Housing Leadership Council
of San Mateo County

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San Francisco Bay Area Regional Prosperity Plan – Sub-Grantee Final Report

Project Profile:

Project Name: Laying the Groundwork for Inclusive Growth in San Mateo County through the Creation of New Funding Sources and Adoption of Updated Housing Elements

Lead and Partner Organizations: Housing Leadership Council of San Mateo County

Primary Contact Person: Joshua Hugg, HLC, jshugg@hlcsmc.org, 139 Mitchell Ave., #108, South San Francisco, CA

Sub-Grant Program: Housing the Workforce / Equity / Economic Prosperity

Project Type: Local Revenue Sources for Affordable Housing, Implementation Tools

Total Grant Amount: $75,000

Total Match (if any): SVCF: $75,000; TSFF: $30,000

Geographic Coverage of Project: The four largest cities (Daly City, Redwood City, City of San Mateo and South San Francisco), however, all 21 jurisdictions in San Mateo County will benefit. We will also conduct outreach to Santa Clara County jurisdictions to promote participation in the multi-city nexus study.

Brief Description: The Housing Leadership Council of San Mateo County will lead a campaign to encourage San Mateo County cities to enact new revenue sources and update their Housing Element to support inclusive growth. This campaign will result in:

1. Updated Housing Elements with greater consistency with Plan Bay Area and Regional Housing Need Allocation (RHNA) targets;
2. Commitments by local jurisdictions to new sources of funding for affordable housing;
3. More impactful site identification in Housing Elements to meet RHNA targets and increase competitiveness for Low-Income Housing Tax Credits;
4. Partners and community stakeholders show support for the new policies, rezoning, revenue sources, and other programs;
5. Policy and systems change catalyzed at the local level; and
6. Enhance the multi-jurisdictional nexus study underway in San Mateo County, improving its adoption rate by local communities and increasing the effectiveness of development impact fee ordinances.

<u>Project Description:</u>

Goals and Objectives:

San Mateo County is currently ranked the least affordable county for home ownership in the California and one of the least affordable nationally for rental housing. In areas of the county with a high potential for growth there are very few mechanisms to create housing that serves lower income residents. Nor are there mechanisms that allow existing residents from weathering rapid increases in rent in these transit-accessible areas. The project is intended to help meet the housing needs of low- and very low-income households in the region, while also reducing their transportation costs and improving access to jobs and economic opportunities through the investigation, organization, and promotion of planning policies that help to produce new affordable housing stock and prevent the loss of "naturally affordable" housing.

Work Plan:

- Compile best practices, model policies, model ordinance language, and information about revenue sources (including summarizing nexus study results when available anticipated mid-2004)
- Consolidate compiled information into a joint Policy Best Practices document
- Evaluate San Mateo County communities for opportunities to introduce provisions from the Policy Best Practices document
- Develop a detailed engagement plan for each community
- Recruited additional stakeholders as potential partners to support the Policy Platform
- Work with city staff to incorporate Policy Platform provisions into administrative and draft Housing Elements
- Educate appointed and elected officials on why affordable housing is important and how the specific policies and programs will improve the quality of life in San Mateo County
- Organize community participation at hearings and study sessions, developing community sign-on letters, and other outreach activities
- Contracting for a nexus study summary report and coordinating with the nexus study consultant on outreach and education.

Role of Lead and Partners:

HLC worked with community partners like NPH, Sierra Club, Public Advocates, and SFOP/PIA to educating decision-makers and members of the community on the importance of affordable housing and what policy options can be implemented to impact the production and protection of housing affordability. Each of us had a unique set of connections and perspectives through which we could promote these fundamental policies.

Challenges and Outcomes:

Challenges:
Some of the largest challenges involved our engagement on Housing Elements. San Mateo County contains 21 jurisdictions with the largest cities population sitting just above 100,000. Despite the common hurdles that these communities face in providing affordability and mitigating displacement, each municipality has a variety of unique considerations that needs to be acknowledged and accommodated. Political dispositions can differ significantly in adjacent towns – both with the City Council and community members. Median income, Jobs-Housing Fit, robust downtowns, percentage of residents that rent, and ethnic breakdown can influence whether there is an inclination to support housing policies and how it might manifest itself. Also it is recognized that affordable housing and tenant protection policies can be a highly politicized issue. As a result, there are many opposition organizations that take an aggressive approach to defending their interests. This serves to ratchet up tensions when meeting with elected officials as they are being actively pulled in multiple directions.

When establishing relationships in communities and engaging with them to support housing-positive policies it is necessary to "start where people are at," rather than promote the agenda you have first. Renters, who are the most vulnerable to the recent resurgence in the economy and its concurrent rent increases, are very motivated to speak up for tenant protections. However, this vulnerability does not necessarily predispose them to be particularly active on the production of affordable housing. By working on their immediate needs it is possible to strengthen trust and build relationships that can then be leveraged to support policies that are good for the community, but may or may not help them directly (like affordable housing production).

Outcomes:
One of the largest successes came from our work on the issue of displacement as it related to the Housing Element. Through active dialog with officials at CA HCD and support from the public interest legal community we were able to establish through case law that cities were responsible for not only producing and preserving deed-restricted affordable housing, but also for preserving "natural affordability" – where the laws of supply and demand create a distribution of housing that is affordable to the entire spectrum of incomes. This gave us leverage when talking to cities about analyzing displacement potential in and around local Priority Development Areas. Often when progress was not made at the local level, HCD would press cities to adopt a program to analyze displacement.

Replicability and Dissemination:

Replicability:

The countywide collaboration of planning department staff called 21 Elements (www.21elements.com) served not only as a clearing house for information and source of mutual support on Housing Element-related topics, but also created a mechanism that facilitates work on larger projects that benefited from scale. The countywide Grand Nexus Study was such an example where costs to individual jurisdictions were significantly lowered. While working with individual cities on adopting best practices policies on topics like displacement, 21 Elements served as a means by which cities could commit to studying a policy as a regional initiative and not have to expend as many resources. This lowered the bar to robust participation.

Our Housing Element Best Practices document was successful in opening up the dialog about policy options in that it served as a resource for staffers to research policy background, as well as for the community members and electeds since it provided an extensive menu of options that were almost always beyond the scope of policies and programs that city staff offered for consideration. It provides just enough information for non-staffers to know what the policy does and then ask "Why aren't we doing this?"

Tools and Resources:

Tools and strategies for our various work included:

1. Housing Element Policy Best Practices document
2. Grand Nexus Study support material
3. Consolidated Common Policy Platform Documents

Sharing and Dissemination:

We have sought to make our Housing Element Policy Best Practices document as broadly available as possible. This has included having the document posted on ABAG's housing website: http://abag.ca.gov/files/HousingElementPoliciesBestPracticesv2.pdf

The holistic themes, promoted policies, and methodologies developed in our coalition work has allowed us to extend into other geographies and work areas with much less effort. The relationships that are built through this work serves to lower the bar for future collaborations.

Recommendations and Next Steps:

Recommendations:

1. **Housing Policy Best Practices** – Jurisdictions, community members, and advocates should evaluate their community's housing and displacement-related policies against the list included in the Housing Policy Best Practices document to see if they are leveraging every tool possible to address our region's chronic housing issues, which has resulted in both short term stability issues and long term supply shortages.
2. **Cross-sector collaborations** on equitable growth policy are key to ensuring robust implementation. By establishing a vision up front that includes elements of each sector you ensure broad buy-in and lower the bar to groups supporting one another in their respective venues.
3. **Community involvement** often starts with "what's in it for me." It is important to understand "where people are at," and begin to address their immediate issues, before engaging them on larger, more abstract issues.
4. **Protections for Renter Advocates**. Renters who do not have the benefit of tenant protections are forced to be transient and therefore have difficulties – and sometimes threats against – participating in activities to provide that stability and protections. Working with local legal aid organizations can help to ensure that they are not retaliated against.

Next Steps:

1. Revise the Housing Policy Best Practices document to extend beyond the context and content of the Housing Element process to include a more holistic view of equitable growth. This may serve to provide a framework for a policy platform that applies to community benefits programs that are currently under consideration in many local specific plan processes within Priority Development Areas.
2. Increase renter participation in local policy campaigns to both protect tenants and serve as a stable base to advocate for the production of more affordable housing.

Development Fee Case Study:

Multi-City Affordable Housing Nexus Studies Report

March 30, 2015

prepared for:
Housing Leadership Council
San Mateo County

STRATEGIC ECONOMICS

VWA

Vernazza Wolfe Associates, Inc.

Table of Contents

I. INTRODUCTION

The jurisdictions of San Mateo County are considering adopting new or updated impact fees on commercial development and/or residential development. The purpose of the fees would be to mitigate the impact of an increase in demand for affordable housing due to new development. When a city or county adopts a development impact fee, it must establish a reasonable relationship or connection between the development project and the impacts for which the fee is charged. Studies undertaken to demonstrate this connection are called nexus studies.

The purpose of a **commercial linkage fee** nexus analysis is to quantify the increase in demand for affordable housing that accompanies new non-residential development. There will be a net gain in employment when new commercial space is built. The ability of new workers to pay for housing costs is linked to their occupations (and hence salaries). Given anticipated incomes, there may be an affordability "gap" between what worker households can afford to pay (to rent or to buy) and the actual costs of new housing. A nexus analysis for a commercial linkage fee calculates the relationship between new commercial development and household incomes of employees and then determines the employees' need for affordable housing. These steps provide the rationale for calculating the maximum justified commercial linkage fee that could be levied on non-residential development.

The nexus study for a **housing impact fee** measures the income and spending generated by the new market rate households renting or buying new units in a particular jurisdiction. This new consumption is then translated into new "induced" job growth. These induced jobs will be at various wage rates; many will be at lower wages. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in San Mateo County, a housing impact fee can be justified to bridge the difference between what these new households can afford to pay and the cost of developing modest housing units to accommodate them.

This report summarizes the draft findings from the initial phases of work for the multi-jurisdictional nexus studies. It introduces the overall approach and methodology to conduct the nexus studies, presents information on the county's housing market and recent development trends, and discusses the results of the housing affordability gap analysis for San Mateo County. Because this is a draft report, and the findings presented herein may change in later phases of the study. The final version of this summary report will include the results of the nexus analyses, including the maximum nexus-supported fees for each jurisdiction.

II. NEXUS STUDY METHODOLOGY

This section describes the nexus concept and the methodology for conducting the commercial linkage fee and residential impact fee nexus analyses.

COMMERCIAL LINKAGE FEE STUDY

Background

A commercial linkage fee is an impact fee that is charged on new, non-residential development to address the affordable housing demand from new workers. The funds raised by the linkage fees are deposited into a housing fund specifically reserved for use by a local jurisdiction to increase the supply of affordable housing. The imposition of a linkage fee is one of many funding sources that jurisdictions can contribute towards meeting the affordable housing needs of workers occupying newly developed commercial space. For more than thirty years, California cities and counties have imposed commercial linkage fees on new, non-residential developments.

