STAFF REPORT

DATE: November 27, 2018

TO: City Council

FROM: Heidi Tschudin, Deputy City Manager, Director of Community Development and Sustainability
Katherine Hess, Community Development Administrator
Kelly Stachowicz, Assistant City Manager
Ginger Hashimoto, Management Analyst

SUBJECT: Affordable Housing Ordinance – Inclusionary Requirements for Rental Development Projects

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Recommendations

1. Provide direction on each of the four key issues identified in this report and other related matters at the Council's direction:
   - Target percentage of affordable units within a non-mixed use multi-family rental development
   - Restrictions on rental/lease mechanism—by-the-bed, by-the-bedroom, by-the-unit
   - Income targets—extremely low, very low, low
   - Land dedication and/or fees in lieu of on-site affordable units
   - Other information or analysis, if any, desired by Council
2. Approve the attached Ordinance (Attachment 1) extending the current interim ordinance for six months through June 30, 2019, to allow for preparation of a revised ordinance pursuant to City Council direction, and clarifying that incoming applications will be held to the interim ordinance requirements until a revised ordinance is enacted.
3. Direct staff to prepare a revised ordinance, conduct appropriate outreach through the Social Services Commission and Planning Commission, and return to Council on or prior to June 30, 2019

The consultants who prepared the Development Economic Analysis study will be at the City Council meeting to assist with the presentation and respond to questions.

City Council Goals

- Ensure a safe, healthy, and equitable community
- Build and promote a vibrant city.

Fiscal Impact

The City Manager's Office and the Community Development and Sustainability Department budgets absorbed the cost associated with commissioning the economic analysis and preparing the proposed extension. Should Council provide direction that has a fiscal impact that cannot be absorbed by departmental budgets and exceeds the City Manager’s approval authority, staff will return with a budget adjustment request.

Background

The City has required a component of affordable housing in multi-family developments for decades, beginning with the 1987 General Plan. Officially codified in 1990, the City’s initial affordable housing program established a 10% very-low income and 25% low-income inclusionary requirement on development projects containing 20 or more units. Despite minor amendments through the years, the City’s requirements remained largely unchanged until 2009.

In 2009, a court ruling known as the “Palmer decision,” prohibited local jurisdictions from imposing affordable housing requirements on residential and mixed-use projects of more than 10 dwelling units per lot. Despite this, the City continued to consider affordability as part of its legislative review of applications and through Development Agreements when mutually beneficial.

In 2017, Governor Brown signed a 15-bill housing package into law. Among the bills was AB 1505, which overturned the 2009 Palmer decision and thereby restored the legal authority of cities and counties to require affordable housing in rental development projects. Along with restoring local authority, however, the State imposed parameters to ensure affordable requirements will not constrain housing production. Of particular note is a provision allowing the State to review and potentially require an economic feasibility study for any local jurisdiction that requires more than 15% low income affordability (see the Legislative Changes section below for more information).

In response to AB 1505, and in consideration of applications for development projects that had been submitted while the Palmer decision was in effect, on February 6, 2018, the City Council temporarily amended its rental inclusionary requirements. Meant to serve as a bridge until the City could complete a comprehensive update, the change added Municipal Code Section 18.05.060 (b). Set to sunset on December 31, 2018, the new section temporarily establishes an alternative affordable housing target of 15% by the bed, bedroom, or unit with a 5% extremely-low, 5% very-low, and 5% low-income mix. The section also temporarily allows the City Council to consider myriad factors in determining whether to approve an alternative affordable housing proposal, such as whether the developer makes a large infrastructure or transportation contribution. Table 1 below further summarizes the City’s current affordable housing standards for rental development projects. Attachment 4 provides a summary of multi-family inclusionary requirements in other communities.

<table>
<tr><th colspan="2">Table 1: Summary of the City of Davis' Current Rental Development Affordable Housing Standards</th></tr>
<tr><th>Project Type</th><th>Requirements</th></tr>
<tr><td colspan="2">Standard Requirements</td></tr>
<tr><td>5-19 units</td><td>25% of which:
► 10% = very low income
► 15% = low income
OR
An in-lieu fee of $75,000 per unit, but dependent upon City Council discretion</td></tr>
<tr><td>20 units or greater</td><td>35% of which:
► 25% = low income
► 10% = very low income</td></tr>
<tr><td>Project individualized program</td><td>All rental project types may meet the affordable housing requirement with a project-individualized plan as specified in Section 18.05.060 (a)(4). Such plans, however, must generate an amount of affordability equal to or greater than the percent specified above and meet the same income targets</td></tr>
<tr><td colspan="2">Alternative Requirements</td></tr>
<tr><td>Alternative rental affordable housing proposal (sunsets on December 31, 2018)</td><td>Recommended 15% of which a target income mix is:
► 5% = extremely low income
► 5% = very low income
► 5% = low income
► But dependent on consideration of the nine factors listed below:
1. Meets a specific housing need as identified in the City's housing element or general plan policies
2. Incorporates design components that will encourage greater affordability
3. Furthers other land use goals of the City
4. Includes unusually high infrastructure costs or other cost burdens
5. Includes a public subsidy or other public financing from a source other than the City
6. Encourages greater integration of the affordable units into the market rate units
7. Provides a deeper level of affordability such as the extremely-low-income level
8. Deserves special consideration because application was submitted prior to the adoption of AB 1505 on January 1, 2018
9. Targets an affordability income mix of 5% extremely low, 5% very low, and 5% low</td></tr>
</table>

Source: City of Davis Municipal Code, Section 18.05.060 Rental Development Affordable Housing Standards

Analysis and Recommendation

This report provides information and staff comments on four key issue areas relevant to the interim ordinance. The report also provides a summary of recent legislation with the potential to affect local housing policies.

Percentage of Affordable Units

As noted in Table 1, the City's current Affordable Housing Ordinance has two sections on rental housing requirements for projects of twenty or more units:

- A standard requirement of 10% of units for very-low income households and 25% for low-income households; or
- An alternative requirement which recommends a target income mix of 5% extremely low, 5% very low and 5% low, based upon beds, bedrooms, or units. Additionally, the City Council may adjust the mix up or down for a given project, depending on nine factors. This alternative standard is scheduled to sunset at the end of 2018.

In preparation for review of affordable housing requirements for multi-family development, staff commissioned a development economic analysis of certain multi-family rental housing prototypes (Attachment 2). This report was originally prepared by A. Plescia & Co. and Gruen Gruen + Associates in December 2017 for use by City staff. During the first quarter of 2018, the staff undertook an internal review of the report to better understand the results. Because of the important policy implications suggested by the results of the initial research and analysis as summarized in the original report, the City subsequently retained BAE Urban Economics to complete a peer review of the report. Based on the results of the peer review and City staff review, the original report was updated in October 2018 to clarify methodology and results for public review. The clarifications and augmentations made in the report as suggested by the peer review are shown in the report (Attachment 2) with a double underline.

The report evaluated development economic feasibility, based upon project economics (including cost, revenue, financing, and investment parameters) at the current time, of five development prototypes reflective of potential multi-family rental housing development patterns in Davis:

- Downtown Core Mixed-Use (35 high-density units above commercial space, a four-story building, podium parking);
- Small Infill (70 high-density units, a three-story building, surface parking);
- Student Housing (150 very-high-density units, a six-story building, podium parking);
- Large Traditional (210 high-density units, a three-story building, surface parking); and
- Large Urban Mixed-Use (210 very-high-density units over commercial space, a three-story building, podium parking).

Staff notes that the Downtown Core Mixed-Use and Large Urban Mixed-Use prototypes would be exempt under the current affordability requirements. Discussion of exemptions is part of a separate effort (see Attachment 5) which will be undertaken subsequent to this effort, with appropriate additional research and analysis.

The report looks at each of these development prototypes for three affordable housing scenarios:

- A “market rate” scenario in which there are no affordable housing requirements;
- An “onsite affordable housing” scenario in which 35% of the units are affordable, consistent with the current standard requirement; and
- An “in-lieu fee” scenario in which the developer would pay $75,000 per required affordable unit.

The report concludes that – under current economic conditions – the Downtown Core Mixed-Use and Large Urban Mixed-Use are unlikely to be feasible, even without inclusion of any affordable housing requirements. Construction of the Large Traditional prototype may have the potential to be feasible, however, may not have sufficient net project value to support land acquisition costs in Davis.

The inclusion of on-site affordable housing obligations under the standard requirement renders all development scenarios infeasible. The amount of financial subsidies or other non-repayable funding that could be required is estimated to range from approximately $70,000 per unit to up to $130,000 per unit in a project. The in-lieu fee scenario improves development feasibility, but only the Small Infill prototype becomes potentially feasible under the City’s current 35% standard requirement for on-site affordable housing.

Staff notes that apartment developments have been proposed, and some have even included affordable housing components. However, with the exception of the Sterling project, the approved apartment development plans have been by-the-bed/bedroom rental, and not the by-the-unit affordable housing addressed in this report. This report does not factor specifics of any given owner or site—developers may have differing expectations for return on investment based upon, for example, when the property was acquired.

The report concludes that “including affordable housing requirements will increase the challenge of feasibly developing multi-family rental housing and will tend to discourage production of such housing.” Staff and the consultant note that this analysis is based on project economics at the current time, the identified prototypes, and the specific assumptions identified in the study. All of these variables affect the outcome. For example, increases in construction costs, and City parking requirements are highly relevant.

The study specifically assesses the 35% requirement in the City’s base regulation. The question remains, if 35% is not feasible, then what is? Table 2 below provided by the consultant team for the Planning Commission hearing considers a hypothetical 100-unit apartment building as an example. Using the same rent and income limit assumptions from the economic analysis, the interim affordable housing requirement of 5% at the extremely low, very low, and low income categories equates to an approximately 10% operating income reduction to an otherwise market rate project. A lower on-site requirement at higher income levels, such as 10% of units affordable to low income levels, would result in an approximately 5% operating income reduction (instead of 10%).

Table 2: The Effects of Varying Affordable Housing Requirements on Gross Rent Income (illustrative income differentials for hypothetical 100-unit multi-family rental housing building)					
	Studio	1-Bedroom	2-Bedroom	Total	Differential
Number of Units	20	40	40	100	
Monthly Market Rent/Unit	$1,700	$2,200	$3,200		
Monthly Gross Income					
100% Market Rate	$34,000	$88,000	$128,000	$250,000	
15% Interim Affordable Requirement	$31,054	$79,720	$114,338	$225,112	-10%
10% Affordable Requirement @ 80% of AMI	$32,753	$84,120	$120,735	$237,608	-5%

Source: A. Plescia & Co. and Gruen Gruen + Associates

Currently, the interim ordinance recommends 15% affordability. (Vertical mixed-use and stacked-flat condominium developments are exempt from affordable housing requirements.) Staff is requesting direction regarding the appropriate percentage of affordable units (or ranges of percentages) within a solely residential multi-family rental development. Staff is also requesting direction regarding whether the percentage(s) should differ based on prototype and/or location. As it relates to the types of projects currently receiving exemptions, staff recommends updating the 2015 study prior to making any changes to the exemptions.

Bed, Bedroom, and Unit Leases

Up until recently, almost all rental affordable housing development was intended to be leased by the unit, to a household (members of a household living together as a unit). This concept is reflected in the City's current municipal code and in the provisions of state law relating to affordable housing. For the purpose of determining income eligibility, the incomes of all residents of one household are combined. For the purpose of affordability, the rent for the unit is calculated, based upon the unit size and target income level. The lease is generally made to the household as a whole, and each adult member is potentially responsible for the entire rental payment.

Over the past two years, the City has approved a few housing developments targeted at students that include by-the-bed or by-the-bedroom rental provisions. These provisions can be advantageous to residents:

- Rents are set at a level that is affordable to an extremely-low, very-low, or low-income one-person household. This can be particularly advantageous to students who often do not qualify for state and federal affordable housing subsidies.

