

City of Vallejo
Inclusionary Housing Study
Focus Group Discussions

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Overview

- **Purpose and scope of study**
- **Approach and methodology**
- **Assumptions**
- **Findings and Conclusions**

Purpose and Scope



Purpose and Scope

- **Analyze economic impact of imposing inclusionary housing requirements on landowners and developers.**
- **Analyze compliance options, offsets and incentives the City can offer to developers to mitigate the economic effect of inclusionary housing requirements.**

Approach and Methodology



Economic Analysis Approach

- **Based on the cost of developing market-rate housing in Vallejo today**
- **Uses five housing prototypes modeling different types of renter and owner housing built in the City**

Per Unit Affordability Gap

Affordable sales price (owner housing)

Or:

**Supportable mortgage based on
affordable rents (renter housing)**

Less:

**Cost of developing an affordable owner
or renter housing unit**

Economic Analysis Approach

- **Analyze economic feasibility of housing development with and without affordable housing set-aside requirements, on a project-wide basis.**
- **Analyze economic value of offsets, incentives, and alternative compliance measures that can be provided to reduce economic cost to developer of providing affordable units.**

Incentives and Offsets

The following incentives were modeled in the economic analysis:

- **Density bonus (5% to 35% increase in density)**
- **10% reduction in size of affordable units**

Additional Incentives and Offsets

Additional offsets, incentives and alternative compliance measures for consideration:

- **Parking reductions**
- **Alternative product type for affordable units (e.g. townhome in lieu of detached home)**
- **Acquisition/rehabilitation of existing housing stock**
- **Extra credit for units with more bedrooms**

Land Residual Analysis

- **Approach commonly used by developers, lenders and investors to analyze feasibility and return from real estate development**
- **Land residual equals value of finished product (sales prices or capitalized net operating income) less total development costs**

Inclusionary Myth #1

Inclusionary housing increases the price of market-rate housing

Economic Reality

**Increases in development costs
DO NOT EQUAL increases in home
prices**

**Decreases in development costs
DO NOT EQUAL decreases in home
prices**

Economic Impact of Inclusionary Program

- **Calculate residual land value of housing prototypes with and without inclusionary requirements**
- **Calculate residual land value of housing prototypes with and without incentives and offsets**
- **Difference in residual land value determines feasibility and economic effect of program**

Assumptions

2006 Income Limits, Family of Four

Very Low Income 50% AMI	\$37,000
Low Income 80% AMI	\$59,200
Moderate Income 120% AMI	\$88,800

* Based on 2006 Median Income, \$74,000 for a family of four persons, Solano County.



Definition of Affordable Housing Expense

Renters

Very Low Income:

30% of 50% AMI for rent plus utilities

Low Income:

30% of 60% AMI for rent plus utilities

Rent calculated based on an occupancy of one person per bedroom plus one per California Health and Safety Code and Redevelopment Law.

Definition of Affordable Housing Expense

Owners

Moderate Income:

35% of 110% AMI for mortgage payments, homeowner association fees, property taxes, insurance, utility allowance and maintenance costs.

Sales price calculated based on an occupancy of one person per bedroom plus one per California Health and Safety Code and Redevelopment Law.



Renter Housing Prototype

Renter #1

Stacked Flat Apartments

150 Units

25 Units Per Acre

1, 2 and 3 Bedroom Units

700 to 1,100 SF Per Unit

On-Grade Parking



Owner Housing Prototypes: Detached

Owner #1

Low Density
90 Units
9 DU's/Acre
3, 4 and 5 BR Units
2,200 to 2,500 SF
Garages

Owner #2

Small Lot
100 Units
15.4 DU's/Acre
3 and 4 BR Units
1,700 to 2,200 SF
Garages

Owner Housing Prototypes: Attached

Owner #3

Medium Density
150 Units
20.7 DU's/Acre
2 and 3 BR Units
1,300 to 1,800 SF
Garages

Owner #4

Stacked Flat Condos
100 Units
100 DU's/Acre
1, 2 and 3 BR Units
825 to 1,325 SF
Underground
Parking (One Level)