When a city or county adopts a development impact fee, it must establish a reasonable relationship between the development project and the fee being charged. Studies undertaken to demonstrate this connection are called nexus studies. Nexus studies for school impact fees, traffic mitigation fees, and parks are common. For commercial linkage fees, a methodology exists that establishes a connection between the development of commercial space and the need to expand the supply of affordable housing. This study is based on this established methodology.

Linkage Fee Methodology

The purpose of a commercial linkage fee nexus analysis is to quantify the increase in demand for affordable housing that accompanies new non-residential development. There will be a net gain in employment when new commercial space is built. The ability of new workers to pay for housing costs is linked to their occupations (and hence salaries). Given anticipated incomes, there may be an affordability "gap" between what worker households can afford to pay (to rent or to buy) and the actual costs of new housing. The nexus analysis calculates the relationship between new commercial development and household incomes of employees and then determines the employees' need for affordable housing. These steps provide the rationale for calculating the maximum justified commercial linkage fee that could be levied on non-residential development. The steps for the linkage fee nexus study are describes in more detail in Figure II-1.

Figure II-1: Analytical Steps for Commercial Linkage Fee Nexus Calculations

ANALYTICAL STEPS	CALCULATIONS
(1) Define prototypical non-residential project sizes for new commercial developments	These are defined based on recent and proposed developments in San Mateo County. The purpose of defining prototypes is to use the amount of space in each prototype to estimate future employment. Three prototypes were selected and include Hotels (133 rooms or 100,000 SF), Retail, Restaurants and Personal Services (100,000 SF), and Office, R&D and Medical Office (100,000 SF).
(2) Estimate the number of workers that will work in the new space.	Based on standard employment density figures, it is assumed that the employment density in hotels is approximately 0.75 workers per room (average room size of 750 SF), one worker per 667 SF for retail, restaurants, and personal services, and one worker per 333 SF for office, R&D and Medical Office. By dividing the prototype developments by employment density figures, the number of workers for each prototype is estimated.
(3) Estimate the number of new households represented by these new workers.	Since there are multiple wage earners in a household, the number of new workers will be higher than the number of new households associated with the new development. Therefore, it is necessary to go from projected growth in the number of workers to household growth. This adjustment is based on the average number of wage-earners per worker household for the jurisdiction according to the U.S. Census.
(4) Estimate wages of new workers.	Define the industries and occupations that are associated with each commercial prototype. Estimate incomes of the new workers based on average wages by occupation. Since workers of different occupations will work in the development prototypes, incomes are weighted to reflect the percentage of total employment represented by each occupation associated with the new developments.
5) Estimate household income of worker households.	Worker wage estimates from the previous step are then converted to household incomes. This step assumes that the income of the second wage-earner is similar to the wage of the first wage-earner. Individual employee incomes are multiplied by the number of workers per household to represent household incomes.
(6) Calculate the number of households that would be eligible for affordable housing divided into three categories: very low-, low-, and moderate-income.	The income groups are defined for the average household size in the jurisdiction, using the income categories established by California HCD. Households with above-moderate income are removed to determine the number that would require below market rate affordable housing.
(7) Estimate the total housing affordability gap of new households requiring affordable housing.	The total number of very low-, low-, and moderate-income new worker households for the each land use prototype is multiplied by the corresponding affordable housing gap figure.
(8) Calculate maximum commercial linkage fees for each prototype.	The total affordability gap is then divided by 100,000 SF, the size of each commercial prototype to generate a maximum fee per square foot.

Sources: Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

HOUSING IMPACT FEE

Background

Cities and counties in California have operated inclusionary zoning programs to increase the supply of affordable housing since the 1970s. An inclusionary program requires that builders of new residential projects provide a specified percentage of units, either on-site or off-site, at affordable prices. Some programs have also allowed developers the option of paying fees “in lieu” of providing inclusionary units.

Inclusionary zoning policies were usually established based on the police power of cities and counties to enact legislation benefitting the public health, safety, and welfare. However, in 2009, the Court of Appeal held in *Palmer/Sixth St. Props L.P. v. City of Los Angeles* that inclusionary rental requirements based on the police power violate the Costa Hawkins Rental Housing Act, which allows landlords to determine the rent of all new units. Rental affordable housing may still be included in a development if a developer agrees by contract in exchange for financial assistance or regulatory incentives, but cannot be *required* of a developer. Consequently, communities have completed nexus studies and imposed rental housing impact fees to mitigate the impact of market-rate rental housing on the need for affordable housing. The funds raised by the housing impact fees are deposited into a housing fund specifically reserved for use by a local jurisdiction to increase the supply of affordable housing.

Pending at the California Supreme Court is *Calif. Bldg. Ind. Ass'n v. City of San Jose.* The CBIA has claimed that all inclusionary requirements, whether for-sale or rental, must be justified by a nexus study. If the BIA is successful in its litigation, completion of a nexus study will enable communities to retain their existing inclusionary housing programs.

Housing Impact Fee Methodology

The approach for this nexus study assumes that the development of new market rate housing units brings new residents to a city. These new residents spend money in the city. For example, they go out to eat in local restaurants, shop for food and clothing in local stores, and patronize other local businesses, such as hair salons, dry cleaners, and dental offices. This local spending results in the need to hire new workers to respond to the increased demand for goods and services. A nexus study establishes the connection between the new households that move to the city to purchase new housing units (or to rent newly constructed rental units) and the number of new workers that will be hired by local businesses to serve the needs of new residents.

It is important to remember that growth in employment will provide jobs at various wage rates. While some jobs will pay salaries that will allow new workers to rent or purchase market rate housing, many new jobs will also be at lower wages. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in San Mateo County, a housing impact fee can be charged to address the demand for affordable housing.

When selecting the actual fee to impose, a jurisdiction can adopt a fee that is lower than the maximum fees estimated, based on the nexus study calculations. However, the fees to be adopted cannot exceed these maximum fee levels. The steps to calculate the housing impact fee are described in Figure II-2.

Figure II-2: Analytical Steps for Housing Impact Fee Nexus Calculations

ANALYTICAL STEPS	CALCULATIONS
(1) Define residential prototypes.	The residential prototypes are defined for each jurisdiction based on recent and proposed development activity.
(2) Estimate household income distribution of new buyer- and new renter-households.	The average minimum income to purchase or rent new units is estimated. The household income calculations assume that renter households spend 30 percent of gross income on housing, and ownership households spend 35 percent of gross income on housing.
(3) Compute total consumer expenditures of new buyers and renters.	This estimate comes from the IMPLAN3 model, which uses the Bureau of Labor Statistics' Consumer Expenditure Survey to distribute household income based on the spending patterns for nine different income groups. More information on the IMPLAN3 model can be found in the appendix.
(4) Estimate the number of new workers required to accommodate an increase in spending on services and retail goods.	Using the IMPLAN3 model for San Mateo County and the increase in expenditures defined in Step 3, growth in the number of workers (direct and induced) attributable to new development is calculated for each prototype.
(5) Estimate the number of new households associated with employment growth.	The number of new workers is divided by the average number of workers per household in the jurisdiction according to the U.S. Census Bureau, 2010-2012, 3-Year American Community Survey Estimates.
(6) Estimate the incomes of new households.	The IMPLAN 3 model calculates the wages of workers associated with new development. The average wage-earner's salary is multiplied by the average number of wage-earners in a household in the jurisdiction to derive the incomes of new worker households.
(7) Subtract above moderate income households from the total number of new workers.	New worker households are then categorized by income group (very low-income, low-income, and moderate-income) based on the average size of households the jurisdiction. Above-moderate income households are removed from the total.
(8) Estimate the total housing affordability gap of new households requiring affordable housing.	The total housing affordability gap is based on multiplying the number of new households requiring affordable housing by the average affordability gap per household.
(9) Calculate maximum potential housing impact fee.	The total affordability gap for the prototypes is divided by the number of units in each development prototype to estimate the maximum housing impact fee. A square foot equivalent can be computed for each unit by dividing the per unit fee by the weighted average size of the prototypes.

Source: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

III. REGIONAL HOUSING MARKET CONTEXT

This section provides an overview of market conditions for housing in San Mateo County, summarizing sales prices and rental rates for new for-sale and rental units. The market activity shown in the following tables, combined with data provided by individual jurisdictions on proposed development activity, will be factored into the housing prototypes for each jurisdiction's housing impact fee nexus study.

The data has been organized by different submarkets within San Mateo County. The information is derived from two large, comprehensive data sources that track sales transactions and leases throughout the entire county: DataQuick summarizes for-sale transactions for single-family and attached multi-family units, and RealFacts provides data for rental apartments. The data is not inclusive of every new development project in San Mateo County.

Figures III-1 and III-2 provide average unit sizes, average sales prices, and the number of transactions for new single-family and for-sale multi-family units. For single-family homes, the market survey is based on new units (built since 2008) that sold between 2011 and 2014. Because there were fewer available records of sales for multi-family ownership (condominium and townhouse) units, the multi-family ownership market survey includes data on new units (built since 2008) that sold in 2008 or later.[1] As shown, 13 of the San Mateo County cities experienced for-sale multi-family development during this time period.

Figure III-3 shows mid-2014 asking leases for apartment units built between 2007 and 2013, as tracked by RealFacts.[2] As with the multi-family ownership data, the apartment data includes units built over a longer time period because of the limited multi-family construction that occurred during the recession. Six cities experienced apartment development during this time period.

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[1] Figure III-2 provides data on ownership multi-family housing, including both townhouses and condominiums.

[2] RealFacts data generally excludes properties with 50 or less units.

*Figure III-1. Single–Family Homes Market Survey: Average Unit Sizes and Sales Prices by City**

	Average Unit Size	Average Sale Price	Average Sale Price per Square Foot	Number of Transactions
North San Mateo County				
Brisbane	2,613	$861,000	$334	3
Colma	N/A	N/A	N/A	N/A
Daly City	2,402	$867,025	$350	21
Millbrae	2,865	$1,506,941	$534	19
San Bruno	2,168	$862,185	$400	28
South San Francisco	2,570	$766,000	$298	1
Total North County Submarket	2,444	$1,023,331	$414	72
Central San Mateo County				
Belmont	2,378	$1,262,692	$613	13
Burlingame	3,071	$2,256,081	$743	38
Foster City	N/A	N/A	N/A	0
Hillsborough	5,446	$4,946,000	$932	17
San Carlos	2,926	$1,749,375	$595	10
San Mateo City	2,478	$1,554,722	$597	9
Total Central County Submarket	3,353	$2,469,441	$726	87
South San Mateo County				
Atherton	6,144	$10,581,345	$1,569	34
East Palo Alto	1,753	$604,167	$343	6
Menlo Park	2,842	$2,350,099	$817	115
Portola Valley	5,004	$7,484,167	$1,400	7
Redwood City	2,292	$1,131,435	$548	24
Woodside	3,587	$3,836,750	$1,166	7
Unincorporated San Mateo County	3,248	$1,759,412	$532	17
Total South County Submarket	3,412	$3,572,886	$891	210
Coastal San Mateo County				
Half Moon Bay	2,348	$1,032,796	$434	27
Pacifica	3,131	$1,040,857	$363	7
Unincorporated San Mateo County	2,126	$949,100	$474	10
Total Coastal Submarket	2,422	$1,013,759	$432	44

*Includes transactions that occurred between 2011 and 2014, of units that were built between 2008 and 2013. Source: DataQuick, 2014; Strategic Economics, 2014.

