

**INCLUSIONARY
HOUSING STUDY**

San Benito County

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Prepared by

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INCLUSIONARY HOUSING STUDY

EXECUTIVE SUMMARY

This report provides detailed information on the Affordability Gap calculated for San Benito County, the Inclusionary Housing in-lieu fee calculated based on this gap, and the financial feasibility of the in-lieu fee. Since the work transpired over two years (2020 and 2021), adjustments have been made to the numbers to account for inflation during this time period.

The information in this report will assist policymakers in San Bento County to select an in-lieu fee that is best for the County.

Recommended in-lieu fees based on the analysis explained in this study are as follows:

	Large Lot Single Family Homes	Small Lot Single Family Homes
In-Lieu Fee Per Square Foot Based on the 15% Inclusionary Ordinance Requirement	\$30	\$23

INTRODUCTION

Purpose and Background

San Benito County adopted an affordable housing ordinance, revised in 2020, requiring that new market rate for-sale developments to provide affordable units with lower rents and or for-sale units. And new rental units also provide affordable rental units. While the County prefers affordable units to be built, it is essential that the County also implement an in-lieu fee to provide options for new developments. In-lieu fees cover fractional unit requirements and can also be used instead of providing affordable units on site. The Inclusionary Housing Study provides information on the fees that can be charged and includes an assessment of the financial feasibility of those fees.

While the County has had an Inclusionary Housing Ordinance since 2004, it had never adopted in-lieu fees. In addition, affordable rental housing was not included until the Affordable Housing Ordinance was amended in 2020. Consequently, at the end of 2020, the County code amending its Affordable Housing Regulations to include affordable rental housing and to provide an option for in-lieu fees to be paid (on both required units and fractional unit requirements).

This report provides the background information and in-lieu fee calculations for rental and for-sale housing. The maximum in-lieu fees were calculated for three different housing product types – single-family houses (scattered site), a single family subdivision, and rental apartments. The information presented in this report will assist public officials in deciding what fees to adopt and provide guidance regarding additional inclusionary housing policies.

Report Organization

The report is organized into the following sections:

- Overview of Inclusionary Housing and San Benito’s Ordinance Requirements.
- A summary of how in-lieu fees were calculated based on the Housing Affordability Gap. Detailed information of how this Gap was calculated is presented in Appendix B.
- Policy considerations in determining what fee level to adopt.

OVERVIEW OF INCLUSIONARY HOUSING AND SAN BENITO’S ORDINANCE REQUIREMENTS

Inclusionary Housing Programs generally refer to city and county planning ordinances that require or incentivize developers to build below-market-rate homes (both for-sale and rental affordable homes) as part of developing market-rate housing developments. More than 500 local jurisdictions in the United States have implemented inclusionary housing policies. Inclusionary requirements have been adopted in various places—big cities, suburban communities, and small towns. More than 170 jurisdictions in California – both cities and counties – have adopted Inclusionary Zoning Ordinances.

As part of the County’s work to compute an in-lieu fee, the County concluded that the Affordable Housing Regulations, which defined requirements under an Inclusionary Zoning Ordinance, would need to be updated to include rental housing. Requirements in the revised Ordinance (adopted at the end of 2020) that are used to assess financial feasibility are as follows:¹

- On-Site Inclusionary Requirements Based on Development Size for For-Sale Housing and Rental Housing. These requirements include both percentages and income targeting.

¹ https://codelibrary.amlegal.com/codes/sanbenitocounty/latest/sanbenito_ca/0-0-0-8514#JD_Chapter21.03

- Terms of Affordability and Occupancy Restrictions. This directly impacts rental housing feasibility since the terms of affordability define how long an owner will receive reduced rents.

Other important policies are included in the Ordinance, but these do not directly impact the financial feasibility of including affordable units on-site. For example, alternative means of compliance, such as providing affordable units off-site, or providing land for future affordable housing development, are beneficial strategies that also help expand the supply of affordable housing.