Affordable Net Rent: Example

Two-Bedroom Unit
50% of Percent of Area Median Income, 2006

Annual Gross Income	\$33,300
Affordable Monthly Housing Cost (30%)	\$833
Less: Utility Allowance	\$97
Affordable Monthly Rent	\$736



Affordable Net Rents 2006

Percent of Area Median Income:	50% AMI	60% AMI
1 Bedroom	\$662	\$810
2 Bedroom	\$736	\$902
3 Bedroom	\$817	\$1,002
4 Bedroom	\$865	\$1,065



Market Rent Assumptions 2006

	Monthly Rent	Mo. Rent/SF
1 Bedroom	\$950	\$1.36
2 Bedroom	\$1,060	\$1.18
3 Bedroom	\$1,225	\$1.29
4 Bedroom	\$1,310	\$1.19



Affordable Mortgage Payment: Example

Two-Bedroom Attached
110% of Area Median Income, 2006

Income Used for Calculation	\$73,260
Affordable Mo. Housing Cost (35%)	\$2,137
Less: Utility Allowance	\$178
Less: HOA Fees	\$200
Less: Property Taxes/Assess.	\$270
Less: Property Insurance	\$125
Affordable Mortgage Payment (Principal and Interest)	<hr/> \$1,364



Affordable Sales Price: Example

Two-Bedroom Attached
110% of Area Median Income, 2006

Affordable Mortgage Payment (Principal and Interest)	\$1,364
Supportable Mortgage (30 Years, 6.48%)	\$216,200
Affordable Home Price (Includes 10% Downpayment)	\$240,200



Affordable Sales Prices 2006 (Moderate Income)

	Detached	Attached
1 Bedroom	N/A	\$213,800
2 Bedroom	N/A	\$240,200
3 Bedroom*	\$262,800	\$272,600
4 Bedroom	\$282,400	N/A
5 Bedroom	\$304,900	N/A

*Differences are due to variation in utility allowance
N/A = Unit size not modeled for housing prototype



Market Sales Price Assumptions 2006

	Detached	Attached
1 Bedroom	N/A	\$250,000
2 Bedroom	N/A	\$325,000
3 Bedroom*	\$475,000	\$350,000
4 Bedroom	\$540,000	N/A
5 Bedroom	\$640,000	N/A

*Source: Dataquick; DRA, August 2006



Density Bonus State Law

- Density bonus provided on a sliding scale depending on the percentage of very low and low income renter units and moderate income owner units.
- Number of additional incentives required, such as modification of site development standards, zoning code requirements, reduction in parking or other concessions with identifiable costs, based on percentage of affordable units.

Density Bonus State Law: Rental Housing

Very Low and Low Income Units

% Very Low Income	% Low Income	Percent Density Bonus
5%	10%	20.0%
8%	15%	27.5%
11%	20%	35.0%

