COUNTY OF SAN BENITO
AFFORDABLE HOUSING AD HOC COMMITTEE
CERTIFICATE OF POSTING

Pursuant to California Government Code Section 59454.2(a), the meeting agenda for the San Benito County Affordable Housing Ad Hoc Committee Meeting Wednesday, September 23, 2020 was posted on the 18th of September, 2020 at the following location freely accessible to the public:

> The bulletin board outside the front entrance of the San Benito County Administration Building, 481 Fourth Street, Hollister, CA.

I, Jamila Saqqa, Housing Programs Coordinator, certify under penalty of perjury, that the foregoing is true and correct.

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JAMILA SAQQA
HOUSING PROGRAMS COORDINATOR
COUNTY OF SAN BENITO, CA

SAN BENITO COUNTY
Affordable Housing Ad Hoc Committee

Jaime De La Cruz	Mark Medina Chair	Robert Gibson	Robert Eggers
Board of Supervisors	Board of Supervisors	Planning Commission	Planning Commission

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4.Public Comment: select the "Participants Tab" and click "Raise hand" icon, the zoom facilitator will unmute you when your turn arises.

REGULAR MEETING
Wednesday, September 23, 2020
6:30 PM

AGENDA

1. **Call to Order**
    - **a.** Pledge of Allegiance
    - **b.** Roll Call
    - **c.** Acknowledge Certificate of Posting

2. **Public Comment:** *This is an opportunity for the public to address the commission on items of interest not appearing on the agenda or not scheduled for public hearing. No action may be taken unless*

provided for by GC 56954.2. Each speaker is limited to five minutes.

3. **Discussion**
    - **a.** Housing Strategy
        - i. Review Initial Memo Affordable Housing Strategy
    - **b.** Amendments to the Ordinance
        - i. Review Inclusionary Housing Policy Updates
    - **c.** Gap Analysis
        - i. Review Gap Report
4. **Additions to Future Agenda**

5. **Schedule of Upcoming Meetings**

6. **Adjournment**

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DATE: August 10, 2020

TO: San Benito County Housing Committee

FROM: Marian Wolfe, Vernazza Wolfe Associates

RE: Initial Memo – Affordable Housing Strategy for San Benito County

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Introduction

San Benito County is interested in developing a comprehensive Affordable Housing Strategy that includes strategies to reduce the costs of new and existing housing in order to expand the supply of affordable housing as well as to maintain the existing affordable housing supply. Affordable housing includes both deed-restricted housing, as well naturally occurring affordable housing (NOAH).[1]

This initial memo provides a brief review of the most recent Housing Element (adopted in April 2016), including a cumulative assessment of the County's progress in reaching RHNA goals (listed on Table 1).[2] RHNA progress is based on the number of permitted units. Although the number of planned units is also useful to know about, what is more critical in assessing RHNA progress is knowing which units are far enough along in the development process to receive building permits.[3]

The information presented below is primarily extracted from the annual progress reports submitted to the Housing and Community Development Department (HCD) by San Benito County. Progress reports also include information on which programs are being implemented that were proposed in the Housing Element. Also included are additional

[1] NOAH stands for Naturally Occurring Affordable Housing. It refers to residential rental properties that are affordable, but are unsubsidized by any federal program.
[2] RHNA stands for Regional Housing Needs Allocation, as defined by HCD, based on growth projections for cities and counties throughout the state. Due to current conditions (housing market and unemployment) the RHNA numbers will be higher for the upcoming housing element cycle. So, it will be even more important for the County to come up with policies to increase the supply of deed-restricted affordable housing.
[3] Additional projects that will provide affordable housing that are in the planning stage (but are not yet permitted) include more self-help housing at Riverview, and the Buena Vista Apartments (located in Hollister).

strategy ideas suggested by the Housing Committee and Housing Consultant.

Following review of this memo, feedback from elected/appointed officials regarding housing strategy priorities will be sought. The process to obtain feedback can be either through a survey of these officials or through a virtual meeting. The goal of this Housing Strategy is to implement Housing Element goals as well as to formulate additional policy directions that can be undertaken.

Progress in Achieving RHNA Goals

As Table 1 indicates, the County has met and exceeded its RHNA for above market rate units by 170 units so far, with the last two years (2018 and 2019) showing the highest number of market rate units permitted. However, very little progress has been made in permitting the required RHNA deed-restricted units across all affordability categories (very low, low- and moderate-income). This deficit indicates that the County may wish to place a high priority in County policies to encourage the development of deed-restricted units. Options to increase this supply are presented later in this memo.

Table 2 provides a brief overview of the County's five major Housing Element Goals. Since not all these goals are directed to expanding and maintaining the affordable housing supply, the County's Affordable Housing Strategy could focus primarily on the first three goals: promote affordable housing development through the use of subsidies and the private sector, develop affordable housing for all persons, and maintain housing quality of existing affordable housing. While the last two Housing Element objectives – insure equal housing opportunity and promote energy conservation – are also very important – they serve broader community purposes. However, it is up to the Housing Committee to decide how comprehensive the Affordable Housing Strategy should be.

The discussion below focuses on what the County is already doing as well as future steps that the County may consider. The goal of the Housing Strategy is to expand and maintain the supply of affordable housing for low- (50% Area Median Income or AMI), lower- (80% AMI), and moderate-income (120% AMI) households as well as to provide an adequate supply of work force housing defined as those earning up to 160% AMI.

Housing Element Goals and Continuing Accomplishments

(1) Availability of Housing and (2) Development of Housing:

- The County is continuing to work with the Santa Cruz Housing Authority to add the unincorporated area of the County as an area to be served by the Housing Authority. This can help expand the availability of Section 8 Vouchers to local residents.

- The County is continuing to pursue potential local, state and federal funding options for affordable housing development. These funding sources include CDBG, USDA, HOME, CalHome and other sources as they become available.

- The County is considering a donation of land (over three acres near Buena Vista Road) to a nonprofit for development of affordable housing.

- Encourage development of affordable housing through assisting self-help development. One self-help project (Riverview II) is underway to serve eight to twelve households. There is room for additional units, up to a total of 24 homes.

- San Benito County can assist developers of transitional and supportive housing by removing regulatory barriers. It can also apply for funding grants. A successful grant application process has resulted in the ability to construct eight transitional units that will be attached to the current homeless shelter.

- Utilize housing funds to encourage rural affordable development projects. This has not occurred during the current Housing Element period.

- Transfer of development rights from the County to Hollister to encourage affordable housing located closer to public servicers and infrastructure. While transfer of development rights has happened, there has not yet been an increase in affordable housing production.

- Expand opportunities for more mobile home parks. The County has not done this. Since modular housing and other types of factory built housing are less expensive to build than traditional housing, expanding opportunities for both mobile home parks and factory built housing could be a useful strategy to encourage more affordable housing.

