclusionary policies can be used to help produce affordable housing;
- **III: Financial Feasibility Analysis Approach and Assumptions:** This section explains the approach and assumptions used for analyzing financial feasibility of different housing types.
- **IV: Feasibility Analysis and In-Lieu Fee Results:** This section focuses on the feasibility analysis results and analysis of how policy changes would impact development feasibility for different types of housing.
- **V: Summary of Policy Direction and Role of the AHO in Addressing Displacement:** This section describes stakeholder and decisionmaker input that was used to guide the analysis and AHO recommendations, and describes the role of the AHO in addressing displacement concerns.
- **V: AHO Update Recommendations:** This section presents final recommendations for both inclusionary requirements and in-lieu fees.

### Relationship Between Financial Feasibility and Affordable Housing Production

Because inclusionary housing policies like Hayward's AHO seek to leverage the activities of the private market to produce affordable housing, they are reliant on the financial feasibility of market-rate housing projects. This means inclusionary and in-lieu fee policies are reliant on some factors outside

of the City's control. Cities can control what types of housing are allowed on each parcel using land use regulation, and whether particular project proposals are approved. However, a city cannot control whether developers propose projects within those regulations, nor the exact composition of proposed projects. Developers will only propose projects that they assess as being feasible to construct.

**Requirements to provide inclusionary affordable units or pay a certain level of additional fees influence development feasibility for market-rate housing developers by reducing revenues or increasing costs.** Thus, for an inclusionary policy to contribute to affordable housing production, its requirements must be high enough that they result in the production of new affordable units, but not be so high that they prevent market-rate housing projects from being feasible. This makes it important to identify how different affordability requirements for inclusionary units relate to the total revenue and expenses of a project.

**On the other hand, requiring deeper levels of affordability or higher in-lieu fee contributions can help Hayward meet its affordable housing development goals through multiple means of affordable housing production.** Thus, the content of this section explains why financial feasibility of housing development matters for setting inclusionary policies; how "affordable" housing is defined and affects financial feasibility considerations; and how inclusionary policies fit within the context of overall affordable housing production in a community.

## FINANCIAL FEASIBILITY

**From a market-rate housing developer's perspective, development projects are only financially feasible when the market value of the project (based on total revenue) exceeds project costs and investment return.** As shown in Figure 4, this is determined by the following factors.

- Total project revenue is determined by the market value of the project.
  - **For for-sale projects, the market value consists of the sales prices the units can obtain.**
  - **For rental projects, the market value of the project depends on the annual revenue it will generate and the current capitalization rate,** which reflects overall project investment risk relative to alternative investments.
  
- Total project costs include hard costs, soft costs, investment return, and land costs.
  - **Hard costs** include materials and labor associated with physical construction of the building.
  - **Soft costs** include indirect expenses such as architecture and engineering, taxes, insurance, financing costs, and municipal fees.
  - **Investment return** consists of the required financial return on investment that a project must achieve to attract developer and lender investment.
  - **Land costs** refer to the price the developer pays to acquire the land.

Each of these factors is very dynamic; project costs and revenues can fluctuate significantly, and many factors, such as the market-rate price of housing, are beyond the City's direct sphere of influence. Instead, the market-rate price of housing is set by local market demand—which may rise and fall according to the availability of housing supply, presence of amenities, or other factors in the market.

FIGURE 4: COMPONENTS OF FINANCIAL FEASIBILITY: PROJECT VALUE AND PROJECT COST COMPONENTS

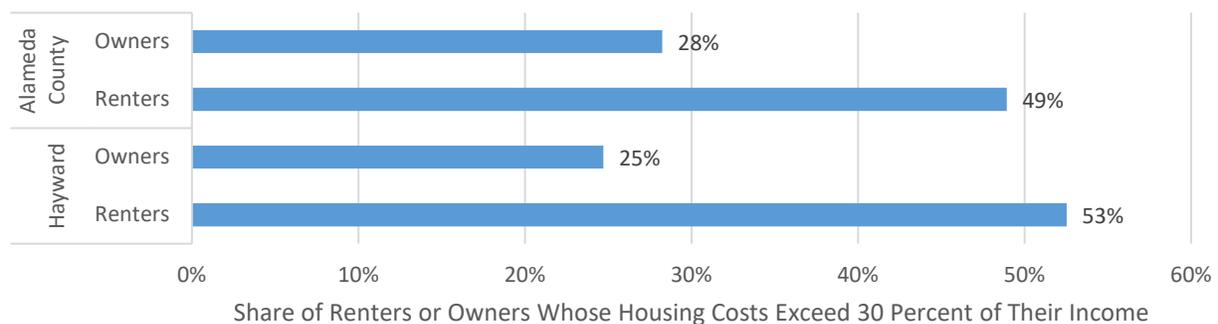


Source: Strategic Economics, 2022.

### HOUSING AFFORDABILITY AND “AFFORDABLE HOUSING” DEFINITIONS

Housing prices are considered affordable if a household pays less than 30 percent of its monthly income on housing costs; in Hayward, many households’ expenses are currently exceeding this threshold. Households whose expenses are exceeding 30 percent of their income are referred to as housing “cost-burdened.” Figure 5 displays the share of households in both Alameda County and Hayward that are cost burdened. Approximately 37 percent of households in Hayward are housing cost burdened—implying that the market-rate price of housing of their current unit is too high for them to afford with their current household income.

FIGURE 5: SHARE OF HOUSEHOLDS WHO ARE COST BURDENED IN HAYWARD AND ALAMEDA COUNTY, BY TENURE, 2021



Source: U.S. Census, American Community Survey, 1-YR, 2021; Strategic Economics, 2022.  
 Note: Hayward’s combined cost-burdened household percentage is 37 percent.

**Deed-restricted affordable housing units help to reduce cost-burdens for households within specific income categories.** In the context of this report, “affordable housing” refers to units with deed-restrictions limited to households earning certain incomes. Affordable housing units target households within select income categories, which are based on the area median income (AMI) of a region. Rents and sales prices are set at below market-rate (BMR) levels so that households pay no more than 30

percent of the targeted income level for their income category.<sup>1</sup> Each year, the California Department of Housing and Community Development (HCD) publishes income limits for every county corresponding to its AMI and standard affordable housing income categories. Figure 6 shows the percentage of AMI that falls into each income category in Alameda County.

**FIGURE 6: DEFINITION OF INCOME LIMITS FOR ALAMEDA COUNTY BASED ON CALIFORNIA CODE OF REGULATIONS AND HCD**

<b>Income Category</b>	<b>AMI Level</b>
Acutely Low-Income	0% to 15%
Extremely Low-Income	>15% to 30%
Very Low-Income	>30% to 50%
Low-Income	>50% to 76.8%
Moderate-Income	>76.8% to 120%
Above Moderate-Income	>120%

Sources: California Department of Housing and Community Development, 2022; Strategic Economics, 2022.

Note: These percentages were calculated from income limits for Alameda County that are determined by HCD and published annually in Title 25 of the California Code of Regulations, Section 6932. “Moderate-income” limits generally start at or above 80% of AMI.

## **AFFORDABLE HOUSING PRODUCTION TOOLS**

**In order to produce housing units with rents or sales prices that are below market-rates, jurisdictions often use either public or private forms of subsidy.** Two of the most common types of affordable housing production tools are inclusionary housing policies—which require private subsidy—and 100 percent affordable housing programs—which primarily leverage public subsidy to produce affordable housing.

### **INCLUSIONARY HOUSING POLICIES**

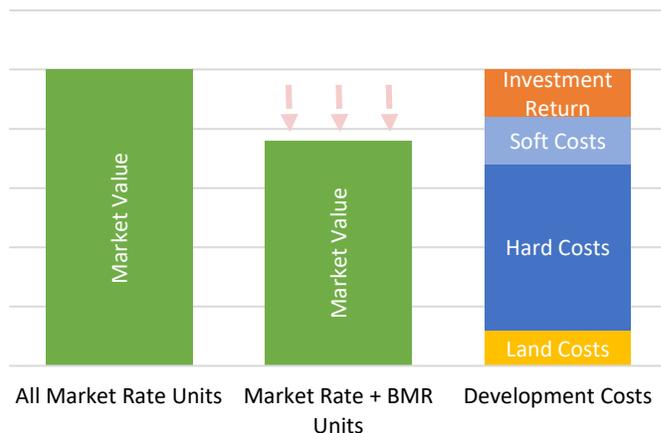
**Inclusionary housing policies work by requiring market-rate housing developers to subsidize affordable housing units directly.** Typically, this is done by requiring developers to set aside a certain percentage of their project’s housing units to be deed-restricted affordable housing. Alternatively, an inclusionary policy may allow developers to pay an affordable housing fee, “in-lieu” of providing on-site units, or allow them to assist with the production of affordable units in some other way. In such a policy, the goal is to use the revenue generated by market-rate housing units to cross-subsidize development of affordable units.

**These policies have the benefit of potentially producing affordable housing units without requiring public subsidy, but also drive down financial feasibility by reducing the total revenue and market value of the project.** Because inclusionary units generate less revenue per unit than market-rate units, requiring developers to substitute them for market-rate units will reduce the project’s total revenue. Figure 7 visualizes this impact on the project’s overall feasibility. This figure also illustrates the purpose of conducting a feasibility analysis—to identify an inclusionary requirement level that allows projects to generate enough revenue to proceed while also providing BMR units.

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<sup>1</sup> This practice does not entirely eliminate housing cost burden for low-income households. Because maximum costs are based on a target income level for each group of households, housing cost burden can still occur in cases where the household’s income is below the target income level for their category. However, the BMR restrictions reduce the households’ housing cost burdens below the levels of market rate rents.

FIGURE 7: POTENTIAL IMPACT OF INCLUSIONARY POLICIES ON FINANCIAL FEASIBILITY



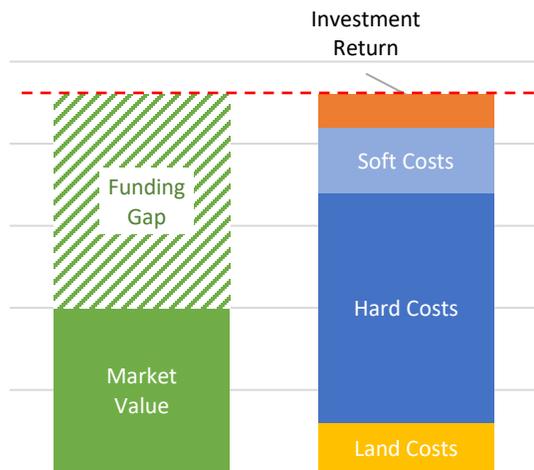
Source: Strategic Economics, 2022.

**Another benefit of inclusionary policies is that they give local governments more flexibility in determining which income levels to target.** Jurisdictions with inclusionary policies can choose whether the policies target moderate-, low-, or very low-income populations, and can also implement different requirements for different housing products, such as ownership or rental projects. Thus, inclusionary policies can be used to target income thresholds—such as moderate-income households—that may not typically be supported by other forms of affordable housing. This flexibility can help local jurisdictions achieve their affordable housing goals and meet state regional housing needs allocations. However, because inclusionary requirements only produce affordable housing units or fee revenues if market-rate housing developers choose to pursue projects, jurisdictions must incorporate consideration of financial feasibility impacts on future development projects when setting inclusionary requirements.

#### AFFORDABLE HOUSING PROJECTS

**The other common approach to produce affordable housing is to use public subsidy to fund projects in which all units are affordable.** These projects are typically referred to as 100 percent affordable projects. The largest source of funding for many of these projects comes from the federal Low-Income Housing Tax Credit (LIHTC), which gives investors a dollar-for-dollar credit on their tax liability in exchange for equity contributions to an affordable housing development. In a 100 percent affordable housing project, the developer must assemble a funding “stack” consisting of a variety of federal, state, local, and private funding sources to offset the costs of producing the units—which are typically much higher than the revenue that will be generated from the deed-restricted affordable units. This process is illustrated in Figure 8, which shows the funding gap these projects have because of the reduced revenue they can raise from the BMR units.

FIGURE 8: PROJECT REVENUE AND DEVELOPMENT COSTS FOR AFFORDABLE HOUSING PROJECTS



Source: Strategic Economics, 2022.

Affordable housing projects can often leverage more diverse funding sources and achieve deeper levels of affordability than inclusionary housing projects, but available funding can be highly competitive or difficult to obtain. Federal and state funding sources have the benefit of being less sensitive to changing market conditions than private financing. However, federal and state funding sources often have a limited pool of resources and can only be accessed through a competitive application process. In addition, they often require the use of local matching funds in order to receive funding. Inclusionary policies can be an important resource to provide local matching funds: if developers elect to comply with inclusionary policies by paying in-lieu fees instead of providing on-site units, those funds can be used to help support financing for other 100 percent affordable housing projects. In this way, inclusionary policies can be used to support both on-site affordable units and affordable units in 100 percent affordable projects—which in tandem produce more housing opportunity diversity in relation to income levels and tenure.

## Existing AHO and Comparison to Peer Cities

Housing production in Hayward does not occur in a vacuum; developers often construct housing in many different areas, and differences in inclusionary requirements between regions can have an impact on where they choose to develop housing. Therefore, this section describes Hayward’s current inclusionary housing requirements and compares them to other nearby communities that could be viewed as Hayward’s “peers.” Seven communities were selected for comparison with Hayward based on their similarity to Hayward’s population size, as well as various characteristics of their housing markets: median rents, home values, age of housing, types of housing, and amount of recent construction activity.

This comparison of Hayward’s affordable housing production and developers’ use of its inclusionary policy to other Bay Area Cities revealed several key findings, described in greater detail in this section:

- Hayward’s current inclusionary requirements are relatively lower than most “peer” communities; yet these low requirements led to production of a relatively high number of

**affordable low- and moderate-income housing units.** This result implies that Hayward’s lower inclusionary requirements allowed market-rate housing development to remain financially feasible and therefore be built along with the corresponding inclusionary units.

