REGULAR MEETING AGENDA

Date: 8/3/2016
Time: 5:30 p.m.
City Hall/Administration Building
City Council Conference Room
701 Laurel St., Menlo Park, CA 94025

A. Call To Order

B. Roll Call

C. Public Comment

Under "Public Comment," the public may address the Commission on any subject not listed on the agenda. Each speaker may address the Commission once under Public Comment for a limit of three minutes. Please clearly state your name and address or political jurisdiction in which you live. The Commission cannot act on items not listed on the agenda and, therefore, the Commission cannot respond to non-agenda issues brought up under Public Comment other than to provide general information.

D. Consent Calendar

D1. Approve minutes for the Housing Commission meeting of June 29, 2015 (Attachment)

D2. Approve minutes for the Housing Commission meeting of July 7, 2016 (Attachment)

D3. Approve minutes for the Housing Commission meeting of July 12, 2016 (Attachment)

E. Regular Business

E1. Nomination and Approval of Vice Chair

E2. Discussion of Work Plan (Staff Report #16-009-HC)

F. Informational Items

F1. Review of City Council study session on Draft Below Market Rate Nexus Studies (Staff Report #16-008-HC)

F2. Hello Housing background of services and report (Staff Report #16-010-HC)

G. Adjournment

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At every Regular Meeting of the Commission, in addition to the Public Comment period where the public shall have the right to address the Commission on any matters of public interest not listed on the agenda, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during the Commission's consideration of the item.

At every Special Meeting of the Commission, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during consideration of the item.

Any writing that is distributed to a majority of the Commission by any person in connection with an agenda item is a public record (subject to any exemption under the Public Records Act) and is available for inspection at the City Clerk's Office, 701 Laurel St., Menlo Park, CA 94025 during regular business hours.
Persons with disabilities, who require auxiliary aids or services in attending or participating in Commission meetings, may call the City Clerk's Office at 650-330-6620.

SPECIAL MEETING MINUTES - DRAFT

Date: 6/29/2016
Time: 5:30 p.m.
Administration Building
City Council Conference Room "Fishbowl"
701 Laurel St., Menlo Park, CA 94025

A. Chair Tate called the meeting to order at 3:30 p.m.

B. Roll Call

Present: Sally Cadigan, Lucy Calder, Meg McGraw-Scherer, Julianna Dodick, Michele
Absent: None
Staff: Meghan Revolinsky, Kyle Perata, Sunny Chao

C. Public Comment

D. Consent Calendar

D1. Approve minutes for the Housing Commission meeting of November 4, 2015 (Attachment)

ACTION: Motion by Cadigan and second by Calder to approve minutes for the Housing Commission meeting of November 4, 2015. Motion Passes: 4-0-1 (McGraw-Scherer abstain).

D2. Approve minutes for the Housing Commission meeting of March 2, 2016 (Attachment)

ACTION: Motion by Dodick and second by Calder to approve minutes for the Housing Commission meeting of March 2, 2016. Motion Passes; 3-0-2 (Tate and McGraw-Scherer abstain).

D3. Approve minutes for the Housing Commission meeting of April 14, 2016 (Attachment)

ACTION: Motion by Cadigan and second by Tate to approve minutes for the Housing Commission meeting of April 14, 2016. Motion Passes; 3-0-2 (McGraw-Scherer and Dodick abstain).

D4. Approve minutes for the Housing Commission meeting of May 4, 2016 (Attachment)

ACTION: Motion by McGraw-Scherer and second by Calder to approve minutes for the Housing Commission meeting of May 4, 2016. Motion Passes; 3-0-2 (Dodick and Cadigan abstain).

E. Regular Business

E1. Recommendation of a Below Market Rate Housing Agreement Term Sheet with Eggli Landscape Construction Company for 3585 Haven Avenue (Staff Report #16-006-HC)

ACTION: Motion by Cardin and second by Calder to to recommend approval of the Below Market Rate Housing Agreement Term Sheet with Eggli Landscape Construction Company for 3585 Haven

Avenue. Motion Passes; 5-0.

E2. Overview of the Facebook Campus Expansion Project, the Draft Environmental Impact Report (EIR), Displacement Analysis, and Consideration of a Recommendation to the Planning Commission and City Council on the Below Market Rate (BMR) Term Sheet for the Facebook Campus Expansion Project at 301-309 Constitution Drive (Staff Report #16-007-HC)

ACTION: Motion by Cadigan and second by Calder to recommend approval of the Below Market Rate (BMR) Term Sheet to the Planning Commission for the Facebook Campus Expansion Project at 301-309 Constitution Drive per the staff report, with concerns regarding the separate displacement analysis. Motion Passes; 5-0.

F. Informational Items

None

G. Adjournment

Chair Tate adjourned the meeting at 8:00 p.m.

SPECIAL MEETING MINUTES - DRAFT

Date: 7/7/2016
Time: 5:30 p.m.
Administration Building
City Council Conference Room "Fishbowl"
701 Laurel St., Menlo Park, CA 94025

A. Chair Tate called the meeting to order at 3:30 p.m.

B. Roll Call

Present: Sally Cadigan, Meg McGraw-Scherer, Michele Tate
Absent: Julianna Dodick, Lucy Calder
Staff: Jim Cogan, Meghan Revolinsky

C. Public Comment

D. Consent Calendar

None

E. Regular Business

E1. Discussion and Authorization for the Chair to Sign a Letter on Behalf of the Housing Commission Regarding the Facebook Campus Expansion Project

ACTION: Motion by McGraw-Scherer and second by Cadigan to give authorization for the Chair to Sign a Letter on Behalf of the Housing Commission Regarding the Facebook Campus Expansion Project with the listed items: Displacement Analysis, use of property taxes, and 15-day comment period extension. Motion Passes; 3-0.

F. Informational Items

None

G. Adjournment

Chair Tate adjourned the meeting at 8:00 p.m.