- Provide outreach to the San Andreas Regional Center to inform its clients of housing and related services available for persons with development disabilities. Modify the County's website to include this information. So far, no action has been taken, but this service would not require significant County resources to implement.

- Continue to enforce (and amend) the Affordable Housing Ordinance and adopt an in-lieu fee. This work is ongoing.

(2) Maintenance of Housing

- Continue to pursue potential local, state and federal funding options to assist in rehabilitation of existing units. These funding sources include CDBG, USDA, and HOME.

- One program that the County can initiate would be housing rehabilitation, using public financing available from the CDBG program. In general, new construction that expands the housing supply has been a priority over rehabilitation in the County, but maintaining existing housing is also important.

- Work directly with Habitat for Humanity (Santa Cruz/Monterey Chapter) to explore options of working with current owners (who are eligible) to repair their houses.

- Establish a site on which to place temporary mobile homes to house persons/families displaced as a result of code enforcement because a structure is unauthorized/unsafe/substandard. So far one site – Southside Labor Camp – has been identified, but additional work is needed to see if it is seismically safe.

- Code enforcement staff to conduct inspections of housing units, and consult with homeowners to discuss needed home repairs. While inspections are occurring, the County does not currently have funding to help eligible households pay for needed rehabilitation work. Federal, state and local funding can be used. The source of local funding could be revenues from the Inclusionary Housing Program.

Additional Strategies and Programs

The Housing Committee has also proposed some additional strategies. Some of these overlap with the strategies included in the Housing Element, such as pursuing state and federal funding options. Additional ones not listed in the Housing Element include the following:

- Pursue affordable housing funding from nonprofit sources, such as the Silicon Valley Community Foundation.

- Examine available county-owned sites for potential development, as well as any State owned sites in San Benito that have been identified for new affordable housing developments pursuant to Executive Order N -06-19. [4]

- Incentivize ADU's with fee reductions.

Finally, a small sites program is another approach to expand the number of deed-restricted units that does not require new construction. A small sites program generally utilizes NOAH buildings. A small sites program is being implemented in several cities now, and San Benito could consider this policy:

- Encourage non-profits (or existing tenants) to acquire small, older apartment buildings where rents are affordable (but not deed-restricted). Provide financial assistance for purchase, and include funds for rehabilitation. In return for the County's assistance, a deed restriction agreement would be signed, so that these units would continue to be affordable.

More information on a small sites program is provided in an appendix to this memo.

Next Step

Once the Housing Committee has reviewed these strategies and has provided feedback regarding program priorities, a draft Affordable Housing Strategy will be prepared that will brief describe each strategy and will also include a brief discussion of implementation approaches and availability of funding.

[4] https://www.gov.ca.gov/wp-content/uploads/2019/01/EO-N-06-19.pdf

Table 1: Summary of RHNA Goals and Units Permitted (2015-2019)

		RHNA Allocation by Income Level	2015	2016	2017	2018	2019	Total Units to Date (2015-2019)	Total Remaining RHNA by Income Level
			Units Permitted	Units Permitted	Units Permitted	Units Permitted	Units Permitted	Units Permitted	
Income Level									
Very Low	Deed Restricted	198						0	**198**
Low	Deed Restricted	120						0	120
Moderate	Deed Restricted	164	2		2			4	160
Above Moderate	Non-Deed Restricted	335	17	61	96	176	155	505	**-170**
Total RHNA		817				**Total Permitted Units**		**509**	
						Total RHNA Remaining Deed-Restricted Units			**478**

Table 2: 2014-2023 Housing Element Goals

Goal One: Availability of Housing
The County shall stimulate the private sector's involvement and participation and investigate the use of Federal and State programs to help promote the preservation and availability of affordable housing.
Goal Two: Development of Housing
To promote the provision of adequate housing for all persons in the County including those with special housing needs and to emphasize the basic human need for housing as shelter.
Goal Three: Maintenance of Housing
To encourage the preservation, maintenance and improvement of existing housing and the replacement of unsafe or dilapidated housing. Stimulate and encourage private housing rehabilitation. Make use of Federal and State programs for such rehabilitation.
Goal Four: Equal Housing Opportunity
To assure that housing opportunities are open to all without regard to income, source of income, marital status, familial status, age, sex, sexual orientation, religion, creed, color, race, national origin, ancestry, or disability.
Goal Five: Energy Conservation
To establish development and construction standards which encourage energy conservation in residential uses. Promote the use of energy conservation methods in housing for all segments of the community.

Small Sites Program Appendix

A small sites acquisition/rehabilitation program is not the same as a Tenant Opportunity to Purchase Act Program (TOPA). Both share two common traits: (1) The properties are smaller multifamily apartment buildings (possibly 5 – 25 units), and (2) They are listed for sale by the owners. The primary difference, however, is that a small sites program uses nonprofit developers to raise needed funding, carry out the rehabilitation work, and continue to manage the apartments as part of the affordable housing stock.

In contrast, a TOPA program is directed to fundamental change in ownership (tenants own their units) and there are no income limits.

HCD has indicated that these units could count towards meeting the County's RHNA goals.

Two Bay Area cities are implementing small sites program.

(1) The City of Berkeley has approved funding for acquisition and rehabilitation of a property that will be managed by the Bay Area Community Land Trust.

https://www.berkeleyside.com/2019/01/03/100-year-old-church-wants-to-turn-neglected-complex-into-affordable-housing

(2) The City of San Francisco has adopted a Small Sites Program and issued a NOFA as follows:

Acquisition and Preservation financing for the multi-family rental buildings of 5-25 units and nonprofit Capacity Building Grants under the Small Sites Program (SSP). This NOFA will protect and preserve long-term affordable housing in properties throughout San Francisco.

https://sfmohcd.org/small-sites-program#:~:text=About%20the%20Small%20Sites%20Program,affordable%20housing%20throughout%20San%20Francisco.

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DATE: August 12, 2020

TO: San Benito County Housing Committee

FROM: Marian Wolfe, Vernazza Wolfe Associates

RE: Revisions to San Benito County's Affordable Housing Regulations

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Introduction

As part of the County's work to compute an In-Lieu Fee, the County concluded that the current Affordable Housing Regulations would be need to be updated to include rental housing. This first memo presents several policy issues that have emerged during our preliminary review of the existing Ordinance. These issues are discussed in this memo, along with information on what neighboring jurisdictions have included in their Ordinances. Information from these jurisdictions' Ordinances is summarized in a table at the end of this memo.

Issue #1: Alternative Ways to Fulfill Requirements

Develop list of alternative ways to fulfill requirements. Alternatives should be used when they will lead to the production of more affordable units than would otherwise be provided on-site, while still being consistent with the ordinance's other goals. Alternatives should be available where on-site production of units is less feasible, rather than as a default option for all developments.

Examples of these alternative ways include the following:

- Build affordable multi-family rental units within the development rather than affordable for-sale, single-family homes.
- Payment of in-lieu fees
- Off-Site construction – Require a higher percentage of inclusionary units if the developer selects this option. San Jose's Ordinance specifies a higher percentage.
- Land donation – Value of the land should not be lower than the total fees that would have been paid.

