

Housing Impact Fee

Developer Stakeholder Meeting

August 5, 2014



MEETING OUTLINE

1. Introduction – City staff
2. Nexus study/Feasibility Analysis – KMA
3. Policy Options – City staff
4. Questions – All
5. Wrap-up & Next Steps – City staff

KMA ASSIGNMENT

1. Residential Nexus Analysis -- Establishes ceiling on potential fees from a legal / nexus perspective
2. Affordable Housing Requirements and Impact Fees in other Cities
3. Real Estate Financial Feasibility Analysis

UPDATES TO KMA REPORTS

1. Rental Housing Only – Reports revised to address rental housing only.
2. Updated Data– Most recent Census and IMPLAN data.
3. Estimate of Income Available to Spend – Household income available to spend (after taxes, etc.) estimated using IRS, Franchise Tax Board, and other sources.

NEXUS ANALYSIS CONCEPT

New Market Rate Units

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

NEXUS CONCLUSIONS: MAXIMUM HOUSING IMPACT FEES

	Apartment	High-Rise Apartment
Maximum Fees Per Unit	\$28,000	\$25,000
Maximum Fees Per Square Foot	\$28.28	\$27.78

MARKET-RATE APARTMENT PROTOTYPES

	<u>Prototype 1</u>	<u>Prototype 2</u>
	Stacked Flat Apartments	High-Rise Apartment
Average Unit Size	990 SF	900 SF
Rent Level	\$2,673 / Mo (\$2.70/SF)	\$2,340 / Mo (\$2.60/SF)
Household Income	\$107,000	\$94,000
Income Available to Spend (after taxes, etc.)	\$69,600	\$62,000
Expenditures: 100 Units	\$6,960,000	\$6,200,000

TOTAL JOBS GENERATED PER 100 RESIDENTIAL UNITS

	<u>Prototype 1</u>	<u>Prototype 2</u>
	100 Stacked Flat Apartments	100 High-Rise Apartments
Total Jobs Generated	40.2	35.8
No. of Jobs After 20% Discount for Changing Industries	32.1	28.6
Worker Households (@1.69 Workers / HH)	19.0	16.9