- Each tenant is responsible only for his or her lease payment. A tenant is not vulnerable to eviction if a roommate moves out, or does not pay.
- Utilities are frequently included in the rental amount. This can be a convenience for each resident and does not require tenants to contract directly with PG&E.
- By-the-bed or by-the-bedroom rentals complement the fluid nature of household formation common in student rental housing.

For the purposes of evaluating affordable rental housing, recent entitlements for student-oriented housing have included by-the-bed or by-the-bedroom affordability provisions. Eligibility for the affordable bed/bedroom is based upon the income of the individual resident (or the student's family, if the student is a dependent). Affordability is based on an affordable rent for a one-person household. Table 3 shows the current maximum annual income and estimated monthly rent for targeted income levels, for Yolo County.

Table 3: 2018 Maximum Annual Income and Estimated Monthly Rent in Yolo County by Income Category for a One-Person Household

Income Level	Maximum Annual Income	Estimated Monthly Rent
Extremely Low	$17,500	$437.50
Very Low	$29,150	$728.75
Low	$46,600	$1,165.00

Source: California Department of Housing and Community Development, 2018 State Income Limits

As a comparison, the UC Davis 2017 vacancy survey reports that the weighted average rental rate for a bed lease, in units of all sizes, was $892 per month. The extremely-low-income beds and the very-low-income beds are, therefore, somewhat to significantly below average market rents.

In aggregate, by-the-bed or by-the bedroom rental/leasing for any income category, result in significantly higher unitized revenue streams to the owner as compared to by-the unit rental/leasing because the determination of income eligibility shifts from the occupants as a unit to each occupant individually. Table 4 shows a two-bedroom unit with three occupants as an example.

Table 4: Estimated By-the-Bed vs. By the-Unit Monthly Rent Comparison for a Two-Bedroom, Three-Occupant Unit

Income Level	By-the-Bed Monthly Rent (three times one-person rent)	By-the-Unit Monthly Rent (three-person household rent)
Extremely Low	$1,312.50	$562.50
Very Low	$2,186.25	$936.25
Low	$3,495.00	$1,497.50

Source: California Department of Housing and Community Development, 2018 State Income Limits

By-the-bed or by-the bedroom rentals can provide a form of affordable housing appropriate for student housing, shared living or co-living communities, or other non-traditional housing types. By-the-unit rentals may be more appropriate for families, including non-traditional or multi-generational families.

Currently, the interim ordinance permits by-the-bed, by-the-bedroom, and by-the-unit leases. Staff is requesting direction regarding whether alternatives to by-the-unit rentals should be permitted or encouraged.

Targeted Income Levels

The standard inclusionary requirement establishes a minimum of 10% of units for very-low-income households and 25% for low-income households. The alternative inclusionary requirement establishes targets for of 5% of all units/beds/bedrooms for extremely low, very low, and low income categories. Table 5 provides the definition for each income category.

Table 5: Income Category Definitions	
Income Level	Definition
Extremely Low	Defined as households with incomes no more than 30% of Yolo County area median income
Very Low	Defined as households with incomes no more than 50% of Yolo County area median income
Low	Defined as households with incomes no more than 80% of Yolo County area median income

A summary of maximum incomes and rents is featured in Table 6 below.

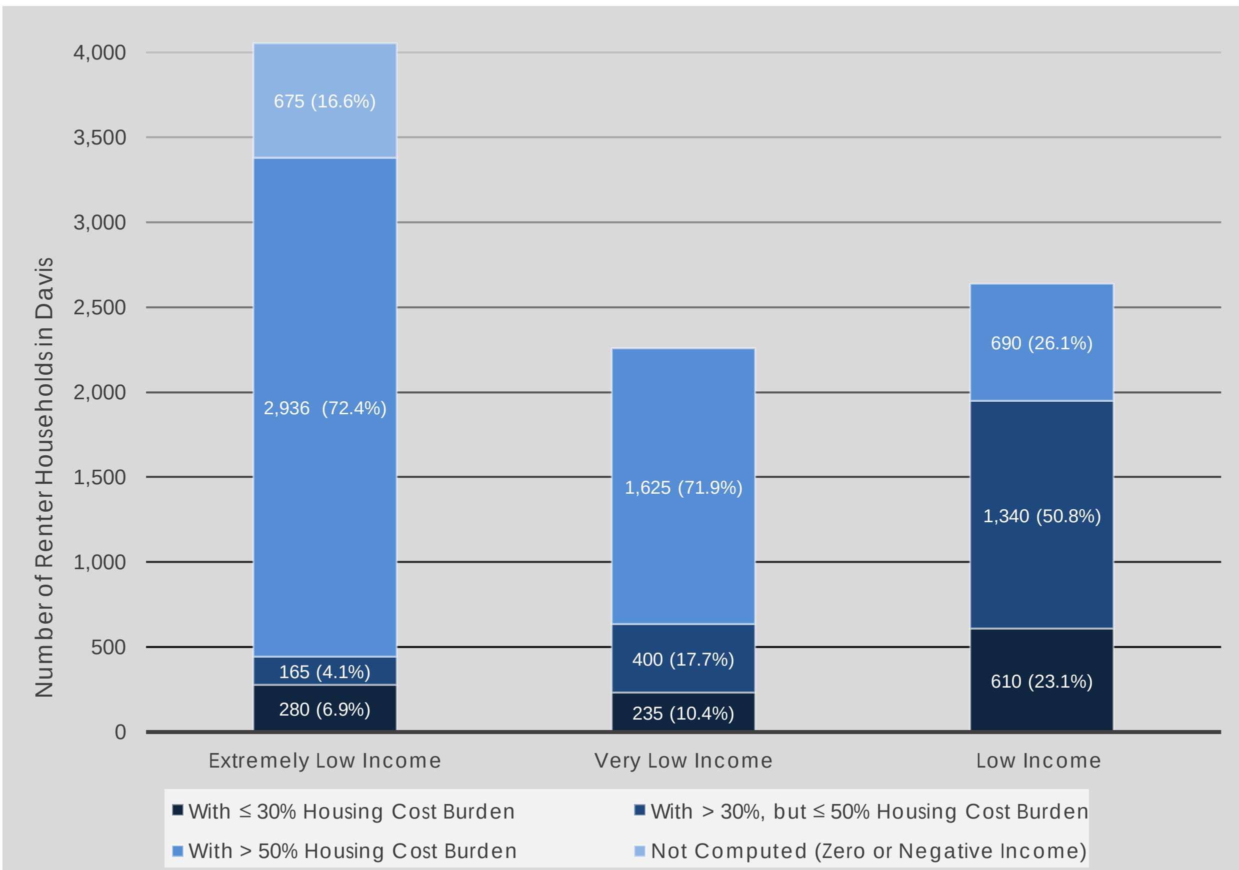
Table 6: 2018 Maximum Annual Income and Monthly Rent in Yolo County by Income Category and by Household Size		
	One-Person Household	Four-Person Household
Extremely Low Income		
Maximum Income per Year	$17,500	$25,100
Maximum Rent per Month	$437.50	$627.50
Very Low Income		
Maximum Income per Year	$29,150	$41,600
Maximum Rent per Month	$728.75	$1,040.00
Low Income		
Maximum Income per Year	$46,600	$66,550
Maximum Rent per Month	$1,165.00	$1,663.75

Source: California Department of Housing and Urban Development 2018 State Income Limits by County

The U.S. Department of Housing and Urban Development estimates that there are 8,956 extremely-low, very-low, or low-income renter households in Davis. Approximately 80% of these households are paying more than 30% of their income for housing. While the number and percent overpaying varies significantly by household income, the extremely-low-income category is clearly bearing the greatest housing cost burdens.

Of the extremely-low-income renter households, fewer than 7% are paying less than 30% of their income for housing, and an additional 4% are paying between 30% and 50% of their income for rent. The remaining 88% are either paying more than 50% of their income for housing, or have no income. Figure 1 shows the distribution of overpayment by income category.

Figure 1: City of Davis Rental Housing Cost Burden by Income Category (# of households x Income category)



Source: U.S. Department of Housing and Urban Development, 2009-2013 Comprehensive Housing Affordability Strategy (CHAS); BAE, 2016; State of the City Report, 2017

Staff notes that an overpaying household with an extremely low or low income has less than 70% of that income available for other goods and services, including food and transportation. An "overpaying" household with a higher income would likely have greater absolute resources for other expenses.

In general, a given subsidy or resource (such as CDBG or developer subsidy) will cost more per unit as income levels decrease. Given limited resources, the City may need to choose between subsidizing more units for relatively higher income households, or fewer units for relatively lower income households.

Currently, the interim ordinance sets a target income mix of 5% extremely low, 5% very low, and 5% low. Staff is seeking direction regarding whether there is a preferred income target for affordable rental housing.

Land Dedication or Fees In Lieu of On-site Affordable Apartments

As shown in Attachment 3, all but one of the recently-considered multi-family developments has committed to a form of on-site affordable housing. The exception is the Sterling project, which included a site for 38 family-oriented apartments to be developed by Mutual Housing. This site would be the only remaining parcel dedicated for non-profit affordable housing within City limits, after construction of the Creekside development beginning this fall.

The City's Affordable Housing Ordinance allows a multi-family developer to construct affordable units on-site, or dedicate land to the City in specific circumstances. Projects of fifteen units or fewer may request to pay fees in lieu of providing on-site affordable units.

On-site affordable housing can have the following advantages and disadvantages:

Advantages	Disadvantages
✓ The affordable units are integrated with market-rate units, which may foster social interactions across income brackets ✓ Local, state, and federal subsidies are generally not required or provided ✓ Affordable units do not require a minimum number or minimum parcel size to be practical ✓ Affordable units are constructed contemporaneously with market-priced units	X The cost of providing on-site affordable units often precludes developers from providing a large amount of extremely-low income units X Extremely-low income residents may need support services that are not necessarily provided in mixed-income projects

Land dedication affordable housing can have the following advantages and disadvantages:

Advantages	Disadvantages
✓ A non-profit developer may have access to local, state, and federal subsidies that are available only for 100% affordable projects ✓ Can allow for the inclusion of extremely-low-income units and/or projects that serve vulnerable populations such as seniors, individuals who are experiencing chronic	X The affordable units may not be integrated with the market-rate units, which does not foster social integration X Construction of the affordable units often lags behind the construction of market-rate units because it can take longer to solidify non-profit partnerships and secure subsidies

homelessness, and individuals who have a mental health disorder ✓ Integration of social services can be facilitated with non-profit owned, 100% affordable housing	X Often requires a lot size of at least 3-4 acres (assuming 15 dwelling units per acre) to achieve economies of scale and is therefore only an option for large scale development projects

In-lieu fee payments can have the following advantages and disadvantages:

Advantages	Disadvantages
✓ Can replenish the City's Housing Trust Fund, which has few other funding source besides in-lieu fees, since the dissolution of the Redevelopment Agency ✓ Housing Trust Fund monies can be used as seed money for land acquisition, as matching funds for state and federal subsidies, or as gap financing to provide the final piece of needed funding to ensure a project gets built ✓ Housing Trust Fund monies can be used for rehabilitation or preservation of existing affordable housing units. For example, the City used Housing Trust Fund dollars to rehabilitate Pacifico. ✓ Projects assisted with Housing Trust Fund monies could potentially be located in areas that are not seeing extensive housing development (such as the downtown)	X The payment does not result in immediate construction X Costs of subsidizing affordable housing construction may exceed the amount of in-lieu fee X Affordable units may not be provided in new development areas because in-lieu fees are used in other neighborhoods

Currently, the existing ordinance allows both land dedication and fees in lieu of on-site affordable units under certain circumstances. Staff is requesting direction regarding whether land dedication or fees in lieu of on-site affordable units should be accepted or encouraged.