- Provide subsidies to a non-profit developer that constructs affordable rental units. Santa Cruz County has the following policy:

  Developer of the ownership residential project can provide financing to an off-site affordable housing project. Affordable developments receiving this funding must provide more than the number of affordable units which would otherwise have been required for the combined projects, or an equal number of affordable units required at a deeper level of affordability. (Note: Santa Cruz County no longer requires inclusionary rental units.)

<u>Issue #2: Minimum Project Size Subject to the Ordinance</u>

The minimum project size subject to the Ordinance is also referred to as the project threshold size. The Housing Committee wants the size of a subdivision that would be subject to the Ordinance to be increased from five units to 11 units. What impact would increasing the project size have on the program? How many subdivisions below 11 units have recently been built or planned in the County? Before considering whether to increase the minimum project size, it would be helpful to know the sizes of recent subdivisions in the County.

Also, would the threshold size for rental projects be the same as for-sale projects?

A study of inclusionary ordinances from nearby jurisdictions is also helpful when considering how to define minimum project sizes for rental and ownership projects in San Benito County.[1]

- The <u>City of San Jose</u> uses a threshold size of five units for both rental and for-sale projects.

- The <u>City of Watsonville</u> uses a threshold size of seven units for both rental and for-sale projects.

- <u>Santa Cruz County</u> recently increased its threshold size of for-sale unit projects from five to seven units, and rental projects pay fees, so project size is not relevant.

<u>Issue #3: Minimum Unit Sizes</u>

San Benito's Ordinance includes minimum unit sizes for for-sale housing. Since rental housing is being added, the County needs to consider what those rental unit sizes would be. However, another option is not to specify the exact sizes of the inclusionary units, but use more general language.

[1] At the end of this memo is a table that summarizes eight program parameters from three jurisdictions.

Of the three jurisdictions included in the comparative analysis, only one – Watsonville – includes unit size minimums. The City of San Jose and Santa Cruz County define minimum size on the basis of the sizes of the market rate units.

- The City of San Jose's Ordinance does not specify a minimum size and instead includes the following language for both rental and for-sale housing:

  Size requirements are based on a ratio between market rate and inclusionary units. Inclusionary needs to be at least 85% of market rate units containing a similar number of bedrooms.

- The City of Watsonville's Ordinance specifies unit size minimums which are the same for rental and for-sale housing. The sizes are slightly smaller than the minimum sizes for the for-sale housing in the current San Benito Ordinance.

- Santa Cruz County's Ordinance only specifies sizes for the for-sale housing as follows: Minimum size should not be less than 75% of the average sizes of market rate units unless the decision-making body decides that smaller units will provide adequate housing, and if larger unit sizes would impose financial hardships on developer.

Issue #4 – Affordability Targeting of Inclusionary Units – On-Site and Off-Site

The table presented at the end of this memo is based on San Benito County's current Ordinance and covers for-sale housing. The County may wish to consider modifying this table both for the for-sale housing and to add requirements for rental housing.

Issues to Consider:

- While the on-site and off-site requirements appear consistent with regards to the Ordinance for projects below 40 units for on-site and below 20 lots for off-site, once the these threshold sizes are reached, a developer can decide to provide more moderate-income units, since only a minimum number of units affordable at lower-incomes are specified. Would the County want to modify this so that more units would be required to be affordable at lower-income levels?

- How does the County want to modify these requirements for rental housing? Since there is a greater need for housing affordable to very low- and low-income households, the County may wish to consider establishing different affordability targeting for rental and for-sale housing. For example, since moderate-income households may have an easier time in finding affordable market rate rentals than very low- and lower-income households, a recommendation for different income targeting by tenure may be a good policy.

What can be learned from neighboring jurisdictions? First, consider what the affordability requirements are for on-site units.

- City of San Jose - For rental housing, current affordability requirements are 9% of total units at 80% AMI and 6% of total units at 50% AMI. San Jose is modifying its Ordinance and is proposing that 5% of the total units be affordable at 100% AMI, 5% of total units at 60% AMI, and 5% of total units at 50% AMI, or 10% of total units at 30%. For ownership units on-site, required inclusionary units are to be affordable to moderate-income households.

- City of Watsonville - For rental housing, 5% of the total units are to be affordable at the median income level, 5% of the total at the low-income level, 5% at the very low-income level and 5% for households participating in the Section 8 Program. For ownership housing, 5% of units to be targeted to above moderate-income households, 5% at median income, and 5% at moderate-income.

- Santa Cruz County - All inclusionary rental units (if provided) to be affordable at the low-income level, and all inclusionary ownership units to be provided at the moderate-income level.

Secondly, the affordability requirements for off-site units are as follow:

- City of San Jose For rental housing, 12% of the total units to be affordable at 60% AMI, and 8% of the total units to be affordable at 50% AMI. All of the off-site for-sale inclusionary units to be affordable at the moderate-income level.

- City of Watsonville –Projects located in the Downtown Core can provide off-site units, if the units are still built within the City limits. There does not appear to be any difference in income targeting between on-site and off-site units.

- Santa Cruz County – Rental housing does not have requirements, since fees are paid. Developers of ownership residential projects can provide financing to an off-site affordable housing project. Affordable developments receiving this funding must provide more than the number of affordable units than would otherwise have been required for the combined projects, or an equal number of affordable units required at a deeper level of affordability.

Issue #5 – Term of Affordability

Presently the Ordinance states that for-sale inclusionary units have resale restrictions for 30 years. If the unit turns over, the next buyer also faces a 30 year restriction. Rental housing is generally not treated the same way. Subsidized affordable rental housing is often funded with programs that require up to 55 years of rent restriction. So, would the County want to consider a different standard for rental housing than for for-sale housing?

Here are a few thoughts:

- Since very little rental housing is built in the County, would the County want to adopt a longer resale restriction – such as 55 years – which is standard for many programs that subsidize rental housing development?

- What are the financial impacts from resale restrictions? The answer is that these impacts are different for rental and for-sale housing.

  Rental inclusionary units – provide reduced revenues for as long as the restrictions apply. Whoever purchases the market rate rental building that includes some inclusionary units will have reduced revenues for as long as the restrictions apply.

  For-sale inclusionary units - developers only encounter reduced revenues upon the initial sale. Thereafter it is the future sellers of inclusionary units whose sales prices will be below market prices. However, these future sellers are the homeowners who have benefitted from the inclusionary program.

- What can make this even more complicated is that sometimes the developers of the rental inclusionary units may receive subsidies or increased densities, which have helped them create a feasible project.

- Thirty years is the current restriction in the Ordinance, assuming it is owned by the same buyer the entire time. So, the County could consider establishing a longer affordability restriction (55 years) for rental, and retain the 30-year sales price restriction for the for-sale units.

