

**AFFORDABILITY GAP ANALYSIS
FOR SINGLE-FAMILY HOUSING USES**

A Memorandum Report to

COUNTY OF SAN BENITO

from

GRUEN GRUEN + ASSOCIATES

Urban Economists, Market Strategists and Land Use/Public Policy Analysts

June 2018

C1508



Gruen Gruen + Associates

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APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	2
PRIMARY CONCLUSIONS – ESTIMATES OF IN-LIEU FEES BASED ON AFFORDABILITY GAPS.....	2
HOUSEHOLD INCOME LIMITS AND AFFORDABLE SALES PRICES	4
2018 Income Limits	4
Maximum Monthly Housing Costs.....	4
Affordable Sales Prices.....	6
AFFORDABLE HOUSING GAP ANALYSIS FOR SINGLE-FAMILY OWNERSHIP HOUSING.....	8
Estimated Market-Rate Sales Pricing.....	9
Single-Family Housing Prototypes	11
Affordable For-Sale Housing Gap Calculations	12
ESTIMATE OF IN-LIEU FEE BASED ON THE RESULTS OF THE AFFORDABILITY GAP ANALYSIS AND EXISTING SAN BENITO COUNTY INCLUSIONARY HOUSING REQUIREMENTS	13

LIST OF TABLES

	<u>Page</u>
TABLE 1: 2018 Affordable Housing Income Limits for San Benito County	4
TABLE 2: Maximum Affordable Monthly Owner-Occupied Housing Costs	5
TABLE 3: Estimated Maximum Affordable Housing Sale Prices in San Benito County	7
TABLE 4: Unit Sizes and Asking Prices for Active Single-Family Developments	9
TABLE 5: Market Rate Sales Pricing for Recently Built Single-Family Homes.....	10
TABLE 6: Single-Family Development Alternatives	11
TABLE 7: Estimated Average Affordability Gap Per Unit by Income Level.....	12
TABLE 8: Estimated In-Lieu Fees Per Total Dwelling Unit	13



GRUEN GRUEN + ASSOCIATES

MEMORANDUM

Date: June 25, 2018
To: Resource Management Agency, County of San Benito
From: Gruen Gruen + Associates
Subject: Affordability Gap Analysis for Single-Family Housing Uses
cc:

INTRODUCTION

This Memorandum Report presents additional analysis related to the report prepared last year by Gruen Gruen + Associates (GG+A), entitled “Inclusionary Housing In-Lieu Fee Analysis and Research.” The purpose of that study was to estimate in-lieu fees which are not currently specified in the San Benito County Ordinance on Affordable Housing Regulations. Affordability gaps were estimated for prototypical multi-family uses (both rental and ownership) but not single-family uses. At the request of County staff, the purpose of this Memorandum Report is to estimate affordability gaps for single-family housing uses. An affordability gap analysis is part of the basis upon which impact fees and in-lieu fees must be established. The Memorandum Report contains three primary sections: (1) a summary of current affordable housing income limits and an estimate of affordable sales prices based on these limits; (2) the affordable housing gap analysis for single-family uses that compares differences between affordable and market-rate sales prices; and (3) estimates of in-lieu fees based on the affordable housing gap calculations and the existing policy outlined in the San Benito County Affordable Housing Ordinance.

PRIMARY CONCLUSIONS – ESTIMATES OF IN-LIEU FEES BASED ON AFFORDABILITY GAPS

Under a scenario in which all inclusionary housing units are assumed to be provided in large lot detached single-family ownership units, in the same size and quality as market-rate units, the average affordability gap at the Very Low, Low, and Moderate income levels is estimated at just under \$230,000 per inclusionary unit. Inclusionary housing in-lieu fees per total dwelling unit range from approximately \$34,000 to \$46,000 depending upon whether fees are paid at the on-site or off-site inclusionary housing rate. For a prototypical market-rate home consisting of an average of 2,100 square feet, this equates to an in-lieu fee of approximately \$16 to \$22 per square foot.¹