What is considered affordable housing? Affordable rents and sales prices are based on the State of California's Housing and Community Development 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 required 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.

The income limits for each of these groups vary by household size. The larger the household, the higher the income due to higher living expenses.

IN-LIEU FEE CALCULATION

The work to calculate the in-lieu fee took place in the early part of 2020. Almost two years have passed between the commencement of the calculations and this report. Given that there have not been significant shifts in interest rates, development costs, and housing market conditions, these computations from 2020 are still reasonable. However, to ensure that the fee is still valid for 2021/2022, the Consumer Price Index (CPI) is used to adjust the maximum fee calculation by four percent.

Housing Affordability Gap

In any community, some households 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 of new ownership housing. These differences (between actual costs and supportable mortgages) define the housing affordability gap. Separate gap figures are estimated for rental housing and for two types of ownership housing, as well as a combined gap figure that covers both tenure options.

This affordability gap defines 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 the 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 selecting 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 represents 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 (and household sizes) used in the Housing Affordability Gap Calculation.

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

Income Category	Number of Persons in Household				
	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. Detailed information on how incomes were adjusted for housing is available upon request.

Table 2 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 2: 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

Step Three: Estimate the Housing Affordability Gap for Buyers.

The first task in the gap calculation is to estimate the costs of modest market rate housing based on housing prototypes. 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 in the unincorporated County. Since there is only limited development activity in unincorporated San Benito County (and virtually no rental housing construction), identifying actual costs of new modest housing built in the unincorporated area was not possible. The two types of for-sale housing analyzed in this study reflect two different types of for-sale housing currently built in San Benito County and Hollister.

- The first are houses built on larger lots. These are built “one at a time” and are not part of a planned subdivision. It is assumed that the average unit size is 2,100 SF, and the lot size is 5,800 SF (or eight units to the acre).
- The second type of for-sale housing are units that are built as part of a planned development, and include townhomes. It is assumed that the average unit size is 1,600 SF, and the lot size is 2,500 SF (or seventeen units to the acre).

The principal difference in the affordability gap calculation (illustrating that the “one at a time” units are costlier) is due to larger lot and unit sizes for the single family homes.

Estimates of both development costs and sales costs were used to estimate the financial information that is needed to calculate in-lieu fees for the two prototypes:

1. Sales prices of new single family homes sold in the unincorporated County in 2019. This information was obtained from the Multiple Listings Service (MLS). Large houses and those located on larger lots were excluded since these do not represent “modest” housing.
2. The second prototype is a planned townhome development in Hollister. The developer provided the cost information.

The gaps between what very low-income, low-income and moderate-income households can pay for for-sale housing (two examples) are presented in Table 3 below. These gaps are then averaged across the income groups to estimate both the affordability gap per unit and the affordability gap per square foot. These gaps are then averaged across the income groups. These housing affordability gaps are used to define the maximum in-lieu fees that can be charged for a full inclusionary unit. Since the maximum inclusionary requirement in San Benito County is fifteen percent, fifteen percent of the affordability gap is used to calculate in-lieu fees.

The County can decide to charge two different fees based on these two housing prototypes or develop an average of these two fees. Implementation of the inclusionary policy requirement will be the responsibility of the Planning and Building Department. The fees presented in this Study represent the maximum fee that can be charged, but the actual amount to be required will be determined at the time that a developer submits an application for a new project.

What is important to remember is that the actual in-lieu fee to analyze must be based on the Inclusionary Housing Ordinance. This Ordinance specifies that 15% of market rate units must be affordable. Consequently when looking at financial impacts from the proposed in-lieu fee, it is necessary to use 15% of the full affordability gap when analyzing potential fee levels.