What can be learned from neighboring jurisdictions?

- City of San Jose – For rental housing, term of affordability is 55 years, and 99 years has been proposed, but not yet adopted. For ownership housing, affordability restriction is not less than 45 years.

- City of Watsonville – For rental housing, affordability restriction lasts the life of the unit unless a shorter term is required by government financial assistance. For ownership housing, the term is also the life of the unit.

- Santa Cruz County - For rental housing, the restriction is for life of the unit unless a shorter term is required by government financial assistance. For ownership housing, the term is the life of the unit.

Issue #6 – Inclusionary Percentages

At present, San Benito's Ordinance specifies that 15% of units built on-site and 20% of units built off-site are required to be inclusionary units. Should these percentages also apply to rental projects?

What can be learned from neighboring jurisdictions?

- City of San Jose – For rental and for-sale housing the inclusionary requirement is 15% of units if provided on-site, and 20% if provided off-site. This requirement does not vary by tenure.

- City of Watsonville – For rental housing, the requirement is 20% for rental housing, and 15% for ownership units. For ownership housing, this number increases to 20% if the project consists of more than 50 units. This requirement does not vary by off-site provision.

- Santa Cruz County – For both rental housing and ownership housing, the requirement is 15% on-site. There is no “set” percentage for off-site.

Current Ordinance - On-Site				
Size of Development	***Inclusionary Requirement (15%)***	***Moderate-Income***	***Low-Income***	***Very Low-Income***
1-4	**None**			
5 - 6	Payment of in-lieu fee			
7 - 13	Provide 15% inclusionary units	I unit + payment of in-lieu fee for fractional difference		
14 - 19	Provide 15% inclusionary units	l unit+ payment of in-lieu fee for fractional difference	1 unit	
20	Provide 15% inclusionary units	1 unit	1 unit	I unit
21 - 26	Provide 15% inclusionary units	I unit+ payment of in-lieu fee for fractional difference	1 unit	I unit
21 - 33	Provide 15% inclusionary units	2 unit+ payment of in-lieu fee for fractional difference	1 unit	I unit
34 - 39	Provide 15% inclusionary units	2 unit+ payment of in-lieu fee for fractional difference	2 unit	1 unit
40	Provide 15% inclusionary units	2 units	2 units	2 units
41 or More	**Provide** 15% inclusionary units	5% of all units - 2 units minimum	5% of all units - 2 units minimum	5% of all units - 2 units minimum

Current Ordinance - Off-Site				
Size of Development	***Inclusionary Requirement (20%)***	***Moderate-Income***	***Low-Income***	***Very Low-Income***
1-4	None			
5	Provide 20% inclusionary units	1 unit		
6 - 9	Provide 20% inclusionary units	I unit+ payment of in-lieu fee for fractional difference		
10	Provide 20% inclusionary units	1 unit	1 unit	
11 - 14	Provide 20% inclusionary units	I unit+ payment of in-lieu fee for fractional difference	1 unit	
15	Provide 20% inclusionary units	1 unit	1 unit	1 unit
16 - 19	Provide 20% inclusionary units	I unit+ payment of in-lieu fee for fractional difference	1 unit	1 unit
20 lots or More	Provide 20% inclusionary units	8% of all units (1 unit minimum) + payment of in-lieu fee for fractional difference	6% of all units (1 unit minimum)	6% of all units (1 unit minimum)

Summary of Inclusionary Ordinance Parameters
(Cities of San Jose and Watsonville and Santa Cruz County)

	City of San Jose		City of Watsonville		Santa Cruz County	
Ordinance Parameters	Rental	For-Sale	Rental	For-Sale	Rental	For-Sale
Unit size minimums if specified.	No specific size - instead requirements based on a ratio between market rate and inclusionary. Inclusionary needs to be at least 85% of market rate unit of similar number of bedrooms.	No specific size - instead requirements based on a ratio between market rate and inclusionary. Inclusionary needs to be at least 85% of market rate unit of similar number of bedrooms.	Minimum unit sizes are listed in a table included in the Ordinance. Sizes are the same regardless of tenure.	Minimum unit sizes are listed in a table included in the Ordinance. Sizes are the same regardless of tenure.	Most developers pay a housing impact fee (currently $2/SF) and do not build units.	Not less than 75% of the average sizes of market rate units unless decision-making body decides that smaller units will provide adequate housing and if larger unit sizes would impose financial hardships on developer.
Allocation of units by affordability categories – Does this vary by tenure?	Current Ordinance is 9% at 80% AMI and 6% at 50% AMI. Proposed is 5% at 100%, 5% at 60% and 5% at 50% or 10% at 30%	15% at moderate-income	Median (5%) , low (5%) or very low income household (5%) ; or Households participating in the Section 8 Program (5%)	Above Moderate (5%) Median (5%), and Moderate (5%)	Units are optional for rental projects	15% at moderate-income (80%-120% AMI)
Affordability restriction time period	99 years is proposed. Currently it is 55 years	The term of the restrictions shall be not less than 45 years	For the life of the unit, unless a shorter term is required by government financial assistance.	Life of the Unit	For the life of the unit, unless a shorter term is required by government financial assistance.	For the life of the unit
Project threshold sizes	Five or More	Five or More	Seven	Seven	Formerly Five Units, now N/A	Formerly five units now seven units
Are income groups different for the for-sale and for-rental units?	50% and 80% AMI	Moderate-Income Only	Median (5%) , low (5%) or very low income household (5%) ; or Households participating in the Section 8 Program (5%)	Above Moderate (5%) Median (5%), and Moderate (5%)	Low-Income	Moderate-Income
Development Incentives	25% discount from fee when market rate developers provide a financial contribution. Acq/Rehab is another option.	Alternative compliance mechanism are indicated, by not incentives. Acq/Rehab is another option.	If 50% or more of the units in the development are inclusionary units, then the project is entitled to priority processing.	If 50% or more of the units in the development are inclusionary units, then the project is entitled to priority processing.	Yes. Priority Processing & Enhanced Density Bonus	Yes. Priority Processing & Enhanced Density Bonus
Percentage of Required Inclusionary Units	15%	15%	20%	15% (20% if project is more than 50 units)	15%	15%
Off-Site Requirements if Different	20% (12% low-income at 60% AMI and 8% very low-income at 50% AMI)	20% (Moderate-Income)	Projects within the Downtown Core. Residential development projects and residential lot subdivisions of seven (7) or more units or lots that are located within the City of Watsonville's Downtown Core, may provide the required affordable units at a location outside of the Downtown Core but within the Watsonville City Limits.	Projects within the Downtown Core. Residential development projects and residential lot subdivisions of seven (7) or more units or lots that are located within the City of Watsonville's Downtown Core, may provide the required affordable units at a location outside of the Downtown Core but within the Watsonville City Limits.	NA	Developer of the ownership residential project can provide financing to an off-site affordable housing project. Affordable developments receiving this funding must provide more than the number of affordable units which would otherwise have been required for the combined projects, or an equal number of affordable units required at a deeper level of affordability.