¹ Santa Cruz imposes an in-lieu fee of \$15 per square foot for ownership housing (see Page 24 of prior GG+A report, “Inclusionary Housing In-Lieu Fee Analysis and Research.” The City of Salinas imposes an in-lieu of \$12 per square foot for residential projects (see: http://www.cityofsalinas.org/sites/default/files/departments_files/community_development_files/housing_division_files/draft_inclusionary_housing_guidelines.pdf). San Luis Obispo county has a sliding scale in-lieu fee schedule that equates to \$18.75 per square foot (see: [http://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Ordinances/Affordable-Housing-Fund-Ordinance-\(Title-29\)-\(1\).aspx](http://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Ordinances/Affordable-Housing-Fund-Ordinance-(Title-29)-(1).aspx))



Under a more typical scenario in which a slightly different mix of for-sale single-family housing is assumed, with more modest unit sizes, the average affordability gap at the Very Low, Low, and Moderate income levels is estimated at approximately \$107,000 per inclusionary unit. Inclusionary housing in-lieu fees per total dwelling unit range from approximately \$16,000 to \$21,400, depending upon whether fees are paid at the on-site or off-site inclusionary housing rate. For a prototypical market-rate home consisting of an average of 2,100 square feet, this equates to an in-lieu fee of approximately \$8 to \$11 per square foot.

It is beyond the scope of this assignment to estimate the impact of maximum in-lieu fees on development feasibility. However, imposing the maximum in-lieu fee of approximately \$34,000 to \$46,000 per market-rate unit is likely to cause land values to be close to zero if not negative.² Therefore, land owners would have no incentive to sell or develop land to produce single-family housing units if the maximum in-lieu fees based on the affordability gaps are imposed.

² Local building permit records suggest that vertical hard construction costs for new detached single-family units approximate \$150 per square foot. Assuming additional development costs for (a) land development and backbone infrastructure equal to \$10 per square foot of land, (b) impact and tap fees equal to \$40,000 for a typical single-family unit, (3) additional affordable housing in-lieu fees of \$46,000 per unit, and (4) additional “soft” expenses, including a builder’s profit margin, equal to 22% of sales revenues (consistent with industry averages) – a prototypical market-rate home with 2,100 square feet of living area would cost approximately \$620,000 to produce before acquiring land and securing entitlements. Given current market pricing for new detached single-family units, the residual land value under these assumptions would be very minimal if not negative (i.e., the development would be infeasible).



HOUSEHOLD INCOME LIMITS AND AFFORDABLE SALES PRICES

This section summarizes current household income limits, maximum monthly affordable housing costs, and resulting estimates of affordable sales prices.

2018 Income Limits

Table 1 summarizes updated households income limits for San Benito County for the 2018 Fiscal Year.

TABLE 1: 2018 Affordable Housing Income Limits for San Benito County								
	Household Size (Persons)							
	1	2	3	4	5	6	7	8
Extremely Low (30% AMI)	\$19,600	\$22,400	\$25,200	\$27,950	\$30,200	\$33,740	\$38,060	\$42,380
Very Low Income (50% AMI)	\$32,600	\$37,250	\$41,900	\$46,550	\$50,300	\$54,000	\$57,750	\$61,450
Low Income (80% AMI)	\$52,200	\$59,650	\$67,100	\$74,550	\$80,550	\$86,500	\$92,450	\$98,450
Area Median Income (AMI)	\$56,750	\$64,900	\$73,000	\$81,100	\$87,600	\$94,100	\$100,550	\$107,050
Moderate Income (120% AMI)	\$68,100	\$77,850	\$87,550	\$97,300	\$105,100	\$112,850	\$120,650	\$128,450
Sources: State of California, Department of Housing and Community Development; Gruen Gruen + Associates.								

Household income limits have been increased since the prior analysis prepared by GG+A in 2017. Household income limits for the Extremely Low category - 30% or less of Area Median Income (AMI)- currently range from \$19,600 for a single-person household up to \$42,380 for an eight-person household. Limits for the Very Low category, which represents 30% to 50% of AMI, range from \$32,600 for a single-person household up to \$61,450 for an eight-person household. Limits for the Low category, reflecting 50% to 80% of AMI, range from \$52,500 for a single-person household up to \$98,450 for an eight-person household. The limits for the "Moderate Income" category, reflecting 80% to 120% of AMI, range from about \$68,000 up to \$128,500.