SPECIAL MEETING MINUTES - DRAFT

Date: 7/12/2016
Time: 5:30 p.m.
Administration Building
City Council Conference Room "Fishbowl"
701 Laurel St., Menlo Park, CA 94025

A. Chair Tate called the meeting to order at 3:30 p.m.

B. Roll Call

Present: Sally Cadigan, Meg McGraw-Scherer, Michele Tate, Julianna Dodick
Absent: Lucy Calder
Staff: Jim Cogan

C. Public Comment

D. Consent Calendar

None

E. Regular Business

E1. Discussion and Authorization for the Chair to Sign a Letter on Behalf of the Housing Commission Regarding the General Plan EIR

ACTION: Motion by McGraw-Scherer and second by Dodick to give authorization for the Chair to work with McGraw-Scherer to draft and Sign a Letter on Behalf of the Housing Commission Regarding the General Plan EIR with the listed items: 15-day extension of the comment period, dispersion throughout the City, revision to BMR Impact Fees, Jobs-Housing Phasing, Potential Transportation Mitigations for Higher Share of BMR, BMR Funding, Revising Impact Fees based on the Nexus Study, Perusing other affordable housing developers and the Facebook expansion project. Motion Passes; 4-0.

F. Informational Items

None

G. Adjournment

Chair Tate adjourned the meeting at 7:35 p.m.

STAFF REPORT

Housing Commission
Meeting Date: **8/3/2016**
Staff Report Number: **16-009-HC**

Regular Business: **Discussion of 2 Year Work Plan**

Recommendation

Staff recommends the Housing Commission review its current 2014-2016 Work Plan and begin discussions to update its priorities, projects and goals for the 2017-2019 Housing Commission Work Plan that will be presented to City Council.

Policy Issues

This action is consistent with City Policies and Council's priorities.

Background

In June 2014 the Housing Commission reported its 2 year Work Plan to the City Council. Attachment A is the 2014-2016 Housing Commission Work Plan. Every two years Menlo Park Commissions review their respective work plans and update them with new priorities, projects and goals. Menlo Park "Commission Work Plan Guidelines" can be found in Attachment B.

Analysis

Staff will work directly with The Commission to develop work plan items for the 2017-2019 Housing Commission 2 Year Work Plan. Following completion of the proposed work plan, the chair will present it to the City Council.

Impact on City Resources

Staff does not anticipate the need for additional resources as a result of this action. However, depending on the proposed activities it is possible that additional resources will be necessary.

Environmental Review

This action is not a project under CEQA.

Public Notice

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

A. The Housing Commission's 2014-2016 Work Plan
B. Commission Work Plan Guidelines

Report prepared by:
Meghan Revolinsky, Management Analyst, Housing and Economic Development

Report reviewed by:
Jim Cogan, Housing and Economic Development Manager

Housing Commission
Work Plan for 2014-2016

Housing Commission

Mission Statement

We are affordable housing advocates.

We make recommendations to the City Council on issues related to housing policy, implement Council policy decisions, and represent the City where needed on housing matters.

We are a conduit of information out to the community about affordable housing programs *and* a conduit of information back from the community regarding housing matters to the City Council.

For consideration by the City Council on March 18, 2014

Commission Members Listing

Commissioner	Carolyn Clarke (Chair)
Commissioner	Julianna Dodick (Vice Chair)
Commissioner	Sally Cadigan
Commissioner	Lucy Calder
Commissioner	Michelle Tate

Housing Commission
Priority List

The **Housing Commission** has identified the following priorities to focus on during 2014-2016:

1.	<u>BMR Housing</u>
	
	• Activities:
	  o Monitor and review BMR funds and use.
	  o Participate in and advise Council and/or Planning Commission on policy decisions related to BMR.
	• Trigger: Staff will bring items to the commission for consideration.

2.	<u>Housing Element Implementation</u>
	
	Commission lead: _____
	
	• Activities:
	  o Monitor and Review of the Housing Element program implementation.
	  o Our responsibility is to represent the community in an advisory role and continue to advocate for relevant housing programs, as outlined in the Housing Element, with an emphasis on affordable housing.
	
	• Timeframe: Ongoing.

<u>3.</u>	<u>Housing Projects</u> Commission lead: _____ • Stay appraised of housing projects in Menlo Park (i.e. CORE, Mid-Peninsula/Willow, HIP, Habitat) • Action: Lead will include information on activities in update at quarterly commission meetings.

4.	<u>Community Advocacy for Affordable Housing</u>
	
	Commission lead: _____
	
	• Develop awareness in community of the need for affordable housing.
	  o Interpret who may fit the profile for BMR (i.e. your child's nanny, workers in Menlo Park, etc). This will require understanding the demographics profile of both current and potential BMR candidates.
	  o Define what affordable housing means in Menlo Park.
	• Conduit of information out to the community *and* back from the community
	• Action: Commission is in a learning and investigation stage. We will come back to council in 60 days with a detailed proposal.

5.	<u>Collaborate with area Housing Agencies and Advocates</u> • Identify Housing Commission liaisons for area housing agencies and advocates. Liaison will report back regularly at commission meetings.

Commission Work Plan Guidelines
Work Plan Worksheet

Step 1

Review purpose of Commission as defined by Menlo Park Council Policy CC-01-0004	Housing matters including housing supply and housing related problems; Community attitudes about housing (range, distribution, racial, social-economic problems); Programs for evaluating, maintaining, and upgrading the distribution and quality of housing stock in the City; Planning, implementing and evaluating City programs under the Housing and Community Development Act of 1974; Members serve with staff on a loan review committee for housing rehabilitation programs and a first time homebuyer loan program; Review and recommend to the Council regarding the Below Market Rate (BMR) program; Initiate, review and recommend on housing policies and programs for the City; Review and recommend on housing related impacts for environmental impact reports; Review and recommend on State and regional housing issues; and Review and recommend on the Housing Element of the General Plan

Step 2

Develop or review a Mission Statement that reflects that purpose *Who we are, what we do, who we do it for, and why we do it!*	We are affordable housing advocates. We make recommendations to the City Council on issues related to housing policy, implement Council policy decisions, and represent the City where needed on housing matters. We are a conduit of information out to the community about affordable housing programs *and* a conduit of information back from the community regarding housing matters to the City Council.

Step 3

Discuss any priorities already established by Council	There are no Council priorities identified that specifically pertain to the Housing Commission, however, we will monitor development and advocate for affordable housing where advisable.

