

Item # 13

AGENDA DATE: 12/14/16

SUPPLEMENTAL # 1

BMR FOR-SALE COMPONENT OF RESIDENTIAL DEVELOPMENT CONTROL SYSTEM

CITY OF MORGAN HILL

December 14, 2016

BMR FOR-SALE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM

- Analysis of the impact of the City's Residential Development Control System (RDCS) Below Market Rate (BMR) requirements
- Objective: Provide the revised Keyser Marston report and receive feedback from the City Council



PURPOSE

- Estimate the cost of providing on-site BMR units, relative to the current in-lieu fee (\$150,00)
- Review inclusionary fee amounts of other jurisdictions
- Provide recommendations to revise the in-lieu fee amount to come closer to the cost of providing on-site units



PRE MEASURE S RDCS, AFFORDABLE FOR-SALE

Receive 13 to 15 points if 8% of the project's units are affordable units for Low to Moderate-income households (73%-120% AMI)

Deeper levels of affordability (i.e. below 65% AMI) are addressed by the rental RDCS' provisions

	Condominiums	Townhouses	R-2 SFD & R-1 7000	R-1 9000 & above lot size
13 points	4% of units at 70% AMI and 4% at 90% AMI	4% of units at 73% AMI and 4% at 100% AMI	4% of units at 76% AMI and 4% at 110% AMI	4% of units at 80% AMI and 4% at 120% AMI
14 points	6% at 70% AMI and 2% at 90% AMI	6% at 73% AMI and 2% at 100% AMI	6% at 76% AMI and 2% at 110% AMI	6% at 80% AMI and 2% at 120% AMI
15 points	8% at 65% AMI	8% at 70% AMI	8% at 75% AMI	8% at 80% AMI



PAY FEES FOR POINTS – IN-LIEU FEE

Any Project can receive **6 points** by paying standard housing fee = 8% of total number of units X \$150,000 = \$12,000 per unit; and

Projects with less than 16 units or any project with all lots > 20,000 can receive an additional **6 points** by paying double the standard housing fee = 8% of total number of units X \$300,000 = \$24,000 per unit;

Or:

Projects with all lots > 12,000 sf and 20% of units have secondary units, can receive **13 points** by paying double the standard housing fee = 8% of total number of units X \$300,000 = \$24,000 per unit.



WHEN 8% REQUIREMENT YIELDS A FRACTION OF A UNIT

- Fractions of 50% or more trigger the requirement that a BMR unit be built
- Fractions less than 50% trigger the in-lieu fee to be paid, equal to \$150,000 times the fraction
 - If a project has 23 units, 8% BMR requirement = 1.84; thus, the project is required to build two (2) on site BMR units
 - If the project has 53 units, the 8% requirement = 4.24 BMR units; thus the project is required to build four (4) on site units and pay a fee of \$36,000 ($.24 \times \$150,000$)



PROTOTYPES

Development	Type	Avg. Lot Size – SF	Units in Marketing Phase	BMR Units (sold in 2015/16)
Madrone Plaza II	Townhome	NA	56	6 (6)
Cypress/Willow-Tilton Park	Townhome	NA for TH; 6,500 for detached	46	4 (4)
Loden Place	Detached	3,600	42	4 (2)
Stonebridge	Detached	6,000	108	10 (6)
Terra Mia – Mission Ranch	Detached	7,500	68	5 (3)
Paseo Seville	Detached	7,000	23	2(2)
Esperanza	Detached	7,200	52	4(4)
Amadora	Detached	21,600	23	Paid double in-lieu fee