Maximum Monthly Housing Costs

The first step in estimating an affordability gap is to calculate how much households in the targeted income categories can afford to pay for housing. To estimate maximum monthly housing costs, the income limits must be "adjusted for family size appropriate for the unit".³ The affordability gap analysis for single-family units is based on the following household size assumptions:

- Two-bedroom units - 3 person household;
- Three-bedroom units - 5 person household; and
- Four-bedroom units - 7 person household.

³ See Section 50053(b) of the California Health and Safety Code:
http://leginfo.ca.gov/faces/codes_displaySection.xhtml?sectionNum=50053.&lawCode=HSC



California Health and Safety Code indicates that a three-bedroom home requires a family of at least four persons to qualify as below market rate purchasers.⁴ That is, a family of three may meet the criteria of earning below-median income but it would not qualify for a four-bedroom unit given its household size. The Uniform Housing Code (section 503.2) further indicates that the legal occupancy of a single bedroom within a dwelling unit may be three or more persons (per bedroom) if the floor area exceeds 120 square feet. Additional legal occupants in a dwelling unit could be accommodated in other habitable rooms aside from kitchens. Thus, the legal occupancy of a single-family unit containing three bedrooms could house 10 or more people per state and federal housing law. The assumptions used to adjust income limits for appropriate family sizes are within the parameters of each occupancy standard (e.g., a minimum family size of five persons would be necessary to qualify for a below-market-rate housing unit with four bedrooms, while in theory a family of 10 or more could legally occupy the unit - the gap analysis assumes an average household size within this range of seven persons, etc.).

Monthly costs for owner-occupied single-family housing includes mortgage payments (principal and interest), permanent mortgage insurance, homeowner's insurance, and property taxes. Homeowner association (HOA) fees are not considered given most recent single-family developments such as Santana Ranch do not have HOA fees. An "affordable" monthly cost is defined as 35 percent or less of before-tax household income. Affordability for ownership housing is commonly defined at a higher percentage of before-tax household income than for rental housing because owners can retain and build equity in the units and may incur some expenses (e.g., mortgage insurance) that renters do not.

Table 2 presents the estimates of maximum monthly housing costs for two, three, and four-bedroom units.

TABLE 2: Maximum Affordable Monthly Owner-Occupied Housing Costs			
	Unit Type		
	2-Bed	3-Bed	4-Bed
Average Household Size (# Persons)	3.0	5.0	7.0
Maximum Monthly Costs: ¹			
Extremely Low Income	\$735	\$881	\$1,110
Very Low Income	\$1,222	\$1,467	\$1,684
Low Income	\$1,957	\$2,349	\$2,696
Moderate Income	\$2,554	\$3,065	\$3,519
¹ Calculated at 35 percent of before-tax household income.			
Sources: State of California, Department of Housing and Community Development; Gruen Gruen + Associates.			

Monthly maximum costs range from about \$700 to \$1,100, depending on unit size, for Extremely Low income households. Maximum monthly costs for Very Low income households range from

⁴ See Footnote 1.



approximately \$1,200 to \$1,700 for two- to four-bedroom units. Monthly maximum costs range from about \$2,000 up to \$3,500 per unit for the Low and Moderate income household categories.

Affordable Sales Prices

Table 3 summarizes estimates of maximum affordable sales prices by income level for two-bedroom, three-bedroom, and four-bedroom ownership units.