- **Inclusionary on-site units are the primary means of producing deed-restricted housing for moderate-income households.**
  - Shifting away from moderate income requirements in an inclusionary policy would eliminate the primary means of delivering these units.
- **In-lieu fees raised from inclusionary policies are one of the primary local funding sources for communities to support 100 percent affordable projects.**
- **In order to achieve its affordable housing goals, Hayward will need to increase its production of affordable units at all income levels.**
  - The AHO is likely to be an important tool for producing both moderate and lower-income affordable units because it can produce both inclusionary units and fee revenue needed to subsidize 100 percent affordable housing.

**CURRENT HAYWARD AFFORDABLE HOUSING ORDINANCE REQUIREMENTS**

The current Hayward AHO establishes different requirements depending upon the tenure type, size, and residential density of a proposed housing development. Figure 9 summarizes the current requirements based on housing density and housing tenure.

- **For ownership housing projects, the AHO has different requirements depending on the residential density.**
  - For projects that are less than 35 dwelling units per acre (du/acre):
    - Ten percent of units are required to be dedicated to moderate-income households.
  - For projects at a density of 35 units per acre or more:
    - 7.5 percent of units are required to be dedicated to moderate-income households.
- **For rental projects, requirements are the same regardless of density.**
  - Three percent of units are required to be dedicated to very low-income households, and
  - Three percent of units are required to be dedicated to low-income households, for a total of six percent.

**FIGURE 9: CURRENT AHO INCLUSIONARY REQUIREMENT (SHARE OF TOTAL PROJECT UNITS)**

Type of Project	Required Affordability Level as a Share of Total Dwelling Units			Total Inclusionary Requirement
	Very Low	Low	Moderate	
Ownership Projects				
Less than 35 dwelling units per acre			10%	<b>10%</b>
35 or more dwelling units per acre			7.5%	<b>7.5%</b>
Rental Projects				
All densities	3%	3%		<b>6%</b>

Source: City of Hayward AHO, 2017; Strategic Economics, 2023.

## PEER CITY INCLUSIONARY REQUIREMENTS

Hayward's current inclusionary requirements are lower than the required percentages in many of its "peer" communities, and many communities require deeper levels of affordability than Hayward. The only exceptions are Newark, which uses impact fees instead of requiring on-site units; Concord, which has a lower requirement than Hayward for ownership units; and Richmond, which uses in-lieu fees only for rental projects. Five of the six peer cities with ownership inclusionary policies require developers to provide units to both low- and moderate-households, while Hayward only requires provision of moderate-income units in its ownership projects. These requirements are shown in Figure 10.

**Fremont's inclusionary requirements were among the highest among peer communities from 2015 to 2021, but were revised downwards in 2021.** For-sale requirements were revised down from around 20 percent to 15 percent, while rental requirements were revised from 12 to 10 percent. City staff cited three reasons for revising the total requirements: simplifying the ordinance, becoming more comparable to other jurisdictions, and making the on-site option more realistic for developers. Staff indicated that since the ordinance was adopted in 2015, no for-sale developers had elected to build on-site inclusionary units.<sup>2</sup> Both the previous and current requirements for Fremont are shown in Figure 10.

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<sup>2</sup> City of Fremont, Affordable Housing Ordinance Update Staff Report, October 2021.

FIGURE 10: COMPARISON OF INCLUSIONARY REQUIREMENTS IN HAYWARD VS. “PEER CITIES”

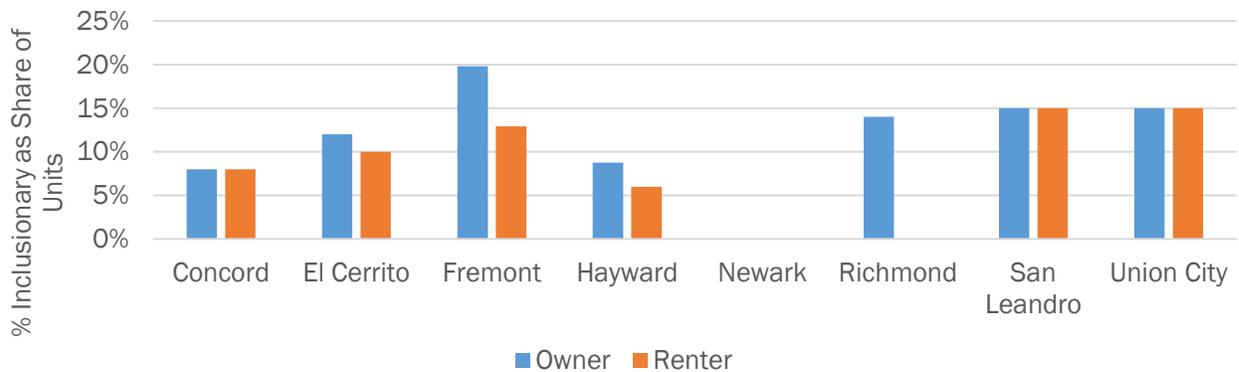
	Set-Aside Requirement by Project Size		Minimum Size Threshold	Affordability Target by Tenure		Date Enacted
	Rental	For-Sale		Rental	Ownership	
<b>Hayward</b>	All projects: 6%	Projects > 35 du/acre: 7.5% Projects < 35 du/acre: 10%	2 units	Very low and low-income	Moderate-income	2017
<b>Concord</b>	Either 10 percent at low income, or six percent at very low income	Either 10 percent at moderate income, or six percent at low income	5 units or more for all residential projects	Very low, low and moderate income	Low and Moderate-income	2021
<b>El Cerrito</b>	10% of units	12% of units	Rental or Combo Rental/Sale: 9 units For Sale only: 10 units	Very low and low-income	Moderate-income	2018
<b>Fremont</b>	All projects: 10%	15% of units: 5% moderate 10% low-income	2 units	Very low and low-income	Low and Moderate-income	2021
<b>Fremont (old)</b>	All projects 12.9%	18% for attached 21.6% for detached	2 units	Extremely low, very low, low, and moderate	Extremely low, very low, low, and moderate	2002
<b>Newark</b>	(Impact fee only)	(Impact fee only)				
<b>Richmond</b>	In-lieu fee is default. Developer can provide on-site units. No % specified.	One of the following: Moderate: 17% Low Income: 15% Very Low Income: 10%	10 units	Very low, low, and moderate income	Very low, low, and moderate income	2020
<b>San Leandro</b>	Roughly 15% - rounded to the nearest unit.	Roughly 15% - rounded to the nearest unit	4 for rental, 2 for ownership	Very low and low-income	Low and Moderate-income	2006
<b>Union City</b>	All projects: 15%	All projects: 15%	7	Very low and low-income	Low and Moderate-income	2018

Source: Municipal Ordinances, 2022; Strategic Economics, 2022.

## COMPARISON OF HOUSING PRODUCTION OUTCOMES

Hayward has produced more inclusionary units than its peer communities in recent years, likely because Hayward has lower inclusionary requirements. Figure 11 shows the required inclusionary percentages at the time that those units were produced while Figure 12 shows the total number of inclusionary units produced by product type. While housing markets differ from city to city, these charts illustrate that many communities with higher requirements are not producing any inclusionary units at all. One exception to this trend is Fremont. However, Fremont is among the strongest residential markets in the region, meaning that residential projects can achieve higher market-rate revenues to offset losses from including greater amounts of inclusionary units. According to CoStar, the average effective monthly rent per square foot for multifamily units in Fremont was \$3.15, while the effective rent per square foot for units in Hayward was \$2.68.<sup>3</sup>

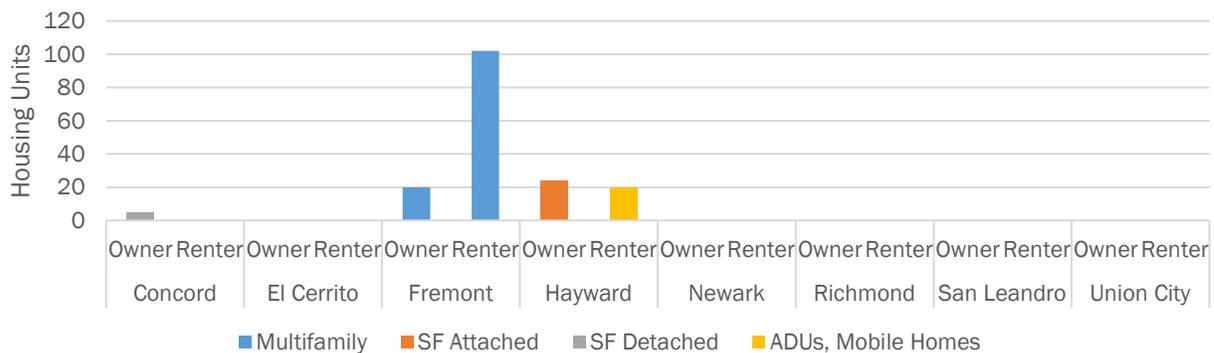
FIGURE 11: INCLUSIONARY REQUIREMENTS BY CITY AND TENURE, FROM 2018-2021



Source: Municipal Codes and Inclusionary Ordinances, 2022; Strategic Economics, 2022.

Note: In cases where the percentage depends on project density or affordability level, this chart reflects the average of all compliance options. Fremont's required inclusionary percentages changed in 2021. This chart displays the previous requirements. The required levels of affordability within these inclusionary requirements varies; see the previous table for details.

FIGURE 12: NUMBER OF PERMITTED INCLUSIONARY HOUSING UNITS IN "PEER CITIES," BY TYPE, 2018-2021

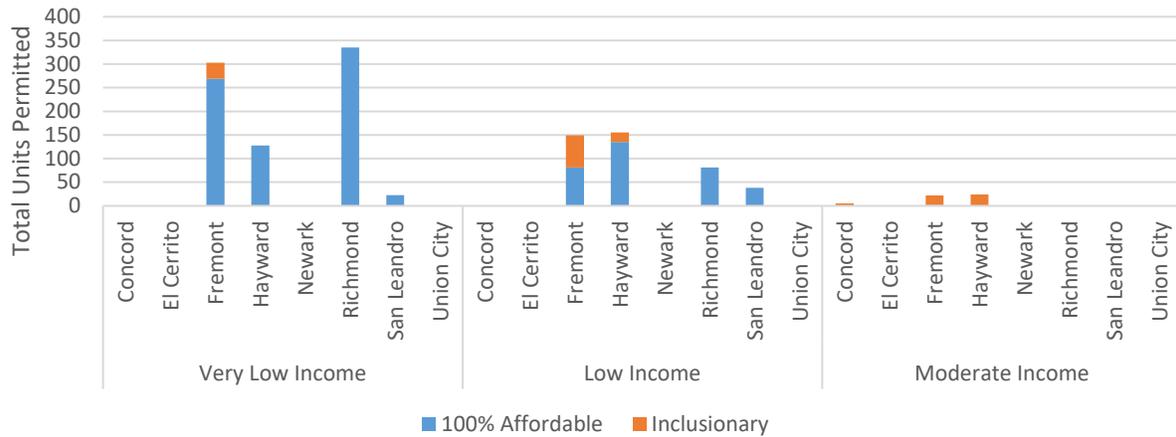


Source: California HCD, RHNA Annual Progress Report, 2022; Strategic Economics, 2022.

<sup>3</sup> CoStar, East Bay – CA. Multi-Family Market Report, 2022.

Affordable housing projects are the primary source of production for low- and very low-income housing units; however, inclusionary policies are the primary way that Hayward and its “peer” communities are permitting deed-restricted units for moderate-income households. These types of units are not typically produced via 100 percent affordable housing projects, because projects receiving federal funding are required to target incomes at 80 percent of AMI or below—that is, low-income, very low-income, or extremely low-income households. As shown in Figure 13, the only way that deed-restricted moderate-income housing units were produced in Hayward or its peer communities from 2018 to 2021 was through inclusionary housing policies.

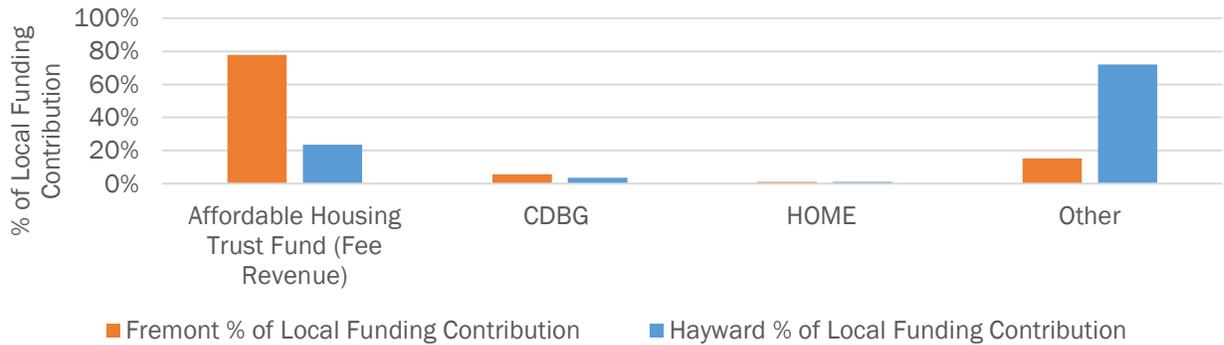
FIGURE 13: TOTAL UNITS PERMITTED, 2018-2021, BY CITY, INCOME LEVEL, AND FUNDING APPROACH



Source: California HCD, RHNA Annual Progress Report, 2022; Strategic Economics, 2022.

**Inclusionary housing policies also contribute to the production of low and very low-income units in 100 percent affordable projects by providing an important source of local funding for these projects.** When developers elect to pay in-lieu fees instead of providing on-site units, these fees go into affordable housing trust funds, which are a significant source of local funding for 100 percent affordable housing projects. In Hayward, over 20 percent of local funds for these projects came from affordable housing trust fund revenue since 2015—supported by in-lieu fees. The majority of remaining funds came from one-time funding sources such as Alameda County’s A-1 bond measure and public land contributions. In Fremont, the percentage of local revenue supported by in-lieu fees is even higher, at almost 80 percent. This illustrates that on-site inclusionary housing is not the only way that inclusionary housing policies like Hayward’s AHO can support the production of affordable housing.