<u>Planning Commission Recommendation</u>
The Planning Commission deliberated this issue at their November 14, 2018 meeting. The matter generated considerable discussion and Commissioners expressed a wide range of often differing views. Six public speakers provided comments. Here is an overview of the Commission deliberation:

- Why is the burden of affordable housing placed only on housing developers and not on other land uses?
- Is this a societal obligation or a legal obligation? Are we as a community committed to providing affordable housing?
- How many affordable units do we need?

- Extremely low income units appear to be the most challenging because they really need services as well. Perhaps in-lieu fees would be a better solution for serving the extremely low income category.
- Other cities seem to generally have lower requirements, around 10%.
- The report assumes parking is necessary—we could improve the proforma by eliminating parking requirements. Allowing greater height would also help.
- The threshold for the SB 375 CEQA exemption is 5% very low – that should be the floor.
- It is better to extend the ordinance than to go back to the 35% requirements in the base regulations.
- Will SACOG recognize affordable bedrooms or beds as meeting the RHNA?
- The in-lieu fee of $75,000 per unit is too low. It should be raised to the price of a unit. Consider raising it to $200,000 per unit.
- There is not enough information provided to answer the questions. There needs to be more analysis

The Commission ultimately took two actions:

By a 4:0:3 vote (H. Boschken, Robertson, Rutherford abstain) the Commission voted to recommend acceptance of either land dedication or in-lieu fees.

By a 6:0:1 vote (Rutherford abstain) the Commission voted to recommend that the Council:

> Extend the existing interim ordinance until a date to be determined by the City Council, either in conjunction with the Downtown Specific Plan update, the Housing Element update, or another effort as appropriate with the following caveats:
>
> - Carve out an exception for the downtown core
> - Continue to allow by-the-bed and by-the-bedroom leases
> - Remove the vertical mixed-use exemption
> - Set 15% affordability as a minimum rather than a target
> - Allow the 5% extremely low-5% very low-5% low target income mix to be adjusted up or down based upon the factors listed in the existing ordinance

<u>Social Services Recommendation</u>

The Social Services Commission deliberated this item at their November 19 meeting. Similar to the Planning Commission, the item generated a robust discussion. Seven community members provided public comment. Here is a summary of the discussion structured by the policy questions posed by staff:

- What is the appropriate percentage of affordable units for multifamily development?
    - The Commission acknowledged that 35% seems infeasible, but discussed how difficult recommending a percentage is given what little information and context

was provided. The Commission expressed the need to know what the community values. The Commissioners, however, generally agreed that the Housing Element update may provide the information and context that is necessary to make a more informed recommendation on an appropriate percentage.

- Should the City allow by-the-bed or by-the-bedroom affordability?
  - The Commissioners possessed differing views on this topic. While one Commissioner was in favor of continuing to allow by-the-bed and by-the-bedroom affordability to retain flexibility, the other three Commissioners expressed concerns that this provision facilitates development of student-oriented housing instead of encouraging apartments more suitable for families. The majority of the Commission also agreed that there is now a plethora of approved bed and bedroom rentals and the City may not need any more.
- Is there a preferred income target for affordable rental housing?
  - Similar to the appropriate percentage question, the Commission expressed the difficulty in answering this question given the lack of data and context. The Commission did generally agree that a target mix is appropriate because it provides a suggested parameter, but still allows for flexibility. One Commissioner underscored the need to serve the middle income category and shared examples from two California cities where the middle income category was incorporated into their inclusionary housing ordinances.
- Should the City accept land dedication or fees in lieu of on-site affordable housing?
  - The Commission acknowledged that the allowance of land dedication and in-lieu fees are important tools, but they emphasized the need to better define when the options are appropriate. The Commission discussed the benefits of building up the balance in the City's Housing Trust Fund and the creative ways the City could utilize that money, but cautioned that in-lieu fees cannot be a loophole for developers to avoid building more affordable units. In addition, the Commission encouraged the City to reexamine the in-lieu fee amount, as the current $75,000 standard seems too low.

The Commission also reached consensus that the City should remove the vertical mixed-use and stacked flat condominium exemptions immediately and that the City should explore creative ways to build affordable housing where the onus is not solely placed on private developers. The Commission ultimately made two motions:

By a 4-0 vote, the Commission recommended that the City Council consider:

- Extending the interim ordinance by keeping the recommended 15% target affordability and the 5% extremely low/5% very low/5% low income target until the Housing Element update is complete, but consider the following provisos:
  - Remove the vertical mixed-use and stacked flat condominium exemptions
  - Continue accepting land dedication and in-lieu fees, but develop parameters for when these options are appropriate

- Reexamine the current in-lieu fee amount as it seems too low

By a 3-1 vote (Valencia dissenting), the Commission recommended that the City Council consider:

- Removing the by-the-bed and by-the-bedroom affordability option

Legislative Changes

AB 1505 (GC Section 65850.01), the bill repealing the Palmer decision, provides that the California Department of Housing and Community Development (HCD) can review multi-family inclusionary requirements adopted after September 2017 that require more than 15% low income, under certain circumstances. HCD may require an economic feasibility study showing that the ordinance does not unduly constrain the production of housing. As of the writing of this report, HCD has not conducted any local ordinance reviews and no economic feasibility studies have been submitted to HCD.

SB 166 (GC Section 65863) provides for "no net loss" in designation of Housing Element sites to meet RHNA requirements. Every jurisdiction's Housing Element is required to demonstrate that there is land zoned to accommodate projected housing needs for all incomes (the Regional Housing Needs Allocation, or RHNA). Current Housing Element law allows a jurisdiction to assume that sites allowing specified densities can be credited as accommodating development for low income households. Under SB 166, if a project is approved with fewer affordable units than projected in a Housing Element, the jurisdiction must identify other sites to accommodate the RHNA requirements. The City's adopted Housing Element did identify several sites as low income based upon the "safe harbor" density assumption in the statute. This includes the condominium units at the Cannery, for example. Building permits have now been issued, and the units are expected to be sold at prices exceeding low-income levels. Staff's preliminary calculations show that additional low-income housing sites can be identified (including additional units at Creekside and the affordable housing parcel at Sterling) that the City will be able to demonstrate continued compliance with Housing Element requirements.

SB 35 (GC Section 65913.4) establishes a ministerial approval requirement for certain developments if a jurisdiction has not approved building permits consistent with RHNA requirements. The City of Davis has identified adequate sites to meet its RHNA obligation in its adopted Housing Element. However, (like almost every other jurisdiction in California) the City cannot demonstrate that building permits have been issued. Under this new statute, residential development projects that are both consistent with General Plan designation and 50% affordable must be approved ministerially. Because Davis has limited supply of land, and because 50% affordability is very unlikely without public subsidies, staff concludes that developments meeting these criteria are unlikely to be proposed.

Attachments

1. Ordinance to Extend Sunset Date for Section 10.05.060(b) of Davis Municipal Code
2. Development Economic Analysis of Multi-family Rental Housing Prototypes
3. Summary of affordable housing provisions for recent apartment proposals
4. Summary of multi-family inclusionary requirements in other communities
5. Overview of related housing activities underway in the City of Davis

Attachment 1: Ordinance to Extend Sunset Date for Section 10.05.060(b) of Davis Municipal Code

ORDINANCE NO. ____

ORDINANCE AMENDING CITY OF DAVIS MUNICIPAL CODE ARTICLE 18.05 TO EXTEND THE SUNSET DATE FOR AFFORDABLE ALTERNATIVE RENTAL HOUSING REQUIREMENTS

WHEREAS, Section 18.05.060(b) (the “Alternative Rental Affordable Housing Requirements”) of the City of Davis Municipal Code is set to sunset on December 31, 2018; and

WHEREAS, on February 6, 2018, the City Council temporarily added the alternative option of a recommended 15 percent affordability in response to state legislation that restored local government authority to require affordable housing in multifamily rental development projects; and

WHEREAS, the alternative option was meant to serve as a bridge until the City could conduct an economic analysis; and

WHEREAS, given the results of the independent, peer reviewed analysis, staff is requesting an extension of the alternative option and direction on desirable revisions and/or what future research, if any, is needed; and

WHEREAS, if Council takes no action, the alternative option will expire and the City will need to enforce the standard option of 35 percent affordability; and

WHEREAS, the economic analysis deemed the 35 percent affordability requirement infeasible under several defined scenarios; and

WHEREAS, the City is currently processing multiple applications for multifamily rental housing developments that were received prior to the sunset of the alternative option and were proposed with the expectation that 15 percent affordability was the City’s inclusionary housing requirement; and

WHEREAS, the Planning Commission held a meeting on November 14 to review the issue and make recommendations for City Council consideration; and

WHEREAS, the Social Services Commission held a meeting on November 19 to review the issue and make recommendations for City Council consideration and

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF DAVIS DOES HEREBY ORDAIN AS FOLLOWS:

SECTION 1. The Recitals set forth above are incorporated into this Ordinance, and are deemed true and correct.

SECTION 2. Section 18.05.060(b) of the Davis Municipal Code is hereby amended to read as follows:

(b) **Alternative rental affordable housing requirements.** Until June 30, 2019, the City Council may, at its discretion, approve alternative affordable housing requirements on a project specific basis that provide for a lesser percentage of the total units to be provided as affordable housing, or provide for affordable housing in an alternative manner, including but not limited to providing affordable housing by bedroom or individual bed, in an amount as deemed appropriate by the City Council. Except as provided below, there shall be a requirement of 15% affordable units, bedrooms or beds. The affordability mix shall have a target of 5% low, 5% very low and 5% extremely low recognizing that the number of units, bedrooms, or beds may be adjusted up or down based on the income and rent levels proposed. In considering whether to approve alternative affordable housing requirements pursuant to this subdivision (b), the City Council will consider the following factors in determining whether to approve such alternative requirements:

(1) Whether the market rate component and/or the affordable component of the proposed development is anticipated to meet a specific housing need as identified in the City's housing element or general plan policies;

(2) Whether the market rate units are anticipated to provide housing to low or moderate income households through the incorporation of design components that will encourage greater affordability including reduced units sizes and reduced utility costs;

(3) The extent to which the proposed development furthers other land use goals of the City, including but not limited to reductions in the need for private vehicles and the encouragement of development consistent with the Metropolitan Transportation Plan/Sustainable Communities Strategy adopted for the Sacramento Region by the Sacramento Area Council of Governments;

(4) Whether the proposed market rate development includes unusually high infrastructure costs or other cost burdens as conditions to the development of the project;

(5) Whether the proposed affordable housing component may be partially funded by public subsidy or other public financing from a source other than the City;

(6) Whether the affordable component is provided on a bed or bedroom basis, that encourages greater integration of the affordable and market rate components of the project;

(7) Whether any or all of the affordable housing is provided at a deeper level of affordability (such as Extremely Low Income housing, as defined in California Health & Safety Code Section 50106); and

(8) Whether the application for the proposed development was submitted to the City for consideration prior to the adoption of AB 1505.

INTRODUCED on the ____ day of ___________, 2018, and PASSED AND ADOPTED by the City Council of the City of Davis on this ______ day of _________, 2018, by the following vote:

AYES:

NOES:

Brett Lee
Mayor

ATTEST:

Zoe S. Mirabile, CMC
City Clerk

DEVELOPMENT ECONOMIC ANALYSIS OF MULTI-FAMILY RENTAL HOUSING PROTOTYPES

Report to

CITY OF DAVIS

From

A. PLESCIA & CO.

In Association With

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

Original Research and Analysis and Report Completed: December 2017
(Report Updated: October 2018)

C1494

A. PLESCIA & CO.   GRUEN GRUEN + ASSOCIATES

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INTRODUCTION AND PURPOSE

This technical report summarizes a real estate economic analysis completed by A. Plescia & Co. ("APC") and Gruen Gruen + Associates ("GG+A") to evaluate the impacts of existing City of Davis Affordable Housing Ordinance requirements on multi-family rental housing development feasibility in the Davis. The primary purpose of this report is to present information related to the potential economic implications of existing City of Davis affordable housing ordinance requirements on certain identified multi-family rental housing development prototypes. The report addresses five development prototypes that generally reflect the type and scale of multi-family rental housing that has been recently built, or proposed for future development, within Davis (but do not necessarily reflect the specific conditions of any particular site or development project). The real estate economic analysis considers three affordable housing scenarios to gauge the effects of the existing City of Davis Affordable Housing Ordinance:

1. A "market rate" scenario in which each prototypical development is modeled as a 100 percent market rate apartment project with no affordable housing requirements;

2. An "on-site affordable housing" scenario in which 35 percent of units are rented at below market rate ("BMR") rents affordable to the income levels targeted by the existing Affordable Housing Ordinance; and

3. An "in-lieu fee" scenario in which each prototypical development pays the existing fee of $75,000 per below market rate unit required (in-lieu of providing units on site).