TABLE 3: Estimated Maximum Affordable Housing Sale Prices in San Benito County			
	2-Bed	3-Bed	4-Bed
<u>Extremely Low Income</u>			
Maximum Monthly Housing Payment	\$735	\$881	\$1,110
Less: Mortgage Insurance ¹	\$78	\$94	\$118
Less: Homeowners Insurance ²	\$18	\$22	\$27
Less: Property Tax ³	\$115	\$137	\$173
Available for Mortgage Principal & Interest	\$524	\$628	\$791
Affordable Sales Price @ 3.93% Rate and 96.5% LTV⁴	\$114,663	\$137,440	\$173,165
<u>Very Low Income</u>			
Maximum Monthly Housing Payment	\$1,222	\$1,467	\$1,684
Less: Mortgage Insurance ¹	\$130	\$156	\$180
Less: Homeowners Insurance ²	\$30	\$36	\$42
Less: Property Tax ³	\$191	\$229	\$263
Available for Mortgage Principal & Interest	\$871	\$1,045	\$1,200
Affordable Sales Price @ 3.93% Rate and 96.5% LTV⁴	\$190,637	\$228,858	\$262,711
<u>Low Income</u>			
Maximum Monthly Housing Payment	\$1,957	\$2,349	\$2,696
Less: Mortgage Insurance ¹	\$209	\$250	\$287
Less: Homeowners Insurance ²	\$48	\$58	\$67
Less: Property Tax ³	\$305	\$366	\$421
Available for Mortgage Principal & Interest	\$1,395	\$1,674	\$1,921
Affordable Sales Price @ 3.93% Rate and 96.5% LTV⁴	\$305,301	\$366,454	\$420,588
<u>Moderate Income</u>			
Maximum Monthly Housing Payment	\$2,554	\$3,065	\$3,519
Less: Mortgage Insurance ¹	\$272	\$327	\$375
Less: Homeowners Insurance ²	\$63	\$76	\$87
Less: Property Tax ³	\$398	\$478	\$549
Available for Mortgage Principal & Interest	\$1,820	\$2,184	\$2,508
Affordable Sales Price @ 3.93% Rate and 96.5% LTV⁴	\$398,435	\$478,154	\$548,980
¹ Current permanent mortgage insurance premium on FHA loans below \$625,000 is 85 basis points (0.85%). ² According to the California Department of Insurance, homeowners insurance premiums average 0.19 percent of replacement (coverage) value in San Benito County. ³ Assumes annual taxes equal to approximately 1.2 percent of market (assessed) value. ⁴ Affordable sales price calculations assume a 3.5 percent down payment (the minimum down payment required under FHA loans) with a 30-year fixed interest rate of 3.93 percent (which represents the three-year rate average on conventional 30-year fixed rate loans according to the Freddie Mac Primary Mortgage Market Survey).			
Sources: San Benito County Assessor; California Department of Insurance; Federal Housing Administration; Freddie Mac; Gruen Gruen + Associates.			

Affordable sales prices for two-bedroom units range from \$115,000 for Extremely Low income households up to \$398,000 for Moderate income households. Affordable prices for three-bedroom



units for Extremely Low and Very Low income households range from about \$137,000 to \$229,000. The affordable sales price for a three-bedroom unit at the Low and Moderate income level is estimated to range from \$366,000 to \$478,000. Affordable pricing for large four-bedroom units approximates \$173,000 to \$263,000 at the Extremely Low and Very Low income levels, \$421,000 at the Low income level, and nearly \$549,000 at the Moderate income level.

AFFORDABLE HOUSING GAP ANALYSIS FOR SINGLE-FAMILY OWNERSHIP HOUSING

This section estimates the affordability gaps that apply to for-sale single-family housing in San Benito County based on current income limits (reviewed above) and prevailing market-rate housing prices. Affordability gaps are estimated for two single-family development alternatives:

1. The first alternative assumes no product differentiation between market-rate homes and affordable homes. It includes large lot single-family units with an equal mix of three-bedroom and four-bedroom detached units;
2. The second alternative assumes that affordable housing requirements would be met through provision of a different unit mix and more modest average unit sizes (e.g., smaller-lot single-family units including attached products). The second alternative is still modeled as for-sale single-family housing but differs slightly from the type and scale of market-rate housing being built in the county.

According to County staff, no affordable single-family housing projects are under development or have been recently developed in San Benito County. Affordability gap estimates typically quantify the difference between (a) the total development cost including builder profit by unit type for modest for-sale housing and (b) the affordable sales price by unit type. Because County staff were unable to arrange interviews with or otherwise obtain costs from active developers/builders of single-family housing product in San Benito County and GG+A did not obtain cooperation from the builders identified by County staff but not contacted by County staff, GG+A used sales prices as a proxy for development costs plus profit. GG+A completed a detailed review of market-rate sales pricing for recently built single-family developments in San Benito County.



Estimated Market-Rate Sales Pricing

Table 4 summarizes characteristics and asking prices for active new construction single-family homes in San Benito County.