HOUSING AFFORDABILITY GAP

REPORT

SUBMITTED TO

San Benito County

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Prepared by

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Introduction

This report concludes Task 1 (Update In-Lieu Fee Estimates for For-Sale and Rental Housing). The results of the Housing Affordability Gap are used to define the maximum in-lieu fee that can be charged, but does not inform policymakers what level of fee to adopt. The actual recommended fee levels would be based on additional considerations, such as financial feasibility and whether a jurisdiction prefers fee revenues or inclusionary units to be provided.

Housing Affordability Gap calculations in this initial report provide several calculations.

- Calculations that can be used to update the current for-sale in-lieu fees. Since two sources of information were used to establish the development and sales costs for new ownership housing, the tables included in this report provide two values based on two different data sources explained in this report. Ultimately, the County should select only one source to use for the Housing Affordability Gap.

- The rental housing calculation is new for San Benito County and can be used if the County decides to adopt an Inclusionary Program that includes rental housing as well as for-sale housing.

Housing Affordability Gap

In any community there are some households that are unable to afford to purchase or rent housing units at market rate prices. The difference between what households can afford to pay and the actual cost of market rate housing is referred to as the housing affordability gap. This gap is defined as the difference between a supportable mortgage based on affordable rents and estimated development costs for rental housing and the difference between affordable sales prices and the development costs (or sales prices) of new ownership housing. These differences (between actual costs and supportable mortgages) define the housing affordability gap. A separate gap figure is estimated for rental housing, for ownership housing, and a combined gap figure that covers both tenure options.

This affordability gap is used to define the maximum in-lieu fees for a jurisdiction's inclusionary housing program. However, the actual fee selected is based on additional considerations, such as maintaining financial feasibility of new construction.

There are three steps in calculating the housing affordability gap.

Step One: Estimate affordable rents and sales prices.

These affordable rents and sales prices are based on HCD incomes for each of the three groups – very low-income, low-income and moderate-income - covered by San Benito's Affordable Housing Regulations. While the income groups defined in these regulations provide a range of incomes, this analysis requires the selection of specific income levels. The following incomes were selected to represent these three major groups:

1) Very low-income (up to 50% Area Median Income or AMI). The income level of 50% AMI is used to represent very low-income households.

2) Low-income (51% - 80% AMI). The income level of 70% AMI is used to represent low-income households.

3) Moderate-income (81% to 120% AMI). The income level of 110% AMI is used to represent moderate-income households.

Table 1 presents the income levels used in the Housing Affordability Gap Calculation.

Table 1: Income Levels Tested in the Affordability Gap Calculation (1)

	Number of Persons in Household				
Income Category	**1**	**1.5**	**3**	**4.5**	**6**
Ownership Housing					
Very Low Income (50% AMI)	$29,575	$31,688	$38,025	$43,938	$49,000
Low Income (70% AMI)	$41,405	$44,363	$53,235	$61,513	$68,600
Moderate Income (110% AMI)	$65,065	$69,713	$83,655	$96,663	$107,800
Rental Housing					
Very Low Income (50% AMI)	$29,575	$31,688	$38,025	$43,938	$49,000
Low Income (70% AMI)	$35,490	$44,363	$53,235	$61,513	$68,600
Moderate Income (110% AMI)	$65,065	$69,713	$83,655	$96,663	$107,800

(1) All incomes calculated on the basis of HCD median income by household size for San Benito County (2019).

Source: HCD 2019

Step Two: Estimate how much each income group by household size can pay for rent or home purchase.

The next step is to estimate how much each of these household groups can afford to pay for rent and for purchase of homes. It is assumed that both renters and buyers would pay 30% of their incomes for housing costs. For renters, these costs include utilities as well as rent. For homebuyers, these costs also include utilities, as well as mortgage payments, private mortgage insurance, property taxes, hazard and casualty insurance, and some amount for routine maintenance.

- Subtracting Utility Costs from Incomes

Before estimating the resources that households have available for rent or home purchase, utility costs need to be subtracted from the 30% of total income that would be allocated for housing costs. What households pay for utility costs varies by unit sizes and tenure. Information for the types of utilities used by renters and owners are generalized from the most recent census data (2009-2013 American Community Survey 5-Year Estimates for San Benito County). The census reports on the types of utilities used separately for owners and renters. The Housing Authority of Santa Cruz provides information for utility allowances for the Cities of Hollister and San Juan Bautista. These utility allowances are current as of October 2019. Table 2 below provides utility estimates for the sizes of units included in the Housing Affordability Gap calculation and is modeled on utilities reported by tenure that is provided by the Census. In other words, the Census defines what utilities may be used, and the cost of these utilities (reported by number of bedrooms) is downloaded from the Housing Authority of Santa Cruz's website.

Table 2: Monthly Utility Allowances for Renters and Owners

	Unit Sizes				
Utility Type	**Studio**	**1 BR**	**2 BR**	**3 BR**	**4 BR**
Renter (Apartment)					
Heating (Gas)	$19	$24	$26	$29	$34
Cooking (Electricity)	$8	$10	$14	$18	$23
Other Electric	$31	$41	$53	$65	$84
Water Heating (Electric)	$19	$22	$29	$35	$42
Owner (Single Family)					
Heating (Gas)		$33	$37	$42	$46
Cooking (Electricity)		$10	$14	$18	$23
Other Electric		$54	$78	$107	$136
Water Heating (Electric)		$28	$36	$44	$51
Water		$55	$64	$73	$84
Sewer and Trash Collection		$121	$121	$121	$121
Total Monthly Cost, Renter	$77	$97	$122	$147	$183
Total Monthly Cost, Owner		$301	$350	$405	$461

Notes: Both owner- and renter-occupied units are assumed to use gas for heating, based on census data. 2009-2013 American Community Survey 5-Year Estimates - San Benito County

Percent of housing units with gas heating
67% of owner-occupied units
58% of renter-occupied units
Although not verified by census data, it is assumed that electricity is used for cooking. It is also assumed that renters do not pay for water, sewer and trash collection.
Source: Cities of Hollister and San Juan Bautista Utility Allowance All Programs October 2019.