The three scenarios are evaluated for each of the five prototypical multi-family rental housing development alternatives. The results are presented in terms of residual land value estimates; or in other words, supportable land values for each prototypical development alternative. For scenarios where no residual land value is estimated to exist (e.g., the value of the land is negative for the assumed use/development), we have estimated the approximate size of the feasibility gap.

This report was originally prepared in December 2017 for use by City staff. There was a period of internal review during the first quarter of 2018 while staff sought to better understand the results. Because of the important policy implications suggested by the results of the initial research and analysis as summarized in the original report, The City of Davis subsequently retained BAE Urban Economics to complete a peer review of the report. Based on the results of the peer review, the original report was updated in October 2018 to clarify methodology and results for public review. The clarifications and augmentations made in this report as suggested by the peer review are noted by double underlining throughout the report.

Analytical Approach

Although market and land use policy, regulatory conditions, and the physical circumstances of a particular property may vary by location (which the prototypes cannot explicitly quantify), property owners and developers tend to share a common motivation to seek to improve and benefit, if not maximize, their own economic return from a particular development undertaking. One reference point for measuring development feasibility is the residual land value; a yardstick used to evaluate each prototypical development alternative. We simulate the potential investment results of each alternative from the viewpoint of a potential developer-investor and estimate the amount of money an investor-developer could afford to pay for land, given the net cash flow anticipated to result from the development, absorption, operating, and eventual sale of each prototype – including factoring in targeted return-on-investment (profit margin) thresholds. In essence, we asked the following question:

> "How much could a prospective investor/developer pay for the amount of land needed to site each prototypical multi-family development alternative and earn a reasonable rate of return on investment commensurate with the risk of each hypothetical development?"

We used this methodology of estimating the residual land value that would be supported by the investment returns of the forecast revenues and costs, assuming a hurdle rate or return on investment equal to an 18 percent annual Internal Rate of Return (IRR)[1]. Note that the residual land value benchmark is best used to compare alternatives and obtain insight on the "ability to pay". Actual market value is also affected by the price of competing entitled land supply (e.g., even if a developer could afford to pay $50 per square foot for the land and still obtain a return that meets the hurdle rate threshold, the developer will not do so if other equally or more desirable development locations are available at less than $50 per square foot). Accordingly, the differences between each prototype are meant to provide perspective on how: (1) the existing City of Davis affordable housing requirements and resulting development financial feasibility change with density, construction type, parking configuration, unit type/sizes/mixture, and market orientation; and (2) which of the prototypes, based on the preliminary information contained in this updated analysis, are feasible to undertake with- and without- the imposition of existing City of Davis affordable housing ordinance requirements. (The results do not represent "hard" forecasts of land values, which are also affected by physical and market factors not quantified in this report).[2]

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[1] As the benchmark of investment feasibility, an Internal Rate of Return (IRR) represents the annual discount rate at which the net present value of cash flows from development, operation, and sale of a project would equal $0. The IRR hurdle rate used for this analysis represents an approximate mid-point to demonstrate feasibility across prototypes and affordable housing scenarios, based on a sample of interviews with local and regional developers knowledgeable of the Davis market (rather than a "hard forecast" of the investment rate of return that may apply to a specific property or entitlement situation in Davis).

[2] Such as whether significant environmental remediation or off-site improvements are required to accommodate new development, where specifically the project is located within Davis, and so forth.

SUMMARY OF RESULTS AND PRELIMINARY CONCLUSIONS

The results of the three affordable housing scenarios, when applied to each prototypical multi-family rental development alternative, suggest the following:

100% Market Rate Scenarios:

- Three of the five multi-family rental prototypes are estimated to support positive land values, including the Small Infill, Student Housing, and Large Traditional prototypes when ***no affordable housing requirements are imposed*** (though, the Large Traditional prototype is estimated to support a land value that may not be high enough to actually acquire land in Davis given the reservation prices or minimum prices for which owners are willing to sell property).

- The analysis indicates that the two 100 percent market rate vertical mixed-use prototypes (the Downtown Core Mixed-Use and Large Urban Mixed-Use) are unlikely to be feasible. The residual land values are estimated to be negative, at approximately ($50) to ($70) per square foot of land. In other words, the development of these uses is estimated to require land at no cost, plus subsidies or other financial assistance of approximately $30,000 to $45,000 per unit.

On-Site Below Market (BMR) Scenarios:

- None of the five multi-family rental housing prototypes support positive land values when 35 percent of the total dwelling units are provided at affordable rents to Very Low (10 percent) and Low (25 percent) income households.

- The estimated residual land values range from about negative ($35) to negative ($265) per square foot of land. Given that three of the prototypes are found to be infeasible even without an affordable housing requirement, including such a requirement worsens the infeasibility of the three protypes infeasible with 100 percent market rate units and turns the two prototypes that are marginally feasible with 100 percent market rates infeasible with the imposition of affordable housing requirements. This means that considerable subsidies and/or non-repayable funding (e.g., tax credit equity) would be required for any of the multi-family rental housing prototype alternatives to be feasibly developed with on-site Below Market Rate (BMR) units under the existing Affordable Housing Ordinance regulations. The amount of financial subsidies or other non-repayable funding required is estimated to range from about $50,000 per unit up to $130,000 per unit.

In-Lieu Fee Scenarios:

- The impacts of the existing in-lieu fee ($75,000 per BMR unit required) are less significant to multi-family rental housing development feasibility, though requiring the existing fee at the 35 percent rate still results in negative residual land values for four of the five prototypical development alternatives – the exception being the Small Infill prototype.

- The Small Infill prototype is estimated to support a minimal land value of about $7 per square foot under the in-lieu fee scenario. Residual land values for the other four prototypes are estimated to range from negative ($16) to negative ($121) per square foot of land if in-lieu fees are required on 35 percent of units; the Student Housing prototype is the closest to supporting a positive land value (with the residual estimated at about negative $6,000 per unit), primarily because of its large unit sizes given the in-lieu fees are set at a flat rate irrespective of unit sizes.

- Another key conclusion to draw from the results of the analysis is that the existing in-lieu fee amount is financially more attractive than constructing on-site BMR units. The residual land values for each prototype, although still negative, are less negative than providing on-site affordable units. This and other factors indicate that to the extent an investor-developer can program and implement a feasible multi-family development even with an affordable housing requirement, it is likely that the investor-developer will prefer to make an in-lieu fee payment rather than construct on-site units. The City could use in-lieu fees to leverage state and/or federal subsidies (e.g., tax credits) for non-profit affordable housing projects. Non-profit affordable housing projects tend to have different economics than the prototypical multi-family developments modeled in this report.

Summary:

In summary, three of the five multi-family rental prototypes are estimated to support positive land values, including the Small Infill, Student Housing, and Large Traditional prototypes when ***no affordable housing requirements are imposed*** on the development. While $20 to $28 per square foot residual land values for the Small Infill and Student Housing prototypes may be sufficient to obtain sites in some locations in Davis, in preferred, infill locations such as Downtown where available sites are limited or removal of existing buildings would be required in order to develop multi-family rental uses, the returns from 100 percent market rate development would not likely support the high costs of acquisition of property for multi-family rental development. Imposition of the existing City of Davis affordable housing ordinance requirements (either on-site BMR units or in-lieu fee) results in a negative residual land value for four of the indicated multi-family rental housing development prototypes (Downtown Core Mixed-Use, Student Housing, Large Traditional and Large Urban Mixed-Use), thereby increasing the infeasibility of multi-family rental development as the result of higher total development costs or lower rent associated with the affordable housing requirements.

As described in the report, some of the assumptions may be considered somewhat optimistic and therefore serve to increase returns and supportable land values. Accordingly, given that only two of the 100 percent market rate prototypes are marginally feasible given typical reservation prices for property sold for development or redevelopment, including affordable housing requirements will increase the challenge of feasibly developing multi-family rental housing and will tend to discourage production of such housing.

On-site parking is a variable in development costs based on the type (surface, podium, etc.) and extent of parking provided for each of the development prototypes. As indicated in this report two of the development prototypes (Student Housing and Large Urban Mixed-Use) include on-site parking that may be less than existing City zoning ordinance requirements due to the market orientation (e.g. student housing) of the respective prototypes. Increasing the on-site parking in those situations to the existing City zoning ordinance requirements would negatively affect the residual land value and returns due to increased development costs (for example, the estimated total development cost for a single podium type parking space could be in the range of approximately $25,000 to $30,000). Therefore, the development feasibility will be lower than presented in this report for those prototypes that include podium type parking configurations such as the Student Housing and Large Urban Mixed-Use prototypes.

Although consideration of density bonus was not a part of the scope of this assignment the City has expressed interest in understanding the potential economic implications on the feasibility conclusions for the subject development prototypes. Section 18.05.060 sets forth provisions for applying a density bonus (one-for-one units) to multi-family rental housing developments that include 25 percent to 35 percent of the on-site units for very-low and low-income housing. Based on previous financial feasibility analyses that APC has conducted for the City of Davis on development prototypes that have included on-site affordable housing with density bonus units we found that the estimated net project values generally decreased, and that estimated return-on-investment (return-on-cost) decreased to levels below the acceptable targeted level for return-on-investment. So, although the density bonus units increased the economic productivity of those development prototypes the inclusion of on-site affordable housing (35 percent) units resulted in the negative effects on overall development feasibility.

Another implication to applying a density bonus is that in some instances it might result in a different construction type and therefore higher per-unit construction costs. For example, a "base case" building with four or five floors of wood frame construction over a ground floor podium might require another level or two of residential uses to accommodate the additional density bonus units. If the site area is not sufficient to enlarge the base of the building(s) then the building heights need to be increased and correspondingly more costly structural, construction and life-safety requirements would ensue.

PROTOTYPICAL DEVELOPMENT ALTERNATIVES

The preliminary project development economic analysis of multi-family rental housing is based on five prototypical development alternatives ranging in size from 35 units to 210 units. Table 1 summarizes the key physical assumptions underlying each prototype.

Table 1: Summary of Multi-Family Rental Prototypes

	R1 Downtown Core Mixed-Use	R2 Small Infill	R3 Student Housing	R4 Large Traditional	R5 Large Urban Mixed-Use
Site Area (in Acres)	0.5	2.0	1.5	6.0	3.0
Housing Density (Units / Acre)	70.0	30.0	100.0	35.0	70.0
Total Multi-Family Housing Units	35	60	150	210	210
Market Orientation	Workforce	Workforce / Family	Student	Workforce / Family	Workforce / Student
Building Height	4 Stories	3 stories	6 stories	3 stories	5 stories
Construction	Type V over Type I	Type V	Type III over Type I	Type V	Type III over Type I
Parking Configuration	Podium / At-grade	Surface	Podium / At-grade	Surface	Podium / At-grade
Gross Building Area in Square Feet:					
Parking (Podium) [1]	12,250	0	35,000	0	91,700
Commercial	5,000	0	0	0	15,000
Residential	48,063	72,975	256,875	246,875	286,250
Total Gross	*65,313*	*72,975*	*291,875*	*246,875*	*392,950*
Floor Area Ratio (F.A.R.)[2]	2.4	0.8	3.9	0.9	2.3
Unit Mix	Studios - 2 1-Beds - 10 2-Beds - 23	1-Beds - 20 2-Beds - 30 3-Beds - 10	3-Beds - 36 4-Beds - 108 5-Beds – 6	Studios - 10 1-Beds - 90 2-Beds - 90 3-Beds - 20	Studios - 10 1-Beds - 20 2-Beds - 90 3-Beds - 90
Average Unit Size in Square Feet	1,099	1,158	1,370	940	1,090
Rentable Building Area in Square Feet	43,450	69,500	205,500	197,500	244,000
Total Parking Spaces	35.0	90.0	100.0	315.0	263
Parking Ratio (Spaces per Unit)	1.00	1.50	0.67	1.50	1.25

[1] Assumes 350 square feet of space per parking stall.
[2] Covered/structured parking area excluded from Floor Area Ratio metrics.