Step 4

Brainstorm goals, projects or priorities of the Commission	Benefit, if completed	Mandated by State / Local law or by City Council direction?	Required policy change at the City Council level?	Resources needed for completion? Staff or creation of subcommittees?	Estimated Completion Time	Measurement Criteria How will we know how we are doing?
BMR Housing	• Oversight of compliance with guidelines	Yes ☒ No ☐	Yes ☐ No ☒	• Staff time • Commission meetings	24 Months	• Approved BMR Agreements
Housing Element Implementation	• In compliance with State requirements	Yes ☒ No ☐	Yes ☐ No ☒	• Funding • Staff time	24 Months	• Commission knowledge and feedback on upcoming projects
Housing Projects	• Continued awareness of upcoming projects in absence of Housing staff	Yes ☐ No ☒	Yes ☐ No ☒	• Staff time (briefs from planning staff on pending projects)	24 Months	• Commission knowledge of projects
Community Advocacy for Affordable Housing	• More awareness of the need to provide a range of housing opportunities	Yes ☐ No ☒	Yes ☐ No ☒	• Subcommittee	24 Months	• More acceptance of affordable housing by the community
Collaborate with area Housing Agencies and Advocates	• Access to more resources and ideas	Yes ☐ No ☒	Yes ☐ No ☒	• Subcommittee	24 Months	• More communication with area housing advocates

Step 5

List identified Goals, Priorities and/or Tasks for the Commission	Prioritize Tasks by their significance			
	1 Urgent	2 1-year	3 2-year	4 Long Term
Housing Element Implementation	X			
Community Outreach for awareness and input • Advise on the commission and what they do • Programs available and the process to utilize them • What does the community feel they need • Article in Menlo Focus • Table at Farmers Market • Information / programming placed on channel 26	X Is taking place and is Ongoing			
All City publications, including the Activity Guide should include information on the housing programs available	X Should begin now and continue			

Commission Work Plan Guidelines

Step 1 Review purpose of Commission as defined by Menlo Park Council Policy 3-13-01.

Step 2 Develop a mission statement that reflects that purpose.

Step 3 Discuss and outline any priorities established by Council.

Step 4 Brainstorm goals, projects, or priorities of the Commission and determine the following:

A. Identify priorities, goals, projects, ideas, etc.
B. Determine benefit, if project or item is completed
C. Is it mandated by State of local law or by Council direction?
D. Would the task or item require a policy change at Council level?
E. Resources needed for completion? (Support staff, creation of subcommittees, etc.)
F. Completion time? (1-year, 2-year, or longer term?)
G. Measurement criteria? (How ill you know you are on track? Is it effective?, etc.)

Step 5 Prioritize projects from urgent to low priority.

Step 6 Prepare final Work Plan for submission to Council for review and approval in the following order:
- Work Plan cover sheet, Listing of Members, Priority List, Work Plan Worksheet – Steps 1 through 8

Step 7 Use your “approved” work plan throughout the term of the plan as a guide to focus in on the work at hand

Step 8 Report out on work plan priorities to the City Council, which should include:

A. List of “approved” priorities or goals
B. Status of each item, including any additional resources required in order to complete
C. If an item that was on the list is not finished, then indicate why it didn’t occur and list out any additional time and/or resources that will be needed in order to complete

CITY OF MENLO PARK

STAFF REPORT

Housing Commission
Meeting Date: **8/3/2016**
Staff Report Number: **16-008-HC**

Informational Item: **Discussion on draft Nexus Studies for Below Market Rate Housing Impact Fees**

Recommendation

Staff is providing this informational report regarding the draft Commercial Linkage Fee Nexus Study and Residential Impact Fee Nexus Study, which have been prepared specifically for Menlo Park, based on the Grand Nexus Study that was prepared for San Mateo County through the 21 Elements planning project. No action is necessary.

Policy Issues

The draft nexus studies support the City's existing Below Market Rate (BMR) Program, are consistent with the approved Housing Element, and approved City Council work plan.

Background

Current BMR Housing Program

The BMR Housing Program was established in 1987 to increase the housing supply for people who live and/or work in Menlo Park and have very low, low, or moderate incomes as defined by income limits set by San Mateo County. The primary objective of the program is to create actual housing units rather than generate a capital fund. Developers who build five or more housing units enter into BMR Agreements with the City concerning the BMR units' location, size and other details, including deed restrictions to preserve the BMR units' affordability.

Currently, for-sale residential developments of five or more units must comply with the City's inclusionary zoning requirements to include a percentage of BMR units along with their market-rate units. The City has the discretion to allow a developer to meet their BMR requirement through accepting an in-lieu fee. In-lieu fees are calculated as 3 percent of the sale price for the number of required BMR units. The BMR requirements are summarized in Table 1.

Table 1: Inclusionary Requirements

# of Units	Required BMR Units
0-4	exempt
5-9	1 unit
10-19	10%
20 or more	15%

There is an important distinction to note between an impact fee, which is typically charged per unit or square foot of the total development, versus the in-lieu fee, which is based solely on the number of required BMR units. The Council will be asked to provide input on whether the City should establish an impact fee on new residential development, rather than simply allowing the payment of in-lieu fees for BMR units.

The BMR Housing Program also applies to new commercial developments of 10,000 square feet or more. The current in-lieu fees to mitigate the demand for affordable housing are $16.15 per square foot of net new gross floor area for most commercial uses and $8.76 per square foot of net new gross floor area for defined uses that generate fewer employees. Collected in-lieu fees are deposited into the BMR Housing Fund. The fee is adjusted annually on July 1.

The City partnered with other San Mateo County jurisdictions through the 21 Elements planning project to issue a Request for Proposal (RFP) for the preparation of affordable housing fee nexus and feasibility studies. The draft Commercial Linkage Fee Nexus Study (Attachment A) and Residential Impact Fee Nexus Study (Attachment B) are results of this this partnership. Participation in this process helps the City comply with Housing Element program H4.D:

> *Update the BMR Fee Nexus Study. Coordinate the update of the BMR nexus fee study with other jurisdictions in San Mateo County as part of the Countywide 21 Elements project, which is a collaborative effort among all 21 jurisdictions in San Mateo County to provide assistance and collaborate on housing element implementation. Modify fees accordingly following the nexus study.*

Nexus Studies

The City contracted with Strategic Economics to prepare two nexus studies specific to the City of Menlo Park, which build on the Grand Nexus Study that they prepared for 21 Elements. These nexus studies provide justification for adjusting some of the City's existing BMR fees, establishing a fee to assist with mitigating the impacts of new rental residential projects and confirm that fees for some development types are within the recommended range.