- Additional income adjustments for buyers:

Since buyers need to cover additional expenses, mortgage payments need to be adjusted to account for these expenses. The assumptions regarding these expenses and sources of information are presented in Table 3 below:

Table 3: Lending Assumptions (for Ownership Housing)

	Assumption	Basis	Sources & Notes
Down Payment	5%	Sales Price	
Loan-To-Value (LTV) Ratio	95%		
Interest Rate (Annual)	3.59%		CalHFA; "Current Mortgage Rates", 1/30/2020
Term of Loan (Years)	30		
Maintenance Reserve (Annual)	$1,000	Fixed Amount	San Benito County Staff Communication on 2/3/2020
Homeowner Association Dues (Monthly, Condominiums)	NA		
Homeowner Association Dues (Monthly, SFR)	NA		
Property Tax Rate (Annual)	1.500%	Sales Price	San Benito County Tax Assessor Telephone Interview, January 30, 2020
Private Mortgage Insurance Premium Rate (Annual)	1.00%	Mortgage Amount	2019 Investopia (95% LTV, fair credit score, fixed payment)
Hazard and Casualty Insurance Rate (Annual)	0.57%	Sales Price	Median calculated from information provided at Insurance.Com website on 1/31/2020

It is assumed that there are no homeownership association dues (HOA).

Based on these assumptions for both renters and buyers, Table 4 presents the maximum sales prices and rents that are affordable for each income group and household size. It is assumed that the smallest size home to purchase consists of at least one bedroom, and studios are only included in the renter portion of this table.

Table 4: Affordable Sales Prices and Rents, San Benito County (2020

Household Size	1	1.5	3	4.5	6
Maximum Affordable Sales Prices					
Income Level		**1 BR**	**2 BR**	**3 BR**	**4 BR**
Very Low- Income (50% AMI)		$59,000	$75,000	$88,500	$98,000
Low-Income (70% AMI)		$106,000	$143,000	$153,000	$169,000
Moderate-Income (110% AMI)		$195,000	$240,000	$280,000	$310,000
Maximum Affordable Rents					
Income Level	**Studio**	**1 BR**	**2 BR**	**3 BR**	**4 BR**
Very Low Income (50% AMI)	$662	$695	$829	$951	$1,042
Low-Income (70% AMI)	$810	$1,012	$1,209	$1,391	$1,532
Moderate-Income (110% AMI)	$1,550	$1,646	$1,969	$2,270	$2,512

Sources: Tables 1, 2, and 3, and additional calculations undertaken by Vernazza Wolfe Associates.

Step Three: Estimate the Housing Affordability Gap for buyers and renters.

The first task in the gap calculation is to estimate development costs of modest market rate housing based on housing prototypes. In other words, the development costs utilized to calculate the Housing Affordability Gap are based on generalized developments and not specific developments. And, by focusing on "modest" housing, the gap calculation does not assume "top of the market" products and costs. Ideally, the housing prototypes included in the Study would be based on recent development activity. Since there is only limited development activity in unincorporated San Benito County (and virtually no rental housing construction), identifying development costs of new modest housing built in the unincorporated area was not possible.[1]

- **Calculating for-Sale Housing Costs**

Much of the new, for-sale housing in the unincorporated area is not built through the use of a subdivision approach, where many units are built at the same time. Instead, one or several homes may be built at the same time. Since San Benito County's Ordinance excludes developments of four or fewer units, it is somewhat problematic to use the costs of new homes in the unincorporated area to estimate for-sale development costs for use in the Housing Affordability Gap calculation. Nevertheless, two possibilities are presented in this report. Rather than deciding at this time whether to use housing cost data from new properties sold in the unincorporated area or cost data from a new subdivision in Hollister, both options are

[1] Staff at San Benito County and Housing Committee members were consulted several times regarding what developments in the unincorporated County to use in modeling the housing affordability gap. Unfortunately, there are no recent examples to consider. Although it is possible that in the future these types of developments would be built in the unincorporated area, this is not currently the situation. Therefore, the Study also presents cost information on recent developments within the City of Hollister.

provided below, and consequently, this report provides information on two Housing Affordability Gap calculations.

The first option is to use information obtained from sales provided by the Multiple Listing Service (MLS). This information source included all home sales in 2017 – 2019. This information was adjusted as follows:

Removed all houses that were built more than one year ago, since the focus is on new construction only.

Removed all houses on lots that were on one acre or more. And then later, removed all houses that were on lots that were 7,000 SF or larger. The reason for this is that the development costs used in an in-lieu fee study are generally for modest homes. The larger the lots, the grander the homes.

Removed all transactions of five-bedroom homes or more, since the largest house included in the gap calculation is a four-bedroom home.

The final number of transactions in the dataset was 18. The average of the median and mean was approximately $304/SF. The average house size was 2,133 SF.

The second option is to use development cost information for a new subdivision in Hollister. The average SF cost is $262. The average house size is 1,633 SF, smaller than the new homes sold in the County.

<u>What Development Figure to Use in the final Study?</u> Generally, new development in the unincorporated area could cost more. Lots may be larger, and development is accomplished through custom built homes rather than subdivision development. The Hollister single family project is closer to what housing economists refer to as "modest" single family homes. Lot sizes and interior square footage are smaller than the custom built homes in the unincorporated County. For now, no decision is being made about which costs to use, and instead, this report on the Housing Affordability Gap includes tables for both types of for-sale housing.

- **Calculating Rental Housing Development Costs**

The challenge of identifying rental housing costs is even greater, since <u>no</u> new apartment buildings were recently built. While there are some developers who may consider building apartments located in the unincorporated area in the future, the planning for these new buildings is not far enough alone for developers to have estimated development costs.

- **Housing Cost Results**

  For both for-sale and rental housing, the three principal cost areas are construction costs, land costs, and the costs of permits and other fees. Area developers are the best source of information on construction costs and other development cost assumptions, such as profit expectations. The information on development costs was provided by Hollister developers. For the MLS sales of single family homes in the unincorporated area, only the total sales price and the price per SF are provided (along with description information such as house and lot size, number of bedrooms and number of bathrooms).

  For-Sale Housing Costs Results

  Table 5 presents the sales prices for the 18 new homes sold in the unincorporated County in 2019. Based on this information, a square foot (SF) sales price of $304 is used in the Affordability Gap tables.

  The costs presented in Table 6 are based on a prototype that consists of 49 units, with two-car garages. The development consists of three- and four-bedroom homes all of which provide 2.5 bathrooms. The average unit size is approximately 1,630 SF. The total weighted cost per SF is $262.

Table 5: New Single Family Homes Sold since January 1, 2019, Unincorporated San Benito County

Price	Dollars/SF	Beds Total	Baths	Interior Size (SF)	Lot Size (SF)
$539,900	$322	3	2|0	1,675	5,040
$560,000	$306	3	2|0	1,832	5,389
$560,000	$306	3	2|0	1,832	6,187
$566,900	$306	3	2|1	1,850	5,090
$589,900	$352	3	2|0	1,675	5,389
$600,000	$216	5	3|0	2,775	5,001
$614,900	$332	3	2|1	1,850	5,389
$615,000	$254	4	3|0	2,422	5,389
$635,000	$317	4	2|0	2,003	6,059
$643,527	$266	4	3|0	2,422	6,187
$645,000	$349	3	2|1	1,850	5,058
$649,950	$323	4	2|0	2,013	6,098
$662,084	$273	4	3|0	2,422	6,887
$675,000	$263	4	3|0	2,571	6,890
$680,700	$340	4	2|0	2,003	6,825
$683,000	$341	3	2|0	2,003	6,121
$700,000	$259	4	3|0	2,703	4,463
$755,000	$302	4	3|0	2,500	6,299
Average	**$301**			**2,133**	**5,765**
Median	**$306**			**2,003**	**5,724**

Sources: San Benito County Multiple Listing Service and Vernazza Wolfe Associates.