Sources: City of Davis; A. Plescia & Co.; Gruen Gruen + Associates.

The five multi-family rental prototypes include, and are differentiated by the following general characteristics:

- **Prototype R1 - Downtown Core Mixed-Use:**
  This prototype includes 35 units in a 4-story building, with three floors of apartment units above ground floor parking (podium) and 5,000 square feet of ground-floor commercial space on a 0.5 acre site. The overall housing density is approximately 70 units per acre and the floor area ratio approximates 2.4. The prototype unit mix is assumed to predominately include one-bedroom and two-bedroom units oriented to workforce households, with an average unit size of about 1,100 square feet. One parking space per unit is provided for on-site parking which is less than the existing City zoning ordinance requirements.

- **Prototype R2 - Small Infill:**
  This prototype includes 70 units in 3-story buildings on a 2.0 acre site with on-site surface parking. The overall housing density is 30 units per acre and the floor area ratio approximates 0.8. The rental apartment units would be configured in a stacked townhome layout, with one unit on the ground floor and a second unit above on the second and third floors; the product would not include common entryways and hallways or elevators. The prototype unit mix is assumed to include a variety of one-, two-, and three-bedroom units oriented to both workforce and family households with an average unit size of about 1,150 square feet. An on-site parking ratio would be 1.5 spaces per unit which is consistent with existing City zoning ordinance requirements.

- **Prototype R3 - Student Housing:**
  This prototype includes 150 off-campus student housing units in a 6-story building on a 1.5 acre site. The prototype assumes five floors of student apartments above ground floor parking and amenity / support service space in a ground floor podium. The overall housing density is 100 units per acre and the floor area ratio is approximately 3.9. The prototype unit mix is assumed to predominately consist of four-bedroom units and the average unit size is estimated at about 1,370 square feet. An on-site parking ratio is provided for of 0.67 stalls per unit which is less than the existing City zoning ordinance requirements. This is due to the market orientation of the prototype (student housing) and the assumption that student residents will have substantially fewer automobiles per unit than non-student housing-oriented development.

- **Prototype R4 - Large Traditional:**
  This prototype includes 210 units in a 3-story building located on a 6.0 acre site with surface parking. The overall housing density is 35 units per acre with a floor area ratio of approximately 0.9. The rental apartment units would be configured in a traditional elevator core building with a common entryway/lobby and common hallways. The prototype unit mix

is assumed to predominantly include one-, two- and three-bedroom units oriented to workforce and family households. The overall average unit size would approximate 940 square feet. An on-site parking ratio would be 1.5 spaces per unit which is generally consistent with existing City zoning ordinance requirements.

- **Prototype R5 - Large Urban Mixed-Use:**
  This prototype includes 210 units in a 5-story building, with four floors of apartment units above ground floor parking (podium) and 10,000 square feet of ground-floor commercial space on a 3.0 acre site. The overall housing density is 70 units per acre and the floor area ratio approximates 2.3. The prototype is assumed to predominately include two- and three-bedroom units oriented to family and workforce households, with an average unit size of about 1,100 square feet. On-site parking is provided for in the ground floor podium structure at a ratio of 1.25 spaces per unit which is slightly less than existing City zoning ordinance requirements. This is due to the market orientation (student and work force housing) of the prototype.

DEVELOPMENT COST ESTIMATES

Table 2 summarizes development cost estimates, excluding land and financing costs, for each prototype. The estimates are based upon: 1) our interviews with several real estate developers and brokers active in the Davis market; 2) a review of actual cost estimates for planned multi-family developments in Davis and the broader Sacramento area; and 3) our recent experience evaluating multi-family rental housing developments throughout Northern California.

(Note: the tables in Appendix A attached to this report include a more detailed summary of the assumptions/estimates underlying the total development cost estimates).

Table 2: Development Cost Estimates for Multi-Family Rental Prototypes

	R1 Downtown Core Mixed-Use	R2 Small Infill	R3 Student Housing	R4 Large Traditional	R5 Large Urban Mixed-Use
Per Net (Rentable) Square Foot:					
Hard[1]	$280	$203	$266	$238	$274
Soft - Impact Fees[2]	$30	$34	$27	$37	$33
Soft -– Other	$46	$31	$44	$39	$46
Total (b/f Land & Financing)	**$356**	**$268**	**$337**	**$314**	**$353**
Per Unit:					
Hard[1]	$348,208	$235,376	$364,230	$224,259	$317,994
Soft - Impact Fees[2]	$37,568	$35,412	$37,129	$34,977	$38,471
Soft -– Other	$58,526	$38,837	$60,098	$37,003	$52,469
Total (b/f Land & Financing)	**$444,302**	**$309,625**	**$461,457**	**$296,239**	**$408,934**

[1] Includes general contractor overhead/profit and general conditions.
[2] Estimated impact fee costs do not include affordable housing in-lieu fees. They do include construction tax and water / sewer connection fees. All fees estimated on the assumption that CFD (Community Facility District) rates would not apply.

Sources: City of Davis; Developer Interviews; A. Plescia & Co.; Gruen Gruen + Associates.

The hard construction cost estimates reflect site work costs of $15 per square foot of land area, residential building area costs of $150 to $175 per gross square foot, commercial building area and tenant improvement costs of $225 per gross square foot, and parking costs of $60 per square foot of podium parking area (where applicable). The hard costs also include general conditions and general contractor profit and overhead equal to 15 percent.

The total estimated hard construction costs range from a low of $203 per net (rentable) square foot for the Small Infill prototype, which assumes an efficient stacked townhome rental product type with minimal common building areas, to a high of $280 per net (rentable) square foot for the Downtown Core Mixed-Use prototype which assumes a relatively small but dense mixed-use building with a ground floor parking garage. The hard construction cost estimates range from approximately $235,000 to $364,000 per unit, with the Student Housing prototype at the high end of the range given the large student-oriented unit sizes/mix. The estimated hard construction costs are estimated to be as high as they are due in part to the City's requirements for energy efficiency features (LEED Gold standards - which our interviews suggest can add 15 percent to 20 percent to the hard construction cost) and the City's desires for high-quality aesthetic and architectural features for proposed new development.

Impact fees include those imposed by the City of Davis (for general facilities, public safety, public infrastructure, parks and open space), the Davis Joint Unified School District, and Yolo County. Including construction tax, water and sewer connection fees, and assuming Quimby fees apply, the total impact fee estimates range from approximately $35,000 to $38,500 per unit or about $27 to $37 per net rentable square foot depending on the prototype. The estimates do not include affordable housing in-lieu fees and further assume that none of the prototypes are located within a CFD (Community Facilities District) which have different rate schedules depending on the district.

Additional soft costs (non-impact fee) are estimated to total 16.5 percent of hard construction costs and include expenditures for items such as architectural and engineering fees, development fees, planning/entitlements, building permits, legal and insurance, and general administration and marketing. Where applicable, retail leasing commissions are also included at $7.50 per square foot. Additional non-impact fee soft costs are estimated to range from approximately $31 to $46 per net square foot or about $37,000 to $58,500 per unit.

Total development costs (before land and financing) are estimated to range from $267 to $356 per net rentable square foot or approximately $296,000 to $461,000 per unit. The two vertical mixed-use prototypes that include combinations of residential and commercial space with covered podium parking have total development costs of approximately $410,000 to $444,000 per unit.

<u>It should be noted that since the conduct of the research summarized in the report in late 2017, construction costs have increased. To the extent growth in rents have not kept pace with the rise in</u>

construction costs, the returns from development of the prototypes would be likely be lower than those presented in this report.

MARKET AND OPERATING PARAMETERS

Apartment Rents

Table 3 below summarizes estimated obtainable apartment rent assumptions based on our interviews and review of secondary multi-family market data. Revenue estimates are presented under two scenarios: (1) assuming all units are market rate; and (2) assuming BMR rental units are provided on-site.

Table 3: Base Monthly Rent Assumptions by Prototype

	R1 Downtown Core Mixed-Use	R2 Small Infill	R3 Student Housing	R4 Large Traditional	R5 Large Urban Mixed-Use
100% Market Rate Units					
Total Number of Units	35	60	150	210	210
Average Unit Size (in Square Feet)	1,099	1,158	1,370	940	1,090
Average Monthly Rent Per Square Foot	$2.53	$2.38	$2.77	$2.53	$2.46
Average Monthly Rent Per Unit	$2,779	$2,760	$1,000 per Bed	$2,381	$2,687
On-Site BMR Units (35% Requirement)					
Below Market Rate Units[1]	13	22	53	74	74
Market Rate Units	22	38	97	136	136
Average Unit Size (in Square Feet)	1,099	1,158	1,370	940	1,090
Average Monthly Rent Per Square Foot[2]	$1.96	$1.82	$2.10	$2.00	$1.93
Average Monthly Rent Per Unit[2]	$2,151	$2,114	$758 per Bed	$1,878	$2,104

[1] 35% on-site requirement, figures rounded up to nearest full unit. Includes 10% of units targeted at 40% of AMI and 25% of units targeted at 65% of AMI, per existing City of Davis Affordable Housing Ordinance.
[2] See Appendix B for detailed calculations on affordable rents based on 2017 Yolo County income limits.

Sources: Costar; Developer Interviews; A. Plescia & Co; Gruen Gruen + Associates.

The base rental income estimates are primarily based on the following market rate monthly rent assumptions, where applicable:

- Studio units at $2.75 per square foot;
- One-bedroom units at $2.60 per square foot;
- Two-bedroom units at $2.50 per square foot; and
- Three-bedroom units at $2.40 per square foot.

Based on the unit sizes and overall unit mix assumed for each prototype, excluding the off-campus student housing alternative, average market rate monthly rents are estimated at approximately $2.50 per square foot. Obtainable rents are assumed to be slightly lower for the small infill prototype (a stacked townhome rental use) given that common amenities (e.g., business/study center, lounge) would typically be excluded in such a development. Because limited market rate apartment development has occurred in Davis in recent years, not specifically programmed for student housing, the rental rate estimates represent our best judgment about the rent premiums (based on recent input from real estate developers and brokers familiar with the Davis market) that new, high-quality product may obtain over the existing inventory. The market rate rent assumptions represent about a 10 to 20 percent premium over the top of the existing multi-family rental inventory.[3]

The analysis of the off-campus student housing prototype reflects a rental rate per bed (rather than per unit). We estimate an average monthly rental rate of $1,000 per bed. This equates to an average monthly rental rate of about $2.77 per rentable square foot. The bed lease rate of $1,000 reflects input from prospective developers of similar proposed student housing projects and our review of secondary market data, which indicates that the bed lease rate assumption reflects about a 15 percent premium over existing product.[4]

To meet the City's existing affordable housing requirements through provision of on-site affordable units, 35 percent of units need to be below market rate: 10 percent of units must be affordable to households earning 40 percent of the Area Median Income (AMI); and another 25 percent of units must be affordable to households earning 65 percent of AMI. The BMR units for each prototype are provided for in the same proportion as the market rate units (e.g., if 30 percent of market units include two bedrooms, it is assumed that 30 percent of on-site BMR units will also be two-bedroom units). The inclusion of on-site BMR units effectively reduces the average monthly rents by 21 to 24 percent, to approximately $1.80 to $2.10 per rentable square foot. (See Appendix B for more detailed

[3] Our review of Costar and other secondary data as of November 2017 suggested that the highest-rent properties in Davis tended to obtain average monthly rents in the range of $2.00 to $2.25 per square foot. According to Costar, the overall average monthly rent for 7,375 existing apartment units in the Davis submarket is $1.81 per square foot.