**FIGURE 14: SHARE OF LOCAL FUNDING BY SOURCE FOR PROPOSED AND ENTITLED AFFORDABLE HOUSING PROJECTS, FREMONT AND HAYWARD, TO BE COMPLETED FROM 2015-2023**

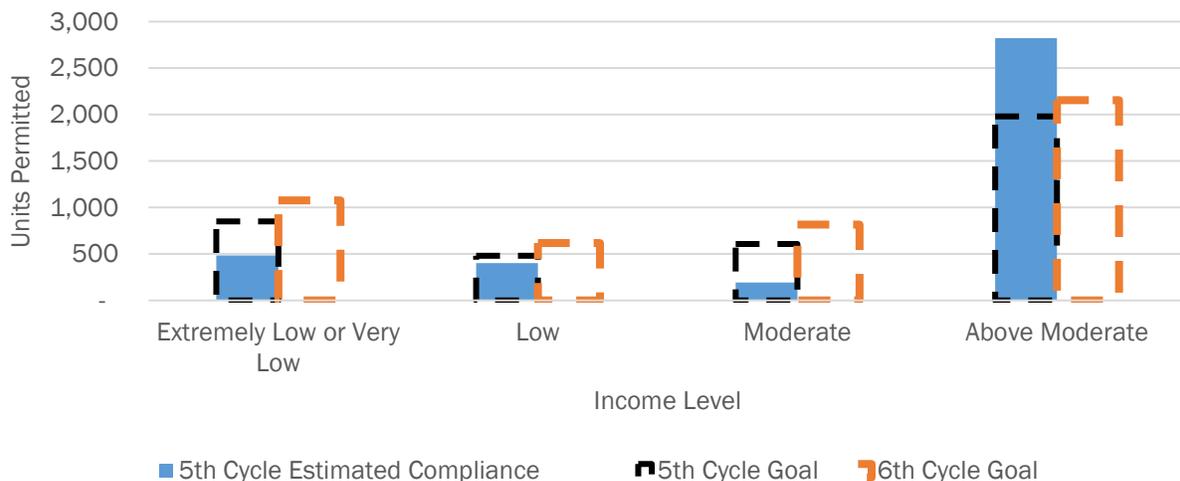


Source: City of Hayward, 2022. City of Fremont, 2022.

Note: Hayward's largest "Other" sources were Alameda County A1 bond revenue and public land contributions.

In order to achieve its affordable housing goals, Hayward will need to find ways to increase its affordable housing production overall and maximize the effectiveness of its AHO. These affordable housing goals are described in Hayward's State-mandated Regional Housing Needs Allocation (RHNA). Every eight years, California HCD uses population projections and affordable housing needs to set goals for housing production for each region of the state. These goals are allocated to each jurisdiction in the Bay Area by the Association of Bay Area Governments (ABAG). The resulting allocation is referred to as RHNA. Each eight-year period is called a "Cycle" and Hayward is currently completing its 5<sup>th</sup> Cycle, which ends on January 31<sup>st</sup>, 2023. Figure 15 summarizes Hayward's projected progress towards its 5<sup>th</sup> Cycle goals, alongside the number of housing units for each income level that the City has been allocated for the 6<sup>th</sup> Cycle—which will begin in 2023. This shows that Hayward is falling well short of its affordable housing goals—particularly for moderate-income housing. Hayward will need to substantially increase its rate of moderate-income housing production to meet its 6<sup>th</sup> Cycle RHNA goals, but the City will also need to increase production of low and extremely low or very low-income housing. This means that production of moderate-income units through on-site inclusionary requirements and in-lieu fee revenues raised through the AHO will both be important for Hayward to achieve its 6<sup>th</sup> Cycle goals.

**FIGURE 15: HAYWARD 5TH AND 6TH CYCLE RHNA HOUSING NEEDS AND 5TH CYCLE PERMITTING PROGRESS**



Source: City of Hayward, 2022; Strategic Economics, 2022.

Note: For 5<sup>th</sup> Cycle Estimated Compliance, this chart includes pipeline projects as well as those that had already been permitted.

### III. FINANCIAL FEASIBILITY ANALYSIS APPROACH AND ASSUMPTIONS

Strategic Economics performed a financial feasibility analysis to test the extent to which different market-rate housing products can still proceed in Hayward while providing different levels of on-site inclusionary units or in-lieu fee revenues. Strategic Economics worked with City staff and analyzed information about recent projects to create development prototypes, which represent the types of new residential development projects likely to be built in Hayward. Then, Strategic Economics built a pro forma model to test the financial feasibility of different inclusionary requirements or the payment of in lieu fees on each prototype.

This analysis examined the impact of both existing AHO requirements and a variety of alternative AHO policies on feasibility outcomes for each housing prototype. Assumptions used in these analyses were informed by a review of the existing housing development pipeline, interviews with local housing developers, and feedback from the City’s Technical Advisory Committee for the AHO.

This report section describes the following:

- Approach used to develop housing prototypes;
- Approach used for testing financial feasibility;
- Assumptions for development prototypes;
- Assumptions for allowable rents or prices for affordable units within each project type; and
- Assumptions used for costs and revenues in feasibility analysis modeling.

#### Approach

##### DEFINING DEVELOPMENT PROTOTYPES

In collaboration with City staff, Strategic Economics developed seven representative but generic housing prototypes for analysis in the feasibility assessment. These prototypes represent the range of typical residential developments likely to be proposed in Hayward over the short term. Therefore, these prototypes are mostly based on recently completed projects or current development proposals in the pipeline in Hayward. They include both ownership and rental product types. Characteristics of recent projects were used to develop generalized assumptions for each prototype, which were refined to conform to City policies based on input from City staff as well as input from developers in Hayward and nearby communities. For example, though condominium developments are not common in the recent development pipeline in Hayward, this type of ownership housing was deemed important to include because it would have different requirements than other ownership projects under the existing Hayward AHO due to the project’s higher density.

##### FEASIBILITY ANALYSIS

###### FEASIBILITY METHODOLOGY

Strategic Economics measured the financial feasibility of each prototype using a static pro forma model that solves for the residual land value (RLV) of each project. A pro forma model is a tool that is commonly used to estimate the financial performance of a development project. The base static model reflects today’s market conditions such as prices/rents, construction costs, and financing costs.

Residual Land Value represents *the value remaining to pay for land after all other project costs and expected revenues are accounted for.*

Residual Land Value (RLV) is calculated in four steps:

1. Estimate the total sales revenue for ownership prototypes or the net operating income for the project's first stabilized year, and the corresponding capitalized value of each rental prototype.
2. Calculate the total supportable value of the project, based on the capitalized value of the project and the developer "target return" (i.e., the current industry standard return on costs the developer would need to pursue the project);
3. Estimate all development costs *except land cost*. These costs include direct construction costs ("hard" costs) and indirect costs ("soft" costs such as design, engineering, taxes, insurance, professional fees, municipal and development impact fees, and developer overhead, as well as financing costs and a contingency for unanticipated overruns);
4. Subtract the development costs estimated in Step 3 from the total supportable value of the project estimated in Step 2. The result is the **residual land value**. In real estate economics, the residual land value represents the maximum amount the developer can pay for land for the project to be feasible. This value is compared to prevailing site acquisition costs for each prototype to evaluate project feasibility.

#### FEASIBILITY ANALYSIS PROCESS

**Strategic Economics performed an initial analysis of development feasibility using the requirements of the existing AHO and pro forma assumptions based on input from local developers in Hayward.** In addition to conducting market research using secondary data sources, Strategic Economics gathered input from nine different developers with experience in Hayward to inform these assumptions. The final assumptions are described in the sections that follow. The initial feasibility analysis considered three different scenarios related to the current AHO:

1. Feasibility if complying with the existing AHO by providing on-site units;
2. Feasibility if complying with the existing AHO by paying an in-lieu fee instead of providing BMR units; and
3. As a control scenario, feasibility without any AHO requirements.

For each scenario, Strategic Economics identified three different housing market tiers within Hayward—allowing for analysis of development feasibility in different market contexts within the city.

**Based on these results, Strategic Economics gathered input from City staff, City Council, and community members to identify AHO policy alternatives to test for additional feasibility considerations.** Policies considered included reductions to AHO requirements for rental units, increases to percentage requirements for ownership units, and changes in the income levels required for affordable units. These findings, alongside feedback from the HHTF, City staff, and local stakeholders, were used to shape final recommendations.

**Lastly, Strategic Economics identified the affordability gap associated with each prototype and analyzed the appropriate in-lieu fee levels based on each policy alternative.** This assessment considered the gap between costs and revenue for off-site units associated with each affordability level of inclusionary requirement and what in-lieu fees would be for each prototype under "peer" city

inclusionary policies. Results from this analysis were used to make final recommendations for in-lieu fees.

## Feasibility Analysis Assumptions

### DEVELOPMENT PROTOTYPES

As discussed in the previous section, Strategic Economics refined development prototypes in collaboration with the City of Hayward, based on the pipeline of recent projects proposed and completed in the city. The final development prototypes represent a range of residential densities, average unit sizes, building heights, and parking formats. Technical details of these prototypes are shown in Figure 16, while Figure 17 shows example images for each prototype.

These prototypes vary based on the following characteristics:

- **Ownership Status:** Single-family, townhome, and condo prototypes are all for-sale units, while the remainder would be marketed as rental units.
- **Project Density, Mixed-Use, and Building Size**
  - The **single-family** prototype represents a project with 44 detached two-story dwelling units on five acres of land.
  - The **townhome** prototype represents a project with 106 attached units on five acres of land. Each unit is three stories in height.
  - The **condo** and **stacked flats** prototypes each contain 74 units in a four-story building on 1.5 acres of land. This equates to 49 units per acre.
  - The **small multifamily** prototype is a 20-unit, three-story apartment building on half an acre of land.
  - The **wrap** prototype includes 300 apartment units and 7,500 square feet of retail space in a five-story building on four acres of land. It has 75 dwelling units per acre.
  - The **podium** prototype has 159 units in a five-story building on roughly 2.5 acres of land. It is slightly less efficient than the wrap prototype and has 62 units per acre.
- **Unit Size**
  - The **single-family** and **townhome** prototypes have the largest units, at 2,600 and 1,700 square feet on average per unit.
  - The **small multifamily** prototype has an average unit size of 950 square feet.
  - The **condo, stacked flats, and podium** prototypes each have an average unit size of 900 square feet.
  - The **wrap** prototype has an average unit size of 800 square feet.
- **Parking Formats**
  - For the **single-family** and **townhome** prototypes, each unit has a two-car garage and a driveway for additional parking.
  - The **small multifamily** prototype uses only surface parking, in which a paved ground-level lot surrounds the residential building.
  - The **condo** and **stacked flats** prototypes use a combination of podium parking (in which housing is built on top of a concrete parking “podium” structure) and surface parking spaces
  - The **wrap** prototype uses an enclosed concrete parking garage structure with residential and retail space “wrapped” around it.

- The **podium** prototype uses a first-floor parking “podium” structure, with residential units stacked on top.
  - **This prototype is designated as a Transit Oriented Development (TOD).** Because it would be located near transit, the podium prototype includes a lower parking ratio than the rest of the rental prototypes, at 1.33 spaces per unit. This parking ratio is about average for recent five-story developments proposed in Hayward.

FIGURE 16: OVERVIEW OF PROTOTYPE ASSUMPTIONS

Prototype Characteristics	Unit of Measurement	Single Family	Townhomes	Condos	Small Multifamily	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
<b>Tenure</b>		Ownership	Ownership	Ownership	Rental	Rental	Rental	Rental
<b>Parcel Acreage</b>	acres	5.00	5.00	1.50	0.50	1.50	4.00	2.55
<b>Building Characteristics</b>								
Number of Stories	floors	2	3	4	3	4	5	5
Number of Units	dwelling units (du)	44	106	74	20	74	300	159
Gross Retail Area	square feet						7,500	
Residential Density	du/acre	9	21	49	40	49	75	62
Average Unit Size	square feet	2,580	1,695	900	950	900	800	900
<b>Parking</b>								
Parking Format		In-unit	In-unit	Podium + Surface	Surface	Podium + Surface	Wrap	Podium
Residential Parking Ratio	spaces/unit	2.0	2.0	1.5	1.5	1.5	1.5	1.33
Retail Parking Spaces	parking spaces	-	-	-	-	-	17	-

Source: Strategic Economics, 2022. Assumptions informed by examples of recent developments in Hayward.

FIGURE 17: HAYWARD HOUSING PROTOTYPE EXAMPLE IMAGES

**Single Family Homes**



**Townhomes**



**Condos or Stacked Flats**



**Small Multifamily**



**5-Story Wrap**



**5-Story Podium**



Sources: City of Hayward, 2022. Renderings produced by D.R. Horton; KTGy; LANDARC; Taylor Morrison; Humphreys & Partners Architects; and BDE Architecture.

Note: Projects are shown as examples of what the prototypes could look like, but do not reflect the exact prototypes described in the analysis.

## UNIT REVENUES AND MARKET VALUE ASSUMPTIONS

Strategic Economics also compiled assumptions for project revenues to use in the pro forma analysis—based on a combination of market research, City and State policy guidelines, and input from local developers in Hayward and nearby communities. This analysis included market-rate revenues for each product type, as well as affordable unit revenue for each prototype calculated using affordable housing regulations. This section documents these assumptions and describes the analyses that informed them.

### MARKET-RATE REVENUE AND MARKET TIERS

In order to identify how inclusionary requirements might impact development feasibility in all areas of the city, Strategic Economics defined three different market tiers for identifying market-rate housing prices or rents. Market rate revenues for each prototype are a function of the project’s location, the unit size, and the type of product that is for sale or for rent. Strategic Economics used data from CoStar and Redfin to identify the market tiers, based on examples of current rents and recent housing sales. Tier One represents the housing market with the highest level of demand and is highlighted in red in Figure 18. This area includes Downtown Hayward and the Mission Boulevard corridor and is where the majority of new market-rate rental housing is currently being constructed. The majority of market-rate ownership housing is currently being constructed in the Tier Two market areas, which is shaded in orange in Figure 18. The remainder of Hayward is designated as Tier Three areas, which command the lowest sales prices or market rents.