Table 6: For-Sale Housing Development Costs

Description	Small Lot Single Family Homes
Number of Units	49
Average Unit Square Feet per Unit	1,633
Total Square Feet (Average SF multiplied by the number of units)	80,033
Parking	Attached two car garages
Average Lot Size	2,500 SF
Land Acquisition	$950,000
Site Improvements	$3,591,250
Construction Costs	$9,270,220
Soft Costs (Includes engineering, consultants, all fees and permits, legal fees)	$4,280,836
Additional Costs (includes general conditions, administrative, and financing)	$1,534,682
Sales Costs	$1,416,786
Total Cost Estimate	$21,043,774
Total Cost per Unit	$429,465
Total Weighted Cost per SF	**$262**

Rental Housing Costs

The costs presented in Table 7 are based on a prototype that consists of 41 units, with a parking ratio of 1.5 spaces per unit. There are one-bedroom units (approximately 800 SF), two-bedroom units (approximately 900 SF), and three-bedroom units (approximately 1,300 SF. The one- and two-bedroom units have one bathroom each, and the three-bedroom units have two bedrooms. The average cost per SF is $280.

Table 7: Rental Housing Development Costs

Cost Category	Amount
Total Land and Acquisition Costs	$525,140
Construction Costs	$7,900,863
Soft and Other Costs (Design, Engineering, Loans, Permits, Furnishings, Operating Reserves etc.)	$2,789,493
Subtotal Before Developer Fee	**$10,410,010**
Developer Fee	$861,864
Total Project Costs	**$11,271,874**
Total Units	41
Cost per Unit	$274,924
Cost per Square Foot (SF)	**$280**

Sources: Hollister Rental Housing audited development costs and Vernazza Wolfe Associates.

- Development Costs by Tenure and Unit Sizes

The next step is to use these costs to estimate costs to be used in the Housing Affordability Gap analysis for ownership and rental housing by unit sizes. Tables 8 and 9 provide this information for ownership housing, and Table 10 provides this information for rental housing.

Table 8: Housing Costs to Develop For-Sale Housing (Based on Recent Sales) for Four Unit Sizes

For-Sale Single Family Housing @ $304 per Net SF		
Number of Bedrooms	**Unit Size (net SF)**	**Development Costs**
1	900	$273,600
2	1,000	$304,000
3	1,500	$456,000
4	1,850	$562,400

Sources: Vernazza Wolfe Associates and recent new home sales.

Table 9: Housing Costs to Develop Modest, For-Sale Housing for Four Unit Sizes

For-Sale Single Family Housing @ $262 per Net SF		
Number of Bedrooms	**Unit Size (net SF)**	**Development Costs**
1	900	$235,800
2	1,000	$262,000
3	1,500	$393,000
4	1,850	$484,700

Sources: Vernazza Wolfe Associates and selected Hollister For-Sale Development Pro Formas.

Table 10: Costs to Develop Rental Housing for Five Unit Sizes

Rental Housing Cost @ $280 per Net SF			
Number of Bedrooms	**Unit Size (net SF)**	**Development Costs**	**Rounded Development Costs**
Studio	500	$140,034	$140,000
1	800	$224,054	$224,000
2	900	$252,061	$252,000
3	1,200	$336,081	$336,000
4	1,700	$476,115	$476,000

Sources: Vernazza Wolfe Associates and Hollister Rental Housing audited development costs.

The next task is to combine the cost information from Tables 8, 9 and 10 with the information on affordable sales prices and rents presented in Table 4. The difference between affordable prices and rents and development costs defines the Housing Affordability Gap. Tables 11 and 12 present this comparison for for-sale homes, and Table 13 presents similar information for rental housing.

Table 11: Affordability Gap for Ownership Housing (MLS Sales)

Income Level and Unit Type	Unit Size (SF)	Affordable Sales Price	Development Costs (a)	Affordability Gap (b)
Very-Low Income (50% of AMI)				
1 Bedroom	900	$59,000	$273,600	$214,600
2 Bedroom	1,000	$75,000	$304,000	$229,000
3 Bedroom	1,500	$88,500	$456,000	$367,500
4 Bedroom	1,850	$98,000	$562,400	$464,400
Average Affordability Gap				**$318,875**
Low Income (70% of AMI)				
1 Bedroom	900	$106,000	$273,600	$167,600
2 Bedroom	1,000	$143,000	$304,000	$161,000
3 Bedroom	1,500	$153,000	$456,000	$303,000
4 Bedroom	1,850	$169,000	$562,400	$393,400
Average Affordability Gap				**$256,250**
Moderate Income (110% of AMI)				
1 Bedroom	900	$195,000	$273,600	$78,600
2 Bedroom	1,000	$240,000	$304,000	$64,000
3 Bedroom	1,500	$280,000	$456,000	$176,000
4 Bedroom	1,850	$310,000	$562,400	$252,400
Average Affordability Gap				**$142,750**
Average Affordability Gap Across All Income Groups				**$239,292**

(a) Assumes $304/SF for development costs, based on new single family homes sold in the unincorporated County in 2019.
(b) Calculated as the difference between the affordable sales price and sales prices of new homes.
Sources: Vernazza Wolfe Associates and MLS lists of sold properties in 2019.

Table 12: Affordability Gap for Ownership Housing (Hollister Developments)

Income Level and Unit Type	Unit Size (SF)	Affordable Sales Price	Development Costs (a)	Affordability Gap (b)
Very-Low Income (50% of AMI)				
1 Bedroom	900	$59,000	$235,800	$176,800
2 Bedroom	1,000	$75,000	$262,000	$187,000
3 Bedroom	1,500	$88,500	$393,000	$304,500
4 Bedroom	1,850	$98,000	$484,700	$386,700
Average Affordability Gap				**$263,750**
Low Income (70% of AMI)				
1 Bedroom	900	$106,000	$235,800	$129,800
2 Bedroom	1,000	$143,000	$262,000	$119,000
3 Bedroom	1,500	$153,000	$393,000	$240,000
4 Bedroom	1,850	$169,000	$484,700	$315,700
Average Affordability Gap				**$201,125**
Moderate Income (110% of AMI)				
1 Bedroom	900	$195,000	$235,800	$40,800
2 Bedroom	1,000	$240,000	$262,000	$22,000
3 Bedroom	1,500	$280,000	$393,000	$113,000
4 Bedroom	1,850	$310,000	$484,700	$174,700
Average Affordability Gap				**$87,625**
Average Affordability Gap Across All Income Groups				**$184,167**

(a) Assumes $262/SF for development costs, based on new Hollister single family developments.