TABLE 4: Unit Sizes and Asking Prices for Active Single-Family Developments			
	Unit Types (Beds/Baths)	Unit Sizes # Square Feet	Listing Prices (Per-Square-Foot)
Santana Ranch (Anderson)	3/2	1,675	\$338
	3/2.5	1,850	\$315
	4/2	2,003	\$309
	4/3	2,460-2,698	\$250-\$275
Santana Ranch (Legacy)	3/2	1,832-2,073	\$308-\$317
	3/2.5	1,942	\$306
	4/3	2,422-2,572	\$253-\$264
	4/3.5	2,365	\$277
Orchard Park (Blue Mountain)	3/2.5	1,792	\$290
	4/3	2,092-2,226	\$250-\$255
Ladd Ranch (K. Hovnanian)	3/2	1,974	\$309
	4/3	2,265-2,478	\$260-\$270
Rancho Vista (Meritage)	4/3	2,347	\$300
	4/4	2,701-3,085	\$254-\$283
Sources: Anderson Homes; Blue Mountain Communities; Legacy Homes; Meritage Homes; Gruen Gruen + Associates.			

Unit sizes for detached single-family homes containing three bedrooms range from approximately 1,700 to 2,100 square feet. Asking prices for the three-bedroom units range from about \$290 to \$340 per square foot. Unit sizes for detached single-family homes containing four bedrooms range from approximately 2,000 square feet up to 3,100 square feet. Asking prices for four-bedroom units range from approximately \$250 to \$310 per square foot.

Table 5 summarizes actual sales of recently built single-family homes in San Benito County over the past year.



TABLE 5: Market Rate Sales Pricing for Recently Built¹ Single-Family Homes			
	3-Bedroom	4-Bedroom	5-Bedroom
Number of Sales (Past 12 Months)	41	31	5
Home Sizes in Square Feet:			
Average	1,785	2,371	2,725
Range	1,375 – 2,240	1,855 – 2,939	2,286 – 3,363
Average Sales Pricing:			
Per Unit	\$533,912	\$638,186	\$638,492
Per Square Foot (Weighted)	\$299	\$269	\$234
¹ Sales statistics are for detached single-family homes built 2015 or later in San Benito County. Includes new construction sales and re-sales reported over the past 12 months.			
Sources: Redfin; Multiple Listing Service; Gruen Gruen + Associates.			

According to Redfin and MLS data, there have been 41 sales in the past year of three-bedroom homes built in 2015 or later. The homes ranged in size from 1,375 to 2,240 square feet and contained an average of 1,785 square feet. The average price per unit was approximately \$534,000 or \$299 per square foot. There have been 31 sales of larger four-bedroom units in the past year (again only including newer units built since 2015). The four-bedroom homes sold ranged in size from about 1,860 to 2,940 square feet, with an average unit size of just under 2,400 square feet. The average price per unit was approximately \$638,000 or \$269 per square foot. Five sales occurred in the past year for new homes featuring five bedrooms. The average home contained about 2,700 square feet and was sold at an average price of \$234 per square foot.



Single-Family Housing Prototypes

Table 6 summarizes each of the single-family development alternatives for which affordability gap estimates are prepared.

TABLE 6: Single-Family Development Alternatives		
	Alternative 1	Alternative 2
<u>Single-Family Unit Mix:</u>		
Two-Bedroom Units	None	20.0
Three-Bedroom Units	50.0	50.0
Four-Bedroom Units	50.0	30.0
Total Units	100.0	100.0
<u>Average Unit Sizes (in Square Feet):</u>		
Two-Bedroom Units	NA	1,200
Three-Bedroom Units	1,800	1,500
Four-Bedroom Units	2,400	1,800
Overall Average	2,100	1,530
Source: Gruen Gruen + Associates		

The first alternative is consistent with market-rate single-family units recently built in San Benito County. It assumes a 50/50 mix of three- and four-bedroom detached single-family homes at a density of roughly five units per gross acre. Three-bedroom units are assumed to average 1,800 square feet in size and four-bedroom units average 2,400 square feet in size, for an overall average home size of 2,100 square feet.

The second alternative is consistent with more “modest” smaller lot single-family housing products. It assumes a unit mix consisting of 20 percent two-bedroom units, 50 percent three-bedroom units, and 30 percent four-bedroom units. Unit sizes are assumed to be smaller than market-rate homes containing the same number of bedrooms⁵. Two-bedroom units are assumed to average 1,200 square feet in size. Three-bedroom units are assumed to average 1,500 square feet in size and four-bedroom units average 1,800 square feet in size. The overall average home size is estimated at just over 1,500 square feet.