Table 3: Average For-Sale Housing Affordability Gaps per Unit and the Average Housing Affordability Gap Estimated on a Square Foot Basis

	Type of Residential Unit	
	Large Lot Single Family	Small Lot Single Family
Updated Housing Affordability Gap Reflecting a 4% Inflation Rate since Housing Affordability Gap was Originally Estimated	\$258,661	\$199,576
Housing Affordability Gap per SF Adjusted for Inflation between 2020 and 2022 (increase of 4%)	\$197	\$152
In-Lieu Fee Per SF Based on the 15% Inclusionary Ordinance Requirement, if full gap is used. (1)	\$30	\$23

(1) Defined as 15% of the full gap – computed as 15% of \$197 for large lot single family homes and 15% of \$152 for small lot homes.

POLICY CONSIDERATIONS IN DETERMINING WHAT FEE LEVEL TO ADOPT

The housing affordability gap amount provides policymakers with the information of what the maximum in-lieu fee could be, but not the amount that is financially feasible. Many jurisdictions do not charge an in-lieu fee that is equivalent to the entire housing affordability gap, in the event that it would not be 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.²

Issues to consider include the following:

² <https://inclusionaryhousing.org/designing-a-policy/off-site-development/in-lieu-fees/setting-the-in-lieu-fee/>

1. How much do the calculated in-lieu fees raise development costs in San Benito County and impact financial feasibility?
2. How do the calculated fees compare with in-lieu fees in other jurisdictions?
3. How do the calculated in-lieu fees compare with the County's existing fees?
4. How will the fees support the Housing Strategy?
5. Development Incentives, including Density Bonuses

This initial study addresses the first two items on this list.

Financial Feasibility

The assessment of financial feasibility is modeled on two prototypes of residential developments in the County and City of Hollister. These prototypes include a single family home subdivision and small lot townhomes.

In order to assess feasibility it is necessary to make assumptions about costs, revenues and return on costs. Based on the two housing prototypes, the feasibility assessment of a 15% inclusionary requirement presented in Table 4 examines the maximum fees per unit that that could be charged on the two residential prototypes.

Table 4: Results of In-Lieu Fee Scenarios and Financial Feasibility

Revenue Testing as a Percent of Development Costs	Large Lot Single Family (2,100 SF)	Small Lot Single Family (1,600 SF)
Base Case - No In-Lieu Fees		
Base Case Return - Net Value After Costs are subtracted (1)	\$241,053	\$338,024
Net Value as a Percentage of Total Development Costs	51%	90%
Amount of Maximum Fee per SF (15% of Affordability Gap)	\$30	\$23
Net Value After In-Lieu Fees are subtracted (1)	\$148,683	\$271,933
Net Value as a Percentage of Total Development Costs	28%	72%

(1) Cost Calculations exclude development fee and return on capital, since these vary more across developments.

For both large lot and small lot single family homes, the maximum in-lieu fees are \$30 per SF and \$23 per SF respectively. Will these prototype residential units still be financially feasible with this new fee? One indicator of financial feasibility that is used in these fee studies is the

percentage of net value divided by total development costs.³ At this time (2022) this indicator (net value divided by total development costs) needs to have a positive value of a minimum of eight percent to be deemed financially feasible.

For both prototypes, adopting the maximum fee would not result in major impacts on revenues for developers. Small Lot Single Family Homes are the most profitable given current assumptions regarding development costs and sales revenues. Compared to single family homes on larger lots, development costs are a little higher per SF. However, since the units are smaller, the overall costs are lower than large lot homes, while the revenues are very similar.

When looking at the base case for the two for-sale prototypes, the developments are profitable. Since rental housing is infeasible even before an in-lieu fee is added, it has not been included in this study. The net value as a percentage of total development costs on rental development generates a negative return. Since there is only limited rental housing construction in San Benito County, only one comparable was available to analyze costs which showed a negative return even without a new fee being charged. If an in-lieu fee is to be charged on rental housing, discussion with rental housing developers would be useful to fine-tune information on construction costs which are critical for determining feasibility of county fees.