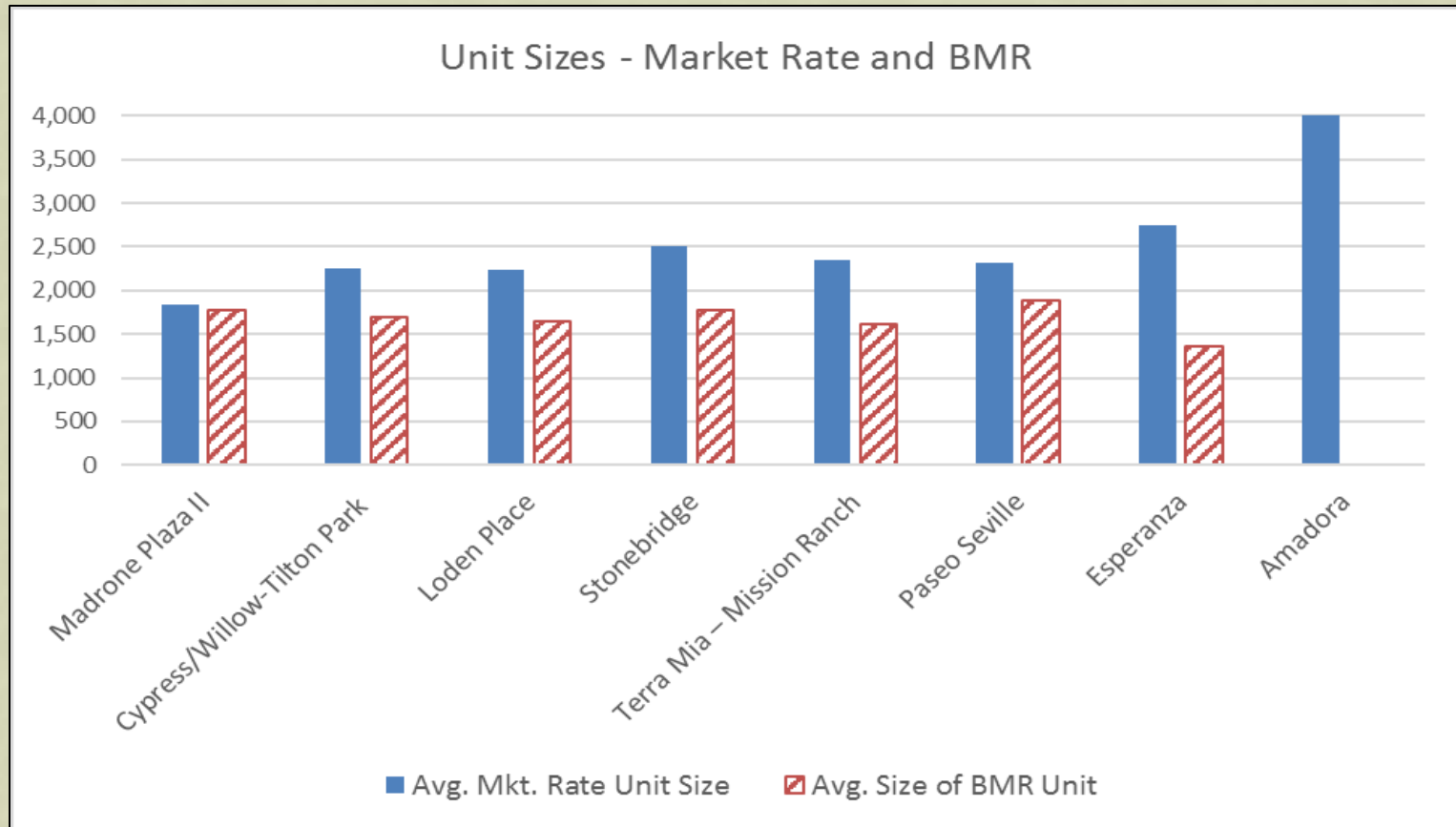


UNIT SIZES

Development	Avg. Mkt. Rate Unit Size	Avg. Size of BMR Unit	Avg. Size of BMR as a % of Avg. Size of Market Rate Unit	Bedroom Count of BMR Units
Madrone Plaza II	1,840	1,770	96%	4 bedrooms
Cypress/Willow- Tilton Park	2,250	1,700	76%	3 bedrooms
Loden Place	2,240	1,650	74%	3 bedrooms
Stonebridge	2,510	1,780	71%	3 and 4 bedrooms
Terra Mia – Mission Ranch	2,340	1,610	69%	3 and 4 bedrooms
Paseo Seville	2,320	1,880	81%	4 bedrooms
Esperanza	2,750	1,360	49%	4 bedrooms
Amadora	4,030	NA	NA	NA
Average, ex. Amadora and Madrone	2,400	1,660	69%	



UNIT SIZES



SALES PRICES

Development	Avg. Mkt. Rate Unit Price	Avg. BMR Price	Avg. Per Unit Difference	BMR Affordability Level, % of AMI
Madrone Plaza II	\$555,000	\$439,900	\$115,100	120%
Cypress/Willow- Tilton Park	\$746,700	\$257,700	\$489,000	73%
Loden Place	\$766,000	\$262,400	\$403,600	75%
Stonebridge	\$767,000	\$270,200	\$496,800	75%
Terra Mia – Mission Ranch	\$881,000	\$302,000	\$579,000	76% and 110%
Paseo Seville	\$925,000	\$281,100	\$643,900	73%
Esperanza	\$1,113,000	\$292,600	\$820,400	76%
Amadora	\$1,233,000	NA	NA	NA
Average, ex. Amadora and Madrone	\$866,000	\$278,000	\$588,000	