FIGURE 18: HAYWARD HOUSING MARKET TIERS AND CORRESPONDING PRICES OR RENTS

### Hayward Housing Submarket Tiers

#### Tiers

- Tier One Submarkets
- Tier Two Submarkets
- Tier Three Submarkets

#### Rents and Prices by Tier

##### Tier One

Rental: \$3.60 per SF  
 Single Family: \$600 per SF  
 Townhomes: \$530 per SF  
 Condos: \$615 per SF

##### Tier Two

Rental: \$3.10 per SF  
 Single Family: \$525 per SF  
 Townhomes: \$480 per SF  
 Condos: \$500 per SF

##### Tier Three

Rental: \$2.85 per SF  
 Single Family: \$475 per SF  
 Townhomes: \$450 per SF  
 Condos: \$400 per SF

Sources: CoStar, 2022; Redfin, 2022;  
 Strategic Economics 2022.

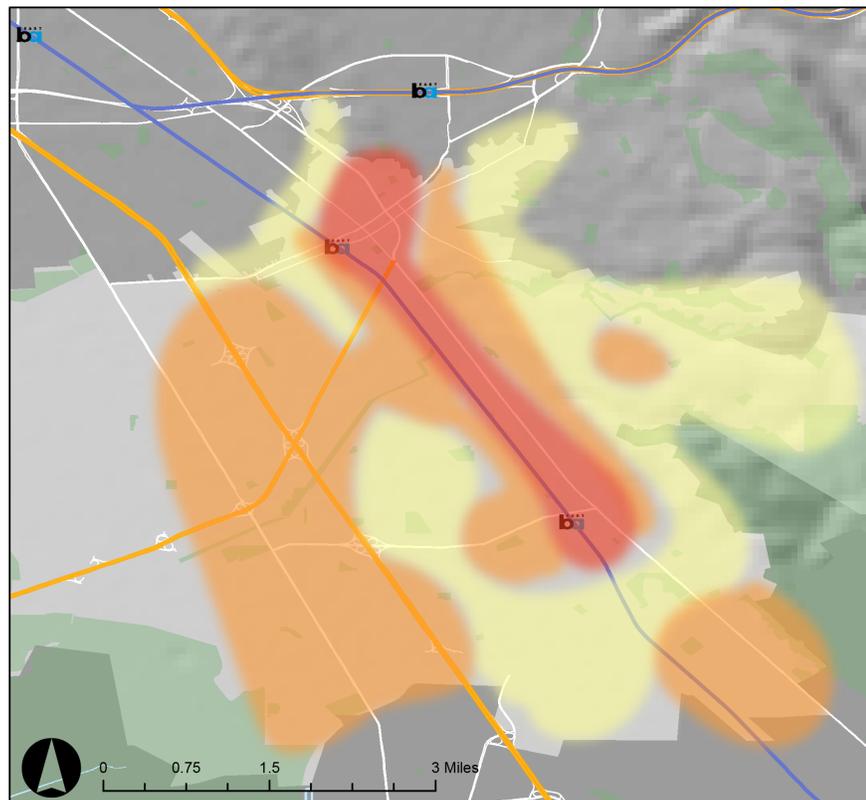


Figure 18 also lists multifamily rents per square foot and sales prices per square foot for each tier and product type. These per square foot prices were used in conjunction with assumptions about the bedroom sizes and average square foot per unit to calculate the total market-rate revenue for each unit in each tier. A full table of average bedroom counts and unit sizes is shown in the appendix in Figure 38.

For the ownership prototypes, the total project value was obtained by multiplying the per unit sale price by the total number of units. For the rental prototypes (Prototypes 4 and 5), an income capitalization approach was used. This approach first estimates the annual net operating income (NOI) of the prototype, which is the difference between project income (annual rents for residential and retail) and project expenses (operating costs and vacancies). The NOI is then divided by the current cap rate to derive total project value.<sup>4</sup> Assumptions for each of these calculations are shown in the appendix in Figure 39.

#### AFFORDABLE UNIT REVENUES

The maximum allowable rent or sales prices for affordable units are primarily based upon the unit's number of bedrooms, the area median income, and the assigned household income level associated with the unit. However, for both ownership and rental units, there are other housing costs that factor into the maximum affordable sale price or rent. For ownership products, the current Hayward AHO allows for inclusion of mortgage principal and interest, homeowner's insurance, and homeowner or condo association fees in the calculation of maximum affordable prices. The rental cost calculation includes the monthly rent as well as a utility allowance—as determined by the Alameda County Housing Authority. These provisions ensure that households will not pay too large of a percentage of their monthly income on housing expenses, because costs that would normally be passed on to a tenant or owner are subtracted from the maximum sales price or monthly rent that is allowed under the ordinance.

For affordable ownership products, monthly expenses are limited by Hayward's current AHO to 35 percent of monthly income. Strategic Economics used California HCD's annually-published definition of area median incomes by household size alongside the AHO's income limits as a share of median income to calculate the maximum monthly income for each affordability level available for housing expenses. Additional housing expenses included HOA dues, property taxes, private mortgage insurance, homeowner's insurance, and interior property insurance.<sup>5</sup> Maximum affordable sales prices are shown in Figure 19.

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<sup>4</sup> According to a 2022 Lee & Associates market report, the current average cap rate for multifamily in the East Bay is 4.1 percent.

<sup>5</sup> These assumptions were informed by data from Freddie Mac, Zillow, Property Tax Shark, JVM Lending, and QuoteWizard.

**FIGURE 19: MAXIMUM AFFORDABLE SALE PRICE FOR OWNERSHIP UNITS, BY TYPE, INCOME, AND BEDROOMS**

Product Type and Income	Studio	1-BD	2-BD	3-BD	4-BD	5-BD
<b>Single-Family</b>						
Very Low Income		\$191,345	\$213,483	\$233,009	\$242,168	
Low Income		\$238,660	\$266,699	\$292,147	\$306,027	
Moderate Income		\$475,231	\$532,777	\$587,836	\$625,321	
<b>Townhomes</b>						
Very Low Income		\$187,825	\$208,600	\$221,161		
Low Income		\$241,040	\$267,737	\$285,020		
Moderate Income		\$507,119	\$563,426	\$604,314		
<b>Condos</b>						
Very Low Income	\$155,061	\$175,246	\$192,186	\$206,087	\$204,559	
Low Income	\$196,454	\$222,561	\$245,402	\$265,225	\$268,418	
Moderate Income	\$403,415	\$459,132	\$511,480	\$560,914	\$587,712	

Source: California HCD, 2022; Strategic Economics, 2022.

**Notes:**

Assumes that monthly housing expenses are capped at 35 percent of monthly income for each income level. Assumes homeowner's association dues of \$0.07 per sf for single-family, \$0.24 per sf for townhomes, and \$0.37 per sf for condos. Assumes an annual effective property tax rate of 1.37% of the sales price and a private mortgage insurance premium of 0.85% of the mortgage amount. Uses a 30-year loan term with an annual interest rate of 5.22%, the current 30-year mortgage interest rate according to Freddie Mac.

Maximum monthly rents were calculated by using the AHO's income guidelines, with monthly expenses capped at 30 percent of the targeted income level. In order to calculate maximum rents based on this percentage of each income level, Strategic Economics subtracted monthly utility allowances, calculated for each unit size annually by the Alameda County Housing Authority. Resulting maximum rents are shown in Figure 20. For both ownership and rental housing, Hayward's AHO standards assume that the expected number of residents in a household is one plus the number of bedrooms. For example, rents for a studio assume a household size of one person, rents for a one-bedroom unit assume a household size of two persons, and rents for a two-bedroom unit assume a household size of three persons. These assumptions are used for calculating rent, but do not constitute an occupancy limit for each unit. An income capitalization approach was also applied to BMR units to derive total residential value of those units within inclusionary projects—using the same per-unit assumptions for operating costs as the market-rate units.

**FIGURE 20: MAXIMUM AFFORDABLE RENT IN HAYWARD, EFFECTIVE 2022.**

Bedroom Size	Studio	1-BR	2-BR	3-BR
Very Low	\$1,249	\$1,428	\$1,606	\$1,785
Low	\$1,499	\$1,714	\$1,928	\$2,142
Moderate	\$2,749	\$3,142	\$3,534	\$3,927

Sources: Alameda County Housing Authority, 2022; U.S. Department of Housing and Urban Development, 2022; Strategic Economics, 2022.

**DEVELOPMENT COSTS**

**Strategic Economics compiled assumptions for development costs based on market research and input from developers in Hayward and nearby communities.** As explained in the financial feasibility overview, total development costs are a combination of hard costs, soft costs, land costs, and required developer return. Hard costs refer to the construction costs associated with the physical construction

of the building, while soft costs include all “indirect” expenses required to construct the building, such as architecture, engineering, taxes, contingency, municipal fees, and financing costs.

#### HARD COSTS

Hard costs for each prototype differed primarily based on the materials used to construct the building and the cost of parking associated with each prototype. Assumptions for hard costs, shown in Figure 21, included estimates for basic site improvements and construction costs for residential areas, retail areas, and parking structures. For the 5-story wrap prototype, hard costs also included allowances for the retail space. This includes a higher per-square foot cost of construction for the retail shell, as well as a tenant improvement allowance for retail tenants to modify their space to fit their needs. This allowance was an additional \$70 per net square foot of retail space.

**FIGURE 21: HARD COSTS, BY PROTOTYPE**

<b>Hard Costs</b>	<b>Single Family Development</b>	<b>Town-homes</b>	<b>Condos</b>	<b>Small Multifamily</b>	<b>Stacked Flats</b>	<b>5-Story Wrap</b>	<b>5-Story Podium (TOD)</b>
Site Prep (per sf)	\$25	\$25	\$25	\$25	\$25	\$25	\$25
Construction Type	Type V	Type V	Type V	Type V	Type V	Type IIIA, Type I	Type IIIA, Type I
Residential (per gsf)	\$150	\$185	\$250	\$250	\$250	\$300	\$325
Retail (per gsf)						\$340	
Parking Costs (per space)							
Surface	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500	\$6,500
Podium	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000	\$45,000
Wrap	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000

Sources: Developer Interviews, 2022. Strategic Economics, 2022.

#### SOFT COSTS

Soft costs include items such as architectural fees, engineering fees, insurance, taxes, legal fees, accounting fees, marketing costs, developer overhead, and City fees. In addition, Strategic Economics assumed a hard cost contingency of five percent and additional soft costs of two percent; these figures provide buffers for unexpected fluctuations in hard costs or unanticipated expenses. Including City fees, these soft costs represent an approximately 25 to 30 percent addition to hard costs. Assumptions for most of these costs are shown in Figure 22.

**FIGURE 22: OVERVIEW OF SOFT COST ASSUMPTIONS**

<b>Soft Costs</b>	<b>Unit</b>	<b>Value</b>
Architecture, Engineering, Taxes, Developer Overhead	% of hard costs	12%
Other Soft Costs	% of hard costs	2%
Hard Cost Contingency	% of hard costs	5%
Municipal Fees and Permits	As Calculated by City	
Marketing Costs for Single Family	% of sales value	4%

Sources: CoStar, 2022. Developer Interviews, 2022; Strategic Economics, 2022.

Municipal fees include building permit expenses such as plan checks and inspections as well as impact fees for parks, traffic, and water. City fees were calculated for the individual prototypes by City staff. These figures are shown in Figure 23

**FIGURE 23: CITY OF HAYWARD MUNICIPAL FEES, EXCLUDING IN-LIEU FEES**

	Single Family	Townhomes	Condos	Small Multiplex	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
<b>Total Municipal Fees</b>	\$2,726,553	\$5,252,895	\$2,529,120	\$583,175	\$2,614,221	\$8,014,224	\$4,638,684
<b>Fees per Unit</b>	\$61,967	\$49,556	\$34,177	\$29,159	\$35,327	\$26,714	\$29,174

Source: City of Hayward, 2022; Strategic Economics, 2022.

Note: Does not include in-lieu fees.

Calculations for financing costs included considerations for amount financed, outstanding loan balances, loan fees, and annual interest rates. Assumptions for these costs are shown in Figure 24, while final calculated costs are shown in the appendix in Figure 40. Total financing costs accounted for 3.7 percent to 4.2 percent of total project hard and soft costs. Strategic Economics' calculations assumed a five percent interest rate, which is higher than typical, but reflects the fact that interest rates have risen substantially in recent years.

**FIGURE 24: DEVELOPER FINANCING COST ASSUMPTIONS**

Financing Costs	Units	Single Family	Townhomes	Condos	Small Multifamily	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
Amount Financed (Loan-to-cost)	% of direct + soft costs	70%	70%	65%	65%	65%	60%	60%
Average outstanding balance	% of Amt Financed	55%	55%	55%	55%	55%	55%	55%
Construction Loan Fee	% of Amt Financed	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Construction Interest (annual)	Rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Term	Months	18	18	18	18	18	24	24

Source: Developer Interviews, 2022. Strategic Economics, 2022.

## LAND COSTS

Strategic Economics reviewed recent land sales prices throughout the city to estimate the site acquisition costs by market tier. Like rents and sales prices, land prices also differ based on the location and zoning characteristics of each parcel. Sales prices of individual parcels differ substantially based on site-specific conditions, but the figures in Figure 25 represent an expected average price for land within each market tier.

FIGURE 25: SITE ACQUISITION COST PER SQUARE FOOT, BY MARKET TIER

Hayward Submarket	Unit	Value
Market Tier 1	per square foot	\$75
Market Tier 2	per square foot	\$45
Market Tier 3	per square foot	\$25

Sources: CoStar, 2022. Developer Interviews, 2022.