Both types of for-sale housing would be feasible given the maximum in-lieu fees calculated in 2020/2021 and updated for inflation. The feasibility indicator used in this study (net value as a percentage of total development costs) remains well above the eight percent threshold amount. So, if the County were to adopt a SF in-lieu fee of \$30 for large lot homes, and \$23 per SF for small lot homes, these fees will be financially feasible.

Policy Considerations Regarding What Level of In-Lieu Fee to Adopt

An in-lieu fee computation provides information on the maximum fee that could be adopted. However, there are additional considerations regarding the fee aside from financial feasibility. This section addresses those considerations.

Changing Market Conditions that Could Change Values

The housing market does not remain static, but changes over time. If these changing market conditions impact the information used in the in-lieu fee calculation, then the fee amount would change.

³ https://default.sfplanning.org/plans-and-programs/housing/affordability-strategy/HAS_Feasibility_and_Dev_Costs_Final.pdf

Impact on Developers

It is always important to consider how changes to existing policies will impact developers and their interest in constructing new properties.

- If a fee is now established, will developers decide to develop in areas with lower fees, if this helps their project to “pencil out?”
- Would developers change the type of residential developments they are building in order to lower costs (e.g., smaller units)?
- Finally, will developers increase their sales prices, which in turn, could reduce new development affordable to the missing middle?

Computing Fees for Fractional Units

Guidance for computing fees for fractional units is provided by the County’s Affordable Housing Regulations. These are available on the County’s website at the following URL:

https://codelibrary.amlegal.com/codes/sanbenitocounty/latest/sanbenito_ca/0-0-0-8514#JD_Chapter21.03

Relevant paragraphs for computing fees for fractional units are presented in Appendix A.

An example of how fractional fees could be computed for a 25-unit townhome development is presented in Table 5. This is only one example. It is important to understand that the actual calculation of fees is undertaken on a project by project basis in conjunction with County staff and the developer.

Table 5: Example of Calculating Fractional Fees for a 25-Unit Townhome Subdivision

Townhome In-Lieu Fee Per SF	\$23
Average Unit Size (SF) in this Example	1,600
In-Lieu Fee per Unit	\$36,800
Affordable Units Required for a 20-Unit Townhome Development	3
Affordable Units Required for a 27-Unit Townhome Development	4
In-Lieu Fees Required for Five Units Based on the Difference Between a 20 Unit Subdivision and a 27 Unit Subdivision (5/7 or 71% of the In-Lieu Fee of One Unit)	\$26,128

- A 20-unit requires 2 affordable units.
- A 27-unit development requires 3 affordable units.
- In this example, an additional seven units (going from 20 to 27 units) triggers the requirement for an additional affordable unit.
- So, the fractional fee is based on 5/7 (the ratio of the additional units above 20 units, for this example is 25 units, to the threshold size of 27 units that would require another affordable unit).
- This ratio (5/7) can be expressed as a percentage (71%). Then multiply the full housing affordability gap (\$36,800) by this percentage (71%) to generate the fractional fee of \$26,128.

Another consideration regarding fractional unit requirements is whether the fractional units would result in a “rounding down or a rounding up.” If fees were not charged, then in the 25-unit subdivision example, the number of affordable units could be rounded up, so that the unit requirement would be for four affordable units. If the example was for a 22-unit subdivision, then the number of affordable units could be rounded down, so that the same affordable unit requirements for a 20-unit subdivision would apply to a 22-unit subdivision.

The advantage of the use of an in-lieu fee is that the full affordable housing requirement is always met through the provision of affordable units as well as in-lieu fees, when needed.

What are In-Lieu Fees in Surrounding Jurisdictions?

Both counties and cities in California have adopted Inclusionary Housing Programs. It is helpful to consider the proposed in-lieu fee within the context of fees that are charged in nearby jurisdictions. Note: In order to know exactly what fees are currently charged, it would be necessary to contact staff within these jurisdictions, since on-line information is not always current.