APPROACH TO EVALUATING ON-SITE COST

- On site cost = (Profit from 100% Market Rate Project – Profit from Project with BMR Units)
- Profit of 100% Market Rate Project is estimated to = 10% of Sales Revenues
- Profit of Project with BMR Units is estimated to =
 - 10% of Market Rate Unit Sales Revenues
 - Plus BMR Unit Sales Revenues
 - Less Estimated Development Cost of BMR Units
 - Less 3% sales transaction fee



EXAMPLE OF CALCULATION OF IN-LIEU FEE

	Market Rate	BMR	Total
Mix W/ BMR	46	4	50
All Market	50	0	50
Unit size	2,200	1,650	

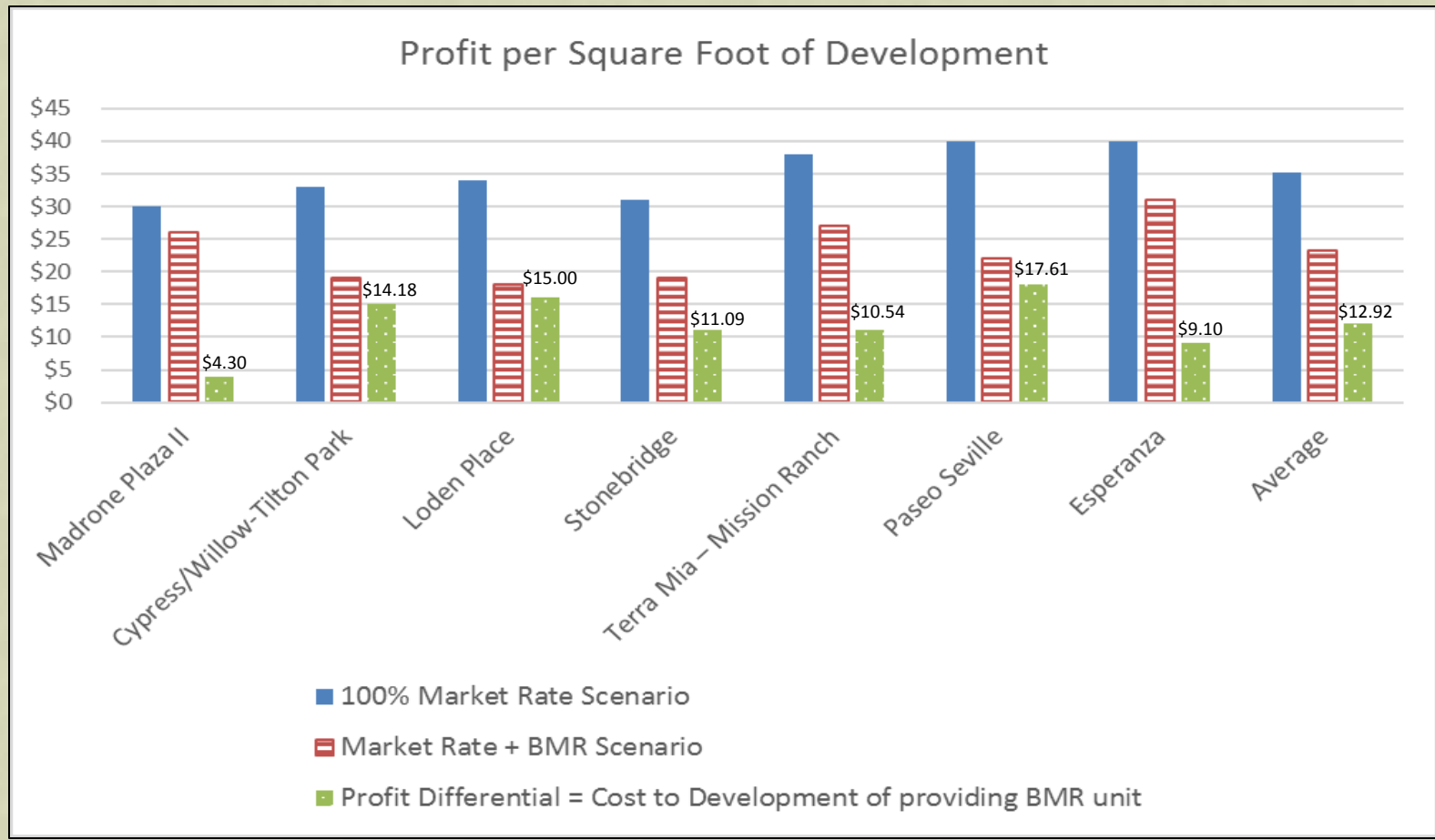
Profit Per Unit	Market	BMR
Sales Price	\$770,000	\$262,425
Development Cost	\$693,000	\$540,000
Profit	\$77,000	-\$277,575
Per SF	\$35	-\$168