Analysis

The methodology for establishing the recommended fee revisions is detailed within the nexus studies and will be explained as part of the presentation during the July 19th study session. The recommended fee revisions are summarized in Tables 2 and 3 by development type. The table of commercial fees compares the recommended fees to existing fees. The table of residential fees shows the recommended options of new per square foot or per unit fees.

Table 2: Commercial Fees

Development Type	Existing Fee	Recommended Fee Range per SF
Hotel	$8.76	$10 - $15
Retail/Restaurants/Services	$8.76	$5 - $10
Office/Medical Office/R&D	$16.15	$25 - $50

Table 3: Residential Fees			
Development Type	Recommended Fee per SF		Recommended Fee per Unit
Single-Family Detached	$25 - $50	-or-	$75,000 - $150,000
Single-Family Attached	$25 - $50	-or-	$42,000 - $85,000
Condominium	$35 - $50	-or-	$45,000 - $63,000
Apartments	$25 - $50	-or-	$22,900 - $45,800

Projects within the Development Pipeline

As with anytime a City establishes a new fee for development, it is important for the City Council to provide feedback and direction on what stage in the development process a project must complete to be considered grandfathered under the current fee schedule versus those which will be subject to the new fee schedule.

Policy Questions

Below are the policy questions that were put forward to the City Council.

Threshold Question:

1. Does the City Council feel that our BMR program fee schedule needs to be revised?

If so, feedback on the following questions regarding commercial and residential development is critical to crafting revisions to the BMR Program.

Commercial Questions:

1. Is the Council comfortable with the different types of commercial development? Should the City continue with 2 different fees based the type of commercial development or should there be more as detailed in the nexus study?
2. What is the City Council's general direction for revising the BMR fee schedule? Are the recommended fees ranges appropriate and where within the range does the Council feel comfortable setting various fees?
3. At what point in the development process should a development project be subject to the new fee schedule?

Residential Questions:

1. Should the City establish an impact fee for residential development? If so, is the Council comfortable with the recommended ranges for different types of residential units?
2. Does the Council prefer a fee structure that is per unit or per square foot?

Next Steps

1. Following the Study Session, staff will work with the consultant to develop recommendations for Council action and any necessary revisions to the City's current BMR program.
2. Menlo Park is affected by the regionally record-high demand for housing that is driving-up home prices and rents. While not the subject of this memo, staff intends to work with the City Council to

schedule a study session in the coming months to address the concerns expressed the Council related to the existing challenges with housing affordability.

Public Notice

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

Attachment A: Commercial Linkage Fee Nexus Study
Attachment B: Residential Impact Fee Nexus Study

Report prepared by:
Jim Cogan, Housing and Economic Development Manager

Draft Report

Commercial Linkage Fee Nexus Study

July 2016

prepared for:
City of Menlo Park

VWA

Vernazza Wolfe Associates, Inc.

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I. EXECUTIVE SUMMARY

INTRODUCTION

This report is part of the 21 Elements multi-city nexus study, a collaborative effort to mitigate the impacts of new development on the demand for affordable housing in San Mateo County. In February 2014, the local jurisdictions of San Mateo County hired Strategic Economics and Vernazza Wolfe Associates, Inc. to develop nexus studies for commercial linkage fees and housing impact fees.[1] The project was initiated by 21 Elements, a countywide collaboration among all the cities in San Mateo County on housing issues. Some jurisdictions elected to conduct both fee studies, while others did not. The preparation of these fee studies may result in the adoption of new impact fees on either residential, commercial or both types of developments. This draft report describes the methodology, data sources, and analytical steps required for the nexus analysis.

BACKGROUND

The City of Menlo Park is considering updating its existing commercial linkage fee that is charged on new non-residential development. The purpose of the linkage fee is to mitigate the impacts of an increase in affordable housing demand from new worker households associated with new commercial development. When a city or county adopts impact fees on new development, it must establish a reasonable relationship or connection between the development project and the fee that is charged. Studies undertaken to demonstrate this connection are called nexus studies. This linkage fee nexus study quantifies the connection between the development of commercial hotel, retail/restaurants/services, and office/R&D/medical office projects and the demand for affordable housing units. 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 for the workforce. Commercial linkage fees are one of several funding sources that jurisdictions can use to help meet the affordable housing needs of new workers.

REPORT ORGANIZATION

This executive summary provides an overview of the commercial linkage fee nexus analysis methodology, results, and recommendations. The subsequent chapters of the report contain more detailed information regarding the methodology, data sources and analysis. The report is organized into six sections. Following this executive summary, Section II provides an introduction to the purpose of the study, and an overview of the methodology. Section III presents each of the steps of the commercial linkage fee analysis in detail. Section IV covers the housing affordability gap analysis. Section V presents the maximum fee calculation based on the nexus analysis and affordability gap results. The final section, Section VI, discusses financial feasibility and other policy considerations that jurisdictions typically weigh before implementing a nexus fee.

[1] Participating jurisdictions include: Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo City, San Mateo County, South San Francisco, and Woodside.

IMPLEMENTATION OPTIONS

The per-square-foot maximum linkage fees are $154 for the hotel prototype, $265 for the restaurant/retail/services prototype, and $255 for the office/medical office/R&D prototype. If Menlo Park elects to update its linkage fees on commercial development, the recommended fee levels are as follows: $10 to $15 per square foot for hotels; $5 to $10 per square foot for retail/restaurants/services; and between $25 and $50 per square foot for office/R&D/medical office. These recommendations are based on the findings of the financial feasibility analysis, a comparison of fees in neighboring jurisdictions, and other factors as explained in the Policy Considerations section, below. The maximum and recommended fee ranges for each prototype are shown in Figure I-1.

Figure I-1. Maximum and Recommended Fee Levels by Prototype

Prototype	Maximum Justified Fee	Recommended Linkage Fee
Hotel	$154	$10 - $15
Retail/ Restaurants / Services	$265	$5 - $10
Office/ Medical Office/ R&D	$255	$25 - $50

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

NEXUS ANALYSIS RESULTS

The principal findings of the nexus analysis are presented below. More detail on each step can be found in other sections of this report.

Prototypes

The first step in this nexus analysis is to establish prototypes of typical commercial development in Menlo Park. These typical developments are called prototypes. This study examined the jobs-housing linkage for three commercial development prototypes:

1. Hotel - includes full-service hotels, limited-service hotels, motels, and other lodging.

2. Retail/ Restaurants/ Services - includes a range of buildings, including retail stores, restaurants, and personal care spaces accommodating businesses like nail salons and drycleaners.