Santa Cruz County - On-line information on Santa Cruz County is by far the most detailed of the four jurisdictions discussed here.⁴ Table 6 presented below shows that Santa Cruz County fees vary based on the size of the project, with smaller projects paying

⁴ <https://www.sccoplanning.com/Portals/2/County/userfiles/34/AHG%20May%202020%20Final%20Clean.pdf>

lower fees. While the square foot fee is lower than those proposed for San Benito County, fees are charged on all new residential developments, regardless of the number of units. In contrast, San Benito County's Affordable Housing Program does not require projects of less than 11 units to pay fees or provide inclusionary units.

Table 6: RESIDENTIAL OWNERSHIP PROJECTS – Santa Cruz County Developments of multiple homes for sale and/or single-family home projects				
	New Single-Family Home	Single Family Home Additions, Remodels and Replacements: Net, new square foot area greater than 500 SF	2 - 4 Home Projects	5+ Home Projects
Up to 2,000 square feet	\$2	\$2	\$7	\$15
2,001-2,500 square feet	\$3	\$3	\$8	\$15
2,501-3,000 square feet	\$5	\$5	\$10	\$15
3,001-4,000 square feet	\$10	\$10	\$12	\$15
4,001 square feet and up	\$15	\$15	\$15	\$15

* Fees stated are Per Square Foot

- Monterey County: Monterey County's Ordinance is in the process of being updated now, and draft updates do not provide fee information.
- City of Watsonville – Fees adopted in December 2019 are as follows: \$19,008 per single family unit and \$7,312 Per Unit for all multifamily housing, including rental and for-sale, (as well as conversions).
- City of Salinas - The residential in-lieu and rental housing impact fees were established as \$12 per SF as of the date the City Council adopted the Ordinance (2017). The fee is charged on the size of the residential unit. The information available on-line does not indicate whether the fee has been updated in the last four years.

Preference for Revenues Instead of Units

One more consideration is whether San Benito County prefers the provision of inclusionary units over payment of fees. San Benito County's Ordinance specifies that the threshold project size is 11 units and since a project of this size would also need to provide an affordable unit, this comparison (fees versus units) is not straight-forward. (See Appendix A.)

There are other considerations in assessing what is best, such as whether there are active nonprofit developers in the area who are experienced in leveraging funds and could benefit from the in-lieu revenues that the County could provide.

Appendix A: San Benito County Inclusionary Unit Requirements

Appendix A provides information on relevant sections of the County's Affordable Housing Regulations.

§ 21.03.008 IN-LIEU PAYMENT AND OTHER ALTERNATIVE COMPLIANCE MECHANISMS.

(A) For both on-site and off-site construction, unless an exemption is approved by the Board of Supervisors pursuant to division (C) below, the applicant shall be required to build the whole number of inclusionary units as determined in division (C) below. The Director of Resource Management Agency or his or her designee shall calculate and update the in-lieu fees on an annual basis based on the annual increase in the Residential Construction Cost Index to adjust the in-lieu fee annually as part of the Master Fee Schedule.

(B) *Fractions of units.* Residential developments required to construct fractions of a unit under this chapter may pay an in-lieu fee in an amount corresponding to the fractional unit, computed by multiplying the in-lieu fee amount determined under division (C) below by the fraction.

(C) *Qualification for in-lieu payment.* The developer of a residential development containing 11 or more units may elect to pay a fee in lieu of providing some or all of the required inclusionary units if the developer demonstrates, based on evidence in the record, in connection with the first approval for the residential development, that specific characteristics of the development site, such as lack of access to services, zoning which requires large lot development, or potentially high site maintenance costs, make the site unsuitable for households at the required income levels. The evidence must be reviewed by the Planning Commission for first approval and the qualification for an in-lieu payment must be approved by the Board of Supervisors.

(D) *Payment amount.* Inclusionary fees shall be set forth by resolution of the Board of Supervisors and shall reflect the findings found in § [21.03.001](#)(G).

(E) *Time of payment.* Payment of in-lieu fees shall be made in full to the county prior to issuance of a certificate of occupancy and final inspection, unless an affordable housing agreement otherwise provides.