Figure III-2. Sales Prices for New Multi-Family Condos and Townhouses in San Mateo County, Built 2008-2013.

	Average Unit Size	Average Sale Price	Average Sale Price per Square Foot	Number of Transactions*
North San Mateo County				
Brisbane	912	$339,865	$376	23
Colma	N/A	N/A	N/A	0
Daly City	N/A	N/A	N/A	0
Millbrae	1,283	$544,303	$431	104
San Bruno	1,300	$565,000	$435	1
South San Francisco	980	$412,597	$424	181
Total North County Submarket	1,078	$452,005	$423	309
Central San Mateo County				
Belmont	N/A	N/A	N/A	0
Burlingame	1,949	$1,280,893	$642	14
Foster City	N/A	N/A	N/A	0
Hillsborough	N/A	N/A	N/A	0
San Carlos	1,077	$545,661	$505	96
San Mateo City	1,454	$701,586	$481	101
Total Central County Submarket	1,315	$669,081	$503	211
South San Mateo County				
Atherton	N/A	N/A	N/A	0
East Palo Alto	1,036	$353,559	$341	34
Menlo Park	1,572	$925,333	$590	6
Portola Valley	N/A	N/A	N/A	0
Redwood City	1,931	$767,128	$403	47
Woodside	N/A	N/A	N/A	0
Total South County Submarket	1,561	$723,120	$453	87
Coastal San Mateo County				
Half Moon Bay	N/A	N/A	N/A	0
Pacifica	N/A	N/A	N/A	0
Unincorporated San Mateo County	N/A	N/A	N/A	0
Total Coastal Submarket	N/A	N/A	N/A	0

* Includes transactions that occurred between 2008 and 2013, of units that were built between 2008 and 2013.
Units with an average sale price per square foot over $1,000 or below $100 were excluded.
Source: DataQuick, 2014; Strategic Economics, 2014.

Figure III-3. Rental Rates for New Multi-Family Rental Apartments in San Mateo County, Built 2007-2013

Jurisdiction	Average Unit Size	Average Rent*	Average Rent per Square Foot	Number of Units	Number of New Projects
Daly City	1,115	$2,982	$2.67	167	2
Foster City	834	$3,325	$3.99	307	1
Redwood City	890	$3,152	$3.54	132	1
San Bruno	902	$2,840	$3.15	658	3
San Mateo City	930	$3,114	$3.35	158	1
South San Francisco	1,004	$2,937	$2.93	360	1

*Apartment asking rents from mid- 2014, for apartment units built between 2007 and 2013.
Source: RealFacts, 2014; Strategic Economics, 2014.

IV. HOUSING AFFORDABILITY GAP

Estimating the housing affordability gap is the first step in calculating the maximum potential housing impact fee and/or commercial linkage fee for each jurisdiction. A single housing affordability gap was estimated for all of the jurisdictions in San Mateo County. However, because the prototypes, household characteristics, and other factors vary by jurisdiction, the maximum linkage fees and housing impact fees calculated will ultimately be different in each jurisdiction.

The housing affordability gap is defined as the difference between what households (renters and owners) can afford to pay and the cost of building new, modest housing units. Calculating the housing affordability gap involves the following three steps:

1. Estimating the rents and sales prices that households in specified income groups can afford to pay.
2. Estimating cost of building new, modest housing units, based on recent development projects.
3. Calculating the housing affordability gap, or the difference between what renters and owners can afford to pay and the cost of developing new units.

The housing affordability gap is estimated at a countywide level, and assumed to be the same for all the jurisdictions, for the following reasons:

- Both the California Housing and Community Development Department (HCD) and U.S. Housing and Urban Development Department (HUD) define the ability to pay for housing at the county (rather than the city) level. Existing affordable housing studies and policies in most jurisdictions rely on these countywide area median income (AMI) estimates published by HCD or by HUD.[3]

- Construction costs for housing and commercial development do not vary dramatically between different jurisdictions in San Mateo County, because the cost of labor and materials is regional in nature.

Although land costs vary widely in San Mateo County, the study estimated a single land value for the county based on data provided by developers of recently built projects. These costs are at the low end of recent land sales, as described below. Additionally, because the land costs used in the analysis are from 2012 and 2013, and land values have escalated rapidly since then, the resulting affordability gap will be slightly lower than if the analysis incorporated 2014 land costs, providing a conservative estimate of the affordability gap.

SUMMARY OF RESULTS

Figure IV-1 shows the average housing affordability gap calculated for very-low-, low-, and moderate-income households in San Mateo County – i.e., the average difference between what households in the specific income groups can afford to pay, and the cost of building new units. For eligibility purposes, most affordable housing programs define very-low-income households as those earning 50 percent or less of area median income (AMI), low-income households as those earning between 51 and 80 percent of AMI, and moderate-income households as those earning between 81 and 120 percent of AMI. In order to ensure that the affordability of housing does not rely on using the

[3] This analysis uses 2014 income limits published by HCD.

top incomes in each category, the analysis uses a midpoint within the income ranges for the low- and moderate-income income groups.[4]

The results shown in Figure IV-1 reflect an average of the housing affordability gaps calculated for both renter- and owner-occupied units at a range of unit sizes in San Mateo County. The housing affordability gap is lower for moderate-income households than for low- or very-low-income households because households that earn higher incomes can afford to pay more for housing.

Figure IV-1. Housing Affordability Gap by Income Group, 2014

Income Level	Average Housing Affordability Gap
Very Low-Income (50% AMI)	$338,546
Low-Income (70% - 80% AMI) (a)	$266,276
Moderate-Income (90% - 110% AMI) (b)	$175,558

Notes:
(a) Low-income households are assumed to earn 70 percent of AMI for rental housing and 80 percent of AMI for ownership housing.
(b) Moderate-income households are assumed to earn 90 percent of AMI for rental housing and 110 percent of AMI for ownership housing.
Acronyms:
AMI: Area median income
Source: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Because the costs of ownership housing are generally higher, the income limits used for ownership are higher than for rental housing. Moderate-income homebuyers are assumed to earn 110 percent of area median income; this income level was deemed appropriate for this analysis given the high cost of housing in San Mateo County, particularly with the market's rapid recovery from the recession.

AFFORDABILITY GAP ANALYSIS

This section reviews each step of the analysis and provides key assumptions for the affordability gap calculations.

Affordable Rents and Sales Prices

The first step in calculating the housing affordability gap is to determine the maximum amount that households at the targeted income levels can afford to pay for housing. Figures IV-2 and IV-3 show the calculations for rental and for-sale housing, respectively.

For rental housing, the maximum affordable monthly housing rent is calculated as 30 percent of gross monthly household income, minus a deduction for utilities (Figure IV-2). For example, a very-low-income, three-person household could afford to spend $1,273 on total monthly housing costs; after deducting for utilities, $1,220 a month is available to pay for rent.

Homeowners are assumed to pay a maximum of 30 to 35 percent of gross monthly income on total housing costs, depending on income level. The maximum affordable price for for-sale housing is then calculated based on the total monthly mortgage payment that a homeowner could afford, using standard loan terms used by CalHFA programs and many private lenders for first-time homebuyers,

[4] For rental housing, 70 percent of AMI is used to represent low-income households and 90 percent of AMI is used to represent moderate-income households. For ownership housing, it is assumed that most low-income homebuyers fall towards the top of the income level (80 percent of AMI), while moderate-income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI). Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain.

including a 5 percent down payment (Figure IV-3). For example, a moderate-income, three-person household could afford to spend $2,974 a month on total housing costs, allowing for the purchase of a $220,021 home.

Key assumptions used to calculate the maximum affordable rents and housing prices are discussed in more detail following Figures IV-2 and IV-3.

Figure IV-2. Calculation of Affordable Rents in San Mateo County by Unit Type, 2014

	Studio	1 Bedroom	2 Bedroom	3 Bedroom	
Household Size (Persons per HH)	1	2	3	4	5
Very Low Income (50% AMI)					
Maximum Household Income at 50% AMI	$39,600	$45,250	$50,900	$56,550	$61,050
Maximum Monthly Housing Cost (a)	$990	$1,131	$1,273	$1,414	$1,526
Utility Deduction	$29	$40	$53	$68	$68
Maximum Available for Rent by HH Size (b)	$961	$1,091	$1,220	$1,346	$1,458
Maximum Available for Rent by Unit Type (c)	**$961**	**$1,091**	**$1,220**	**$1,402**	
Low Income (70% AMI)					
Maximum Household Income at 70% AMI (d)	$50,470	$57,680	$64,890	$72,100	$77,875
Maximum Monthly Housing Cost (a)	$1,262	$1,442	$1,622	$1,803	$1,947
Utility Deduction	$29	$40	$53	$68	$68
Maximum Available for Rent by HH Size (b)	$1,233	$1,402	$1,569	$1,735	$1,879
Maximum Available for Rent by Unit Type (c)	**$1,233**	**$1,402**	**$1,569**	**$1,807**	
Moderate Income (90% AMI)					
Maximum Household Income at 90% AMI (e)	$64,890	$74,160	$83,430	$92,700	$100,125
Maximum Monthly Housing Cost (a)	$1,622	$1,854	$2,086	$2,318	$2,503
Utility Deduction	$29	$40	$53	$68	$68
Maximum Available for Rent by HH Size (b)	$1,593	$1,814	$2,033	$2,250	$2,435
Maximum Available for Rent by Unit Type (c)	**$1,593**	**$1,814**	**$2,033**	**$2,342**	

Notes:
(a) 30 percent of maximum monthly household income.
(b) Maximum monthly housing cost minus utility deduction.
(c) Calculated as an average of household sizes occupying unit type. 3-bedroom units are assumed to accommodate 4-person and 5-person households.
(d) Calculated as 70 percent of the median household income reported by HCD for each household size.
(e) Calculated as 90 percent of the median household income reported by HCD for each household size.
Acronyms:
AMI: Area median income
HH: Household
Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014; U.S. Department of Housing and Urban Development, "Allowances for Tenant-Furnished Utilities and Other Services: Housing Authority of San Mateo County," November 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-3. Calculation of Affordable Sales Prices in San Mateo County by Unit Type, 2014