Profit for Project	All Market	Mixed Income		
Units	50	46	4	50
Profit Per du	\$77,000	\$77,000	-\$277,575	\$48,634
Total Profit	\$3,850,000	\$3,542,000	-\$1,110,300	\$2,431,700

Foregone Profit	All Market	Mixed Income	Difference
	\$3,850,000	\$2,431,700	\$1,418,300
Per Market rate du			\$28,366
Per BMR Unit			\$354,575
Per SF			\$12.89



FORGONE PROFIT = IN-LIEU FEE



COST OF PROVIDING ON-SITE BMRs

Alternative Expressions of Average Cost to Project of Providing On-Site BMRs

\$12.92 per
square foot

\$31,000 per
unit

3.7% of
market rate
revenues

\$362,000 per
BMR unit



RDCS VERSUS INCLUSIONARY PROGRAMS

RDCS Projects

- Affordable Housing generates 15 out of minimum of 160 required points
- projects must provide other public benefits in addition to affordable housing
- Projects must fund cost to achieve points and pay development impact fees

Inclusionary Projects

- Under inclusionary programs, projects typically must comply with affordable housing requirements and pay development impact fees

Cost Comparison

- Need to quantify and compare all-in costs for meaningful comparison



INCLUSIONARY PROGRAMS

- On-site inclusionary requirements range from 10% to 15%, which exceeds the RDCS 8%. The in-lieu fee is expressed:
 - As a per square foot fee applied to the entire project
 - A percent of sales revenues of the entire project
 - Or a fee per affordable unit committed to

Cupertino, Campbell and Fremont – per square foot fee ranging from \$15 to \$34.50

Mountain View, Sunnyvale and Palo Alto – fee ranging from 3% - 7.5% of sales revenues.



CITY OF MORGAN HILL

KMA compared Morgan Hill's in-lieu fee of \$150,000 per BMR unit, using eight prototypes, and converted the per unit fee to an amount per square foot of building area and a percentage of sales value

Morgan Hill's current in-lieu fee translates into a fee ranging from \$3.24 to \$6.37, significantly less than the inclusionary range of \$15 to \$34.50

Morgan Hill's fee approximates 1% to 2% of sales revenue, less than the inclusionary range of 3% to 7.5% of sales



IN-LIEU FEE RECOMMENDATION

Recommend in-lieu fee amount of \$12.92 per square foot of livable area.

Example: Project has 56 units, average size of market rate units is 2,000 square feet. To receive maximum RDSCS points:

- On site obligation = 56 units X 8% = 4.48 units.
- In lieu fee = 56 units X 2,000 square feet X \$12.92 per SF = \$1,447,000.

For case study projects, a fee of \$12.92 per square foot translates into, on average, \$31,000 per residential unit, or \$362,000 per owed BMR unit.



MINIMUM BMR UNIT SIZE RECOMMENDATION

The minimum size of each BMR unit shall be no less than the project's smallest market rate unit and the bedroom count of the BMR unit shall be equal to the bedroom count of the comparable market rate unit;

or

For projects in which the smallest market rate unit is larger than a TBD threshold, say 1,900 SF, then the minimum size of the BMR units shall not be less than the threshold.

**Threshold to reflect size established as appropriate for a four bedroom unit.*



FRACTIONAL UNIT RECOMMENDATION

Consistent with the City's current program, require fractional unit requirements equal to or greater than .5 be satisfied by providing an on-site unit and that fractional unit requirements of less than .5 be satisfied by paying the in-lieu fee.

Example: Project has 56 units, average size of market rate units is 2,000 square feet. To receive maximum RDCS points:

- Obligation = 56 units X 8% = 4 on-site BMR units + Fractional Fee for .48 units
- Implicit in lieu fee = 56 units X 2,000 square feet X \$12.92 per SF = \$1,447,000
- Implicit fee per BMR unit = \$1,447,000 / 4.48 units = \$323,000 per BMR unit owed
- Fractional fee owed = .48 X \$323,000 = \$155,000.