[4] The UC Davis *2016 Apartment Vacancy and Rental Rate Survey*, for example, indicates an average lease rate of $875 for student housing properties rented by the bed in Davis.

calculations of affordable rents, at 30 percent of income, based on 2017 Yolo County income limits). The estimates of affordable rents do not explicitly factor in utility allowances. All utility expenses are included in the operating expense assumptions for each prototypical multi-family building. If utility allowances were factored into the below market rent calculation, effective income from affordable units provided on-site, and therefore development feasibility would be further reduced.

The analysis assumes annual apartment rent growth of three percent. Miscellaneous revenues associated with reserved covered parking, storage fees, pet deposits, and so forth, are assumed to represent three percent of total gross annual revenues.

Lease-Up and Occupancy

The existing multi-family rental inventory is extremely well occupied. The University of California (UC) Davis off-campus student housing survey dated February 8, 2017 indicates a physical vacancy rate of essentially zero (only 15 units reported vacant out of a sample of 8,100 units), and Costar estimates an effective vacancy rate of 2.7 percent for the Davis apartment submarket. Secondary market data, as well as our interviews, also suggest that the majority of new units delivered in the past have usually been occupied immediately following construction (i.e., they were pre-leased).

For purposes of this analysis, we assume that 50 percent of units in each prototype are pre-leased and that each development reaches full occupancy within three to six months. Upon stabilization, a three percent vacancy rate and credit loss factor are included each year thereafter.

Commercial Rents

Two of the prototypes, the Downtown Core Mixed-Use and Large Urban Mixed-Use, include ground-floor commercial space. The real estate economic analysis optimistically assumes that both are fully leased upon completion of construction at an annual triple-net rent of $36 per square foot. The spaces are assumed to remain fully leased throughout the period of analysis with rent escalations of 15 percent every five years. To the extent commercial rents are lower or the space is not fully occupied, the returns and therefore development feasibility will be lower than presented in this report. Commercial space, however, comprises a small part of the two prototypes and is not included at all in three of the prototypes.

Operating Expenses

The real estate economic analysis is based on the following annual operating expense estimates for the multi-family rental housing development prototype alternatives:

- Annual property taxes equal to 1.0 percent of estimated total development costs;
- Annual insurance costs equal to 0.25 percent of replacement (hard construction) costs; and
- Annual variable expenses (such as management fees, payroll, utilities, general maintenance/repairs, etc) equal to 20 percent of estimated annual gross revenues.

These expense assumptions represent approximately 33 percent of gross revenues, or approximately $11,400 to $15,800 per unit upon stabilization of each prototype. On a per-square-foot basis, the expenses upon stabilization approximate $9 to $10 per square foot, depending on the prototype.[5]

Given students comprise a significant share of multi-family rental housing market demand, our interviews suggest a capital reserve of $500 per unit (annually) would be appropriate for new rental housing product in Davis.

INVESTMENT AND FINANCING PARAMETERS

Table 4 summarizes the financing and investment parameters upon which the residual land value estimates are based.

[5] The National Apartment Association's 2016 survey of operating expenses and income indicated an average operating expense of approximately $12,500 per unit, which represented 33 percent of gross potential rent, for market rate apartment properties in California. Costar estimates that operating expenses for "4 and 5 Star" properties in the Davis apartment submarket average approximately $9 per square foot.

Table 4: Financing and Investment Assumptions

Schedule / Timeline:	
Planning and Entitlements	2 years
Construction	1 year
Investment Holding Period	7 years
Capital Stack	Amount of debt funding sized on the lesser of: (1) 65% loan-to-cost; or (2) Supportable loan-to-cost at 1.30x debt coverage ratio.
Equity Rate of Return Hurdle / Target	18.0% annual Internal Rate of Return (IRR)
Interim / Construction Financing:	
Annual Interest Rate	5.0%
Loan Fees / Points	0.5%
Loan Duration	2 years
Permanent Loan:	
Annual Interest Rate	5.0%
Amortization	25 years
Property Sale:	
Capitalization Rate	5.0%
Cost of Sale	3.0%
Sources: A. Plescia & Co.; Gruen Gruen + Associates.	

The timeline assumed for each prototype includes a two-year planning and entitlement period (upon land acquisition), a one-year construction period, and a seven-year operating period before each development is assumed to be sold by the initial development entity.

The sources of funding or "capital stack" are sized upon the lesser of two factors: (1) a loan-to-cost at 65 percent; or the loan-to-cost ratio supported at a 1.30 debt service coverage ratio (e.g., $130 of net income for every $100 of debt service payment). In other words, the amount of debt funding secured to fund each hypothetical development is assumed to be 65 percent, or a lesser amount in instances where a 65 percent loan-to-cost would not provide a minimum debt coverage ratio of 1.3. The amount of equity investment supported at an 18 percent IRR hurdle rate is then accounted for; this annual rate of return on equity represents the "feasibility threshold" for the equity investment.

A two-year construction loan at an annual interest rate of 5.0 percent, with loan fees/points equal to 0.5 percent of the loan amount, is assumed to be taken over a two-year period during construction and subsequent lease-up of each prototype. A permanent mortgage at an annual interest rate of 5.0 percent and amortized over 25 years is assumed to retire the construction loan balance in the second year following completion of each prototype.

Each prototype is assumed to be sold at the end of the tenth year (the seventh operating year, following a three-year planning, entitlement, and construction period). The exit capitalization is estimated at 5.0

percent given current market conditions. Costar reports average capitalization rates of 5.4 percent and 5.0 percent for the Davis and greater Davis submarkets, respectively, during the past year (this includes all properties sold, not just newer market rate properties). Examples of larger properties which have traded recently in Davis for capitalization rates ranging from 4.5 to 5.5 percent include the Davinci Apartments, Alhambra at Mace Ranch, Allegre Apartments, The Element, Tanglewood at Davis, and the Sharpes and Flats apartments. To the extent capitalization rates increase and therefore property values decline, the investment returns and residual land values would be lower than presented in the report.

RESULTS OF REAL ESTATE ECONOMIC ANALYSIS

Table 5 summarizes the residual land value estimates and other key results, including the total development costs, amount of permanent mortgage debt, and size of equity investment for each prototypical multi-family rental housing development alternative under the three affordable housing scenarios.

Table 5: Results of Real Estate Economic Analysis

	R1: Downtown Core Mixed-Use	R2: Small Infill	R3: Student Housing	R4: Large Traditional	R5: Large Urban Mixed-Use
100% Market Rate Units (No Affordable Housing Requirement)					
Residual Land Value	($1,087,576)	$1,715,000	$1,850,000	$285,000	($9,449,674)
Per Square Foot of Land	*($50)*	*$20*	*$28*	*$1*	*($72)*
Total Hard & Soft Development Cost[1]	$16,381,738	$19,727,315	$73,245,492	$65,751,369	$90,427,502
Total Supportable Development Value[2]	*$15,284,162*	*$21,442,315*	*$75,095,492*	*$66,036,369*	*$80,977,828*
Permanent Mortgage	$10,074,769	$13,937,505	$48,812,070	$42,923,640	$53,804,364
Equity Investment	$5,209,393	$7,504,810	$26,283,422	$23,112,729	$27,173,464
Annual Internal Rate of Return on Equity	18.0%	18.0%	18.0%	18.0%	18.0%
On-Site BMR Units (35% Requirement)					
Residual Land Value	($4,452,735)	($3,018,985)	($17,334,644)	($14,878,269)	($28,060,707)
Per Square Foot of Land	*($204)*	*($35)*	*($265)*	*($57)*	*($215)*
Total Hard & Soft Development Cost[1]	$16,191,764	$19,477,323	$72,227,683	$64,970,608	$89,365,310
Total Supportable Development Value[2]	*$11,739,029*	*$16,458,338*	*$54,893,039*	*$50,092,339*	*$61,304,603*
Permanent Mortgage	$7,772,047	$10,907,301	$36,474,980	$33,459,863	$40,929,312
Equity Investment	$3,966,982	$5,551,037	$18,418,059	$16,632,476	$20,375,291
Annual Internal Rate of Return on Equity	18.0%	18.0%	18.0%	18.0%	18.0%
In-Lieu Fee Payments (35% Requirement)					
Residual Land Value	($2,223,216)	$650,000	($1,020,900)	($5,317,952)	($15,876,595)
Per Square Foot of Land	*($102)*	*$7*	*($16)*	*($20)*	*($121)*
Total Hard & Soft Development Cost[1]	$17,348,542	$21,331,213	$77,340,900	$71,381,908	$95,931,087
Total Supportable Development Value[2]	*$15,125,326*	*$21,981,213*	*$76,320,000*	*$66,063,956*	*$80,054,492*
Permanent Mortgage	$9,975,411	$14,287,789	$50,271,587	$43,899,874	$53,241,753
Equity Investment	$5,149,914	$7,693,425	$26,048,416	$22,164,083	$26,812,739
Annual Internal Rate of Return on Equity	18.0%	18.0%	18.0%	18.0%	18.0%

[1] Includes estimated construction financing costs.
[2] Total supportable development value equals the residual land value plus the estimated hard and soft development costs.

Sources: A. Plescia & Co; Gruen Gruen + Associates.

The results of the three affordable housing scenarios, when applied to each prototypical multi-family rental housing development alternative, suggest the following:

- **100% Market Rate Scenarios:**
  Three of the five multi-family rental prototypes are estimated to support positive land values, including the Small Infill, Student Housing, and Large Traditional prototypes. The estimated residual land values for the Small Infill and Student Housing alternatives are estimated at approximately $20 and $28 per square foot of land, respectively. The estimated residual land value for the Large Traditional alternative is only slightly positive, at $285,000 for a six-acre site. When the likely actual cost of land is considered, the Large Traditional alternative would probably be infeasible because the supportable land value will not be high enough to actually acquire land in Davis given the reservation prices or minimum prices for which owners are willing to sell property. The two vertical mixed-use prototypes (Downtown Core Mixed-Use and Large Urban Scale Mixed-Use) are not estimated to support positive land values. In other words, a feasibility gap likely exists for these two 100 percent market rate alternatives. The residual land values for the Downtown Core Mixed-Use and Large Urban Mixed-Use alternatives are estimated at negative ($50) and negative ($72) per square foot, respectively. For these prototypical developments to be feasible, the land would need to be provided at no cost and subsidies or other non-repayable capital funding would also be required.

- **On-Site Below Market Rate (BMR) Scenarios:**
  None of the five multi-family prototypes support positive land values when 35 percent of the total dwelling units are provided at affordable rents to Very Low (10 percent) and Low (25 percent) income households. The estimated residual land values range from about negative ($35) to negative ($265) per square foot of land. This means that considerable subsidies and/or non-repayable funding (e.g., tax credit equity) would be required for any of the multi-family rental alternatives to be feasibly developed with on-site BMR units under the existing City of Davis Affordable Housing Ordinance requirements. The amount of subsidies or other non-repayable funding required is estimated to range from about $50,000 up to $130,000 per unit.

- **In-Lieu Fee Scenarios:**
  The impacts of the existing in-lieu fee ($75,000 per BMR unit required) are less significant to multi-family rental development feasibility, though requiring the existing fee at the 35 percent rate still results in negative residual land values for four of the five prototypical development alternatives. The Small Infill prototype is estimated to support a minimal land value of about $7 per square foot under the in-lieu fee scenario. Residual land values for the other prototypes are estimated to range from negative ($16) to negative ($121) per square foot of land if in-lieu fees are required on 35 percent of units.