	1 Bedroom		2 Bedroom	3 Bedroom	
Household Size (Persons per Household)	1	2	3	4	5
Very Low Income (50% AMI)					
Maximum Household Income at 50% AMI	$39,600	$45,250	$50,900	$56,550	$61,050
Maximum Monthly Housing Cost (a)	$990	$1,131	$1,273	$1,414	$1,526
Monthly Deductions					
Utilities	$106	$106	$130	$156	$156
HOA Dues	$300	$300	$300	$300	$300
Property Taxes and Insurance (b)	$158	$197	$229	$260	$290
Monthly Income Available for Mortgage Payment (c)	$426	$528	$614	$698	$780
Maximum Mortgage Amount (d)	$76,007	$94,358	$109,716	$124,683	$139,260
Maximum Affordable Sales Price - HH Size (e)	$80,008	$99,324	$115,490	$131,245	$146,589
Maximum Affordable Sales Price - Unit Type (f)	**$89,666**		**$115,490**	**$138,917**	
Low Income (80% AMI)					
Maximum Household Income at 80% AMI	$63,350	$72,400	$81,450	$90,500	$97,700
Maximum Monthly Housing Cost (a)	$1,584	$1,810	$2,036	$2,263	$2,443
Monthly Deductions					
Utilities	$106	$106	$130	$156	$156
HOA Dues	$300	$300	$300	$300	$300
Property Taxes and Insurance (b)	$319	$381	$436	$490	$539
Monthly Income Available for Mortgage Payment (c)	$859	$1,023	$1,170	$1,317	$1,448
Maximum Mortgage Amount (d)	$153,316	$182,730	$209,020	$235,180	$258,607
Maximum Affordable Sales Price - HH Size (e)	$161,385	$192,347	$220,021	$247,558	$272,218
Maximum Affordable Sales Price - Unit Type (f)	**$176,866**		**$220,021**	**$259,888**	
Moderate Income (110% AMI)					
Maximum Household Income at 110% AMI (g)	$79,310	$90,640	$101,970	$113,300	$122,375
Maximum Monthly Housing Cost (a)	$2,313	$2,644	$2,974	$3,305	$3,569
Monthly Deductions					
Utilities	$106	$106	$130	$156	$156
HOA Dues	$300	$300	$300	$300	$300
Property Taxes and Insurance (b)	$517	$607	$690	$773	$844
Monthly Income Available for Mortgage Payment (c)	$1,390	$1,631	$1,854	$2,076	$2,269
Maximum Mortgage Amount (d)	$248,195	$291,274	$331,100	$370,795	$405,155
Maximum Affordable Sales Price - HH Size (e)	$261,258	$306,604	$348,526	$390,311	$426,479
Maximum Affordable Sales Price - Unit Type (f)	**$283,931**		**$348,526**	**$408,395**	

Acronyms: AMI: Area median income; HH: Household; HOA: Home owners association.
(a) 30 percent of maximum monthly household income for very-low- and low-income households; 35 percent of maximum monthly household income for moderate-income households.
(b) Assumes annual property tax rate of 1.18 percent of sales price; annual private mortgage insurance premium rate of 0.89 percent of mortgage amount; annual hazard and casualty insurance rate of 0.35 percent of sales price.
(c) Maximum monthly housing cost minus deductions.
(d) Assumes 5.375 percent interest rate and 30 year loan term. Assumes CalHFA first-time homebuyer program.
(e) Assumes 5 percent down payment (95 percent loan-to-value ratio). Assumes CalHFA first-time homebuyer program.
(f) Calculated as an average of household sizes occupying unit type. 1-bedroom units are assumed to accommodate 1- and 2-person households; 3-bedroom units are assumed to accommodate 4- and 5-person households.
(g) Calculated as 110 percent of the median household income reported by HCD for each household size.

Sources: County of San Mateo, 2008-09 Property Tax Highlights ; Polaris Pacific, February 2014; Mortgage insurance provider websites; Interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014; CalHFA Mortgage Calculator, March 2014; Zillow.com, March 2014; California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and “Overpayment and Overcrowding,” 2010; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Key assumptions used to calculate the maximum affordable rents and housing prices shown in Figures IV-2 and IV-3 are discussed below.

- **Unit types:** For rental housing, the analysis included studios, one-, two-, and three-bedroom units. For for-sale housing, one-, two-, and three-bedroom units were included. These unit types represent the affordable and modest market-rate apartment and condominium units available in San Mateo County. Condominiums were used to represent modest for-sale housing because single-family homes in San Mateo County tend to be significantly more expensive than condominiums.

- **Occupancy assumptions.** Because income levels for affordable housing programs vary by household size, calculating affordable unit prices requires defining household sizes for each unit type. Consistent with California Health and Safety Code Section 50052.5(h), unit occupancy was generally estimated as the number of bedrooms plus one. For example, a studio unit is assumed to be occupied by one person, a one bedroom unit is assumed to be occupied by two people, and so on. Several adjustments to this general assumption were made in order to capture the full range of household sizes. In particular, it is assumed that one-bedroom condominiums could be occupied by one- or two-person households, and three-bedroom apartments and condominiums could be occupied by four- or five-person households.[5]

- **Targeted income levels:** As shown in Figures IV-2 and IV-3, affordable home prices were calculated for very-low-income, low-income, and moderate-income households. For eligibility purposes, most affordable housing programs define very-low-income households as those earning 50 percent or less of area median income (AMI), low-income households as those earning between 51 and 80 percent of AMI, and moderate-income households as those earning between 81 and 120 percent of AMI. However, defining affordable housing expenses based at the top of each income range would result in prices that are not affordable to most of the households in each category. Thus, this analysis does not use the maximum income level for all of the income categories. Instead, for rental housing, 70 percent of AMI is used to represent low-income households and 90 percent of AMI is used to represent moderate-income households. For ownership housing, it is assumed that most low-income homebuyers fall towards the top of the income level (80 percent of AMI), while moderate-income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI). Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain.

- **Maximum monthly housing costs.**[6] For all renters and for low- and very-low-income owners, maximum monthly housing costs are assumed to be 30 percent of gross household income, based on the California Department of Housing and Community Development's standards.[7] For moderate-income homebuyers, 35 percent of gross income is assumed to be available for monthly housing costs, reflecting the higher incomes of this group.[8]

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[5] For these unit types, the maximum affordable home price (or rent) is calculated as the average price (or rent) that the relevant household sizes can afford to pay. For example, the maximum affordable home price for a one-bedroom condominium is calculated as the average of the maximum affordable home price for one- and two-person households.

[6] The calculation of homeowner affordability is conservative in that the model accounts for additional costs for buyers (such as utility costs) that might not be considered by lenders.

[7] HCD considers households that spend more than 30 percent of their gross annual income on housing costs to be overpaying. Source: California Department of Housing and Community Development, "Overpayment and Overcrowding," 2010, http://www.hcd.ca.gov/hpd/housing_element2/EHN_Overpayment.php.

[8] The assumption that moderate-income homebuyers spend 35 percent of gross household income on housing results in a reduced affordability gap for this group.

- **Utilities.** The monthly utility cost assumptions shown in Figures IV-2 and IV-3 are based on utility allowances calculated by the U.S. Department of Housing and Urban Development for San Mateo County.[9] Both renters and owners are assumed to pay for heating, cooking, other electric, and water heating. In addition, owners are assumed to pay for water and trash collection.[10]
- **Mortgage terms & costs included for ownership housing.** For ownership housing, the analysis assumes that homebuyers would take advantage of one of the first-time homebuyer programs offered by the California Housing Finance Authority (CalHFA), which typically provide a 30-year mortgage with a 5 percent down payment. A 5 percent down payment standard is also used by many private lenders for first-time homebuyers. Based on recent interest rates, the analysis assumes a 5.375 percent annual interest rate.[11] In addition to mortgage payments and utilities, monthly ownership housing costs include homeowner association (HOA) dues,[12] property taxes,[13] private mortgage insurance,[14] and hazard and casualty insurance.[15]

Housing Development Costs

The second step in calculating the housing affordability gap is to estimate the cost of developing new, modest housing units. The housing costs used in this calculation are based on the costs to develop new affordable housing in San Mateo County, since new market-rate development creates additional demand for affordable housing.

Modest housing is defined slightly differently for rental and ownership housing. For rental housing, the costs and characteristics of modest housing are similar to recent projects developed in San Mateo County by the affordable rental housing sector. Modest for-sale housing is assumed to be non-luxury multifamily (condominium) development because single-family homes in San Mateo County tend to be significantly more expensive than condominiums; many of the new single-family homes in the county are custom-built luxury units that would not meet the standard for modest housing.

Calculation of Housing Development Costs

The calculation of housing development costs used in the housing affordability gap requires several steps. Because the gap covers both rental housing and for-sale housing, it is necessary to estimate

[9] U.S. Department of Housing and Urban Development, "Allowances for Tenant-Furnished Utilities and Other Services: Housing Authority of San Mateo County," November 2013.

[10] Units are assumed to have natural gas heating, cooking, and water heating systems, as natural gas is the most common fuel for units located in San Mateo County. Sources: U.S. Census Bureau, 2012 American Community Survey, “Table B25117: Tenure by House Heating Fuel,” San Mateo County; U.S. Census Bureau, 2011 American Housing Survey, “Table C-03-AH-M, San Francisco-San Mateo-Redwood City: Heating, Air Conditioning, and Appliances – All Housing Units.”

[11] Sources: CalHFA Mortgage Calculator, accessed March 2014; Zillow.com, “Current Mortgage Rates and Home Loans,” accessed March 2014; interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014.

[12] HOA fees are estimated at $300 per unit per month, based on common HOA fees in San Mateo County as reported in: Polaris Pacific, “Silicon Valley Condominium Market,” February 2014.

[13] The annual property tax rate is estimated at 1.18 percent of the sales price, based on the average total tax rate for San Mateo County (calculated from County of San Mateo, 2008-09 Property Tax Highlights http://www.co.sanmateo.ca.us/Attachments/controller/Files/PTH/PTH_2009.pdf) and discussions with Preferred Loan Officers.

[14] The annual private mortgage insurance premium rate is estimated at 0.89 percent of the total mortgage amount, consistent with standard requirements for conventional loans with a 5 percent down payment. Sources: Genworth, February 2014; MGIC, December 2013; Radian, April 2014.

[15] The annual hazard and casualty insurance rate is assumed to be 0.35 percent of the sales price, consistent with standard industry practice.

costs for each. To estimate housing development costs, two primary sources of information were analyzed, as described below.

Rental Housing Data: The consultant team developed a model of development costs based on development pro forma data obtained from three recent affordable housing projects in San Mateo County. Figure IV-4 shows the location and description of these projects and summarizes the information that was used to generate a per-square-foot cost of $410 used in the cost analysis. These costs include site acquisition costs, hard costs (on- and off-site improvements), soft costs (such as design, city permits and fees, construction interest, and contingencies), and developer fees. The costs from the rental housing pro formas were also cross-referenced against proprietary pro formas available to the consultant team from other private development projects in order to ensure accuracy.