3. Office/ R&D/ Medical Office - includes a range of office and research and development (R&D) uses, including traditional office buildings, medical offices, and specialized spaces for highly advanced manufacturing and research.

The definition of the commercial prototypes was informed by a review of recently completed and proposed development projects in San Mateo County, as well as discussions with City staff. The prototype information is summarized in Figure I-2.

Figure I-2. Commercial Prototypes

	Hotel	Retail/ Restaurants/ Services	Office/R&D/ Medical Office
Prototype Description			
Gross Building Area (GBA)	100,000	100,000	100,000
Podium Parking Area	11,970	30,000	63,000
Gross Building Area including Podium Parking (SF)	111,970	130,000	163,000
Efficiency Ratio (a)	N/A	0.95	0.9
Net Leasable Sq. Ft. (NSF)	N/A	95,000	90,000
Hotel Rooms	133		
Parking Spaces	160	400	300
Podium Parking	40	100	210
Surface Parking	120	300	90
Floor Area Ratio (b)	1.1	0.5	2.0
Land Area (Acres)	2.3	6.0	1.9
Land Area (SF)	101,791	260,000	81,500

Notes:
(a) Refers to ratio of gross building area to net leasable area. An efficiency ratio of 0.9 means that 90% of the gross building area is leasable.
(b) The floor-area-ratio (FAR) is often used as a measure of density. In this analysis, it is calculated as the gross building area (including podium parking) divided by the total land area.

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

Employment Density

The next step is to determine how many employees will work in each of the three prototypes. While these numbers will vary from building to building, there are sources of information that help researchers define employment "densities." The employment density measures the number of employees who work in a given amount of space. For each building prototype, an average employment density was defined based on a review of national survey data for existing commercial buildings and a review of recently completed linkage fee nexus studies in the Bay Area. The densities selected were at the lower end of each range. By using slightly lower employment estimates, the conclusions from this study are more conservative. The study uses a slightly lower number of future employees in calculating affordable housing needs.

Worker Household Incomes

Using these prototypes, the nexus analysis estimates the wages of future workers based on industry and occupation data. After the average wage of workers is calculated, the next step is to compute the average household income of worker households. Assuming that there are multiple wage-earners per household, the household income of worker households is estimated. Each worker-household is then classified into area median income (AMI) categories to determine the number of households that would require affordable housing. Figure I-3 summarizes the estimated worker-household incomes for each prototype.

Figure I-3. Calculation of Worker Household Income by Prototype

Prototype	Number of Employee Households
Hotel	
Very Low Income (<=50% AMI)	22.8
Low Income (51-80% AMI)	35.2
Moderate Income (81-120% AMI)	3.2
Above Moderate (>=120%)	4.2
Total	**65.4**
Retail, Restaurants and Personal Services	
Very Low Income (<=50% AMI)	84.4
Low Income (51-80% AMI)	10.0
Moderate Income (81-120% AMI)	2.3
Above Moderate (>=120%)	1.4
Total	**98.0**
Office, R&D and Medical Office Land Use	
Very Low Income (<=50% AMI)	34.7
Low Income (51-80% AMI)	52.0
Moderate Income (81-120% AMI)	18.7
Above Moderate (>=120%)	90.7
Total	**196.1**

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

Affordability Gap

Many of the new worker households will be unable to afford market-rate housing. In order to measure this shortfall, this study has calculated the housing affordability gap, shown in Figure I-4. The housing affordability gap measures the difference between what very low, low, and moderate income households can afford to pay for housing and the cost of building new, modest rental and for-sale housing units.

Figure I-4. Affordable Housing Gap

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low Income (50% AMI)	$280,783	N/A	$280,783
Low Income (70% - 80% AMI) (a)	$240,477	N/A	$240,477
Moderate Income (90% - 110% AMI) (b)	$187,066	$164,049	$175,558

Notes:
(a) Low income households are defined at 70 percent of AMI for renters and 80 percent of AMI for owners.
(b) Moderate income households are defined at 90 percent of AMI for renters and 110 percent AMI for owners.
Acronyms: AMI: Area median income.
Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Maximum Nexus-Based Fee

To calculate the maximum commercial impact fee, the Consultant Team began by calculating the total affordability gap by prototype, which is obtained by multiplying the average affordability gap at each income level by the number of very low, low and moderate income households for each prototype. The total affordability gap by prototype is then divided by the size of the prototype to obtain the maximum nexus-based fee per square foot (Figure I-5).

The maximum per-square-foot linkage fees are $154 for hotel, $265 for retail/restaurants/services, and $255 for office/R&D/medical office. The maximum fees are not the recommended fees for

adoption. They are the nexus-justified fees that represent the maximum that the City of Menlo Park could charge to mitigate affordable housing demand related to commercial development.

Figure I-5. Maximum Linkage Fees by Prototype

Prototype	Hotel	Retail/ Restaurants/ Personal Services	Office/ R&D/ Medical Office
Square Footage	100,000	100,000	100,000
Total Affordability Gap	$15,411,161	$26,497,820	$25,538,453
Maximum Fee per SF	$154	$265	$255

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

POLICY CONSIDERATIONS

There are a number of policy considerations that should be taken into account when the City of Menlo Park considers whether to update its commercial linkage fees on new non-residential development. These may include factors such as: the likely financial impact of the proposed linkage fees on development; the additional cost of the new fees on the existing City fee structure; a comparison of the fee scenarios to existing linkage fees in nearby cities; the role of the fee in the City's overall strategy for affordable housing implementation; and the potential overlap with a residential impact fee, if it is adopted. This section provides a discussion of each of these policy questions for the City of Menlo Park.