#### DEVELOPER RETURN AND FEASIBILITY

Strategic Economics used input from local developers alongside market research from previous studies to refine assumptions for developer return. Developers must meet a minimum market standard for return on their investment in order for the project to be “feasible” and for them to secure financing. Though for-sale and for-rent projects often use different metrics to assess feasibility, Strategic Economics used the metric “return-on-cost” to ensure consistency in evaluating feasibility across product types. This metric is expressed as the net revenue for the project divided by the total development costs of the project. Based on feedback from local developers, a reasonable minimum standard for return on cost across project types is 20 percent.

## IV. FEASIBILITY ANALYSIS AND IN-LIEU FEE RESULTS

Strategic Economics conducted the feasibility analysis in three stages. First, an initial feasibility analysis was conducted using the current requirements of the AHO. Next, Strategic Economics collaborated with City staff to identify policy alternatives to test and analyze potential changes to the AHO. Lastly, Strategic Economics used the results of the feasibility analysis to identify the affordability gap associated with each prototype and calculate in-lieu fees that would be associated with revised policy scenarios.

### Initial Feasibility Analysis Results

Strategic Economics performed an initial analysis of development feasibility considering three different scenarios related to the current AHO. For each scenario, Strategic Economics identified three different housing market tiers within Hayward—allowing for analysis of development feasibility in different market contexts within the City. Scenarios considered were as follows:

1. Feasibility if complying with the existing AHO by providing on-site units;
2. Feasibility if complying with the existing AHO by paying an in-lieu fee instead of providing BMR units; and
3. As a control scenario, feasibility without any AHO requirements.

For each scenario, Strategic Economics calculated the Residual Land Value, which represents the value remaining to pay for land after all other project costs and expected revenues are accounted for. In these results, prototypes are considered feasible if their residual land value exceeds the prevailing value of land. The charts presenting results of the feasibility analysis thus display two values for comparison:

- The prevailing value of land relevant to each scenario and market tier, and

- The residual land value of each prototype in that scenario and market tier.

The section that follows presents results from all components of this initial feasibility analysis—first, by submarket for the on-site inclusionary scenario and second, by scenario for market tier two.

## FEASIBILITY BY SUBMARKET

**Under current AHO requirements for on-site units, only single-family developments and townhomes are consistently feasible in all Hayward market tiers.** Figure 26 compares the residual land value of all prototypes under the current AHO to land prices by market tier. Other than single-family and townhome projects, the majority of prototypes are not currently feasible in any Hayward market.

**The only other feasible prototype is small multifamily (rental), which is only expected to be feasible in the highest-performing markets in Hayward.** Because rents are higher in these markets, rental projects are expected to generate more total revenue than elsewhere. However, because land prices are typically around \$75 per square foot in these areas, condos and the remainder of prototypical rental projects are still not expected to be feasible in Tier One market areas.

**The feasibility outlook is particularly limited for five-story multifamily projects, which have a negative residual land value in all market tiers.** This means that in the current development climate, these types of projects are not considered financially feasible even for a developer who has already covered the cost of their land. Based on conversations with local developers, this finding reflects the market reality that construction costs have risen substantially in the last two years without a corresponding increase in rents for these market-rate units.

**While neither condominiums nor stacked flats are expected to be feasible, stacked flats are closer to being feasible in all market tiers than condominiums.** Since the building type assumptions for both prototypes are the same, this result helps explain why condominium development proposals have been rare in Hayward over the past few years. The feasibility outlook for both prototypes is poor in Tiers Two and Three, but stacked flats especially are expected to come close to being feasible in the highest-value market areas of Hayward. This project type has a Tier One residual land value of \$35 per square foot, while typical land prices in this tier are \$75 per square foot.

**FIGURE 26: RESIDUAL LAND VALUE RESULTS UNDER EXISTING AHO ON-SITE INCLUSIONARY REQUIREMENTS, BY MARKET TIER**



Source: Strategic Economics, 2022.

### FEASIBILITY BY AHO REQUIREMENT

**Only single-family homes and townhomes are consistently feasible across applications of the current AHO in Tier Two markets.** Figure 27 shows feasibility results for each prototype in policy scenarios with either no affordable requirements or a varying application of the current AHO. These results correspond to Tier Two market area land prices. This means that for a project to be feasible, its residual land value must exceed \$50 per square foot of land. As shown in Figure 27, only single-family homes and townhomes exceed the price of land in all policy scenarios.

**In Hayward’s Tier Two markets, the current AHO requirements do not appear to change development feasibility results for any of the seven prototypes.** Most of the higher-density rental projects are currently infeasible, and are not expected to become feasible even if inclusionary housing requirements were eliminated. While eliminating AHO requirements would slightly increase the residual land value for each of the prototypical developments, most still could not afford to pay anything at all for the land on which they would be built—much less the \$50 per square foot average that is expected in Tier Two markets.

**Small multifamily projects are largely infeasible under current AHO requirements, but come the closest to meeting feasibility standards of any rental project type.** If the AHO requirements were removed, this project type would come close to development feasibility in Tier Two markets, with a residual land value of \$43 per square foot compared to typical land prices of \$45 per square foot.

**FIGURE 27: RESIDUAL LAND VALUE RESULTS FOR TIER TWO – WITH AND WITHOUT CURRENT AHO COMPLIANCE OPTIONS**



Source: Strategic Economics, 2022.

## Alternative Inclusionary Policies Analysis

Strategic Economics presented results of the initial feasibility analysis to City staff, the Homelessness-Housing Task Force (HHTF), and the TAC and gathered input from each group to identify AHO policy alternatives to test for additional feasibility considerations. The City Council members of the HHTF expressed two priorities that informed the development of policy alternatives:

- That rental inclusionary requirements should not decrease, and
- That increases to ownership requirements should be modest enough that these projects would retain feasibility even if construction costs were to increase slightly.

Because the prospects for development feasibility among moderate and high-density residential prototypes were so limited and the HHTF members were not interested in alternatives that would reduce these requirements, Strategic Economics focused its policy changes analysis on alterations to the AHO requirements for single-family and townhome projects only. The policy analysis focused on the impact of policy changes on Tier One pro forma results because this was the tier in which feasibility margins for ownership projects were most limited due to the commensurate higher land values.

Feasibility testing evaluated the impacts of two policy alternatives for these low-density ownership prototypes:

1. Increasing required percentages of affordable units substantially, while maintaining a focus on moderate-income households; and
2. Increasing required percentages of affordable units slightly, while changing the level of income targeted by affordable units.

Strategic Economics also conducted analysis to assess the sensitivity of the feasibility results to a five percent change in construction costs. The section that follows describes the findings from each of these phases of alternative policy analysis.

## INCLUSIONARY POLICY ALTERNATIVES FINDINGS

### ALTERNATIVE ONE: MODERATE-INCOME UNITS ONLY

At current development costs, single-family and townhome projects can support a relatively large percentage of moderate-income units without becoming infeasible. Figure 28 presents the findings from policy alternative one, which tested the extent to which inclusionary requirements could increase while maintaining moderate-income requirements only for high-density ownership projects. If the AHO continues to require only moderate-income units for low-density ownership projects, these products could support a maximum of 22 percent inclusionary units while retaining feasibility for both product types.

FIGURE 28: FEASIBILITY RESULTS FOR POLICY ALTERNATIVES – MODERATE-INCOME UNITS ONLY

Alternative Requirements	Single Family Development	Townhomes
15% Inclusionary	Feasible	Marginally Feasible
19% Inclusionary	Marginally Feasible	Marginally Feasible
23% Inclusionary	Infeasible	Marginally Feasible
25% Inclusionary	Infeasible	Infeasible

Source: Strategic Economics, 2022.

Notes:

Projects are considered "Feasible" if Return on Cost is greater than 25%. Projects are considered "Marginally Feasible" if Return on Cost is greater than 20%. Projects are considered "Infeasible" if Return on Cost is less than 20%

### ALTERNATIVE TWO: SPLIT BETWEEN LOW- AND MODERATE-INCOME UNITS

At current development costs, single-family and townhome projects can still support a small increase in inclusionary percentages if they are required to split affordable on-site units between moderate-income and low-income households. Figure 29 presents the findings from policy alternative two, which tested the extent to which inclusionary requirements could increase if low-density ownership requirements were required to provide both low- and moderate-income units. With an even split between low and moderate-income units, single-family and townhome projects can retain feasibility with up to a maximum of an 18 percent total inclusionary requirement.

FIGURE 29: FEASIBILITY RESULTS FOR POLICY ALTERNATIVES – WITH 50/50 SPLIT BETWEEN LOW AND MODERATE-INCOME UNITS

Alternative Requirements	Single Family Development	Townhomes
12% Inclusionary	Feasible	Marginally Feasible
15% Inclusionary	Marginally Feasible	Marginally Feasible
19% Inclusionary	Marginally Feasible	Infeasible
22% Inclusionary	Infeasible	Infeasible

Source: Strategic Economics, 2022.

Notes:

Projects are considered "Feasible" if Return on Cost is greater than 25%. Projects are considered "Marginally Feasible" if Return on Cost is greater than 20%. Projects are considered "Infeasible" if Return on Cost is less than 20%

## SENSITIVITY ANALYSIS

However, the currently-supported inclusionary requirement would be highly sensitive to slight changes in construction costs. Based on HHTF feedback, Strategic Economics analyzed the sensitivity of policy alternatives to increases in construction costs, for both moderate-only policies and policies that would also require low-income units. These scenarios analyzed the impact of hard cost increases of up to five percent on the feasibility outcomes for single family and townhome prototypes for each of the policy alternatives. This five percent scenario is well within the range of expected price fluctuations in costs; TAC members expressed that annual development cost increases are often even higher than five percent.

If construction costs increased by as little as four percent, projects with only moderate-income units would be feasible at a maximum of a 17 percent inclusionary requirement. This represents the sensitivity analysis results from policy alternative one. These sensitivity analysis results are shown in Figure 30.

**FIGURE 30: TIER 1 SENSITIVITY ANALYSIS FOR SINGLE FAMILY AND TOWNHOMES WITH 17% INCLUSIONARY REQUIREMENTS – MODERATE-INCOME UNITS ONLY**

Scenario #	Current Costs	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Increase in Hard Costs of Construction Project Type	0%	1%	2%	3%	4%	5%
Single Family Development	Marginally Feasible					
Townhomes	Marginally Feasible	Infeasible				

Source: Strategic Economics, 2022.

Notes:

Projects considered "Feasible" if Return on Cost is greater than 25%

Projects considered "Marginally Feasible" if Return on Cost is greater than 20%

Projects considered "Infeasible" if Return on Cost is less than 20%

If construction costs increased by as little as four percent, projects split evenly between low- and moderate-income households would be feasible at a maximum of a 12 percent inclusionary requirement. This represents the sensitivity analysis results from policy alternative two. These sensitivity analysis results are shown in Figure 31.

**FIGURE 31: TIER 1 SENSITIVITY ANALYSIS FOR SINGLE FAMILY AND TOWNHOMES WITH 12% INCLUSIONARY REQUIREMENTS – 50/50 SPLIT BETWEEN MODERATE- AND LOW-INCOME UNITS**

Scenario #	Current Costs	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Increase in Hard Costs of Construction Project Type	0%	1%	2%	3%	4%	5%
Single Family Development	Feasible	Feasible	Feasible	Marginally Feasible	Marginally Feasible	Marginally Feasible
Townhomes	Marginally Feasible	Infeasible				

Source: Strategic Economics, 2022.

Notes:

Projects considered "Feasible" if Return on Cost is greater than 25%

Projects considered "Marginally Feasible" if Return on Cost is greater than 20%

Projects considered "Infeasible" if Return on Cost is less than 20%

The results of the sensitivity analysis, therefore, describe the target for inclusionary requirements suggested by the HHTF: the maximum inclusionary requirements that single family and townhome projects could support in Hayward with slight cost increases. These targets are 17 percent if requiring only moderate-income units, and 12 percent if required units are evenly split between low- and moderate-income units.

## In-Lieu Fee Analysis

In an inclusionary housing policy, in-lieu fees are used to enable a City to support development of affordable housing units off-site, when they would otherwise be provided by the market-rate developer as on-site units. As in the example of a 100 percent affordable housing development explained in Figure 8, in-lieu fees are used to fill the funding gap between the market value of an affordable unit and the total development costs for an individual unit. In other words, this “affordability gap” represents the difference between the revenue generated from each affordable unit and the total cost of developing those units.

Calculating this affordability gap on the basis of off-site affordable units is a common means for determining the appropriate in-lieu fee that a City should set in an inclusionary policy. From the City’s perspective, an in-lieu fee that is set to equal the affordability gap could be relatively value neutral; the City could either obtain one affordable unit as part of an inclusionary project, or they could use the money provided by an in-lieu fee payment to build one off-site affordable unit at the same income level. However, it is not the only important factor for determining appropriate in-lieu fees.

In order to determine in-lieu fee recommendations, Strategic Economics also compared potential in-lieu fees with current fees being used by Hayward’s “peer communities.” This section presents the results of each of these analyses.

### AFFORDABILITY GAP AND CORRESPONDING IN-LIEU FEES

Calculating the affordability gap for each unit is relatively simple, but must be converted to a per-square foot basis to estimate the corresponding in-lieu fee. The affordability gap is generally calculated in two simple steps: calculate the revenue that would be raised for each affordable unit, and calculate the total costs of producing each unit. In order to convert this result into an in-lieu fee per square foot, Strategic Economics multiplied the affordability gap per unit by the total number of required affordable units and divided by the square footage of the units in each project. This section presents the resulting affordability gap and in-lieu fee calculations, first for ownership products and then for rental products.

#### AFFORDABILITY GAP AND IN-LIEU FEE CALCULATIONS FOR OWNERSHIP UNITS

Affordability gap calculations for ownership units involve only the sales price of each unit and the cost of producing those units. The total revenue available from affordable units depends on the income level associated with the unit, but the total costs of constructing an affordable unit are the same for all income levels. Figure 32 shows the total revenue for each ownership prototype on a per-unit basis based on the required affordable income level in the inclusionary policy. This average revenue can be compared to total development costs to calculate the overall affordability gap.