⁵ The small Buena Vista affordable single-family development in the city of Hollister features three- and four-bedroom homes ranging in size from 1,603 to 1,826 square feet. See: <http://www.chispahousing.org/wp-content/uploads/2017/09/Buena-Vista-Homes-Info-Flyer-all-homes-10pp-2017.pdf>.



Affordable For-Sale Housing Gap Calculations

Table 7 summarizes the estimated affordability gaps for Alternative 1 and Alternative 2 at each income level.

TABLE 7: Estimated Average Affordability Gap Per Unit by Income Level ¹		
	Alternative 1	Alternative 2
Extremely Low Income	\$458,198	\$325,148
Very Low Income	\$367,715	\$237,380
Low Income	\$219,979	\$98,286
Moderate Income	\$99,933	(\$14,708) ²
¹ The affordability gap estimates are based on market-rate pricing as follows: <ul style="list-style-type: none">- Two-bedroom units: \$350 per square foot- Three-bedroom units: \$315 per square foot- Four-bedroom units: \$275 per square foot		
² No affordability gap is estimated to exist. Affordable prices per unit (on average) for Alternative 2 would exceed market-rate pricing by \$14,708 per unit.		
Source: Gruen Gruen + Associates		

At the Extremely Low income level (30% of AMI), the average gap is estimated at approximately \$458,000 per unit for Alternative 1. The average gap is estimated at \$368,000 per unit at the Very Low income level (50% of AMI) and \$220,000 per unit at the Low income level (80% of AMI) for Alternative 1. At the Moderate income level (120% of AMI), the average gap is estimated at approximately \$100,000 for Alternative 1. The estimated affordability gaps for Alternative 1 indicate the differences between market-rate and affordable prices if **no product differentiation (between market-rate and affordable homes) exists.**

For Alternative 2, in which a different unit mix is assumed with more modest unit sizes, the affordability gaps are lower. At the Extremely Low and Very Low income levels (30% and 50% of AMI), the average gaps are estimated at \$325,000 and \$237,000 per unit. The average gap is estimated at \$98,000 at the Low income level (80% of AMI) under Alternative 2. **At the Moderate income level (120% of AMI) under Alternative 2, the gap analysis suggests that affordable prices would more than exceed typical market-rate pricing and therefore no affordability gap exists at that income level.**



ESTIMATE OF IN-LIEU FEE BASED ON THE RESULTS OF THE AFFORDABILITY GAP ANALYSIS AND EXISTING SAN BENITO COUNTY INCLUSIONARY HOUSING REQUIREMENTS

The existing San Benito County Affordable Housing Ordinance targets three income limits for inclusionary housing: Very Low, Low, and Moderate income households. As summarized in Table 8, we estimate an overall average affordability gap at these income targets of approximately \$229,000 for Alternative 1 and \$107,000 for Alternative 2. Table 8 further estimates the maximum in-lieu fees per total dwelling unit for each Alternative.

TABLE 8: Estimated In-Lieu Fees Per Total Dwelling Unit ¹		
	Alternative 1	Alternative 2
Average Affordability Gap Per Unit for Very Low, Low, and Moderate Income Levels ¹	\$229,209	\$106,986
Inclusionary Housing Requirement ²	15% - 20%	15% - 20%
Inclusionary Housing In-Lieu Fee Per Total Unit	\$34,381 - \$45,842	\$16,048 - \$21,397
¹ Excludes the Extremely Low income category.		
² The range of 15 to 20 percent is applied because the existing Affordable Housing Ordinance is not clear about whether in-lieu fees can be paid on the percentage of on-site or off-site inclusionary housing units required.		
Source: Gruen Gruen + Associates		

On the assumption that the inclusionary requirements set forth in the existing Ordinance (15 percent on-site requirement, 20 percent off-site requirement) reflect the relationship between new market-rate residential development and the need for additional affordable housing induced by the new market-rate households⁶, Table 8 summarizes estimates of the in-lieu fee per total unit based on these inclusionary housing requirements ranging from 15 to 20 percent of total dwelling units. Note that a range is applied because the existing policy is not clear about whether in-lieu fees can be paid on the percentage of on-site or off-site inclusionary housing units required.