Density Bonus State Law: Owner Housing

Moderate Income Units

% Moderate Income

% Density Bonus

10%

5.0%

15%

10.0%

20%

15.0%

30%

25.0%

40%

35.0%



Vallejo Prototypes: Density Bonus Example

Owner Prototype #3: Townhome

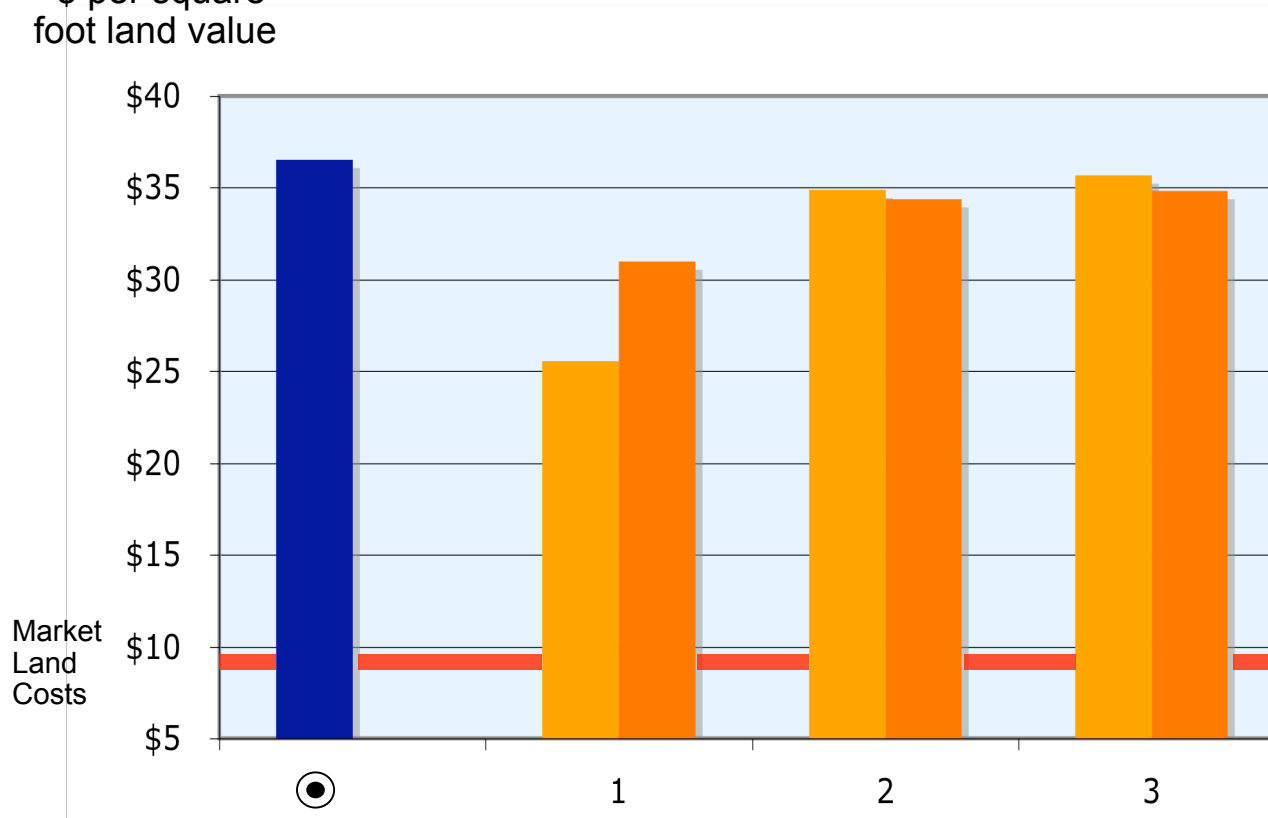
	Baseline Prototype	With 15% Density Bonus
No. of Units:	150 Units	173 Units
Density:	21 DU's/Acre	24 DU's/Acre
Land Cost:	\$9.47 M	\$9.47 M
Other Dev. Cost:	\$46.88 M	\$52.80 M
Total Cost:	\$56.35 M	\$62.27 M
Cost/Unit:	\$375,700	\$360,000