- Another key conclusion to draw from the results of the analysis is that the existing in-lieu fee amount, given currently estimated market conditions and development/construction costs, is financially more attractive than constructing on-site BMR units. The residual land values for each prototype, although still negative, are less negative than providing on-site affordable units. To the extent an investor-developer can program and implement a feasible multi-family development even with an affordable housing requirement, it is likely that the investor-developer will prefer to make an in-lieu fee payment rather than construct on-site units. The City could use in-lieu fees to leverage state and/or federal subsidies (e.g., tax credits) for non-profit affordable housing projects. Non-profit affordable housing projects tend to have different economics than the prototypical multi-family developments modeled in this report.

As described in the report, some of the assumptions may be somewhat optimistic and therefore serve to increase returns and supportable land values. Accordingly, given that only two of the 100 percent market rate prototypes are marginally feasible given typical reservation prices for property sold for development or redevelopment, including affordable housing requirements will increase the challenge of feasibly developing multi-family rental uses and will tend to discourage production of such uses.

APPENDIX A

DEVELOPMENT COST ESTIMATE

Downtown Core Mixed-Use

35 Total Units (No Affordable Housing)	*Assumption*	Per GSF	Per Unit	Total
Land Acquisition		**$ -**	**$ -**	**$ -**
Hard Costs:				
Site Work (on-site)	$ 15.00	$ 6.16	$ 9,334.29	$ 326,700.00
Residential Building Area	$ 175.00	$ 158.51	$ 240,312.50	$ 8,410,937.50
Commercial Building Area / TI's	$ 225.00	$ 21.20	$ 32,142.86	$ 1,125,000.00
Podium Parking Area	$ 60.00	$ 13.85	$ 21,000.00	$ 735,000.00
Blank		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Contractor OH&P / GC's	15.00%	$ 29.96	$ 45,418.45	$ 1,589,645.63
Hard Subtotal		**$ 229.68**	**$ 348,208.09**	**$ 12,187,283.13**
Soft Costs:	*% of Hard*			
Entitlement	1.50%	$ 3.45	$ 5,223.12	$ 182,809.25
Architecture & Engineering	5.00%	$ 11.48	$ 17,410.40	$ 609,364.16
Development Fee	4.00%	$ 9.19	$ 13,928.32	$ 487,491.33
Gen. Admin & Marketing	2.50%	$ 5.74	$ 8,705.20	$ 304,682.08
Legal / Prop Taxes / Insurance	2.00%	$ 4.59	$ 6,964.16	$ 243,745.66
Permits	1.50%	$ 3.45	$ 5,223.12	$ 182,809.25
Impact/Tap Fees and Const. Tax		$ 24.78	$ 37,568.14	$ 1,314,885.00
Affordable Housing In-Lieu Fees		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Leasing Commissions	$ 7.50	$ 0.71	$ 1,071.43	$ 37,500.00
Soft Subtotal		**$ 63.38**	**$ 96,093.91**	**$ 3,363,286.72**
Financing Costs:*				
Interest Reserve	7.75%	$ 14.71	$ 22,308.42	$ 780,794.60
Loan Fees / Points		$ 0.95	$ 1,439.25	$ 50,373.85
Financing Subtotal		**$ 15.66**	**$ 23,747.67**	**$ 831,168.45**
TOTAL DEVELOPMENT COST		**$ 308.73**	**$ 468,049.67**	**$ 16,381,738.29**

*Interest reserve estimate is approximate, based on the specified construction / interim loan interest rate and duration, and assumes loan draws are evenly disbursed throughout loan period (i.e., not front or back-loaded).

FUNDING SUMMARY

Source:		Per GSF	Per Unit	Total
Equity	31.80%	$ 98.17	$ 148,839.79	$ 5,209,392.78
Debt	61.50%	$ 189.87	$ 287,850.54	$ 10,074,769.05
Other (Non-Repayable)	6.70%	$ 20.68	$ 31,359.33	$ 1,097,576.47
Total	**100.00%**	**$ 308.73**	**$ 468,049.67**	**$ 16,381,738.29**

DEVELOPMENT COST ESTIMATE

Small Infill Site

60 Total Units (No Affordable Housing)	*Assumption*	Per GSF	Per Unit	Total
Land Acquisition		**$ 23.44**	**$ 28,583.33**	**$ 1,715,000.00**
Hard Costs:				
Site Work (on-site)	$ 15.00	$ 17.86	$ 21,780.00	$ 1,306,800.00
Residential Building Area	$ 150.00	$ 150.00	$ 182,894.74	$ 10,973,684.21
Commercial Building Area / TI's	$ 225.00	$ -	$ -	$ -
Podium Parking Area	$ 60.00	$ -	$ -	$ -
Blank		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Contractor OH&P / GC's	15.00%	$ 25.18	$ 30,701.21	$ 1,842,072.63
Hard Subtotal		**$ 193.04**	**$ 235,375.95**	**$ 14,122,556.84**
Soft Costs:	*<u>% of Hard</u>*			
Entitlement	1.50%	$ 2.90	$ 3,530.64	$ 211,838.35
Architecture & Engineering	5.00%	$ 9.65	$ 11,768.80	$ 706,127.84
Development Fee	4.00%	$ 7.72	$ 9,415.04	$ 564,902.27
Gen. Admin & Marketing	2.50%	$ 4.83	$ 5,884.40	$ 353,063.92
Legal / Taxes / Insurance	2.00%	$ 3.86	$ 4,707.52	$ 282,451.14
Permits	1.50%	$ 2.90	$ 3,530.64	$ 211,838.35
Municipal / School Impact Fees		$ 29.04	$ 35,411.53	$ 2,124,692.00
Affordable Housing In-Lieu Fees		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Leasing Commissions	$ 7.50	$ -	$ -	$ -
Soft Subtotal		**$ 60.89**	**$ 74,248.56**	**$ 4,454,913.88**
Financing Costs:*				
Interest Reserve	7.75%	$ 14.76	$ 18,002.61	$ 1,080,156.61
Loan Fees / Points		$ 0.95	$ 1,161.46	$ 69,687.52
Financing Subtotal		**$ 15.72**	**$ 19,164.07**	**$ 1,149,844.13**
TOTAL DEVELOPMENT COST		**$ 293.10**	**$ 357,371.91**	**$ 21,442,314.86**

*Interest reserve estimate is approximate, based on the specified construction / interim loan interest rate and duration, and assumes loan draws are evenly disbursed throughout loan period (i.e., not front or back-loaded).

FUNDING SUMMARY

		Per GSF	Per Unit	Total
Equity	35.00%	$ 102.58	$ 125,080.17	$ 7,504,810.20
Debt	65.00%	$ 190.51	$ 232,291.74	$ 13,937,504.66
Other (Non-Repayable)	0.00%	$ -	$ -	$ -
Total	100.00%	$ 293.10	$ 357,371.91	$ 21,442,314.86

DEVELOPMENT COST ESTIMATE

Off-Campus Student Housing

150 Total Units (No Aforable Housing)	*Assumption*	**Per GSF**	**Per Unit**	**Total**
Land Acquisition		**$ 7.20**	**$ 12,333.33**	**$ 1,850,000.00**
Hard Costs:				
Site Work (on-site)	$ 15.00	$ 3.82	$ 6,534.00	$ 980,100.00
Residential Building Area	$ 175.00	$ 175.00	$ 299,687.50	$ 44,953,125.00
Commercial Building Area / TI's	$ 225.00	$ -	$ -	$ -
Podium Parking Area	$ 60.00	$ 6.13	$ 10,500.00	$ 1,575,000.00
Blank		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Contractor OH&P / GC's	15.00%	$ 27.74	$ 47,508.23	$ 7,126,233.75
Hard Subtotal		**$ 212.69**	**$ 364,229.73**	**$ 54,634,458.75**
Soft Costs:	*% of Hard*			
Entitlement	1.50%	$ 3.19	$ 5,463.45	$ 819,516.88
Architecture & Engineering	5.00%	$ 10.63	$ 18,211.49	$ 2,731,722.94
Development Fee	4.00%	$ 8.51	$ 14,569.19	$ 2,185,378.35
Gen. Admin & Marketing	2.50%	$ 5.32	$ 9,105.74	$ 1,365,861.47
Legal / Taxes / Insurance	2.00%	$ 4.25	$ 7,284.59	$ 1,092,689.18
Permits	1.50%	$ 3.19	$ 5,463.45	$ 819,516.88
Municipal / School Impact Fees		$ 21.68	$ 37,129.01	$ 5,569,352.00
Affordable Housing In-Lieu Fees		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Leasing Commissions	$ 7.50	$ -	$ -	$ -
Soft Subtotal		**$ 56.77**	**$ 97,226.92**	**$ 14,584,037.69**
Financing Costs:*				
Interest Reserve	7.75%	$ 14.73	$ 25,219.57	$ 3,782,935.42
Loan Fees / Points		$ 0.95	$ 1,627.07	$ 244,060.35
Financing Subtotal		**$ 15.68**	**$ 26,846.64**	**$ 4,026,995.77**
TOTAL DEVELOPMENT COST		**$ 292.34**	**$ 500,636.61**	**$ 75,095,492.21**

*Interest reserve estimate is approximate, based on the specified construction / interim loan interest rate and duration, and assumes loan draws are evenly disbursed throughout loan period (i.e., not front or back-loaded).

FUNDING SUMMARY

		Per GSF	**Per Unit**	**Total**
Equity	35.00%	$ 102.32	$ 175,222.82	$ 26,283,422.27
Debt	65.00%	$ 190.02	$ 325,413.80	$ 48,812,069.94
Other (Non-Repayable)	0.00%	$ -	$ -	$ -
Total	100.00%	$ 292.34	$ 500,636.61	$ 75,095,492.21

DEVELOPMENT COST ESTIMATE

Large Traditional Apartments

210 Total Units (No Affordable Housing)	*Assumption*	**Per GSF**	**Per Unit**	**Total**
Land Acquisition		**$ 1.15**	**$ 1,357.14**	**$ 285,000.00**
Hard Costs:				
Site Work (on-site)	$ 15.00	$ 15.88	$ 18,668.57	$ 3,920,400.00
Residential Building Area	$ 150.00	$ 150.00	$ 176,339.29	$ 37,031,250.00
Commercial Building Area / TI's	$ 225.00	$ -	$ -	$ -
Podium Parking Area	$ 60.00	$ -	$ -	$ -
Blank		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Contractor OH&P / GC's	15.00%	$ 24.88	$ 29,251.18	$ 6,142,747.50
Hard Subtotal		**$ 190.76**	**$ 224,259.04**	**$ 47,094,397.50**
Soft Costs:	*% of Hard*			
Entitlement	1.50%	$ 2.86	$ 3,363.89	$ 706,415.96
Architecture & Engineering	5.00%	$ 9.54	$ 11,212.95	$ 2,354,719.88
Development Fee	4.00%	$ 7.63	$ 8,970.36	$ 1,883,775.90
Gen. Admin & Marketing	2.50%	$ 4.77	$ 5,606.48	$ 1,177,359.94
Legal / Taxes / Insurance	2.00%	$ 3.82	$ 4,485.18	$ 941,887.95
Permits	1.50%	$ 2.86	$ 3,363.89	$ 706,415.96
Municipal / School Impact Fees		$ 29.75	$ 34,977.12	$ 7,345,196.00
Affordable Housing In-Lieu Fees		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Leasing Commissions	$ 7.50	$ -	$ -	$ -
Soft Subtotal		**$ 61.23**	**$ 71,979.86**	**$ 15,115,771.59**
Financing Costs:*				
Interest Reserve	7.75%	$ 13.47	$ 15,840.87	$ 3,326,582.11
Loan Fees / Points		$ 0.87	$ 1,021.99	$ 214,618.20
Financing Subtotal		**$ 14.34**	**$ 16,862.86**	**$ 3,541,200.31**
TOTAL DEVELOPMENT COST		**$ 267.49**	**$ 314,458.90**	**$ 66,036,369.40**

*Interest reserve estimate is approximate, based on the specified construction / interim loan interest rate and duration, and assumes loan draws are evenly disbursed throughout loan period (i.e., not front or back-loaded).