(F) Alternative compliance mechanisms should be used only when they will lead to the production of more affordable units than would otherwise be provided on-site, while still being consistent with the chapter's other goals. Also, alternatives should be made available where on-site production of units is less feasible, rather than as a default option for all developments. Examples of alternative mechanisms include (but are not limited to) the following: land donation, construction of rental units adjacent to for-sale projects, and provision of subsidies to non-profit developers for affordable rental housing.

(Ord. 951, § 1(part), 2016; Ord. 1,014, § 9, 2020)

On-Site For-Sale Inclusionary Requirements (15%)			
<i>Size of Development</i>	<i>Inclusionary Requirement</i>	<i>Moderate- Income (81%- 120% AMI)</i>	<i>Low- Income (51% - 80% AMI)</i>
1-10	None		
11-13	Provide 15% inclusionary units + fractional fee	1 unit	
14-19*	Provide 15% inclusionary units + fractional fee	1 unit	1 unit
20	Provide 15% inclusionary units	2 units	1 unit
21 - 26 *	Provide 15% inclusionary units + fractional fee	2 units	1 unit
27 - 33	Provide 15% inclusionary units + fractional fee	2 units	2 units
34 - 39 *	Provide 15% inclusionary units + fractional fee	3 units	2 units
40	Provide 15% inclusionary units	3 units	3 units
41 lots or More *	Provide 15% inclusionary units + fractional fee	10% of all units	5% of all units
* Note: Fractional Units, regardless of project size or on-site or off-site still pay in-lieu fees.			

On-Site Rental Unit Inclusionary Requirements (15%)				
<i>Size of Development</i>	<i>Inclusionary Requirement</i>	<i>Very Low-Income (>50% AMI)</i>	<i>Low-Income (51% - 80% AMI)</i>	<i>Moderate-Income (81% -120% AMI)</i>
1-10	None			
11-13	Provide 15% inclusionary units + fractional fee	1 unit		
14 - 19 *	Provide 15% inclusionary units + fractional fee	1 unit	1 unit	
20	Provide 15% inclusionary units	1 unit	1 unit	1unit
21 - 26 *	Provide 15% inclusionary units + fractional fee	1 unit	1 unit	1 unit
21 - 33 *	Provide 15% inclusionary units + fractional fee	2 units	1 unit	1 unit
34 - 39 *	Provide 15% inclusionary units + fractional fee	2 units	2 unit	1 unit
40	Provide 15% inclusionary units	2 units	2 units	2 units
41 or More *	Provide 15% inclusionary units + fractional fee	5% of all units	5% of all units	5% of all units
* Note: Fractional Units, regardless of project size or on-site or off-site still pay in-lieu fees.				

Off-Site For-Sale Inclusionary Requirement (20%)			
<i>Size of Development</i>	<i>Inclusionary Requirement</i>	<i>Moderate-Income (81%-120% AMI)</i>	<i>Low-Income (51% - 80% AMI)</i>
1 - 10	None		
11 - 14 *	Provide 20% inclusionary units + fractional fee	1 unit	1 unit
15	Provide 20% inclusionary units	2 units	1 unit
16 - 19 *	Provide 20% inclusionary units + fractional fee	2 units	1 unit
20 lots or More *	Provide 20% inclusionary units + fractional fee	12% of all units	8% of all units
* Note: Fractional Units, regardless of project size or on-site or off-site still pay in-lieu fees.			

Off-Site Rental Unit Requirement (20%)				
<i>Size of Development</i>	<i>Inclusionary Requirement</i>	<i>Very Low-Income(50% AMI)</i>	<i>Low-Income (51% - 80%)</i>	<i>Median-Income (100%)</i>
1-10	None			
11 - 14 *	Provide 20% inclusionary units + fractional fee	1 unit	1 unit	
15	Provide 20% inclusionary units	1 unit	1 unit	1 unit
16 - 19 *	Provide 20% inclusionary units + fractional fee	1 unit	1 unit	1 unit
20 lots or More *	Provide 20% inclusionary units + fractional fee	5% of all units	10% of all units	5% of all units
* Note: Fractional Units, regardless of project size or on-site or off-site still pay in-lieu fees.				