Findings and Conclusions

Owner Prototype 1: Low Density Single-Family Detached Vallejo

\$ per square
foot land value



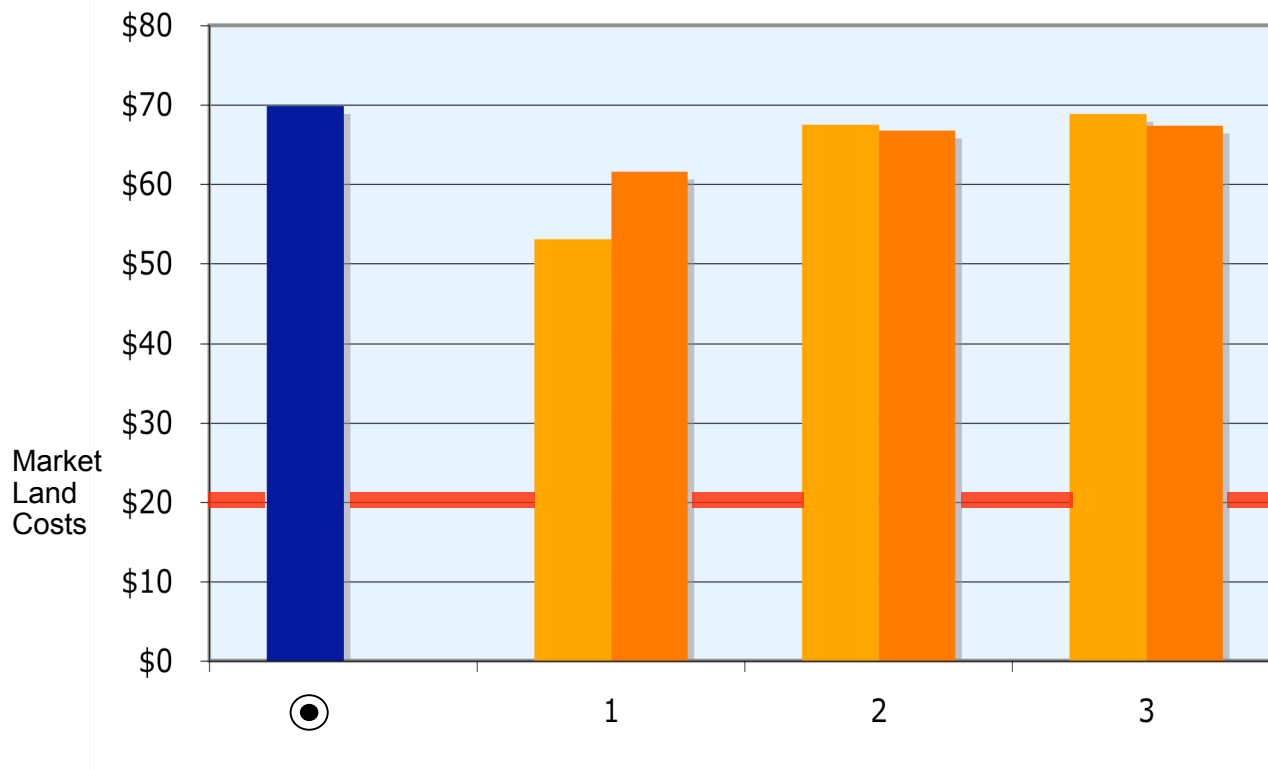
KEY: Incentive/Compliance Options

- ⊙ 100% Market-Rate Units
 - ① No offsets
 - ② 5% density bonus @ 10% set-aside @ 110% AMI
 - 15% density bonus @ 20% set-aside @ 110% AMI
 - ③ 5% density bonus @ 10% set-aside @ 110% AMI with 10% reduction in size of affordable units
 - 15% density bonus @ 20% set-aside @ 110% AMI with 10% reduction in size of affordable units
-
- 10% of total units affordable to households at 110% of the area median income
 - 20% of total units affordable to households at 110% of area median income