⁶ It is beyond the scope of the study summarized in this report to evaluate if the production and occupancy of market rate housing units induces the need for additional affordable housing units in San Benito County.



Under Alternative 1 in which all inclusionary units are assumed to be provided in large lot detached single-family ownership units, in the same size and quality as market-rate units, the average affordability gap at the Very Low, Low, and Moderate income levels is estimated at just under \$230,000 per inclusionary unit. Inclusionary housing in-lieu fees per total dwelling unit range from approximately \$34,000 to \$46,000 depending upon whether fees are paid at the on-site or off-site inclusionary housing rate. For a prototypical market-rate home consisting of an average of 2,100 square feet, this equates to an in-lieu fee of approximately \$16 to \$22 per square foot.⁷

Under Alternative 2 in which a slightly different mix of for-sale single-family housing is assumed, with more modest unit sizes, the average affordability gap at the Very Low, Low, and Moderate income levels is estimated at approximately \$107,000 per inclusionary unit. Inclusionary housing in-lieu fees per total dwelling unit range from approximately \$16,000 to \$21,400, again depending upon whether fees are paid at the on-site or off-site inclusionary housing rate. For a prototypical market-rate home consisting of an average of 2,100 square feet, this equates to an in-lieu fee of approximately \$8 to \$11 per square foot.

It is beyond the scope of this assignment to estimate the impact of maximum in-lieu fees on development feasibility. However, imposing the maximum in-lieu fee of approximately \$34,000 to \$46,000 per market-rate unit is likely to cause land values to be close to zero if not negative.⁸ Therefore, land owners would have no incentive to sell or develop land to produce single-family housing units if the maximum in-lieu fees based on the affordability gaps are imposed.

⁷ Santa Cruz imposes an in-lieu fee of \$15 per square foot for ownership housing (see Page 24 of prior GG+A report, “Inclusionary Housing In-Lieu Fee Analysis and Research.” The City of Salinas imposes an in-lieu of \$12 per square foot for residential projects (see: http://www.cityofsalinas.org/sites/default/files/departments_files/community_development_files/housing_division_files/draft_inclusionary_housing_guidelines.pdf). San Luis Obispo county has a sliding scale in-lieu fee schedule that equates to \$18.75 per square foot (see: [http://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Ordinances/Affordable-Housing-Fund-Ordinance-\(Title-29\)-\(1\).aspx](http://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Ordinances/Affordable-Housing-Fund-Ordinance-(Title-29)-(1).aspx))

⁸ Local building permit records suggest that vertical hard construction costs for new detached single-family units approximate \$150 per square foot. Assuming additional development costs for (a) land development and backbone infrastructure equal to \$10 per square foot of land, (b) impact and tap fees equal to \$40,000 for a typical single-family unit, (3) additional affordable housing in-lieu fees of \$46,000 per unit, and (4) additional “soft” expenses, including a builder’s profit margin, equal to 22% of sales revenues (consistent with industry averages) – a prototypical market-rate home with 2,100 square feet of living area would cost approximately \$620,000 to produce before acquiring land and securing entitlements. Given current market pricing for new detached single-family units, the residual land value under these assumptions would be very minimal if not negative (i.e., the development would be infeasible).

Gruen Gruen + Associates (GG+A) is a firm of economists, sociologists, statisticians and market, financial and fiscal analysts. Developers, public agencies, attorneys and others involved in real estate asset management utilize GG+A research and consulting to make and implement investment, marketing, product, pricing and legal support decisions. The firm's staff has extensive experience and special training in the use of demographic analysis, survey research, econometrics, psychometrics and financial analysis to describe and forecast markets for a wide variety of real estate projects and economic activities.

Since its founding in 1970, GG+A has pioneered the integration of behavioral research and econometric analysis to provide a sound foundation for successful land use policy and economic development actions. GG+A has also pioneered the use of economic, social and fiscal impact analysis. GG+A impact studies accurately and comprehensively portray the effects of public and private real estate developments, land use plans, regulations, annexations and assessments on the affected treasuries, taxpayers, consumers, other residents and property owners.

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