Comparison to Neighboring Jurisdictions – A comparison of the nexus fee scenarios to current commercial linkage fees charged in nearby cities is an important element of the policy analysis (Figure I-6). At present, Menlo Park has fees of $8.76 per square foot for hotel and retail/restaurants/personal services, and a fee of $16.15 per square foot for office/R&D/medical office development. Menlo Park's existing fees are similar to the linkage fees adopted in Sunnyvale, San Francisco and Cupertino, which range from $7.50 to $24 per square foot, depending on the land use. Similar to Menlo Park, most cities have adopted higher fee levels for office/ R&D/ medical office uses than for retail and hotel uses. For example, in Cupertino, the commercial linkage fee for hotel and retail/ restaurants/ services is $10 per square foot, compared to $20 per square foot for office/ R&D/ medical office uses. Menlo Park's maximum linkage fees, ranging from $154 to $265 per square foot, are significantly higher than the existing linkage fees in Bay Area jurisdictions. However, adopting the recommended fee scenarios would place Menlo Park at a somewhat comparable fee level to several neighboring jurisdictions.

- For the hotel prototype, adopting a fee of between $5 and $15 per square foot would be comparable to Sunnyvale and Cupertino, but lower than Palo Alto and San Francisco's fees.

- For the retail/restaurants/services prototype, adopting a fee between $5 and $10 per square foot would be fairly similar to the current linkage fee level, and comparable with Sunnyvale's fee of $7.50 per square foot and Cupertino's fee of $10 per square foot.

- For the office/R&D/medical office prototype, adopting a fee between $25 and $50 per square foot would be comparable to Mountain View and San Francisco.

Figure I-6. Comparison of Commercial Linkage Fees in Other Jurisdictions

Jurisdiction	Hotel	Retail/ Restaurant/ Services	Office/R&D/ Medical Office	Date Fee Was Adopted
Menlo Park (a)	$8.76	$8.76	$16.15	2000
Cupertino	$10	$10	$20	2015
Mountain View (b)	$2.50	$2.50	$25	2015
Palo Alto	$19.31	$19.31	$19.31	2002
San Francisco (c)	$18	$22	$16-$24	2015
Sunnyvale (d)	$7.50	$7.50	$15	2015

Notes:

(a) Churches, schools, public facilities, and commercial buildings of 10,000 SF and under are exempt from fees.

(b) New gross floor area under 25,000 SF pays 50 percent of full fee.

(c) The fee for R&D is $16.01 and the fee for office is $24.03. The fee for a small enterprise is $18.89.

(d) The fee on the first 25,000 SF, for all three commercial uses, is discounted by 50 percent.

Sources: City staff and websites; Nonprofit Housing Association of Northern California, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Financial Feasibility – Financial feasibility is just one of several factors to consider in making a decision regarding updating an existing fee. In order to provide the City of Menlo Park with guidance on how different fee levels could influence development, the Consultant Team conducted a pro forma feasibility analysis that tested the impact of the maximum fee and three reduced fee scenarios on developer profit for all the commercial prototypes. The analysis showed that establishing a fee at the maximum fee levels was not financially feasible at this time for any of the prototypes. However, reduced fee scenarios are financially feasible for the hotel and office/ R&D/ medical office prototypes (Figure I-7). The hotel prototype can support a commercial linkage fee of between $10 and $15 per square foot. Fee levels between $25 and $50 per square foot were found to be financially feasible for the office/ R&D/ medical office prototype.

For the retail/ restaurants/ services prototype, none of the fee scenarios tested was deemed financially feasible under today's market conditions. However, it is possible that the prototype could be feasible if land, construction, or soft costs were slightly lower. The ground-floor retail component of a mixed-use project would also have stronger financial feasibility results, because it would share land costs with the residential or office component.

Figure I-7. Comparison of Existing, Maximum and Feasible Fee Levels by Prototype

Prototype	Existing Linkage Fee per SF	Maximum Justified Fee per SF	Feasible Fee Levels per SF
Hotel	$8.76	$154	$10 - $15
Restaurants/Retail/Services	$8.76	$265	$5 - $10
Office/Medical Office/R&D	$16.15	$255	$25 - $50

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

Total Development Costs – Currently, the total development costs (including land, building and onsite improvements, parking, indirect costs, financing costs, and developer profit, but excluding the current linkage fee) are $407 per net square foot for the hotel prototype, $573 per net square foot for the retail/restaurants/services prototype and $473 per net square foot for the office/ R&D/ medical office prototype. The maximum nexus-based linkage fee represents approximately 27 percent of total development costs for the hotel prototype, almost 32 percent of total development costs for the retail/ restaurants/ services prototype, and 35 percent of total development costs for the office/ R&D/ medical office prototype (Figure I-8). The existing linkage fees of $8.76 and $16.15 per square foot makes up

between 1.5 and three percent of development costs for the prototypes. A fee of $15 per square foot for the hotel prototype, which is at the higher end of the recommended fee range, represents four percent of total development costs. A fee of $50 per square foot for the office/R&D/medical office prototype, which is the higher end of the recommended fee range, would represent 9.6 percent of total development costs. A fee of $10 per square foot for retail/restaurants/services, which is at the high end of the recommended fee range, is equivalent to 1.7 percent of total development costs, which is a modest cost factor for this prototype.

Comparison to Existing City Fees – In addition to the existing commercial linkage fee, the City of Menlo Park has other permits and fees on new development. The City may wish to consider the amount that total fees would increase with an updated commercial linkage fee. Existing permits and fees in Menlo Park for the commercial prototypes (including the existing linkage fees of $8.76 per square foot for hotel and restaurant/retail/personal services development and $16.15 per square foot for office/R&D/medical office) are estimated to be $18 per square foot for the hotel prototype, $20 per square foot for the retail/ restaurants/ services prototype, and $26 per square foot for the office/ R&D/ medical office prototype.[2] If the maximum linkage fees were adopted, the total development fees and permits would be $172 per square foot for hotel, $285 per square foot for retail, and $281 for office, as shown in Figure I-9. Fee scenarios of $15 per square foot for hotels and $10 per square foot for retail/restaurants/services would increase total fees to $32 and $30 per square foot, respectively. A fee of $25 per square foot for office/R&D/medical office would increase total fees to $50 per square foot.

Role of Fee in Menlo Park's Overall Housing Strategy – Menlo Park currently charges a commercial linkage fee of $16.15 per square foot on office/R&D development and $8.76 per square foot on all other non-residential development. Churches, schools, public facilities, and projects under 10,000 square feet are exempt. These fees are payable at the time that the building permit is issued. Fee revenues are used to provide financial assistance for affordable housing developments and preservation. The City also has an inclusionary housing program for for-sale residential development. The program requires that 10 percent of the units in market-rate developments of five to 20 housing units must be sold at affordable sales prices. For projects over 20 units, 15 percent of units must be sold at affordable prices. In some cases, developers have the option of paying an in-lieu fee. Revenues from the updated commercial linkage fees (and from residential impact fees, if they are adopted) would continue to support the City's existing affordable housing programs. It should be noted that revenues from a commercial linkage fee need to be spent on housing that benefits the workforce since the funds stem from affordable housing impacts related to new employment.