Owner Prototype 2: Small Lot Single-Family Detached Vallejo

\$ per square
foot land value



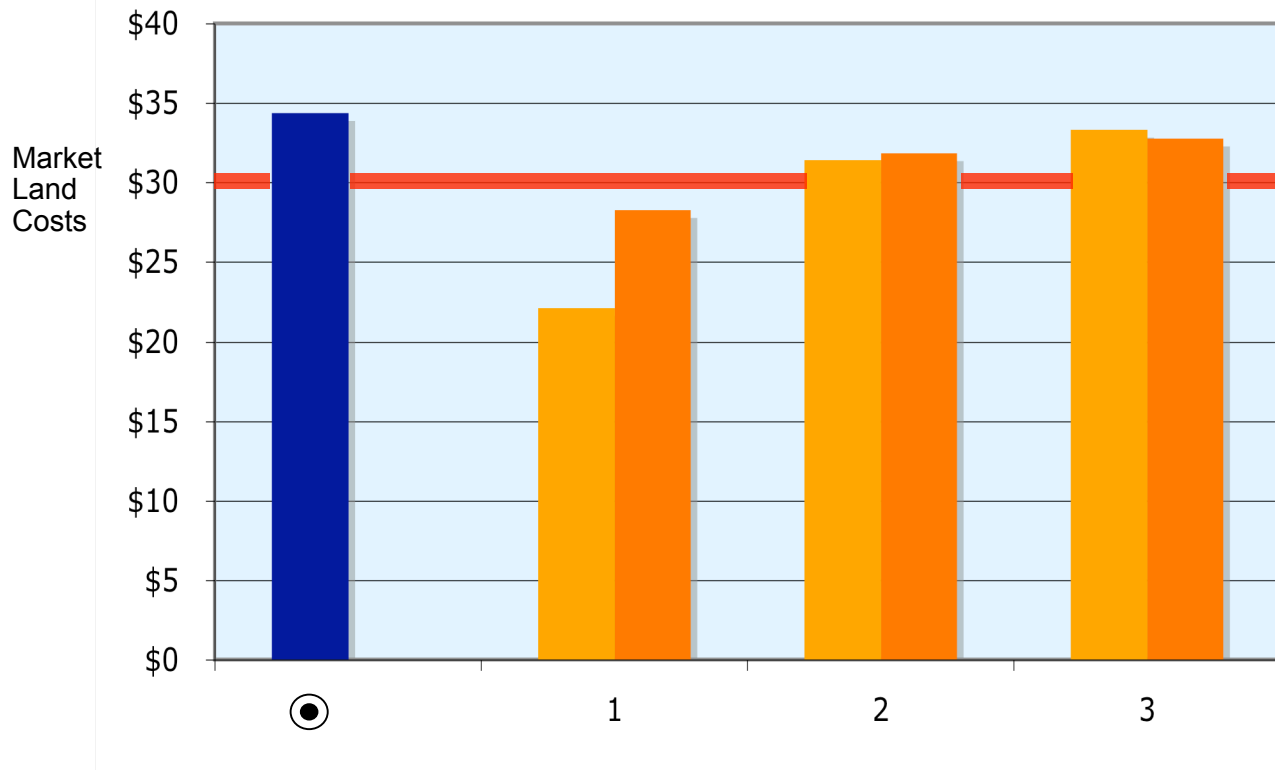
KEY: Incentive/Compliance Options

- ⊙ 100% Market-Rate Units
 - ① No offsets
 - ②
 - 5% density bonus @ 10% set-aside @ 110% AMI
 - 15% density bonus @ 20% set-aside @ 110% AMI
 - ③
 - 5% density bonus @ 10% set-aside @ 110% AMI with 10% reduction in size of affordable units
 - 15% density bonus @ 20% set-aside @ 110% AMI with 10% reduction in size of affordable units
-
- 10% of total units affordable to households at 110% of the area median income
 - 20% of total units affordable to households at 110% of area median income