Since these projects assumed state and federal funding, the labor costs included in the original pro formas reflect the prevailing wage requirement imposed by state and local governments. The costs shown in Figure IV-4 have been adjusted to subtract out the prevailing wage requirement because the development cost model used in the housing affordability gap analysis does not assume receipt of government subsidies. A rule of thumb used by local economists who assist affordable housing developers in obtaining public financing, is to assume that under the prevailing wage requirement, labor costs are 25 percent higher than would otherwise apply. Therefore, on-site and off-site improvement costs obtained from the original pro formas are reduced by 25 percent to reflect actual labor costs that would apply to construction projects that do not have these requirements.[16] Land acquisition costs account for less than 20 percent of these total adjusted costs, on average.

[16] These prevailing wage requirements refer only to labor cost requirements on construction projects that receive funding from the state or federal government. These are not the same as minimum wage requirements that individual cities may adopt.

Figure IV-4. Affordable Housing Project Pro Forma Data

Project Description	Project 1	Project 2	Project 3
Location	San Mateo	San Mateo	San Bruno
Year Built	2013	2013	2011
Land Area (acres)	1.05	1	0.63
Gross Building Area (SF)	106,498	127,718	42,688
Net Building Area (SF)	56,075	67,850	33,297
Number of Units	60	68	42
Parking Type	Podium	Underground	Structure
Parking Spaces/ Unit	1.82	1.55	1.0
Land Acquisition Costs	$3,157,000 ($69 per SF of land)	$5,543,600 ($127 per SF of land)	$2,096,500 ($76 per SF of land)
Project Costs per SF of Net Building Area			
Land Cost (a)	$56	$82	$63
Hard Costs (b)	$228	$216	$187
Soft Costs (c)	$93	$99	$114
Developer Fees	$25	$21	$39
Total Project Costs (d)	$402	$417	$403

Notes:
(a) Calculated per square foot of net building area.
(b) Excludes prevailing wage requirements for on-site and off-site hard costs.
(c) Includes design, engineering, city permits and fees, construction interest, contingencies, legal, etc.
(d) Total costs include developer fees.
Acronyms:
SF: Square feet
Source: Confidential Pro Forma Data; Vernazza Wolfe Associates, Inc; Strategic Economics, 2014.

To ensure that the land value assumptions used in the rental development cost estimates (ranging from $69 to $127 per square foot of land) were reasonable, the consultant team analyzed recent sales of vacant properties in San Mateo County using DataQuick, a commercial vendor that tracks real estate transactions. Cities with fewer than three vacant land transactions were excluded from the analysis. As shown below in Figure IV-5, land values in San Mateo County are highly variable from city to city, ranging from $45 to $300 per square foot; the average sales price for the selected sites in the County was $189 per square foot. The analysis demonstrates the land cost assumptions used to calculate rental housing costs represent the lower range of current land values.

Figure IV-5. Sales of Vacant Lands in San Mateo County, 2014

Jurisdiction	Number Transactions	Average Sales Price	Average Site Size (SF)	Average Sales Price/ SF Land
Belmont	4	$920,000	6,383	$165
Menlo Park	6	$1,239,500	5,802	$220
Pacifica	4	$487,000	7,221	$111
San Bruno	13	$933,769	3,259	$295
San Mateo	8	$1,314,188	5,424	$300
Unincorporated San Mateo County	4	$224,250	5,194	$45
Average of Records		$853,118	5,547	$189

Notes:
Includes data from cities with 3 or more transactions of vacant land in San Mateo County from January through May 2014. Records with missing sales or land area information were eliminated.
Sources: DataQuick, January-May 2014; Vernazza Wolfe Associates, Inc; Strategic Economics, 2014.

For-Sale Housing Data: Since affordable housing developers do not typically build for-sale housing, the cost of developing new, modest for-sale housing was estimated based on average sales prices from condominium units built in San Mateo County between 2008 and 2012.[17] Sales prices of new units are used here as a proxy for development costs. This approach assumes that construction costs, land costs, soft costs, and developer profit are all included in the unit sales price. Using data provided by DataQuick, the consultant team analyzed unit sizes and sales prices of condominium units in the seven cities that experienced condominium development that exceeded 10 units in aggregate between 2008 and 2012. These included the cities of Brisbane, East Palo Alto, Millbrae, Redwood City, San Carlos, San Mateo City, and South San Francisco. The other jurisdictions in San Mateo County experienced little or no condominium development during this time period. Figure IV-6 summarizes the information that was used to generate a per-square-foot cost of $420.

Figure IV-6. Condominium Sales: Average Unit Characteristics and Prices for Selected Cities in San Mateo County (2008-2012)

Jurisdiction	Average Number of Bathrooms	Average Number of Bedrooms	Average Square Feet	Average Price per Square Foot	Average Price
Brisbane	1.2	1.5	892	$413	$368,625
East Palo Alto	1.8	1.3	1,029	$340	$349,991
Millbrae	1.9	2	1,290	$429	$553,893
Redwood City	2.7	2.9	1,933	$402	$776,655
San Carlos	1.8	1.8	1,066	$508	$541,932
San Mateo City	2.3	2.2	1,545	$439	$677,430
South San Francisco	1.7	1.8	981	$427	$418,740
Aggregate	1.9	1.9	1,248	$423	$527,401

Sources: DataQuick, Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Rental and For-Sale Cost Estimates: The data sources described above also provided information on estimated **unit sizes.** Unit size information is needed to translate costs/sales prices per square foot to unit costs. Unit sizes are estimated separately for rental and for-sale units. For the rental units, the recent inventory of projects developed by MidPen Housing was analyzed. For ownership units, the average sizes of recently built condominium units summarized in Figure IV-6 were analyzed.

Figure IV-7 provides the unit sizes and development cost estimates. As shown in Figure IV-7, per-unit development costs were calculated by multiplying average unit sizes by average, per-square foot construction costs or per-square foot sales prices. As Figure IV-7 indicates, there is a range in costs, from the smallest rental units at $205,000 per unit to the largest for-sale unit – a 1,600 square foot condominium – that could cost $672,000 to build.

[17] Ideally, cost estimates would be based only on projects built in the last year or two. However, the decline in new construction after 2007 necessitated that the analysis use several years' worth of data in order to estimate rental and for-sale housing costs. Since costs are not adjusted for inflation, they may be slightly lower than actual costs required for a new project to be built in 2014 or 2015. This approach is more conservative – and likely more accurate – than applying across-the-board inflation factors to historic costs. Furthermore, the increasing cost of residentially zoned, high density parcels is the main source of development cost increases, and land costs are not easily adjusted for inflation.

Figure IV-7. Rental and For-Sale Housing Unit Sizes and Development Costs

Rental Housing @ $410/SF		
Number of Bedrooms	**Unit Size (SF)**	**Development Costs**
Studio	500	$205,000
1	700	$287,000
2	970	$397,700
3	1,170	$479,700
For-Sale Condominium Housing @ $420/SF		
Number of Bedrooms	**Unit Size (SF)**	**Development Costs**
1	850	$357,000
2	1,200	$504,000
3	1,600	$672,000

Acronyms:
SF: Square feet
Sources: Confidential Pro Forma Data; DataQuick, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

CALCULATING THE HOUSING AFFORDABILITY GAP

The final step in the analysis is to calculate the housing affordability gap, or the difference between what renters and owners can afford to pay and the total cost of developing new units. Because the purpose of the housing affordability gap calculation is to help determine the fee amount that would be necessary to cover the cost of developing housing for very-low, low-, and moderate-income households, the calculation does not assume the availability of any other source of housing subsidy.

Figure IV-8 shows the housing affordability gap calculation for rental units. For each rental housing unit type and income level, the gap is defined as the difference between the per-unit cost of development and the supportable debt per unit. The supportable debt is calculated based on the net operating income generated by an affordable monthly rent, incorporating assumptions about operating expenses (including property taxes, insurance, etc.), reserves, vacancy and collection loss, and mortgage terms based on discussions with local affordable housing developers. For each income level, the average housing affordability gap is then calculated by averaging the housing affordability gaps for the various unit sizes.

Figure IV-9 shows the housing affordability gap calculation for ownership units. For each unit type, the gap is calculated as the difference between the per-unit cost of development and the affordable sales price for each income level. As with rental housing, the average housing affordability gap for each income level is calculated by averaging the housing affordability gaps across unit sizes.

Finally, rental and ownership gaps for each income group were averaged to arrive at overall, tenure-neutral estimates of the housing affordability gap for very-low-, low-, and moderate-income housing (Figure IV-10). Averaging the rental and ownership gaps is a standard practice for affordability gap estimates.

Figure IV-8. Housing Affordability Gap Calculation for Rental Housing

Income Level and Unit Type	Unit Size (SF)	Maximum Monthly Rent (a)	Annual Income	Net Operating Income (b)	Available for Debt Service (c)	Supportable Debt (d)	Development Costs (e)	Affordability Gap (f)
Very-Low Income (50% AMI)								
Studio	500	$961	$11,532	$3,455	$2,764	$36,552	$205,000	$168,448
1 Bedroom	700	$1,091	$13,095	$4,940	$3,952	$52,259	$287,000	$234,741
2 Bedroom	970	$1,220	$14,634	$6,402	$5,122	$67,725	$397,700	$329,975
3 Bedroom	1,170	$1,402	$16,824	$8,483	$6,786	$89,733	$479,700	$389,967
Average Housing Affordability Gap								**$280,783**
Low Income (70% AMI)								
Studio	500	$1,233	$14,793	$6,553	$5,243	$69,323	$205,000	$135,677
1 Bedroom	700	$1,402	$16,824	$8,483	$6,786	$89,733	$287,000	$197,267
2 Bedroom	970	$1,569	$18,831	$10,389	$8,312	$109,902	$397,700	$287,798
3 Bedroom	1,170	$1,807	$21,680	$13,096	$10,477	$138,535	$479,700	$341,165
Average Housing Affordability Gap								**$240,477**
Moderate Income (90% AMI)								
Studio	500	$1,593	$19,119	$10,663	$8,530	$112,796	$205,000	$92,204
1 Bedroom	700	$1,814	$21,768	$13,180	$10,544	$139,417	$287,000	$147,583
2 Bedroom	970	$2,033	$24,393	$15,673	$12,539	$165,796	$397,700	$231,904
3 Bedroom	1,170	$2,342	$28,108	$19,202	$15,362	$203,127	$479,700	$276,573
Average Housing Affordability Gap								**$187,066**