Appendix B: Detailed Housing Affordability Gap Calculations Used

Introduction

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 report provide several calculations for two for-sale project examples and one rental project.

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:

- 4) 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.
- 5) Low-income (51% - 80% AMI). The income level of 70% AMI is used to represent low-income households.
- 6) Moderate-income (81% to 120% AMI). The income level of 110% AMI is used to represent moderate-income households.

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

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

Income Category	Number of Persons in Household				
	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

(2) 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 B-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 B-2: Monthly Utility Allowances for Renters and Owners

Utility Type	Unit Sizes				
	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 B-3 below:

Table B-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 B-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 B-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 B-1, B-2, and B-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.⁵

- **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 still 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,

⁵ 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.

both options are provided below, and consequently, this report provides information on two for-sale Housing Affordability Gap calculations.

Single family detached homes are the first prototype. Typically, these homes are built on lot sizes that are greater than 3,000 SF, but more likely are built on even larger lots – 5,575 SF or greater. Small lot single family homes are built on smaller parcels and tend to have less land (such as side yards and parking areas) surrounding the homes. Lot sizes below 3,000 SF would define these developments. The interior square footage is also lower for the small lot single family homes. However, the difference in the lot sizes between these two prototypes is more significant than the difference in interior square footage.

The Multiple Listing Service (MLS) was contacted in order to obtain information on sales of newly built, larger lot, single family homes. 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 median and mean values of these transactions was approximately \$304/SF. The average house size was 2,133 SF, and the average lot size was 5,765 SF.

The second for-sale example comes from 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, and the average lot size is 2,500 SF.

What Development Figure to Use in the final Study? 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 discussion 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 no new market rate 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 along for developers to have estimated development costs at the time the in-lieu fee calculations were undertaken. However, costs for an affordable rental development were available, and therefore these were used in the in-lieu fee calculation.

- **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 B-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 B-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 B-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 B-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 B-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 B-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 B-8 and B-9 provide this information for ownership housing, and Table B-10 provides this information for rental housing.

Table B-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 B-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 Forms.

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

Table B-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 B-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 B-13: Affordability Gap for Rental Housing

Income Level and Unit Type	Unit Size (SF)	Maximum Monthly Rent (a)	Annual Rental Income	Net Operating Income (b)	Available for Debt Service (c)	Supportable Debt (d)	Development Costs (e)	Affordability 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 B-14 and B-15.)

Table B-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 B-11 and B-3.

Table B-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 B-12 and B-13.

Table B-16 provides results of the average affordability gap per SF for-sale housing and for rental housing, and Table B-17 provides results of the combined average affordability gap on a SF basis for for-sale and rental housing.⁶

⁶ Since some jurisdictions charge in-lieu fees on a SF basis, both fee options (unit and SF) are provided here.

Table B-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 B-8, B-9, B-14, and B-15

Table B-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 B-16

In-Lieu Fee Calculation

The Housing Affordability Gap amount provides policymakers with the information of what the maximum in-lieu fee could be, but not the amount that is financially feasible. Whether policymakers decide to select the lower overall gap figure (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. 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.⁷

⁷ <https://inclusionaryhousing.org/designing-a-policy/off-site-development/in-lieu-fees/setting-the-in-lieu-fee/>

Update for Inflation

Since most of these computations were undertaken in 2020, the fee amounts used in the feasibility assessment have been updated to 2021 figures by applying the CPI. Therefore, the final fee calculations, including fee scenarios, were increased by four percent, which is the rounded annual inflation figure covering All Urban Consumers (Alameda, Contra Costa, Marin, San Francisco, and San Mateo - August 2020-August 2021).