Owner Prototype 3: Medium Density Single-Family Attached Vallejo

\$ per square
foot land value



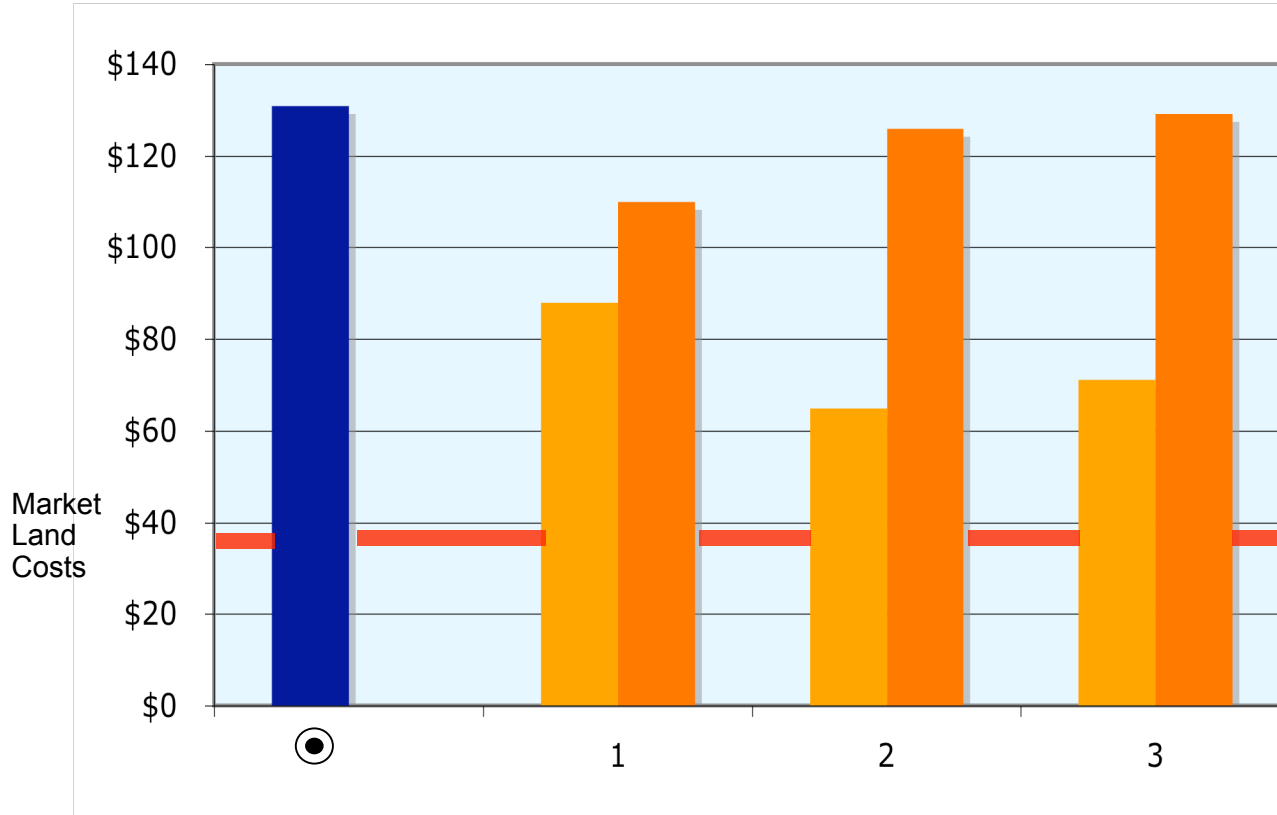
KEY: Incentive/Compliance Options

- ⊙ 100% Market-Rate Units
 - ① No offsets
 - ②
 - 5% density bonus @ 10% set-aside @ 110% AMI
 - 15% density bonus @ 20% set-aside @ 110% AMI
 - ③
 - 5% density bonus @ 10% set-aside @ 110% AMI with 10% reduction in size of affordable units
 - 15% density bonus @ 20% set-aside @ 110% AMI with 10% reduction in size of affordable units
-
- 10% of total units affordable to households at 110% of the area median income
 - 20% of total units affordable to households at 110% of area median income