(b) Calculated as the difference between affordable sales price and total development costs.

Sources: Vernazza Wolfe Associates and recent Hollister developments

Table 13: Affordability Gap for Rental Housing

Income Level and Unit Type	Unit Size (SF)	Maxi-mum Monthly Rent (a)	Annual Rental Income	Net Operating Income (b)	Avail-able for Debt Service (c)	Suppor-table Debt (d)	Develop-ment Costs (e)	Afforda-bility Gap
Very-Low Income (50% AMI)								
Studio	500	$662	$7,949	$51	$41	$488	$140,000	$139,512
1 Bedroom	800	$695	$8,342	$425	$340	$4,060	$224,000	$219,940
2 Bedroom	900	$829	$9,944	$1,946	$1,557	$18,588	$252,000	$233,412
3 Bedroom	1,200	$951	$11,417	$3,346	$2,677	$31,959	$336,000	$304,041
4 Bedroom	1,700	$1,042	$12,504	$4,379	$3,503	$41,819	$476,000	$434,181
Average Affordability Gap								**$266,217**
Low Income (70% AMI)								
Studio	500	$810	$9,723	$1,737	$1,389	$16,588	$145,000	$128,412
1 Bedroom	800	$1,012	$12,145	$4,038	$3,230	$38,560	$232,000	$193,440
2 Bedroom	900	$1,209	$14,507	$6,281	$5,025	$59,987	$261,000	$201,013
3 Bedroom	1,200	$1,391	$16,690	$8,355	$6,684	$79,796	$348,000	$268,204
4 Bedroom	1,700	$1,532	$18,384	$9,965	$7,972	$95,167	$493,000	$397,833
Average Affordability Gap								**$237,780**
Moderate Income (110% AMI)								
Studio	500	$1,550	$18,596	$10,166	$8,133	$97,086	$145,000	$47,914
1 Bedroom	800	$1,646	$19,750	$11,262	$9,010	$107,559	$232,000	$124,441
2 Bedroom	900	$1,969	$23,633	$14,951	$11,961	$142,786	$261,000	$118,214
3 Bedroom	1,200	$2,270	$27,235	$18,373	$14,698	$175,469	$348,000	$172,531
4 Bedroom	1,700	$2,512	$30,144	$21,137	$16,909	$201,864	$493,000	$291,136
Average Affordability Gap								**$150,847**
Average Affordability Gap Across Three Income Groups								**$218,282**

(a) Affordable Rents are based on HCD FY 2019 Income Limits for San Benito County.
(b) Amount available for debt. Assumes 5% vacancy and collection loss and $7,500 per unit for operating expenses and reserves.
(c) Assumes 1.25 Debt Coverage Ratio.
(d) Assumes 3%, 15 year loan through Freddie Mac. Calculations based on annual payments.
(e) Assumes development cost of $280 per net square foot.

Sources: Vernazza Wolfe Associates and Hollister Rental Housing audited development costs.

The final task in calculating the Housing Affordability Gap is to combine the for-sale gap figure and the rental gap figure to estimate an overall gap amount. Since it is unknown whether in-lieu fees would be used for affordable rental housing or affordable for-sale housing, combining the two gap amounts allows flexibility. The average rounded Housing Affordability Gap based on the MLS sales is $228,800, and the average rounded Housing Affordability Gap based on recent Hollister developments is lower at $201,200. (See Tables 14 and 15.)

Table 14: Average Rental and For-Sale Housing Affordability Gap by Income Group (MLS Sales)

Income Level	For-Sale Gap (MLS)	Rental Gap	Average Affordability Gap (Buyers and Renters)	Average Affordability Gap (Rounded)
Very Low-Income (50% AMI)	$318,875	$266,217	$292,546	$292,500
Low-Income (70% AMI)	$256,250	$237,780	$247,015	$247,000
Moderate-Income (110% AMI)	$142,750	$150,847	$146,799	$146,800
			Average Gap	$228,767
			Average Rounded Gap	**$228,800**

Sources: Tables 11 and 13.

Table 15: Average For-Sale and Rental Housing Affordability Gap by Income Group (Hollister Developments)

Income Level	For-Sale Gap (Hollister Developments)	Rental Gap	Average Affordability Gap (Buyers and Renters)	Average Affordability Gap (Rounded)
Very Low-Income (50% AMI)	$263,750	$266,217	$264,984	$265,000
Low-Income (70% AMI)	$201,125	$237,780	$219,453	$219,500
Moderate-Income (110% AMI)	$87,625	$150,847	$119,236	$119,200
			Average Gap	$201,233
			Average Rounded Gap	**$201,200**

Sources: Tables 12 and 13.

Table 16 provides results of the average affordability gap per SF for-sale housing and for rental housing, and Table 17 provides results of the combined average affordability gap on a SF basis for for-sale and rental housing.[2]

[2] Since some jurisdictions charge in-lieu fees on a SF basis, both fee options (unit and SF) are provided here.

Table 16: Average For-Sale and Rental Housing Affordability Gaps per SF

	MLS Data-For Sale	Hollister Development For-Sale	Rental Housing
Number of Bedrooms	**Unit Size (SF)**		
Studio	NA	NA	500
1	900	900	800
2	1,000	1,000	900
3	1,500	1,500	1,200
4	1,850	1,850	1,700
Average Size	1,313	1,313	1,020
Average Housing Affordability Gap per Unit	**$239,292**	**$184,167**	**$218,282**
Average Housing Affordability Gap per SF	**$182**	**$140**	**$214**

Sources: Tables 8, 9, 14, and 15

Table 17: Combined For-Sale and Rental Housing Affordability Gaps per SF

Average Unit Size (Ownership and Rental Combined)	1,166 SF
Average Ownership and Rental Gaps per SF (with MLS Data and Rental Gap)	$196/SF
Average Ownership and Rental Gaps per SF (with Hollister Data and Rental Gap)	$173/SF

Source: Table 16

In-Lieu Fee Calculation

The Housing Affordability Gap amount provides policymakers with the information of what the <u>maximum</u> in-lieu fee could be, but not the amount that is financially feasible. Whether policymakers decide to select the lower <u>overall gap figure</u> (combining for-sale and rental housing gaps) of $201,200 per unit (based on smaller units in Hollister), or the higher one of $228,800 per unit (MLS data) will likely not change the final in-lieu fee amount that is selected for the following reason. Many jurisdictions do not charge an in-lieu fee that is equivalent to the entire Housing Affordability Gap, since it is generally not financially feasible. Another factor to consider is whether a jurisdiction wants to encourage the construction of on –site units or payment of fees. The higher the fee, the more likely a developer will provide inclusionary units instead of paying in-lieu fees.[3]

[3] https://inclusionaryhousing.org/designing-a-policy/off-site-development/in-lieu-fees/setting-the-in-lieu-fee/