FIGURE 32: AFFORDABLE UNIT REVENUE AND COSTS – OWNERSHIP PROTOTYPES

	Prototype 1: Single Family Development	Prototype 2: Townhomes	Prototype 3: Condos
<b>Revenue</b>			
Average Low Unit	\$290,412	\$268,925	\$237,060
Average Moderate Unit	\$585,945	\$567,270	\$493,568
50/50 Split, Low & Moderate Units	\$438,178	\$418,098	\$365,314
<b>Costs</b>			
Land Costs per Unit, Tier 1	\$371,250	\$154,104	\$66,223
Development Costs per Unit, Excluding Land	\$696,110	\$502,954	\$456,904
<b>Total Development Costs</b>	<b>\$1,067,360</b>	<b>\$657,057</b>	<b>\$523,127</b>

Sources: Strategic Economics, 2022. HCD, 2022. City of Hayward, 2022. CoStar, 2022.

The affordability gap and equivalent in-lieu fees were calculated for different mixes of inclusionary requirements. The results are shown in Figure 33, which defines the affordability gap per unit, and expresses this gap in the terms that in-lieu fees are structured in Hayward’s AHO—per total square foot of habitable space in each project. Because this fee is calculated on the basis of the total square feet in the entire project, calculating the total in-lieu fee per square foot requires adjusting for the total required affordable units in the project. Three steps were taken to calculate the affordability gap-based in-lieu fee on a per square-foot basis:

- Calculate the affordability gap per unit, based on the average affordable revenue and the total cost of producing a unit;
- Multiply this gap by the required number of affordable units in the project, using the percentages identified in the sensitivity analysis; and
- Divide this value by the total habitable square foot of the project as a whole.

The affordability gap per unit for an affordable housing policy that requires a mix of low and moderate-income ownership units is much larger than the gap for a policy that only requires moderate units. The results shown in Figure 33 correspond to the required percentages from the policy alternatives and sensitivity analysis results. With a 17 percent inclusionary requirement for only moderate-income units, the affordability-gap based in-lieu fee for single-family and townhome projects would be \$32 per square foot and \$9 per square foot, respectively. With a 12 percent requirement and a 50/50 split between low and moderate-income units, the affordability gap per square foot would be \$29 per square foot and \$17 per square foot, respectively.

FIGURE 33: AFFORDABILITY GAP AND EQUIVALENT IN-LIEU FEES – OWNERSHIP PRODUCTS

	Prototype 1: Single Family Development	Prototype 2: Townhomes	Prototype 3: Condos
<b>Affordability Gap per Unit</b>			
With 50/50 Low & Moderate Units	\$629,182	\$238,960	\$157,813
With Only Moderate Units	\$481,415	\$89,787	\$29,558
<b>Affordability Gap per SF of Habitable Space, for Each % Inclusionary Req.</b>			
With 50/50 Low & Moderate Units	\$2.44	\$1.41	\$1.75
With Only Moderate Units	\$1.87	\$0.53	\$0.33
<b>In-Lieu Fee per SF With Only Moderate Units</b>			
At 7.5% Inclusionary Req.	\$14.09	\$4.00	\$2.48
At 17% Inclusionary Req.	\$31.72	\$9.01	\$5.58
<b>In-Lieu Fee per SF With 50/50 Low &amp; Moderate Units</b>			
At 12% Inclusionary Req.	\$29.26	\$16.92	\$21.04

Source: Strategic Economics, 2022.

#### AFFORDABILITY GAP AND IN-LIEU FEE CALCULATIONS FOR RENTAL UNITS

The total revenue that will be generated for each affordable rental unit in an off-site project is based on the amount of debt that could be supported annually from an affordable rent. This calculation is shown in Figure 34. The supportable debt per unit is calculated in three steps:

- Calculate the annual revenue for each unit, based on the maximum affordable rent corresponding to the required affordable income level;
- Calculate the net operating income for each unit, by subtracting the operating costs identified in the market-rate feasibility model; and
- Calculate the supportable debt that this level of annual net operating income could support, by assuming it is the annual payment on a 30-year loan with a six-percent interest rate and 1.15 debt coverage ratio.

FIGURE 34: SUPPORTABLE DEBT PER UNIT – RENTAL PROTOTYPES

	Prototype 4: Small Multifamily	Prototype 5: Stacked Flats	Prototype 6: 5-Story Wrap	Prototype 7: 5- Story Podium (TOD)
<b>Annual Revenue per Affordable Unit</b>				
Very Low	\$15,093	\$15,157	\$14,245	\$14,822
Low	\$18,798	\$18,873	\$17,673	\$18,424
Moderate	\$37,325	\$37,455	\$34,808	\$36,435
<b>50/50 Split, Very Low &amp; Low Units</b>	<b>\$16,946</b>	<b>\$17,015</b>	<b>\$15,959</b>	<b>\$16,623</b>
Net Operating Income per Affordable Unit	\$3,786	\$4,500	\$4,790	\$4,122
<b>Supportable Debt per Affordable Unit</b>	<b>\$45,322</b>	<b>\$53,866</b>	<b>\$57,331</b>	<b>\$49,334</b>

Source: Strategic Economics, 2022.

Notes: Net Operating Income assumes 5% vacancy and equivalent operating costs to market-rate units of the same type. Supportable Debt calculation assumes 30-year term and a 6% interest rate, with a 1.15 Debt Coverage Ratio.

The affordability gap and equivalent in-lieu fees for the rental prototypes were calculated using a six percent moderate-income requirement. Figure 35 compares the supportable debt per unit of rental prototypes with their total development costs to identify the total affordability gap per unit and evaluate how this gap translates to potential in-lieu fee levels per square foot of residential area in each project. The calculation assumed that inclusionary requirements for rental housing do not change from the existing AHO requirements. When compared to the total development costs of each unit, the affordability gap per unit for rental projects in Hayward is very large compared to ownership housing projects, but in-lieu fees per square foot are only slightly larger. The in-lieu fee per square foot based on the affordability gap ranges from \$29 for small multifamily to \$41 for the five-story podium prototype.

FIGURE 35: AFFORDABILITY GAP PER UNIT, AND EQUIVALENT IN-LIEU FEE PER SQUARE FOOT OF PROJECT

	Prototype 4: Small Multifamily	Prototype 5: Stacked Flats	Prototype 6: 5- Story Wrap	Prototype 7: 5-Story Podium (TOD)
<b>Supportable Debt per Affordable Unit</b>	<b>\$45,322</b>	<b>\$53,866</b>	<b>\$57,331</b>	<b>\$49,334</b>
<b>Costs</b>				
Land Costs per Unit, Tier 1	\$81,675	\$66,223	\$43,560	\$51,368
<u>Development Costs per Unit, Excluding Land</u>	<u>\$420,491</u>	<u>\$458,096</u>	<u>\$484,014</u>	<u>\$609,622</u>
<b>Total Development Costs</b>	<b>\$502,166</b>	<b>\$524,319</b>	<b>\$527,574</b>	<b>\$660,990</b>
<b>Affordability Gap per Unit</b>	<b>\$456,844</b>	<b>\$470,453</b>	<b>\$470,243</b>	<b>\$611,657</b>
In-Lieu Fee per SF, for each % Req.	<b>\$4.81</b>	<b>\$5.23</b>	<b>\$5.88</b>	<b>\$6.80</b>
In-Lieu Fee per SF, 6% Req.	<b>\$28.85</b>	<b>\$31.36</b>	<b>\$35.27</b>	<b>\$40.78</b>

Source: Strategic Economics, 2022.

## PEER CITY IN-LIEU FEE REQUIREMENTS

Like other municipal fees, the level of in-lieu fee set by a jurisdiction can play a part in influencing where market-rate developers decide to pursue new development projects. In order to construct a realistic comparison of Hayward’s in-lieu fees with requirements in nearby communities, Strategic Economics applied the in-lieu fee structure of each “peer community” to each of the seven development prototypes.

Hayward’s current in-lieu fees are relatively on par with the peer communities, though this varies by product type. Figure 36 shows the in-lieu fee that would be required for each prototype in Hayward and each of its “peer” communities. The maximum current fee level for each prototype is shown in bold. The key findings from this analysis were as follows:

- For ownership prototypes, Hayward’s current in-lieu fee would approximately represent the median value among the seven current fee levels. This shows that there is some room for increase in Hayward’s ownership fees without exceeding the levels of its peers.
- However, Hayward’s rental in-lieu fees are already closer to the maximum fees within the peer communities. This implies that there is not as much room to increase Hayward’s rental in-lieu fees as there is for ownership housing products.

FIGURE 36: IN-LIEU FEES OR AFFORDABLE HOUSING IMPACT FEES IN HAYWARD (CURRENT AHO) AND PEER COMMUNITIES, APPLIED TO HAYWARD PROTOTYPES

	Single Family Development	Townhomes	Condos	Small Multifamily	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
Hayward	\$21.64	\$21.64	\$17.85	\$21.64	\$21.64	\$21.64	\$21.64
Concord	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
El Cerrito	\$22.88	\$22.88	\$22.88	\$18.72	\$18.72	\$18.72	\$18.72
Fremont (current)	\$44.00	\$44.00	\$27.00	\$16.19	\$16.19	\$14.88	\$16.19
<i>Fremont (old)</i>	\$26.00	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00
Newark	\$15.51	\$18.49	\$24.02	\$23.58	\$24.02	\$24.22	\$23.66
Richmond	\$10.50	\$12.95	\$21.88	\$20.59	\$21.88	\$25.45	\$30.33
Union City	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00	\$27.00
<b>Maximum Fee</b>	\$44.00	\$44.00	\$27.00	\$27.00	\$27.00	\$27.00	\$30.33
<b>Median Fee</b>	\$22.26	\$22.26	\$23.45	\$21.12	\$21.76	\$22.93	\$22.65

Source: Municipal Ordinances, 2022; Strategic Economics, 2022.

Note: Estimates in-lieu fee for each prototype under each City’s policies, using the project assumptions.

## V. SUMMARY OF POLICY DIRECTION AND ROLE OF THE AHO IN ADDRESSING DISPLACEMENT

The recommended revisions to the AHO incorporate community input, technical feedback, decisionmaker input, and previously completed displacement analysis findings, in addition to the findings of the feasibility and affordability gap analyses. This section summarizes these sources of input and how the AHO analysis and recommendations incorporate this input. Strategic Economics and City of Hayward staff obtained feedback from a variety of stakeholders and City leaders throughout the analysis process. Engagements included a presentation of results to the City's Homelessness-Housing Task Force; a hearing with the City of Hayward Planning Commission; community input from two Fair Housing Workshops and a Housing Fair; and input from developers via two Technical Advisory Committee meetings. A total of 18 community members provided input during the community workshops, while five locally active and knowledgeable developers served on the Technical Advisory Committee.

### HOMELESSNESS-HOUSING TASK FORCE

**After viewing preliminary feasibility analysis results, the City of Hayward's Homelessness-Housing Task Force (HHTF) issued the following policy recommendations:**

- Maintain the existing rental inclusionary requirement;
- Maintain relatively lower inclusionary requirements for high-density ownership housing products;
- Increase inclusionary requirements for single-family homes and townhomes while still accommodating potential short-term changes in development conditions; and
- General preference that projects provide on-site inclusionary units rather than pay in-lieu fees, especially for projects with 20 or more housing units.

**These recommendations reflect the feasibility analysis findings that rental projects are currently not feasible with existing AHO requirements, but that single family and townhome products could accommodate a substantial increase in inclusionary requirements.** The HHTF recommended that requirements for these ownership products should increase, but also encouraged Strategic Economics to anticipate potential shifts in development feasibility due to changing costs and revenues.

**These recommendations were used to determine which policy alternatives to analyze as well as informing recommendations for in-lieu fees.** Based on this guidance, Strategic Economics further analyzed changes to inclusionary requirements for ownership products. Strategic Economics also developed new in-lieu fee recommendations intended to provide flexibility for development projects to meet the AHO's requirements while still encouraging provision of on-site inclusionary units.

### INPUT FROM COMMUNITY WORKSHOPS

**Community members expressed that their top priorities were ownership housing, providing housing affordable to middle-income households, and providing housing affordable to extremely low-income households.** A total of 18 community members provided input over the course of two fair housing workshops and a housing fair. Respondents selected their top housing priorities from a list of ten options. Community priorities were diverse, but the top overall priorities were as follows:

- Prioritize ownership housing

- Prioritize middle-income households (\$171,350 annual income for 4-person household)
- Prioritize extremely low-income households (\$42,850 annual income for 4-person household)
- Prioritize mixed income housing within new developments
- Prioritize rental housing

**These recommendations suggest two primary uses of the inclusionary policy.** First, it is important to optimize the use of the inclusionary housing policy to maintain feasibility for ownership products that would provide on-site units for moderate-income households. Second, it is important to use the inclusionary policy to generate in-lieu fee revenue that can be used to produce rental housing units that are affordable to extremely low-income households, given that housing at this affordability level requires additional outside subsidies beyond what can typically be supported through an inclusionary requirement.

## **TECHNICAL ADVISORY COMMITTEE**

**Input from the Technical Advisory Committee (TAC) was used to validate the feasibility analysis results and ensure that final recommendations for inclusionary requirements would be productive for maximizing affordable housing construction in Hayward.** During the first TAC meeting, these locally knowledgeable developers of single family and multifamily projects provided the following key points of emphasis:

- Confirmed the basic assumptions and inputs applied in the feasibility analyses;
- Confirmed analysis findings that single-family homes are currently more financially feasible than multifamily developments in Hayward;
- Discussed trade-offs between the use of in-lieu fees versus providing on-site units, expressing that flexibility is necessary to ensure different projects can be delivered under different circumstances while still delivering affordable housing units or funding.