Notes:
(a) Affordable rents are based on HCD FY 2014 Income Limits for San Mateo County. See Figure IV-2, above.
(b) Amount available for debt. Assumes 5% vacancy and collection loss and $7,500 per unit per year for operating expenses and reserves based on recently built (2012-2014) and proposed affordable housing projects in the San Francisco Bay Area.
(c) Assumes 1.25 Debt Coverage Ratio.
(d) Assumes 6.38%, 30 year loan. Calculations based on annual payments.
(e) Assumes $410/SF for development costs.
(f) Calculated as the difference between development costs and supportable debt.
Acronyms:
SF: Square feet
AMI: Area median income
Sources: Selected San Mateo Rental Housing Pro Formas; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-9. Housing Affordability Gap Calculation for For-Sale Condominium Housing

Income Level and Unit Type	Unit Size (SF)	Affordable Sales Price (a)	Development Costs (b)	Affordability Gap (c)
Very-Low Income (50% of AMI)				
1 Bedroom	850	$89,666	$357,000	$267,334
2 Bedroom	1,200	$115,490	$504,000	$388,510
3 Bedroom	1,600	$138,917	$672,000	$533,083
Average Affordability Gap				**$396,309**
Low Income (80% of AMI)				
1 Bedroom	850	$176,866	$357,000	$180,134
2 Bedroom	1,200	$220,021	$504,000	$283,979
3 Bedroom	1,600	$259,888	$672,000	$412,112
Average Affordability Gap				**$292,075**
Moderate Income (110% of AMI)				
1 Bedroom	850	$283,931	$357,000	$73,069
2 Bedroom	1,200	$348,526	$504,000	$155,474
3 Bedroom	1,600	$408,395	$672,000	$263,605
Average Affordability Gap				**$164,049**

Notes:
(a) See calculation in Figure IV-3, above.
(b) Assumes $420/SF for development costs, based on recent condominium sales.
(c) Calculated as the difference between development cost and affordable sales price.
Acronyms:
SF: Square feet
AMI: Area median income
Sources: DataQuick Sales Data, 2008-2012; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-10. Average Housing Affordability Gap by Income Group

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low-Income (50% AMI)	$280,783	$396,309	$338,546
Low-Income (70% - 80% AMI)	$240,477	$292,075	$266,276
Moderate-Income (90% - 110% AMI)	$187,066	$164,049	$175,558

Acronyms:
AMI: Area median income
Source: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

V. NEXT STEPS

The next step in the multi-jurisdictional nexus study is to calculate the maximum potential impact fees that each jurisdiction could charge. Because the specific prototypes and household characteristics differ by jurisdiction, the residential and commercial housing impact fees will vary for each jurisdiction. The nexus analyses will be designed to define an upper limit for a housing impact fee to be charged on new rental and for-sale housing to mitigate impacts on affordable housing needs in each jurisdiction. The maximum fee is not necessarily the recommended fee for adoption. There are a number of policy considerations that can be taken into account when jurisdictions consider adopting a commercial linkage fee or a housing impact fee on new development. These may include factors such as the likely financial feasibility of the proposed fee, the competitiveness of the city in attracting development relative to neighboring jurisdictions, the impact of the proposed fee on existing city fees, and the role of the proposed fee in meeting the city's overall affordable housing objectives. These topics will be explored individually in order to provide a recommended fee for adoption for each jurisdiction.

Consolidated Common Policy Platform Documents

Preface:

Each jurisdiction in California is updating the Housing Element in their General Plan. There is no need for an update for another 8 years if the jurisdiction is able to streamline the review process. This is an important time for advocates to make sure housing plans are inclusive and reflective of the jurisdiction's needs. The Housing Leadership Council of San Mateo County (HLC) works on this in a number of ways.

A compilation of policies ("California Housing Element Policy Best Practices") was distributed as examples of robust housing policies for inclusive growth to every County of San Mateo jurisdiction's staff, appointed and elected officials. HLC also realized each jurisdiction was unique and had outlier factors affecting its housing landscape. Thus, HLC created documents for each individual jurisdiction to demonstrate that each jurisdiction had its unique challenges and opportunities ("Consolidated Policy Documents").

Additionally, to work with residents who understand the need for changes but do not necessary understand what policies should be implemented in order for those changes to come into fruition, HLC realized linking the messaging and the technical language of a policy was necessary.

These consolidated policy documents are intended to guide local resident advocates and other stakeholders on how to relay their experiences into policy recommendations in each individual jurisdiction. The documents were accompanied by contact information for each jurisdiction's City Council with suggestions on what residents should do to speak up on the issues discussed on the document.

Methodology to Policy Recommendations:

Each jurisdiction's document was created by analyzing the current Housing Element as well as the draft Housing Element (if available) for existing and proposed housing policies. HLC formed policy recommendations by comparing the policies that were recommended in the California Housing Element Policy Best Practices document to what already existed, using information gathered from meetings with elected officials and staff, as well as information gathered from meetings with community members. Throughout the Housing Element update process, HLC has been working with groups of residents in each of the jurisdictions to advocate for policies to help meet the specific needs of the community. These needs were also indicated through survey responses from residents, small business owners, and college students.

In some instances, this resulted in policy recommendations outside of Housing Elements. For example, during meetings with staff in the City of Burlingame, a voter initiative (Measure T) was uncovered as a possible constraint to tenant protection policies. This was a long-forgotten initiative that was never written into City code, and the City Attorney is investigating its impositions. This is happening while the Housing Element update process moves forward. Resident advocates along with HLC feel strongly that Measure T needs to be addressed outside of the Housing Element policy recommendations, so HLC included a policy recommendation to overturn Measure T in the Burlingame document.

Additional methods to forming policy recommendations include scoring sites. HLC partnered with non-profit developers Mid-Pen Housing and Eden Housing to analyze each jurisdiction's sites inventory as identified in the current and/or draft Housing Element. Each site was scored for tax credit competitiveness, and HLC recommended identifying differing sites where there were opportunities for increased tax credit competitiveness.

By using these methods, HLC was able to form specific policy recommendations unique to each jurisdiction (though, many jurisdictions have similar challenges and therefore similar policy recommendations, such as increased rents and rent stabilization). HLC also compiled background data, statistics, and information from the U.S. Census Bureau to help inform policy recommendations that would meet the needs of the current and future population.

Consolidated Common Policy Platforms Attached:

- **City of Burlingame**
- **City of Daly City**
- **City of Redwood City**
- **City of San Bruno**
- **City of San Mateo**
- **City of South San Francisco**
- **County of San Mateo**

City of Burlingame

Background:

The City of Burlingame's residents are mostly renters (52%) but lack renter protections of any kind. Nearly half (almost 49%) of renters in Burlingame pay more than 30% of their income towards rent, and more than 21% are paying more than 50% of their income towards rent. The inability for lower income residents to live in Burlingame is likely a major reason why Burlingame's Downtown shops have "Help Wanted" signs up and down the Avenue.

According to the Burlingame 2015 Draft Housing Element, average rent has increased by 50% in the last four years, but there is no rent stabilization policy proposed in the document. Meanwhile, the population of seniors is increasing (as it is throughout the Country due to Baby Boomers). The population of seniors is currently about 15% of Burlingame's total population. A third of senior households have incomes of less than $30,000 and half have incomes under $49,000. The rent increases in the last four years have surely added to the burden of to these senior households. There are no indications in the draft Housing Element to designate affordable housing for low-income seniors or to focus on strategizing how to keep seniors from being forced out.

The household make-up in Burlingame is majority white (61%) followed by Asian (20%). Minorities, particularly Hispanic and Black are disproportionately renters and low-income. Rising rents and the lack of tenant protections have a disproportionate impact on minorities. Additionally, lower-income households are much more likely to be rent burdened than higher-income households – for instance, nearly 88% of households earning less than $50,000 are rent burdened, compared to just 4.6% of those earning $75,000 or more.

The median income (mid-point of all incomes) in Burlingame is probably lower than one would expect because of the high housing costs. The median income in 2011 was $103,000.

Sources: 2007-2014 Housing Element, 2015 Draft Housing Element, U.S. Census Bureau

Housing Element Policy Recommendations:

Policy Recommendation #1: Streamlined Permitting Process

Nearly half of all San Mateo County jurisdictions have a streamlined permitting process, but Burlingame does not. A streamlined permitting process enables developers to save time and money by providing prospective developers clear guidelines and review processes. This may include eliminating multiple hearings and/or appeals, allowing joint public hearings, and shortening permit processing times.

Policy Recommendation #2: Rent Stabilization

Rent increases are occurring throughout the region, and as indicated in the draft Housing Element, the average rent in Burlingame has increased by 50%

in the last four years. Rent increases at these rates result in unsustainable communities. The City of Burlingame should implement rent stabilization policies, which would set the rate at which rents can increase each year. The Costa-Hawkins Act of 1995 limits the use of rent stabilization for new construction, but rent stabilization can be applied to units built prior to February 1, 1995. This includes many of the apartment buildings located along El Camino Real.

Policy Recommendation (separate from Housing Element): Overturn Measure T

Pending further discussions with the City's Attorney, advocates in Burlingame are recommending the City Council overturn Measure T (Municipal Ordinance 1356). Measure T was a voter initiative that prohibited the City from imposing any rent stabilization policies. While Measure T was determined as valid by the City Attorney, it was never written into the City code and was only discovered by staff during a meeting with HLC. Therefore, rent stabilization policies are still recommended for the updated Housing Element.

The separate goal of overturning Measure T needs to be done as a ballot measure and can be placed on the ballot by a City Council member or by voters.

Stakeholder Messaging:

-"I rent, I vote." A group of resident advocates in Burlingame working with HLC has developed the mantra, "I rent, I vote" in response to ongoing tensions between residents who own homes and residents who rent homes. Join this group at Planning Commission and City Council meetings to share your story. Emphasize that as a renter and a voter, you are just as invested in the community as someone who owns their home.

-"Those who work here should be able to afford to live here." As evident by the Help Wanted signs all over Burlingame Avenue, the mom-and-pop shops, boutiques, and restaurants that attract visitors to Burlingame and boost economic activity are experiencing a hardship in retaining/attracting employees. This is due to the low pay typically associated with these types of jobs. In order to allow the type of employees Burlingame needs to live here, affordable housing needs to be a priority. A streamlined permitting process would help encourage developers to build affordable housing in Burlingame.

-"We need renter protections now." While Measure T is being investigated by the City's Attorney, advocates should push for renter protections around Measure T to be implemented now, as indicated in the rent stabilization policy recommendation above. Furthermore, advocates can push for a faster timeline to investigating Measure T and how it may limit the range of options the City of Burlingame can enforce for renter protections.

City of Daly City

Background:

The City of Daly City is focused on revitalizing the Mission Street corridor and attracting more businesses. In recent years, there have been improvements made to the streetscape and main transit stop at the “Top of the Hill,” close to the new library and War Memorial Center. The improvements also include prominent crosswalks along the busy corridor to allow for harmony between vehicles and pedestrians.

There are still many vacant lots along the Mission Street corridor, which is recognized by the City as a Priority Development Area (PDA). HLC has been working with many residents who live along the Mission Street corridor and are concerned about increased rent prices due to further development and displacement. While these residents welcome growth to the area, and acknowledge the improved quality of life in the area (especially the improved walkability due to aforementioned improvements), there are many seniors on limited incomes living along Mission Street. Their limited incomes cannot accommodate increased living costs.