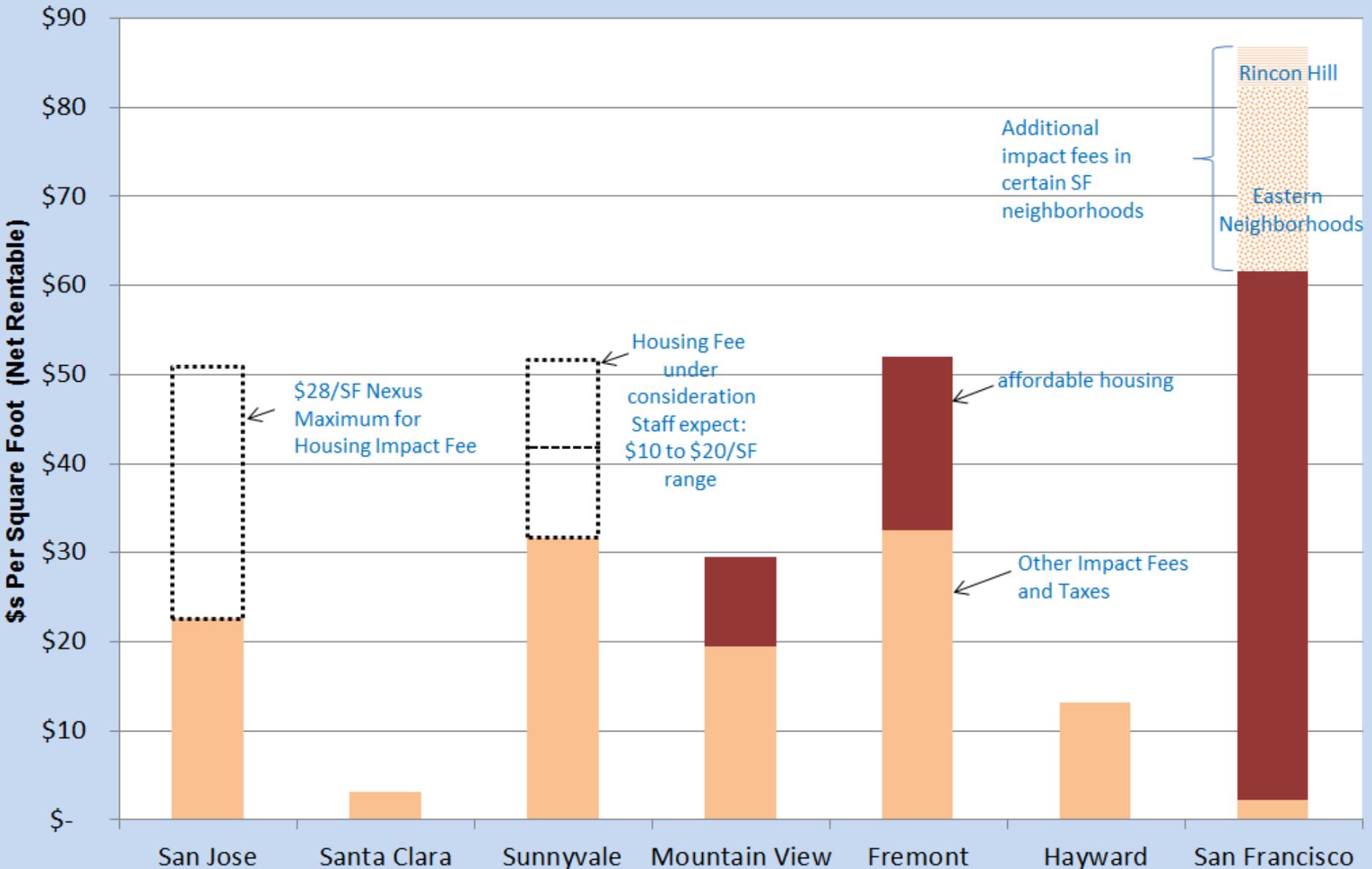
WORKER HOUSEHOLDS BY INCOME TIER

Households by Income Category	<u>Prototype 1</u>	<u>Prototype 2</u>
	100 Stacked Flat Apartments	100 High-Rise Apartments
Extremely Low	2.5	2.3
Very Low	5.1	4.5
Low	5.3	4.7
Moderate	3.3	2.9
<i>Subtotal <120% AMI</i>	16.3	14.5

MAXIMUM FEE SUPPORTED

Income Category	Affordability Gap	<u>Prototype 1</u> Maximum Fee: Stacked Flat Apartments	<u>Prototype 2</u> Maximum Fee: High-Rise Apartments
Extremely Low	\$256,000	\$6,500	\$5,800
Very Low	\$186,000	\$9,500	\$8,500
Low	\$151,000	\$8,000	\$7,100
Moderate	\$121,000	\$4,000	\$3,600
Total Nexus Cost Per Unit		\$28,000	\$25,000
Size of Prototype Unit (SF)		990 SF	900 SF
Total Nexus Cost Per Square Foot		\$28.28	\$27.78

Affordable Housing, Other Impact Fees and Construction Taxes for Apartment Prototype (\$/Sq. Ft.)



FINANCIAL FEASIBILITY ANALYSIS: INTRODUCTORY COMMENTS

- ❑ Purpose: Context, not legal standard
- ❑ Methodology: Residual value approach
- ❑ Caveats:
 - “Prototypical” project analysis
 - Near term time horizon
 - Adjustments to land costs & other factors