Owner Prototype 4: Stacked Flat Condominium Vallejo

\$ per square
foot land value



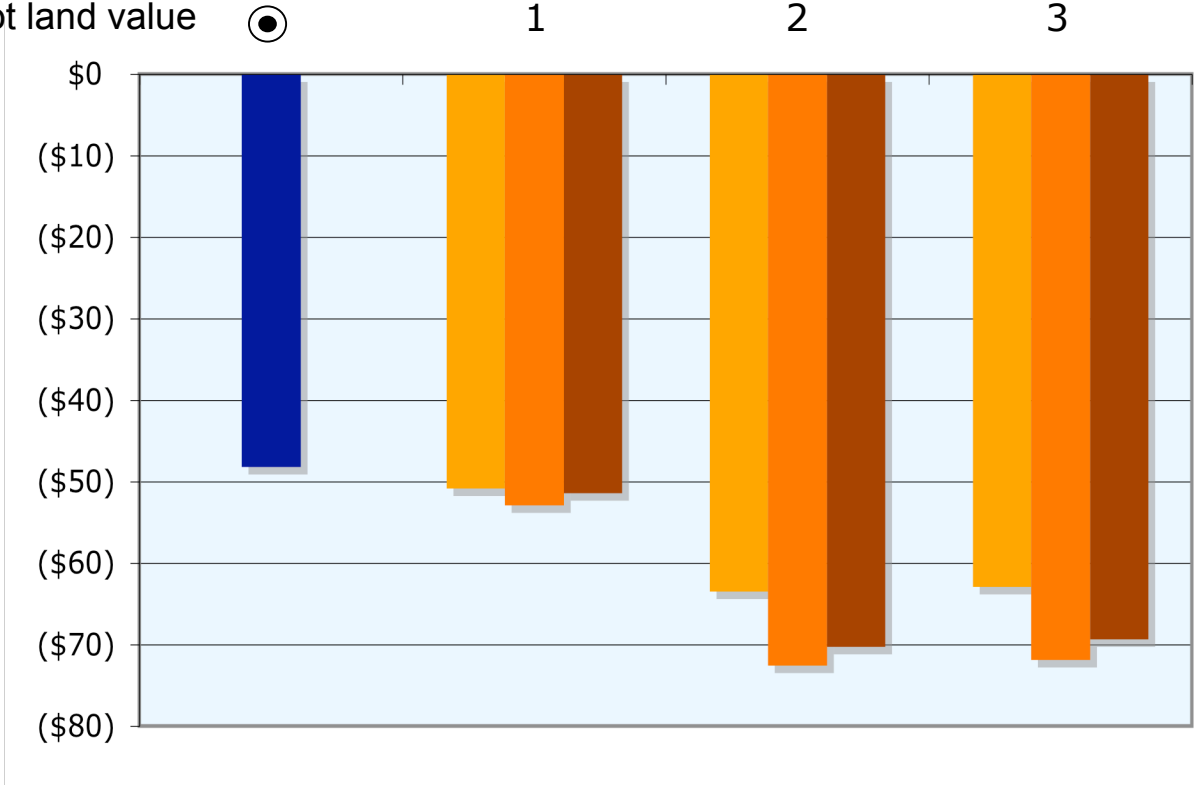
KEY: Incentive/Compliance Options

- ⊙ 100% Market-Rate Units
 - ① No offsets
 - ②
 - 5% density bonus @ 10% set-aside @ 110% AMI
 - 15% density bonus @ 20% set-aside @ 110% AMI
 - ③
 - 5% density bonus @ 10% set-aside @ 110% AMI with 10% reduction in size of affordable units
 - 15% density bonus @ 20% set-aside @ 110% AMI with 10% reduction in size of affordable units
-
- 10% of total units affordable to households at 110% of the area median income
 - 20% of total units affordable to households at 110% of area median income



Renter Prototype: Stacked Flats Vallejo

\$ per square
foot land value



KEY: Incentive/Compliance Options

- ⊙ 100% Market-Rate Units
- ① No offsets
- ②
 - 20% density bonus
 - 35% density bonus
 - 27.5% density bonus
- ③
 - 20% density bonus with 10% reduction in size of affordable units
 - 35% density bonus with 10% reduction in size of affordable units
 - 27.5% of units with 10% reduction in size of affordable units

- 5% of total units affordable to households at 50% AMI and 5% of total units affordable to households at 80% AMI
- 11% of total units affordable to households at 50% AMI
- 15% of total units affordable to households at 80% AMI



Findings of Land Residual Analysis

- Market-rate rental development is not economically feasible at rents and sales prices modeled.
- Owner housing prototypes generate land values in excess of market land costs and therefore produce surplus profits to developers
- Land residual on owner townhome prototype with affordability set-asides falls below market land value but is offset by density bonus; conservative home prices assumed

In Lieu Fee Based on Median Sales Price

Inclusionary Requirement:	10%	20%
Low Income Households	\$29,600	\$59,300
Moderate Income Households	\$15,400	\$30,800



In Lieu Fee Based on Gap to Cost Vallejo Housing Prototypes

Inclusionary Requirement:	10%	20%
Rental Stacked Flats	\$17,700	\$35,500
Owner Low Density	\$13,400	\$26,800
Owner Small Lot	\$8,700	\$17,400
Owner Townhome	\$13,500	\$27,000
Owner Stacked Flat	\$5,200	\$10,400



In Lieu Fee Options

- No in lieu fee option
- In lieu fees for fractional unit obligations
- In lieu fees for certain limited circumstances (e.g for owner but not renter housing)
- In lieu fees for specified geographic areas

Conclusions

- Market economics change over time; rental housing likely to become financially feasible over time
- Land values fluctuate for many reasons (e.g. interest rates, employment, imposition of new development impact fees).
- Economic effects of local government actions, e.g., zoning, impact fees, falling within natural fluctuation of land market will not disrupt land market