Tradeoffs between in-lieu fees and on-site inclusionary units were also a subject of discussion at the second TAC meeting. At this second meeting developers emphasized the following points:

- Flexibility is important to them for being able to figure out how to make a particular project financially feasible;
- Fees and affordable housing requirements get passed on to the residents paying market-rate costs, since these requirements necessitate higher prices and rents to achieve project feasibility;
- Construction costs are currently rising rapidly, by as much as ten percent per year; and
- The AHO should allow affordable housing developers to apply rent and income limits matching those of the Federal Low-Income Housing Tax Credit program.

**Based on this feedback, Strategic Economics conducted additional sensitivity analysis of the impacts of increased construction costs on the ownership prototypes' abilities to support increased inclusionary requirements and incorporated additional analysis of development cost burdens into the in-lieu fee recommendations.**

## **CITY OF HAYWARD PLANNING COMMISSION**

**Members of the City of Hayward Planning Commission raised concerns about ensuring development feasibility as conditions change and noted preferences for developers to provide on-site inclusionary housing units rather than in-lieu fees.** Strategic Economics and City staff shared the analysis results

and this report’s recommendations as an informational item at the Planning Commission’s December 8, 2022 public meeting. The Planning Commissioners primarily asked questions about the analyses and the basis of the recommended revisions to the AHO’s inclusionary requirements. Areas of focus for other comments and questions included:

- Concerns about maintaining development feasibility as conditions change;
- Concerns about the infeasibility of higher density market-rate rental housing;
- Potential uses of the in-lieu fee revenue; and
- Preference that developers provide on-site inclusionary units rather than in-lieu fee revenue.

## AHO Policy Support for Preventing Displacement

**A recently completed displacement analysis for the City of Hayward found that there is significant need for very low-income housing in Hayward, and that on-site inclusionary housing alone will not meet the City’s affordable housing needs.**<sup>6</sup> In 2021, HR&A Advisors completed a displacement study analyzing trends in housing costs and residential displacement within Hayward. This study identified that rents and home values have been outpacing housing growth; housing production has not kept pace with jobs; homelessness is increasing; and low-income residents are likely undergoing displacement.<sup>7</sup> The AHO update was undertaken in part to examine how policy modifications could contribute toward addressing these displacement concerns by providing additional affordable housing units and housing units at a deeper level of affordability.

**AHO policy modifications can address displacement by prioritizing housing for low-income and very low-income households in Hayward and generating in-lieu fees that can be leveraged to generate relatively greater numbers of affordable housing units at deeper levels of affordability.** Based on findings from the feasibility and affordability gap analyses, the AHO can support displacement prevention by modifying the income requirements for ownership housing to include low-income households (in addition to moderate-income households) and by retaining the option for developers to pay in-lieu fees instead of building on-site units. The low-income requirement will serve households at greater risk of displacement. The in-lieu fees create an opportunity for the City to partner with affordable housing developers to leverage outside funding sources such as Federal Low Income Housing Tax Credits (LIHTC) and provide more affordable housing units at a deeper level of affordability than inclusionary requirements alone could achieve.

## VI. AHO UPDATE RECOMMENDATIONS

### INCLUSIONARY POLICY RECOMMENDATIONS

**Strategic Economics recommends maintaining current inclusionary requirements for rental products and high-density ownership products, while increasing the required inclusionary percentage and deepening affordability requirements for low-density ownership products.** The recommendation for

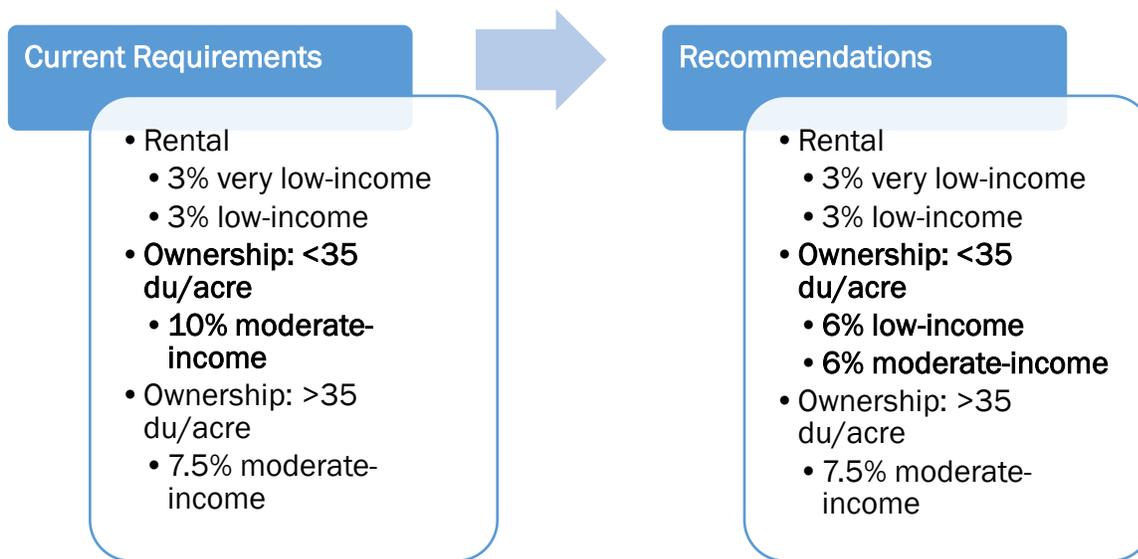
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<sup>6</sup> City of Hayward Assistant City Manager. (2022). Staff Report on Implementation of the Existing Affordable Housing Ordinance and Next Steps for Potential Modifications to the Ordinance.

<sup>7</sup> HR&A Advisors. (2021). City of Hayward Displacement Study.

ownership projects that are less than 35 dwelling units per acres is to increase the required total inclusionary percentage from ten percent to 12 percent, split evenly between low-income households and moderate-income households. This is a departure from the current policy, which only requires that ownership projects provide affordable units for moderate-income households. Recommended changes are summarized in Figure 37.

**FIGURE 37: RECOMMENDED CHANGES TO INCLUSIONARY REQUIREMENTS**



**These recommendations were informed by the following analysis and community input findings:**

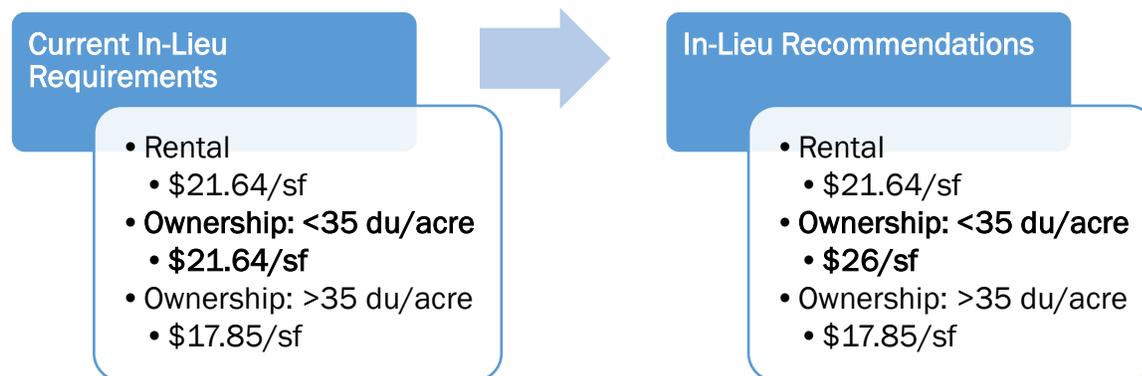
- The majority of the analyzed rental housing prototypes are currently not feasible within Hayward, regardless of the level of AHO requirements or submarket “tier.” This aligns with current development conditions, as developers have not proposed any major market-rate rental projects since adoption of the Hayward’s current AHO requirements. Reduction or elimination of affordable housing requirements is not expected to significantly improve feasibility for these multifamily products due to their wide gap between achievable revenues and construction costs.
- The recommended requirements are within a typical range of seven “peer” cities for which Strategic Economics reviewed inclusionary policies and affordable housing production outcomes.
  - As shown in the Existing AHO and Comparison to Peer Cities analysis on page 14, Hayward’s current inclusionary requirements are relatively lower than peer communities, yet these low requirements led to production of a relatively high number of affordable low- and moderate-income housing units. Inclusionary requirements should be set at a level that does not encourage developers to build projects in nearby communities instead of Hayward. Inclusionary on-site units were also the primary means by which Hayward and peer communities produce deed-restricted housing for moderate-income households.

- The peer cities analysis also suggested the importance of maintaining inclusionary requirements at a level that supports the financial feasibility of new development.
  - Some jurisdictions, such as Fremont, may be able to sustain higher inclusionary requirements because they have higher market-rate rents that could support the cost of affordable units.
  - In Hayward, the Inclusionary Policy Alternatives Findings on page 35 indicate that single-family homes and townhomes are only marginally feasible at a 15 percent requirement—the level used by some peer communities.
- The HHTF expressed a preference for maintaining existing rental requirements to ensure developers are obligated to provide inclusionary or in-lieu fee contributions if development conditions improve in the future.
- A condominium prototype (a higher-density ownership product) is not currently feasible under any market tier within Hayward, and developers are not proposing condominiums in Hayward.
- Strategic Economics found through sensitivity testing that a 12 percent requirement for low and moderate-income households applicable to low-density ownership products (single-family homes and townhomes) would allow projects to maintain feasibility while also sustaining increases in construction costs of up to four percent. In contrast, a higher required percentage would result in these projects becoming infeasible with the slightest negative change in development conditions. See the Sensitivity Analysis section on page 36 for further details.
- The HHTF expressed a preference for increasing ownership requirements, but not to such a point that they block housing development if project costs and revenues shift in the near term.

## IN-LIEU FEE RECOMMENDATIONS

**Strategic Economics recommends maintaining the current level of in-lieu fees for rental products and high-density ownership products, while increasing the fee for low-density ownership products to \$26 per habitable square foot.** The goal of these recommendations is to strike a balance between generating revenue for producing affordable units while ensuring that the fee does not prevent development activity. The recommended changes represent a relatively small increase in total development costs.

FIGURE 38: IN-LIEU FEE RECOMMENDATIONS



These recommendations were informed by the following feasibility analysis and community input findings:

- The affordability gap analysis found that the in-lieu fee amount required to build off-site deed-restricted affordable housing equivalent to the revised inclusionary requirements would be \$29.26 per square foot for single-family homes and \$16.92 per square foot for townhomes.
- Among other considerations, in-lieu fees should be set at a level that does not encourage developers to build projects in nearby communities instead of Hayward. The maximum effective in-lieu fee for *ownership* products among Hayward’s “peer” communities is \$44 per square foot of habitable space, but the median fee is closer to Hayward’s current level.
- The maximum in-lieu fee for *rental* products among Hayward’s peer communities is approximately \$30 per square foot, while the median fee is close to Hayward’s current level.
  - Based on the affordability gap, the in-lieu fee for rental products would be between \$29 per square foot and \$40 per square foot.
  - However, rental products are largely not feasible under existing AHO requirements; maintaining a lower in-lieu fee for rental projects increases the possibility of development occurring if conditions improve in the future.
- The HHTF supported increasing AHO requirements on low-density ownership products while maintaining consistent requirements for high-density ownership housing and rental products.
- Analysis of affordable housing funding data for Hayward and Fremont demonstrated the importance of in-lieu fee revenues as a local funding source for production of 100 percent affordable housing projects. These projects can provide a deeper level of affordability than what can be achieved through inclusionary units. These projects can also provide permanent supportive housing units and housing units for extremely low-income households—serving community members who are at high risk for displacement or homelessness.
- Lastly, TAC members noted that financial considerations for in-lieu fees or provision of on-site units differ from project to project, and that flexibility is important for ensuring that they can find a feasible approach for future projects.

# APPENDIX A: GLOSSARY OF KEY TERMS

## Definitions from Current AHO

- **"Affordable Unit"** is defined as an ownership or rental Dwelling Unit whose price is set at an Affordable Ownership Cost or Affordable Rent as defined in this Article.
- **"Affordable Ownership Cost"** is defined as the maximum purchase price that will be affordable to a Moderate-Income Household at Presumed Occupancy Levels, based on a reasonable down payment and monthly housing payments (including mortgage principal and interest, property taxes, homeowner's insurance, and homeowner/condominium association fees where applicable) that do not exceed one hundred ten percent of Area Median Income multiplied by thirty-five percent and divided by twelve.
- **"Affordable Rent"** is defined as the maximum monthly rent, including all fees for housing services and a utility allowance as determined by the Alameda County Housing Authority, that does not exceed the following, based on Presumed Occupancy Levels:
  - For Extremely Low Income Households: thirty percent of Area Median Income multiplied by thirty percent and divided by twelve.
  - For Very Low Income Households: fifty percent of Area Median Income multiplied by thirty percent and divided by twelve.
  - For Low Income Households: sixty percent of Area Median Income multiplied by thirty percent and divided by twelve.
- **"Area Median Income (AMI)"** is defined as the median income for Alameda County, adjusted for household size, as published annually in Title 25 of the California Code of Regulations, Section 6932 (or its successor provision) by the California Department of Housing and Community Development (HCD).
- **"Dwelling Unit"** is defined as a dwelling designed and intended for residential occupancy by one household.
- **"Extremely Low, Very Low, Low, and Moderate-Income Households"** are defined as households whose incomes do not exceed the extremely low, very low, low, or moderate-income limits, as applicable, established for Alameda County and adjusted for household size that are published annually in Title 25 of the California Code of Regulations, Section 6932 (or its successor provision) by HCD.
- **"Household Income"** is defined as the gross annual household income, monetary benefits, and all other sources of household income, before deductions or exemptions, and includes the income of all members of the household 18 years of age or older.
- **"Ownership Residential Project"** is defined as any Residential Development Project that creates new Dwelling Units that may be sold individually, including but not limited to condominiums, townhomes, stock cooperatives, community apartments, and attached or detached single-family homes. An Ownership Residential Project also includes any Residential Development Project with a recorded condominium plan or map and the conversion of residential property to common interest developments as described in Hayward Municipal Code [Section 10-3.370](#).
- **"Presumed Occupancy Levels"** as listed below shall be used to establish Affordable Ownership Cost and Affordable Rents, unless the Residential Development Project is financed with federal tax credits, in which case the applicable federal regulations shall determine the Presumed Occupancy Levels:
  - One person for a studio unit;

- Two people for a one bedroom unit;
- Three people for a two bedroom unit; and
- One additional person for each additional bedroom thereafter.
- **"Rental Residential Project"** is defined as any Residential Development Project that creates new Dwelling Units that cannot be sold individually.