Overlap with Residential Impact Fees - In addition to the commercial linkage fee update described in this report, the City of Menlo Park is also considering implementing new residential impact fees on housing development. There may be a small share of jobs counted in the residential nexus analysis that are also included in this commercial linkage fee analysis. Thus, the two programs may have some overlap in mitigating the affordable housing demand from the same worker households. In order to reduce the potential for overlap between the two programs, it is advisable to set both the commercial linkage fees and housing impact fees at below 100 percent of the nexus-based maximum. In this way, when combined, the programs would mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

[2] These fee estimates are the best approximations available, and do not represent the actual cost of a proposed new development project.

Figure I-8. Commercial Linkage Fee Scenarios as Percent of Total Development Costs

Fee Scenario	Hotel		Retail/Restaurants/Services		Office/R&D/Medical Office	
	Fee Amount	Fee as % of TDC	Fee Amount	Fee as % of TDC	Fee Amount	Fee as % of TDC
Existing Linkage Fee	$8.76	2.11%	$8.76	1.51%	$16.15	3.30%
Scenario 1: Max Fee	$154	27.48%	$265	31.61%	$255	35.06%
Scenario 2	$15	3.56%	$15	2.55%	$50	9.56%
Scenario 3	$10	2.40%	$10	1.71%	$35	6.89%
Scenario 4	$5	1.21%	$5	0.86%	$25	5.02%

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

Figure I-9. Total Fees and Permits per Square Foot

Fee Scenario	Hotel		Retail/Restaurants/Services		Office/R&D/Medical Office	
	Linkage Fee per SF	Total Permits and Fees	Linkage Fee per SF	Total Permits and Fees	Linkage Fee per SF	Total Permits and Fees
Existing Permits and Fees	$9	$18	$9	$20	$16	$26
Scenario 1 (Maximum Fee)	$154	$163	$265	$277	$255	$265
Scenario 2	$15	$24	$15	$27	$50	$60
Scenario 3	$10	$19	$10	$22	$35	$45
Scenario 4	$5	$14	$5	$17	$25	$35

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

II. INTRODUCTION AND METHODOLOGY

A commercial linkage fee is an impact fee that is charged on new, commercial development to address the affordable housing demand from new workers. The City of Menlo Park currently has a commercial linkage fee of $8.76 per square foot on new hotel and restaurant/retail/personal services development, and of $16.15 per square foot on new office/R&D/medical office development. The purpose of this study is to provide a new nexus analysis in the event that Menlo Park decides to adopt an updated commercial linkage fee. 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 for the workforce. Linkage fees are one of several funding sources that jurisdictions can use to help meet the affordable housing needs of new workers. For more than thirty years, California cities and counties have imposed commercial linkage fees on new, non-residential developments.

THE NEXUS CONCEPT

In order to adopt a commercial linkage fee, a nexus study is required to determine the reasonable relationship between the fee's use and the impact of the development project on which the fee is imposed. This commercial linkage fee nexus study establishes and quantifies the linkages or "nexus" between new commercial development and the need for additional housing affordable to new workers. Some of the new workers will have household incomes that qualify them for income-restricted affordable housing. This study quantifies the demand for very low income, low income, and moderate income housing that is created by new development of commercial buildings.

METHODOLOGY

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.

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 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. These steps are presented in more detail below, and the subsequent sections of this report present the results of each of these steps.

Step 1. Define the commercial prototypes that represent new commercial development in Menlo Park.
The prototypes are defined based on recently completed and proposed development projects in Menlo Park. The purpose of defining prototypes is to estimate future employment linked to the new commercial space. Three prototypes were selected and include Hotels (133 rooms or 100,000 SF), Retail/ Restaurants/ Services (100,000 SF), and Office/ R&D/ Medical Office (100,000 SF). The prototype definitions include information on gross and leasable area, number of rooms (for hotel only), parking, and floor-area-ratio.

Step 2. Estimate the number of workers that will work in the new commercial space.
Based on a national survey data on employment density for commercial land uses, as well as recently completed linkage fee nexus studies in the Bay Area, the estimated 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/ services, and one worker per 333 SF for office/ R&D/ medical office. By dividing the square footage of the prototype developments by the employment density figures, the number of workers for each prototype is estimated.

Step 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 moving into Menlo Park. 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 Menlo Park (1.53) according to the U.S. Census Bureau American Community Survey 3-Year Estimates, 2010-2012.

Step 4. Estimate wages of new workers.
The first step in calculating employee wages is to establish a list of the industries that can be associated with each prototype. Using industry data from QCEW, industries (defined by NAICS Codes) were identified that are associated with each prototype, or land use. The next step is to identify all the occupations that are associated with each industry based on data provided by the U.S. Bureau of Labor Statistics (BLS). The national BLS occupational matrix is then calibrated to match the county's employment mix by weighting the national employment distribution to reflect the distribution of employment by industry within San Mateo County. Finally, the average wage by worker is calculated using data on average annual wages by occupation in the San Francisco-Redwood City-San Mateo Metro Division from the California Employment Development Department.

Step 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. According to the U.S. Census Bureau American Community Survey 3-Year Estimates, 2010-2012, there are 1.53 wage-earners per worker household in the City of Menlo Park. Individual worker wages are multiplied by 1.53 to represent household incomes.

Step 6. Calculate the number of households that would be eligible for affordable housing divided into three categories: very low, low, and moderate income.
The average household size in the City of Menlo Park is estimated to be 2.5, based on the US Census, American Community Survey 5-Year Estimates, 2008-2012. Thus, the income groups are defined for a household size of three persons based on the income categories established by California Department of Housing and Community Development (HCD) for San Mateo County. Households with above-moderate income are removed to determine the number that would require below market rate affordable housing.

Step 7. Estimate the affordability gap of new households requiring affordable housing.
The affordability gap represents the difference between what households can afford to pay for housing and the development cost of a modest housing unit. For very low and low income households, a rental housing gap is used. For moderate income households, the housing affordability gap is calculated separately for renter and owner households, and then the two gaps are combined to derive an average affordability gap for moderate income households.