44% of Daly City’s population is renting, and many have found naturally affordable housing among the Mission Street corridor (compared to other areas of the City and the County). This includes small developments and single family homes with secondary units. There are also a few mobile home parks between the Mission Street corridor and Hillside corridor, adjacent to the PDA.

Source: 2007-2014 Housing Element, U.S. Census Bureau

Housing Element Policy Recommendations:

Policy Recommendation #1: Commercial Linkage Fee

Due to the abundance of new commercial development, the city has an opportunity to dedicate a local funding source to address the housing impact created by new commercial development. A commercial linkage fee should be enacted. This fee addressed the impact created by the construction of new commercial buildings, employment, and the need for affordable housing. The City has conducted a nexus study to examine this connection, and advocates should urge the city to enact a fee as soon as possible, at the highest rate possible. There seems to be some fear this will deter developers from the area, but this has not proven to be true in other areas that enact commercial linkage fees.

Policy Recommendation #2: Density Bonuses

Also known as “Incentive Zoning,” density bonuses are given to developers in exchange for providing community amenities. The developers are able to build more, but are required to provide a benefit to the community, such as affordable housing or public spaces (parks, gardens, art).

Nearly all jurisdictions in the County of San Mateo offer developers a density bonus in the PDA. The City needs to provide developers with density bonuses in order to achieve inclusive growth in the Mission Street corridor area.

Policy Recommendation #3: Anti-displacement Policies

The City is encouraged to offer a range of anti-displacement measures, including rent stabilization, just cause evictions, and preservation of existing affordable housing (both subsidized and naturally affordable housing) to ensure the PDA serves all economic levels. The City should set a rate at which rents can increase per year to help ensure anti-displacement of its existing residents. An estimated 87% of the City's housing stock was built prior to 1995, so there is likely a large number of units that qualify for rent stabilization. A just-cause eviction policy would help ensure the existing lower-income residents have protection against displacement, which includes both direct (eviction) and indirect displacement (rent increases). A commitment to monitor existing affordable housing inventory and provide funding or assistance to preserve affordability should be included in the Housing Element as well. Anti-displacement is easier to achieve when policies are set in place early on, before displacement happens.

Stakeholder Messaging:

-"We need anti-displacement policies for existing, lower income residents who have lived in Daly City for a long time." Most of the residents HLC has been working with have lived along the Mission Street corridor for over a decade. These residents have no experienced high increases in rent in the past because of the somewhat undesirable area. While these residents welcome the new growth and changes occurring, they are concerned about displacement. Join these residents to ask for anti-displacement policies in the Housing Element to ensure existing residents have protections. Lower-income residents in naturally affordable housing are especially at risk.

-"Encourage developers to build here, with benefits to the residents here." As new growth takes place, the community will benefit if it is inclusive growth that provides community benefits. Provide incentives for developers to develop affordable housing and public spaces, which will help beautify the Mission Street corridor. Encourage public participation in the planning and development process so that community benefits are agreed upon.

City of Redwood City

Background:

The City of Redwood City is an especially booming location for both commercial and residential development. Due to the majority of Silicon Valley corporations located in Santa Clara County, the City of Redwood City cannot build fast enough to meet the demand. Currently, the Downtown area already has 2,000 units in the pipeline – but very few are affordable.

Nearly half of all households in Redwood City are renters (48%). Black and Hispanic households are majority renters (80% and 70%, respectively) while White and Asians households are majority owners. Therefore, rent increases disproportionately impact Black and Hispanic households, who make up nearly 45% of Redwood City's population.

Additionally, specific types of communities in the City of Redwood City have faced hardships in housing in recent years. Those who live on houseboats, or "live-aboards," are especially affected because of the few housing sites for live-aboards. Over 400 live-aboards have lost their housing in the last ten years (specifically, Pete's Harbor and Peninsula Marina). The 2007-2014 Housing Element mentions these sites as naturally affordable opportunities in the City, but the draft 2015 Housing Element makes no mention of how to preserve or protect this naturally affordable housing.

Sources: 2007-2014 Housing Element, 2015 Draft Housing Element, U.S. Census Bureau

Housing Element Policy Recommendations:

Policy Recommendation #1: Rent stabilization

Many seniors, veterans, and live-aboards working with HLC have been vocal about their experiences with rent increases in the last several years. A policy that would limit the rate of rent increases each year is rent stabilization. This rate would be set by the City, and would only apply to units constructed prior to February 1, 1995.

Policy Recommendation #2: Protection for existing affordable housing

The City has identified in its draft Housing Element a goal to include an inventory of adequate sites to meet the regional fair share of housing growth. Due to the loss of hundreds of floating homes, policies to protect existing affordable housing, both subsidized and naturally affordable housing, is very important. The City has opportunities to commit to monitoring and preserving the existing affordable housing supply.

Policy Recommendation #3: Commercial linkage fee

Due to the abundance of new commercial development, the city has an opportunity to dedicate a local funding source to address the housing impact created by rapid commercial development. A commercial linkage fee should be enacted. This fee addressed the impact created by the construction of new commercial buildings, employment, and the need for affordable housing. The City is encouraged to join a County-wide nexus study to analyze this impact and to enact a fee at a level high enough to help mitigate the negative impacts created by high levels of commercial growth.

Policy Recommendation (separate from Housing Element): Prevailing wage

HLC has been working with labor unions for community benefits and prevailing wage in the City of Redwood City. Prevailing wage is based on a particular area. Due to the high cost of living, it is very difficult for many employees at the apprentice levels to be able to afford to live in the area. Many of them are forced into long commutes. The City should commit to requiring prevailing wage in all public construction projects.

Stakeholder Messaging:

-"Provide alternate housing models to protect naturally affordable housing." One of the biggest issues in Redwood City is the displacement of live-aboards, many who lived and worked in the harbor. This was a unique and special community that provided a high quality of life for its residents. Many of the residents who have been displaced are long-term residents, as well as seniors. The City should be encouraged by housing advocates to require new developers at Pete's Harbor to create alternate housing models for market rate developments to include opportunities for former live-aboards to stay.

-"Equal housing opportunities for all residents should be included in Redwood City's housing landscape." Urge the City to support low-income workers and renters with tenant protections such as just-cause evictions and rent stabilization. The draft Housing Element indicates that 48% of the City's current residents work in low and very low-income jobs, and 40% of new jobs will require lower income workers. However, the rapid growth of market-rate housing with virtually no affordable housing indicates the City is not committed to providing equal housing opportunities for all residents.

-"Affordable housing should be part of the Community Benefits Program." HLC has worked with partner organizations in past years to encourage the City of Redwood City to create community benefits. However, there is no indication yet that affordable housing will be included. Robust support of affordable housing needs to be included as part of any community benefits program in order to address the true needs of the community.

City of San Bruno

Background:

The City of San Bruno has a population of 42,828 and 46% of its households are lower income. San Bruno is a mostly residential city and most of its apartment developments are located along El Camino Real. The majority of San Bruno's housing stock is single family homes.

The City is currently focused on Measure N – a ballot measure to increase the height limits in the Downtown area, increase the density on specific residential parcels, and built above-ground multi-story parking garages. In 1979, voters approved Ordinance 1284, a height limitation to prohibit any development over 50 feet. However, recently residents (owners and renters) seem to be somewhat supportive of new development to the Downtown area. The Transit Corridors Plan has been in works for several years, and HLC has tracked its progress. HLC is supportive of Measure N and urges its residents to vote yes for Measure N to enhance economic opportunities.

Source: 2007-2014 Housing Element, 2014-2022 Draft Housing Element: Goals, Programs, and Implementation Actions, U.S. Census Bureau, City of San Bruno Transit Corridors Plan

Housing Element Policy Recommendations:

Policy Recommendation #1: Housing Overlay Zone

In addition to the area defined by the Transit Corridors Plan, there are areas that are not currently zoned for residential use that may be ideal sites for multi-family housing, particularly to the East of Highway 101. The City should identify housing overlay zones that are appropriate in its Housing Element to encourage the creation of housing without the need to amend the General Plan. These areas are transit-accessible and low-density commercial areas that are close to amenities. Furthermore, offering developers incentives such as density bonuses, reduced parking, or parcel assembly should be considered as well.

Policy Recommendation #2: Streamlined Permitting Process

Nearly half of all San Mateo County jurisdictions have a streamlined permitting process, but San Bruno does not. A streamlined permitting process enables developers to save time and money by providing prospective developers clear guidelines and review processes. This may include eliminating multiple hearings and/or appeals, allowing joint public hearings, and shortening permit processing times.

Recommendation (separate from the Housing Element): Support Measure N

Support Measure N, which encourage new housing and commercial development in the Downtown area. The height limitation imposed by Ordinance 1284 also limits San Bruno's capability to stimulate economic activity in its Downtown and transit-accessible areas, making San Bruno a city most people pass by.

Stakeholder Messaging:

-“Identify other areas to encourage more housing.” With new housing developments occurring in other cities in San Mateo County, San Bruno should encourage developers to consider developing in San Bruno as well by increasing opportunities. As demonstrated by the development of The Crossings in north San Bruno, creating new housing helps eliminate vacant lots, increases commercial activity, and helps makes the area attractive. This needs to be done in appropriate areas in the City (mostly to the east of Highway 101, as the west of Highway 101 is mostly single family homes). The Transit Corridors Plan includes sites that would be re-zoned for mixed-use, but the City should include a Housing Overlay Zone in its Housing Element for other appropriate sites.

-“Incentivize affordable housing developers to create new housing opportunities.” The City should streamline its permitting process for affordable housing developers, which would provide clear guidelines and processes to creating affordable housing. It could include eliminating multiple reviews, holding joint and/or limited public hearings, and/or decreased permit processing timelines. Nearly half of the jurisdictions in San Mateo County already have policies in place to streamline affordable housing permitting processes.

-“I support Measure N.” Let San Bruno policymakers and fellow San Bruno residents know that Measure N would ease development restrictions created in 1977 that has inhibited the Downtown area from economic growth.

City of San Mateo

Background:

The City of San Mateo has seen booming residential development in recent years. The rising cost of housing and lack of tenant protections has very real impacts all over the County of San Mateo, but has especially been notable in the City of San Mateo. HLC has been working with numerous residents who have experienced dramatic rent increases and face displacement.

About 46% of San Mateo's households are renters, with Black and Hispanic households much more likely to be renters than White and Asian households. The impacts of rising housing costs, then, impact a significant portion of San Mateo's population but also have a disproportionate impact on minority households. Furthermore, minorities make up the majority of San Mateo's population (57%).

Minorities also experience overcrowded housing conditions at a much higher rate than whites. Hispanics are more than 19 times as likely to live in overcrowded homes than whites in the City of San Mateo. The overcrowded conditions are especially apparent in the North Central neighborhood.