## Definitions of Other Key Terms

### INCLUSIONARY HOUSING POLICY TERMS

- **"Affordability Gap"** is defined as the difference between the revenue generated from each affordable unit and the total cost of developing those units.
  - a. For ownership housing products, the affordability gap is the difference between the affordable sales price of a home and the total development cost of each unit.
  - b. For rental products, the affordability gap is based on the difference between the total debt that can be supported from affordable rental revenue and the total development cost of each unit.
- **"Inclusionary Requirement,"** or **"Inclusionary Percentage,"** as used in this report, refers to the percentage of a project's housing units that are required to be set aside as deed-restricted affordable housing at specific affordability levels.
- **"In-Lieu Fee"** is defined as a set fee, assessed per square foot of habitable space in a residential project, that can be paid to substitute for some or all of the required affordable units in a housing project.

### DEVELOPMENT FEASIBILITY TERMS

- **"Hard Costs"** include materials and labor associated with physical construction of the building.
- **"Investment Return"** consists of the required financial return on investment that a project must achieve to attract developer and lender investment.
- **"Land Costs"** refer to the price the developer pays to acquire the land.
- **"Residual Land Value"** represents the value remaining to pay for land after accounting for all other project costs, expected revenues, and required investment return.
  - a. This value is compared to prevailing site acquisition costs for each prototype to evaluate project feasibility.
- **"Soft Costs"** include indirect expenses such as architecture and engineering, taxes, insurance, financing costs, and municipal fees.
- **"Total Project Revenue"** is determined by the market value of the project.
  - a. For for-sale projects, the market value consists of achievable sales prices for the housing units.
  - b. For rental projects, the market value of the project depends on the annual revenue it will generate and the current capitalization rate, which reflects overall project investment risk relative to alternative investments.

# APPENDIX B: FEASIBILITY ANALYSIS DETAILS

## Feasibility Assumptions

FIGURE 39: SQUARE FEET PER UNIT AND SHARE OF UNITS BY BEDROOM SIZE ASSUMPTIONS

	Single Family Development	Townhomes	Condos	Small Multifamily	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
<b>Unit Size (sq. ft.)</b>							
Studio	-	-	600	600	600	580	575
1-BD	-	-	750	800	750	800	800
2-BD	1,600	1,450	950	1,000	950	1,000	1,000
3-BD	1,980	1,650	1,200	1,300	1,200	1,325	1,350
4-BD	2,500	1,900	-	-	-	-	-
5-BD	3,245	-	-	-	-	-	-
<b>Unit Share</b>							
Studio	-	-	11	4	11	90	25
1-BD	-	-	13	3	13	135	68
2-BD	-	16	39	9	39	60	42
3-BD	9	58	11	4	11	15	24
4-BD	24	32	-	-	-	-	-
5-BD	11	-	-	-	-	-	-
<b>Total</b>	<b>44</b>	<b>106</b>	<b>74</b>	<b>20</b>	<b>74</b>	<b>300</b>	<b>159</b>

FIGURE 40: MULTIFAMILY AND RETAIL RENT AND REVENUE ASSUMPTIONS

	Units	Apartments	Retail
<b>Operating Expenses</b>	% of Gross Revenue	30%	0%
<b>Vacancy Rate</b>	% of Gross Revenue	5%	10%
<b>Cap Rate</b>	Net Operating Income / Total Capitalized Value	4.1%	4.1%

Sources: Strategic Economics, 2022; Developer Interviews, 2022; Lee & Associates, 2022.

Notes: Operating Expenses are assumed to be negligible for retail because rent is expressed as triple-net. Under a triple net lease (NNN) the tenant pays operating expenses, including real estate taxes, building insurance, and maintenance (the three "nets") on the property in addition to the rents.

FIGURE 41: FINANCING COST CALCULATIONS, BY PROTOTYPE (IN MILLIONS OF DOLLARS)

	Single Family	Town-homes	Condos	Small Multifamily	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
Total Development Cost (Excl. Financing)	\$39.3	\$61.1	\$35.6	\$9.1	\$35.6	\$147.2	\$97.9
Amount Financed	\$27.5	\$42.8	\$23.1	\$5.9	\$23.2	\$88.3	\$58.8
Average Outstanding Balance	\$15.1	\$23.5	\$12.7	\$3.3	\$12.7	\$48.6	\$32.3
<b>Construction Loan Fee</b>	<b>\$0.4</b>	<b>\$0.6</b>	<b>\$0.3</b>	<b>\$0.1</b>	<b>\$0.3</b>	<b>\$1.3</b>	<b>\$0.9</b>
<b>Cost of Interest</b>	<b>\$1.1</b>	<b>\$1.8</b>	<b>\$1.0</b>	<b>\$0.2</b>	<b>\$1.0</b>	<b>\$4.9</b>	<b>\$3.2</b>
<b>Total Cost of Financing</b>	<b>\$1.5</b>	<b>\$2.4</b>	<b>\$1.3</b>	<b>\$0.3</b>	<b>\$1.3</b>	<b>\$6.2</b>	<b>\$4.1</b>
Financing Cost as Share of TDC	3.9%	3.9%	3.7%	3.7%	3.7%	4.2%	4.2%

Source: Strategic Economics, 2022; Developer Interviews, 2022.

# Pro Forma Results

FIGURE 42: TIER TWO FULL PRO FORMA RESULTS - WITH CURRENT AHO REQUIREMENTS (IN MILLIONS OF DOLLARS)

	Single Family	Town-homes	Condos	Small MF	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
<b>Revenues</b>							
For-Sale Revenue							
Gross Revenue	\$56.5	\$83.8	\$33.5				
<u>Less Marketing Costs</u>	<u>-\$2.4</u>	<u>-\$3.5</u>	<u>-\$1.3</u>				
<b>Net Sales Revenue</b>	<b>\$54.1</b>	<b>\$80.3</b>	<b>\$32.2</b>				
Rental Revenue							
Gross Income, Residential				\$0.7	\$2.4	\$8.7	\$5.2
Gross Income, Retail						\$0.2	
<u>Less Vacancy &amp; Operating Costs</u>				<u>-\$0.2</u>	<u>-\$0.9</u>	<u>-\$3.1</u>	<u>-\$1.9</u>
Net Operating Income				\$0.4	\$1.5	\$5.6	\$3.3
<b>Total Capitalized Value</b>				<b>\$10.7</b>	<b>\$37.8</b>	<b>\$140.2</b>	<b>\$80.9</b>
<b>Development Costs</b>							
Hard Costs							
Site Prep, Demo	\$5.4	\$5.4	\$1.6	\$0.5	\$1.6	\$4.4	\$2.7
Vertical Hard Costs	\$17.0	\$33.2	\$23.7	\$5.8	\$23.7	\$105.9	\$71.6
Tenant Improvement Allowance						\$0.5	
Soft Costs							
Hard Cost Contingency	\$1.1	\$1.9	\$1.3	\$0.3	\$1.3	\$5.5	\$3.7
Arch., Eng., and Other Soft Costs	\$3.1	\$5.4	\$3.5	\$0.9	\$3.5	\$15.5	\$10.4
Municipal Fees, with AHO fees	\$2.8	\$5.3	\$2.6	\$0.6	\$2.7	\$7.9	\$4.7
Financing Costs	\$1.2	\$2.0	\$1.2	\$0.3	\$1.2	\$5.8	\$3.9
<b>Total Development Costs</b>	<b>\$30.8</b>	<b>\$53.3</b>	<b>\$33.9</b>	<b>\$8.5</b>	<b>\$34.0</b>	<b>\$145.6</b>	<b>\$97.0</b>
<b>Feasibility Summary</b>							
Total Market Value of Project	\$54.1	\$80.3	\$32.2	\$10.7	\$37.8	\$140.2	\$80.9
<u>Minimum Return on Cost</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>
Total Supportable Value	\$45.1	\$67.0	\$26.8	\$8.9	\$31.5	\$116.8	\$67.4
<u>Less Development Costs</u>	<u>-\$30.8</u>	<u>-\$53.3</u>	<u>-\$33.9</u>	<u>-\$8.5</u>	<u>-\$34.0</u>	<u>-\$145.6</u>	<u>-\$97.0</u>
<b>Residual Land Value of Project</b>	<b>\$14.4</b>	<b>\$13.6</b>	<b>-\$7.1</b>	<b>\$0.5</b>	<b>-\$2.5</b>	<b>-\$28.7</b>	<b>-\$29.6</b>
<u>Typical Site Acquisition Cost</u>	<u>\$9.8</u>	<u>\$9.8</u>	<u>\$2.9</u>	<u>\$1.0</u>	<u>\$2.9</u>	<u>\$7.8</u>	<u>\$4.9</u>
<b>RLV Less Typical Acquisition Cost</b>	<b>\$4.6</b>	<b>\$3.8</b>	<b>-\$10.0</b>	<b>-\$0.5</b>	<b>-\$5.5</b>	<b>-\$36.6</b>	<b>-\$34.5</b>

Source: Strategic Economics, 2022.

Notes:

Gross Income and Revenue Includes BMR Units.

Municipal fees shown here are slightly different from municipal fees shown in the rest of the report, because inclusionary units are exempt from some fees. In addition, in-lieu fees were required for some prototypes, even with on-site units, in order to account for fractional units.

FIGURE 43: TIER ONE FULL PRO FORMA RESULTS WITH RECOMMENDED CHANGES TO AHO: MAINTAINING CURRENT REQUIREMENTS FOR CONDOS AND RENTAL PRODUCTS; REQUIRING 6% LOW AND 6% MOD. UNITS FOR SF AND TH PRODUCTS (IN MILLIONS OF DOLLARS)

	Single Family	Town- homes	Condos	Small MF	Stacked Flats	5-Story Wrap	5-Story Podium (TOD)
<b>Revenues</b>							
For-Sale Revenue							
Gross Revenue	\$62.4	\$89.5	\$40.7				
<u>Less Marketing Costs</u>	<u>-\$2.7</u>	<u>-\$3.8</u>	<u>-\$1.6</u>				
<b>Net Sales Revenue</b>	<b>\$59.7</b>	<b>\$85.7</b>	<b>\$39.0</b>				
Rental Revenue							
Gross Income, Residential				\$0.8	\$2.8	\$10.0	\$6.0
Gross Income, Retail						\$0.2	
<u>Less Vacancy &amp; Operating Costs</u>				<u>-\$0.3</u>	<u>-\$1.0</u>	<u>-\$3.6</u>	<u>-\$2.2</u>
Net Operating Income				\$0.5	\$1.8	\$6.6	\$3.8
<b>Total Capitalized Value</b>				<b>\$12.4</b>	<b>\$43.6</b>	<b>\$161.0</b>	<b>\$93.4</b>
<b>Development Costs</b>							
Hard Costs							
Site Prep, Demo	\$5.4	\$5.4	\$1.6	\$0.5	\$1.6	\$4.4	\$2.7
Vertical Hard Costs	\$17.0	\$33.2	\$23.7	\$5.8	\$23.7	\$105.9	\$71.6
Tenant Improvement Allowance	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.5	\$0.0
Soft Costs							
Hard Cost Contingency	\$1.1	\$1.9	\$1.3	\$0.3	\$1.3	\$5.5	\$3.7
Arch., Eng., and Other Soft Costs	\$3.1	\$5.4	\$3.5	\$0.9	\$3.5	\$15.5	\$10.4
Municipal Fees, with AHO	\$2.8	\$5.1	\$2.6	\$0.6	\$2.7	\$7.9	\$4.7
Financing Costs	\$1.2	\$2.0	\$1.2	\$0.3	\$1.2	\$5.8	\$3.9
<b>Total Development Costs</b>	<b>\$30.7</b>	<b>\$53.1</b>	<b>\$33.9</b>	<b>\$8.5</b>	<b>\$34.0</b>	<b>\$145.6</b>	<b>\$97.0</b>
<b>Feasibility Summary</b>							
Total Market Value of Project	\$59.7	\$85.7	\$39.0	\$12.4	\$43.6	\$161.0	\$93.4
<u>Minimum Return on Cost</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>	<u>20%</u>
Total Supportable Value of Project	\$49.7	\$71.4	\$32.5	\$10.3	\$36.3	\$134.2	\$77.8
<u>Less Development Costs</u>	<u>-\$30.7</u>	<u>-\$53.1</u>	<u>-\$33.9</u>	<u>-\$8.5</u>	<u>-\$34.0</u>	<u>-\$145.6</u>	<u>-\$97.0</u>
<b>Residual Land Value of Project</b>	<b>\$19.1</b>	<b>\$18.3</b>	<b>-\$1.4</b>	<b>\$1.9</b>	<b>\$2.3</b>	<b>-\$11.4</b>	<b>-\$19.2</b>
<u>Typical Site Acquisition Cost</u>	<u>\$16.3</u>	<u>\$16.3</u>	<u>\$4.9</u>	<u>\$1.6</u>	<u>\$4.9</u>	<u>\$13.1</u>	<u>\$8.2</u>
<b>RLV Less Typical Acquisition Cost</b>	<b>\$2.7</b>	<b>\$1.9</b>	<b>-\$6.3</b>	<b>\$0.2</b>	<b>-\$2.6</b>	<b>-\$24.5</b>	<b>-\$27.4</b>

Source: Strategic Economics, 2022.

Notes:

Gross Income and Revenue Includes BMR Units.

Municipal fees shown here are slightly different from municipal fees shown in the rest of the report, because inclusionary units are exempt from some fees. In addition, in-lieu fees were required for some prototypes, even with on-site units, in order to account for fractional units.