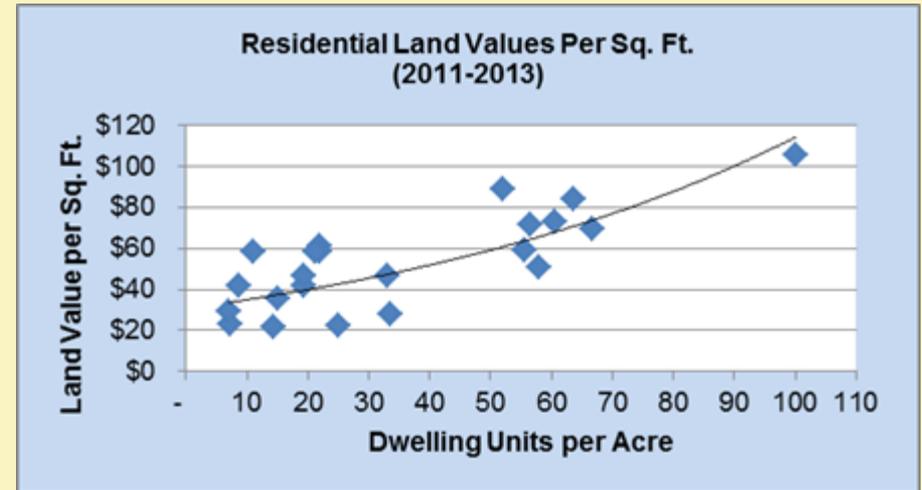
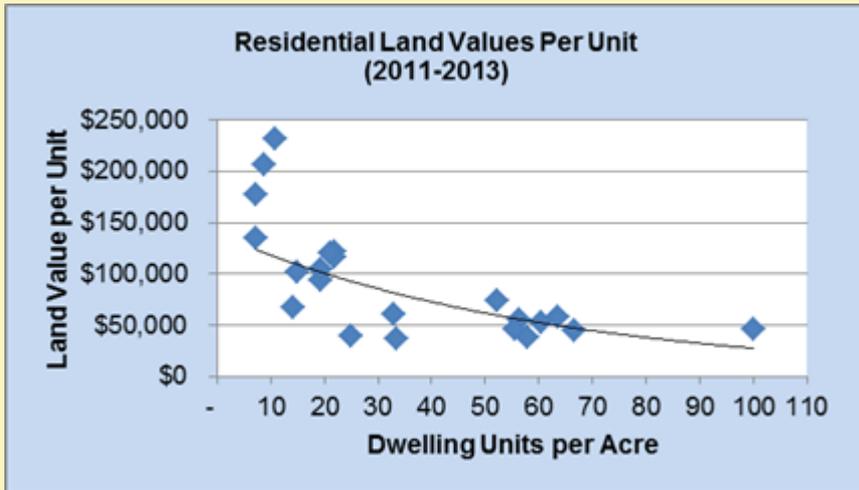
FINANCIAL FEASIBILITY ANALYSIS: PROTOTYPES

Apartment Prototypes Analyzed for Financial Feasibility	Units	Density	Avg. Unit Size
Type V Stacked Flat Apartments	157 units	65 du/acre	990 sq. ft.
Mixed Use Apartments	100 units	55 du/acre	990 sq. ft.
Wrap Apartments	157 units	65 du/acre	990 sq. ft.

FINANCIAL FEASIBILITY ANALYSIS: RENTAL RATE ASSUMPTIONS

Rent Estimates	Size	Rent	Rent PSF
Type V Stacked Flat Apartments	990 sf	\$2,673/month	\$2.70
Mixed Use Apartments	990 sf	\$2,673/month	\$2.70
Wrap Apartments	990 sf	\$2,673/month	\$2.70

FINANCIAL FEASIBILITY: LAND VALUES



FINANCIAL FEASIBILITY: RESIDUAL VALUES

Apartment Prototypes	Value / Unit	(Less) Development Cost / Unit	Residual Value / Unit	Residual Value / Land Sq. Ft.
Type V Stacked Flat Apartments	\$376,500	(\$319,600)	\$56,900	\$85
Wrap Apartments	\$376,600	(\$317,600)	\$59,000	\$88
Mixed Use Apartments	\$397,900	(\$358,400)	\$39,500	\$50

FINANCIAL FEASIBILITY: MARKET ADJUSTMENTS TO ABSORB A \$17/SQ. FT. FEE

Potential Market Adjustments that could absorb a \$17/sq. ft. Fee (Stacked Flat Apartment Prototype)

Apartment Rents Increase	+/- 1.5%
Total Development Costs Decrease	+/- 2.0%
Land Values Decrease	+/- 20%

POLICY OPTIONS

Fee level

- Financial feasibility
- Adjusting fee over time
- Keeping San Jose competitive

Applicability

- Project-size threshold
- Should larger units pay more
- High-rise vs. mixed use vs. 100% residential

POLICY OPTIONS

Alternatives to the Fee

- Legal impediments

Implementation

- How to address market cycles
- Grandfathering and/or phasing-in
- Timing of Payment