Similar to other cities in the County, the Downtown area in San Mateo is thriving. However, Help Wanted signs are appearing in many storefronts, and HLC has surveyed business owners about employee retention. The income retail and restaurant jobs pay are no match for the high living costs in the area, making it difficult for business owners to attract employees.

Source: 2007-2014 Housing Element, U.S. Census Bureau

Housing Element Policy Recommendations:

Policy Recommendation #1: Rent stabilization

The City of San Mateo should include rent stabilization policies in its Housing Element update, starting with a commitment to study rent increases and displacement in recent years. The City should set a rate limiting rent increases year over year. The Costa-Hawkins Act of 1995 limits the use of rent stabilization for new construction, but rent stabilization can be applied to units built prior to February 1, 1995. This includes many of the apartment buildings were residents have already experienced high increases in rent, yet landlords have not made improvements to the building or units.

Policy Recommendation #2: Reduced Parking Requirements and Streamlined Permitting Process to Incentivize Developers

The City of San Mateo needs to provide incentives for affordable housing developers to encourage new housing. In areas deemed appropriate, parking requirements should be reduced. Also, nearly of the jurisdictions in the County have a streamlined permitting process for affordable housing but the City of San Mateo does not. This should be included as a policy in the updated Housing Element along with other incentives for developers.

Policy Recommendation #3: Commercial Linkage Fee

Due to the abundance of new commercial development in the Downtown and 25th Avenue areas, the city has an opportunity to dedicate a local funding source to address the housing impact created by new commercial development. A commercial linkage fee should be enacted. This fee addressed the impact created by the construction of new commercial buildings, employment, and the need for affordable housing. The City has committed to a County-wide nexus study to examine this connection, and advocates should urge the city to enact a fee as soon as possible, at the highest rate possible. There has been indication of support from several Council members on a commercial linkage fee.

Stakeholder Messaging:

-"Incentivize affordable housing developers to create new housing opportunities." The City should streamline its permitting process for affordable housing developers, which would provide clear guidelines and processes to creating affordable housing. It could include eliminating multiple reviews, holding joint and/or limited public hearings, and/or decreased permit processing timelines. Nearly half of the jurisdictions in San Mateo County already have policies in place to streamline affordable housing permitting processes.

-"Require developers to pay a commercial linkage fee." The City already upholds an inclusionary housing policy that requires developers to include below-market rate housing units along with market-rate housing units, but should also require a commercial linkage fee to help mitigate the impact of new construction, the type of jobs created, and housing costs. The City of Menlo Park is the only jurisdiction in the County of San Mateo that requires a commercial linkage fee, and it has not proven to deter developers. The City of San Mateo has already indicated support for this, but advocates should encourage the City to set the rate as high as possible.

-"Include tenant protections such as rent stabilization and just-cause eviction policies." Residents in San Mateo have been experiencing high increases in rent. Landlords are able to increase rents at any rate due to a lack of anti-displacement policies. Anti-displacement policies such as rent stabilization would stabilize rent increases. Tenants can then plan for set rate of increase, while landlords can continue to increase the rent, but at the set rate. Additionally, San Mateo should adopt a just-cause eviction policy in its updated Housing Element to help eliminate illegal eviction processes.

City of South San Francisco

Background:

The City of South San Francisco is currently redeveloping the Downtown area. The City of South San Francisco has invested in a long process for the Downtown Station Area Plan, which includes the re-location of the Caltrain station and higher-density, mixed-use development.

Currently, the Downtown area has multiple vacancies and unused surface parking lots. Some of this land is owned by the City through the former redevelopment agency. Because of these opportunity sites, our coalition realized the Downtown Station Area Plan affects the majority of the City of South San Francisco's Regional Housing Needs Allocation (RHNA).

The neighborhood in the Downtown area, known as "Old Town" to locals, has had a naturally affordable housing component. In the past decade, housing and mixed-use development was focused along El Camino Real, adjacent to the South San Francisco BART station. Prior to that, new single family homes were built in the outskirts of the City of South San Francisco. As a result, the older homes and long-term residents near Downtown had not faced many drastic changes. However, the adoption of a Downtown Station Area Plan is sure to change that. When speaking with the local residents, it became apparent many were not aware of what changes were being proposed or how the changes will affect the existing residents in the plan area.

Housing Element Policy Recommendations:

The draft Housing Element for the City of South San Francisco should be aligned with the draft Downtown Specific Area Plan, but meetings with city staff do not indicate they will be. The draft Housing Element has yet to be released while the city focuses on the Downtown Station Area Plan. While the plan is recommending policies for higher density development in the transit-oriented area, it fails to address anti-displacement. Its focus is to help residents after displacement, which policies addressing relocation and first right of return for publicly funded projects.

Additionally, the alignment between the plan and the draft Housing Element is not seamless. The plan does not address how many housing units will be developed for each income category, but the Housing Element does address this. This is of top concern to HLC, its partner organizations, and residents who have been meeting regularly to monitor the Downtown Specific Area Plan.

Policy Recommendation #1: Housing Impact Fee/In-Lieu Fees for Inclusionary Policy

Housing impact fees are based on an assessment of the extent to which the development of new market-rate housing generates additional demand for affordable housing. If this connection is made through a nexus study, the City can them impose a fee on the developer to help mitigate the impact of creating new housing that will attract high-income households, who will then spend more on retail and services. That increased spending creates new jobs, but those new jobs are typically low-paying and require a lower-cost of living for its workers. This connects to the demand for affordable housing.

Policy Recommendation #2: Dedication of Boomerang Funds Back to Affordable Housing

Redevelopment Agencies previously received a portion of property tax revenue from the Redevelopment area. This money was used for economic development and affordable housing, but in 2012 Redevelopment Agencies were dissolved as part of the effort to balance the State budget. As a result, this local funding source for affordable housing was eliminated, on top of cuts from other funds for affordable housing, such as Community Development Block Grant (CDBG) funds.

The portion of property tax revenue that previously went to Redevelopment Agencies was distributed to 63 tax-receiving entities in San Mateo County, called “boomerang funds.” The boomerang funds were distributed in a single payment in 2013, followed by ongoing funds in the following years. HLC met with several elected officials and city staff during 2012 and 2013, but there was not enough support at the time. Since then, city staff and elected officials have changed. The City of South San Francisco had the largest lump sum payment out of all the cities in the County, and should re-dedicate those funds back to affordable housing, along with its ongoing payments year over year.

Policy Recommendation #3: Align the Goals of the Housing Element with the Downtown Specific Area Plan (where appropriate)

The City needs to align its goals in both the updated Housing Element with the Downtown Specific Area Plan. City staff and officials have indicated certain housing goals will be mentioned in the Housing Element and not the plan, but the plan encompasses the optimal area to meet several Housing Element goals. This has caused confusion for residents and advocates.

Stakeholder Messaging:

-“We need more workforce housing.” The City seems dedicated to providing workforce housing and have explored new housing models in the Downtown Specific Area Plan, such as live/work lofts. However, these types of housing opportunities tend to fit higher-income workers. The City must consider workforce housing for all income levels.

-“Establish a local source of funding for affordable housing.” The City should establish policies regarding housing impact fees and boomerang funds, which would provide a local source of funds for affordable housing.

County of San Mateo

Background:

The County of San Mateo is the sixth most populous jurisdiction in the twenty-one jurisdictions that comprise the County of San Mateo, with the majority of residents living on the coast side and North Fair Oaks, bordering the City of Redwood City.

40% of all households in the County of San Mateo are renters. The majority of Black (64%) and Hispanic (61%) households are renters, while White and Asian households are majority owners (67% and 63%, respectively). Thus, rising rents have a disproportionate impact on Black and Hispanic households. This is especially concerning because the majority of the County of San Mateo's population are minorities (57%).

Furthermore, Hispanics (22.7%) are more than 16 times more likely to live in overcrowded households than Whites (1.4%). Overcrowding allows families to combine their income to pay for housing costs but has numerous negative impacts.

Nearly half of renters in the County of San Mateo are rent burdened (48%), meaning they are paying more than 30% of their income to rent, and 23% are severely rent burdened (paying more than 50% of their income to rent). Lower-income households are again disproportionately impacted, with 80% of households earning less than $50,000 rent burdened compared to 10% of households earning $75,000 or more rent burdened.

Sources: 2007-2014 Housing Element, U.S. Census Bureau

Housing Element Policy Recommendations:

Policy Recommendation #1: Re-dedication of "Boomerang Funds"

Redevelopment Agencies previously received a portion of property tax revenue from the Redevelopment area. This money was used for economic development and affordable housing, but in 2012 Redevelopment Agencies were dissolved as part of the effort to balance the State budget. As a result, this local funding source for affordable housing was eliminated, on top of cuts from other funds for affordable housing, such as Community Development Block Grant (CDBG) funds.

The portion of property tax revenue that previously went to Redevelopment Agencies was distributed to 63 tax-receiving entities in San Mateo County, called "boomerang funds." The boomerang funds were distributed in a single payment in 2013, followed by ongoing funds in the following years.

HLC, along with partner community-based organizations and resident advocates, persuaded the County of San Mateo Board of Supervisors to re-purpose the boomerang funds for affordable housing in April 2013. The one-time lump sum distribution was about $13.5 million. Now, we are asking the Board of

Supervisors to dedicate the ongoing year over year funds to affordable housing as well.

Policy Recommendation #2: Review and Amend Sites Inventory List

HLC has partnered with local non-profit developers to review the sites identified by the County of San Mateo as potential housing sites. For affordable housing developers, tax credits are very important in order to make a development financially viable. To receive tax credits, the site must compete well, and the developers have "scored" the sites on the County's inventory list. While several sites are ideal, there are also some sites that have not been identified that would be ideal. Particularly, a large parcel along Harbor Blvd. between El Camino Real and Highway 101 would score well. Advocates should encourage the Board of Supervisors to amend the sites inventory list in its updated Housing Element to offer more opportunities for affordable housing development.

Stakeholder Messaging:

-"Continue to find local funding sources for affordable housing." As other local funding sources have been cut, the County does have an opportunity to dedicate affordable housing funds from the year over year payments known as "boomerang funds." HLC, along with other non-profit organizations and nearly 500 residents, signed a petition and gave public testimony regarding the need for the re-dedication of the lump sum payment from the dissolved Redevelopment Agency. The County of San Mateo was the first County in the State of California to do this. The County now has the opportunity to continue its dedication to finding a local funding source for affordable housing.

-"Add new sites as a possible future housing development (where necessary)." Encourage the County to add to its updated Housing Element a list of sites that are ideal for affordable housing development. This includes sites that are close to transit and amenities. This helps developers of affordable housing achieve tax credits, making the development financially viable. The updated Housing Element should include these type of opportunities to encourage affordable housing developers to build much needed new, affordable housing to the County of San Mateo.