FUNDING SUMMARY

		Per GSF	**Per Unit**	**Total**
Equity	35.00%	$ 93.62	$ 110,060.62	$ 23,112,729.29
Debt	65.00%	$ 173.87	$ 204,398.29	$ 42,923,640.11
Other (Non-Repayable)	0.00%	$ -	$ -	$ -
Total	100.00%	$ 267.49	$ 314,458.90	$ 66,036,369.40

DEVELOPMENT COST ESTIMATE

Large Urban Apartments

210 Total Units (No Affordable Housing)	*Assumption*	Per GSF	Per Unit	Total
Land Acquisition		**$ -**	**$ -**	**$ -**
Hard Costs:				
Site Work (on-site)	$ 15.00	$ 6.51	$ 9,334.29	$ 1,960,200.00
Residential Building Area	$ 165.00	$ 156.78	$ 224,910.71	$ 47,231,250.00
Commercial Building Area / TI's	$ 225.00	$ 11.20	$ 16,071.43	$ 3,375,000.00
Podium Parking Area	$ 60.00	$ 18.26	$ 26,200.00	$ 5,502,000.00
Blank		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Contractor OH&P / GC's	15.00%	$ 28.91	$ 41,477.46	$ 8,710,267.50
Hard Subtotal		**$ 221.67**	**$ 317,993.89**	**$ 66,778,717.50**
Soft Costs:	*% of Hard*			
Entitlement	1.50%	$ 3.33	$ 4,769.91	$ 1,001,680.76
Architecture & Engineering	5.00%	$ 11.08	$ 15,899.69	$ 3,338,935.88
Development Fee	4.00%	$ 8.87	$ 12,719.76	$ 2,671,148.70
Gen. Admin & Marketing	2.50%	$ 5.54	$ 7,949.85	$ 1,669,467.94
Legal / Taxes / Insurance	2.00%	$ 4.43	$ 6,359.88	$ 1,335,574.35
Permits	1.50%	$ 3.33	$ 4,769.91	$ 1,001,680.76
Municipal / School Impact Fees		$ 26.82	$ 38,471.12	$ 8,078,936.00
Affordable Housing In-Lieu Fees		$ -	$ -	$ -
Blank		$ -	$ -	$ -
Leasing Commissions	$ 7.50	$ 0.37	$ 535.71	$ 112,500.00
Soft Subtotal		**$ 63.77**	**$ 91,475.83**	**$ 19,209,924.39**
Financing Costs:*				
Interest Reserve	7.75%	$ 13.84	$ 19,856.37	$ 4,169,838.18
Loan Fees / Points		$ 0.89	$ 1,281.06	$ 269,021.82
Financing Subtotal		**$ 14.73**	**$ 21,137.43**	**$ 4,438,860.00**
TOTAL DEVELOPMENT COST		**$ 300.17**	**$ 430,607.15**	**$ 90,427,501.89**

*Interest reserve estimate is approximate, based on the specified construction / interim loan interest rate and duration, and assumes loan draws are evenly disbursed throughout loan period (i.e., not front or back-loaded).

FUNDING SUMMARY

		Per GSF	Per Unit	Total
Equity	30.05%	$ 90.20	$ 129,397.45	$ 27,173,464.32
Debt	59.50%	$ 178.60	$ 256,211.26	$ 53,804,363.62
Other (Non-Repayable)	10.45%	$ 31.37	$ 44,998.45	$ 9,449,673.95
Total	100.00%	$ 300.17	$ 430,607.15	$ 90,427,501.89

APPENDIX B

AFFORDABLE HOUSING INCOME LIMITS

Yolo County - 2017	Household Size (# Persons)							
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Extremely Low (30% AMI)	$16,150	$18,450	$20,750	$24,600	$28,780	$32,960	$37,140	$41,320
Very Low (50% AMI)	$26,950	$30,800	$34,650	$38,450	$41,550	$44,650	$47,700	$50,800
Low (80% AMI)	$43,050	$49,200	$55,350	$61,500	$66,450	$71,350	$76,300	$81,200
Median	$53,850	$61,500	$69,200	$76,900	$83,050	$89,200	$95,350	$101,500
Moderate (120% AMI)	$64,600	$73,850	$83,050	$92,300	$99,700	$107,050	$114,450	$121,850

Target BMR Rent Calculations

	Studio	1-Bed	2-Bed	3-Bed	4-Bed	5-Bed
Household Size	1	2	3	4	5	6
Monthly Utility Allowance	$0	$0	$0	$0	$0	$0
Monthly Rents (Per Unit):						
BMR Units @ 40% AMI	$539	$615	$692	$769	$831	$892
BMR Units @ 65% AMI	$875	$999	$1,125	$1,250	$1,350	$1,450
BMR Units @ 100% AMI	$1,346	$1,538	$1,730	$1,923	$2,076	$2,230
BMR Units @ 135% AMI	$1,817	$2,076	$2,336	$2,595	$2,803	$3,011

Attachment 3: Summary of affordable housing provisions for recent apartment proposals

Project Name	Target Tenant	Number of Beds, Bedrooms, and/or Units	Affordability Unit of Measurement	Brief Summary of Affordable Housing Plan Components	Status
3820 Chiles Road	Workforce	▸ 361 bedrooms ▸ 225 units	TBD	TBD	In Review
Davis Live	Students	▸ 440 beds ▸ 71 units	By the bed, utilities included	▸ 66 beds (15%) • 22 beds = extremely low income • 22 beds = very low income • 22 beds = low income	Approved
Lincoln 40	Students	▸ 708 beds ▸ 473 bedrooms ▸ 130 units	By the bed	▸ 71 beds (10%) • 57 beds = very low-income • 14 beds = low-income (rents set at 60% of median income)	Approved
Nishi	Students	▸ 2,200 beds ▸ 700 units	By the bed, utilities included	▸ 330 beds (15%) • 110 beds = extremely low income • 220 beds = very low income	Approved

Project Name	Target Tenant	Number of Beds, Bedrooms, and/or Units	Affordability Unit of Measurement	Brief Summary of Affordable Housing Plan Components	Status
Plaza 2555	Mixed – both students and non-student housing complex per applicant	▶ 646 bedrooms ▶ 200 units	By the bedroom and by the unit	▶ Estimated 64 bedrooms (10%) and estimated 10 micro-units (5%) • Estimated 32 bedrooms = extremely low income • Estimated 32 bedrooms = low income • Estimated 10 micro-units = very low income ▶ Actual number of units will be determined at the time of Final Planned Development, based on final unit and bedroom count	In Review
Sterling	Students (affordable units would be for the general population)	▶ 540 bedrooms ▶ 160 units	By the unit	▶ 38 units (24%)	Approved. Market units under construction. Mutual Housing seeking financing for the affordable component
Trackside	Workforce	▶ 47 bedrooms ▶ 27 units	Not applicable	▶ Vertical mixed-use exemption	Approved
University Research Park	Workforce	▶ 192 bedrooms ▶ 160 units	By the unit. Utilities included in rent, or utility allowance reduces allowable rent	▶ Vertical mixed-use exemption ▶ 8 units (5%) for CEQA exemption • 8 units = very low income	In Review

Attachment 4: Summary of multi-family inclusionary requirements in other communities

To better understand how other cities administer affordable housing, staff conducted a cursory review of the multi-family rental inclusionary requirements in other communities. The table below summarizes staff's preliminary research.

City	Summary of Multi-Family Rental Inclusionary Requirements	Year Enacted; Source
Berkeley	▸ For all residential housing projects • 20% of dwelling units = low, lower, or very low income. Very-low-income units required only if Section 8 subsidies are available. ▸ Option for in-lieu fees (applicant's elective)	1999; Chapter 23C.12 Inclusionary Housing Requirements
Folsom	▸ For residential rental units receiving assistance from the city or that are otherwise subject to a voluntary affordable housing agreement with the city, excluding density bonus units: • 9 units or less = exempt • 10 units or more = 10% of units ▪ 7% low income ▪ 3% very low income ▸ Alternative methods at the sole discretion of the City Council including in-lieu fees	2017; Chapter 17.104 Inclusionary Housing
Napa	▸ Affordable housing impact fee of $3.50-$6.00 on every development project	2012: Summary of Affordable Housing Program
Rocklin	▸ Possesses a density bonus provision	Unknown; Chapter 17.96 Density Increase Incentive Program
Roseville	▸ Possesses a density bonus provision	2014; Chapter 19.28 Residential Density Bonus
West Sacramento	▸ For all multi-family rental units: • 10% of units ▪ 5% low income ▪ 5% very low income ▸ Alternative methods at the sole discretion of the City Council	Unknown; Chapter 15.40 Relating to Affordable Housing

City	Summary of Multi-Family Rental Inclusionary Requirements	Year Enacted; Source
Woodland	▶ For multi-family rental projects within the existing city limits and designated in the City's General Plan as Downtown Mixed Use, Corridor Mixed Use, and Neighborhood Commercial: • 30 units or less = exempt • 31 to 80 units = 5% low income • 81 units or more = 5% low income and 10% very low income ▶ For multi-family rental projects within all other areas of the city • 9 units or less = exempt • 10 units or more = 30% of units ▪ 20% very low income ▪ 10% low income **OR** ▪ 25% very low	2018; Chapter 6A Affordable Housing

Attachment 5: Overview of related housing activities underway in the City of Davis

Analysis of Student-Oriented Single-Family Construction / Remodels. The City Council has expressed concern about the impacts of single-family homes that are maximized (through construction or remodeling) for occupancy by students. Some projects have raised neighborhood issues over potential undesirable behaviors relating to noise, parking, and visual blight.

Affordable Housing Ordinance – Exemption for Stacked Flat Condominium and Vertical Mixed-Use Projects. The Current Affordable Housing Ordinance exempts stacked flat condominiums and vertical mixed-use projects from inclusionary requirements. The intent of the exclusion was to provide an incentive for development meeting City goals of compact, urban forms. Recently, the City Council and community have expressed a desire to reassess these exemptions and determine whether the incentive is still relevant.

Affordable Housing Ordinance – Middle-Income Housing Requirements. In 2006, the City Council adopted an ordinance requiring middle-income housing (up to 180% of area median income) in new for-sale developments. These requirements were suspended in 2009, with a provision that City Council should assess future need of the requirement in 2011. The matter has not been scheduled for Council review.

Student-Oriented Apartment Complexes – Assessment of Impact Fees and Community Enhancement Contributions. Recent apartment approvals have included Development Agreements that memorialize the affordable housing provisions, and also have included community benefit contributions from the developer.

Next Housing Element of 2021 - 2029. Staff is in process of confirming key dates for the next Housing Element. Anticipated dates <u>to be confirmed</u> are:

- Next RHNA cycle: August 1, 2021 through July 31, 2029.
- Date after which building permits and occupancy certificates count toward the next RHNA: June 30, 2021.
- Housing Element due to HCD: August 20, 2021.

Comprehensive, long range General Plan update. The last comprehensive update to the General Plan was adopted by City Council in May 2001. In recent years, staff has updated parts of the General Plan, and other activities aligned with General Plan objectives, including:

- Climate Action Land and Adaptation Plan implementation (ongoing)
- Business Park Strategy (adopted) and Comprehensive Economic Development Strategy (ongoing)
- Transportation Element Update and Transportation Implementation Plan (adopted)
- Parks and Facilities Master Plan (adopted)

On January 10, 2017, the City Council directed staff to proceed with a Core Area policy / code updates and a General Plan update in a partially-overlapping process with a total timeframe of approximately 3 to 3-1/2 years. The process begins first with Core Area policy / code updates and second with a General Plan update. The General Plan update is anticipated to begin midway in the total process, depending on the progress of the Core Area updates.