Step 8. 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 each land use prototype is multiplied by the corresponding affordable housing gap figure.

Step 9. 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.

III. COMMERCIAL LINKAGE FEE NEXUS ANALYSIS

This section discusses each step of the commercial linkage analysis calculations and the maximum nexus-based fees. The analysis presented in this section should be interpreted within the context of the previous sections establishing the overall methodology for this study.

NEXUS ANALYSIS STEPS

Using the methodology described in Section II, the following describes each of the steps to calculate the linkage fees in more detail.

Commercial Prototypes

This study examined the jobs-housing linkage for three commercial development prototypes, which are described below.

1. Hotel – This building prototype includes full-service hotels, limited-service hotels, motels, and other lodging.

2. Retail/ Restaurants/ Services – This building prototype includes a broad range of buildings, including retail stores, restaurants, and personal care spaces accommodating businesses like nail salons and drycleaners.

3. Office/ R&D/ Medical Office – This category includes a wide range of office and R&D users, including traditional office buildings, open floor-plan offices, medical offices, and specialized spaces for highly advanced manufacturing and research commonly found in San Mateo County.

The prototypes defined above represent the types of new commercial buildings recently constructed or proposed in San Mateo County. Each prototype was assumed to be 100,000 square feet in size. The building size is not prescriptive; it is only averaged to illustrate the overall numbers of workers and households associated with new development projects. Many linkage fee nexus studies use the 100,000 square foot number because it can easily be converted into per-square-foot calculations. The per-square-foot linkage fee can be applied to a project of any size. For example, the small ground-floor retail component in a mixed-use building would be charged the same per-square-foot retail linkage fee as a large "big-box" project.

Figure III-1 below describes the building characteristics of each prototype, including factors like floor-area-ratios (FARs) and parking ratios, which were established based on a review of recent commercial development projects in the county.

Figure III-1. Description of Commercial Prototypes

	Hotel	Retail/ Restaurants/ Services	Office/R&D/ Medical Office
Prototype Description			
Gross Building Area (GBA)	100,000	100,000	100,000
Podium Parking Area	11,970	30,000	63,000
Gross Building Area including Podium Parking (SF)	111,970	130,000	163,000
Efficiency Ratio (a)	N/A	0.95	0.9
Net Leasable Sq. Ft. (NSF)	N/A	95,000	90,000
Hotel Rooms	133		
Parking Spaces	160	400	300
Podium Parking	40	100	210
Surface Parking	120	300	90
Floor Area Ratio (b)	1.1	0.5	2.0
Land Area (Acres)	2.3	6.0	1.9
Land Area (SF)	101,791	260,000	81,500

Notes:
(a) Refers to ratio of gross building area to net leasable area. An efficiency ratio of 0.9 means that 90% of the gross building area is leasable.
(b) The floor-area-ratio (FAR) is often used as a measure of density. In this analysis, it is calculated as the gross building area (including podium parking) divided by the total land area.

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

Average Employment Density and Number of Workers

For each building prototype, an average employment density was defined based on a review of national survey data for existing commercial buildings and a review of recently completed linkage fee nexus studies in the Bay Area. The densities selected were at the lower end of each range. While there is some anecdotal evidence that Silicon Valley technology firms occupy office space at higher densities than those selected in this study, these lower employment estimates are based on published data sources and surveys in order to ensure that the calculated nexus fees are more conservative. Furthermore, the office/R&D/medical office prototype includes a range of building types in addition to technology office space, including R&D buildings and medical offices, which typically have a large amount of building space dedicated to labs and clinics, thereby attaining low overall employment densities. Figure III-2 summarizes the building density data that formed the basis for establishing average employment density for each prototype.

Figure III-3 describes the density for each prototype, measured by the average number of square feet per worker for each prototype. This factor is multiplied by the size of the building (100,000 square feet) to calculate the total number of workers in each commercial prototype. The density factors represent the average density for the prototypes; individual projects and buildings may actually be more or less dense. The hotel prototype is assumed to be the lowest density followed by retail/ restaurant/ services and office/ R&D/ medical office. The density assumption generates the total number of direct workers occupying the commercial space in each prototype.

- Hotel – The hotel employment density assumption is 1,000 square feet per worker (or 0.75 workers per room). This density is at the mid-range of the densities shown in Figure III-2, and consistent with the Vallen and Vallen estimate for limited service mid-scale hotels, which are in between full-service "luxury" properties and economy properties. Given that many of the recently constructed and proposed hotel projects in San Mateo County are limited service mid-scale hotels, this density is aligned with market trends. For a 100,000-square-foot hotel (roughly equivalent to 133 rooms), this density assumption results in a total number of 100 workers.

- Retail/ Restaurants/ Services – The average density for retail/ restaurants/ services is estimated at 667 square feet of space per worker. This figure represents a lower density than the figures used in many other commercial linkage fee studies in the Bay Area, but a higher density than national data sources. Using this density, the number of workers in a 100,000 square foot prototype is estimated at 150.

- Office/ R&D/ Medical Office – The average density assumption for office/R&D/medical office is estimated at 333 square feet per worker. This density estimate is slightly lower than some recent linkage fee nexus studies, but higher than the national Energy Information Administration survey. The resulting number of total workers in this prototype is estimated at 300.

Figure III-2. Employment Density Data and Sources

Employee Density Figure	Source
Hotel	
1.5 workers per full-service (luxury) hotel room	Vallen and Vallen, "Chapter 1: The Traditional Hotel Industry," Check-In, Check-Out, 2012
0.5 to 1.0 workers per room for "in-between" hotels	Vallen and Vallen, "Chapter 1: The Traditional Hotel Industry," Check-In, Check-Out, 2012
As few as 0.25 workers per room for "budget" hotels	Vallen and Vallen, "Chapter 1: The Traditional Hotel Industry," Check-In, Check-Out, 2012
2,074 square feet per worker	Energy Information Administration, 2003 Commercial Buildings Energy Consumption Survey, Revised June 2006
720 square feet per worker	A.C. Nelson, "Reshaping Metropolitan America" (based on calculations from EIA survey)
450 square feet per worker	Jobs Housing Impact Fee Draft Nexus Study: City of Napa, CA, Vernazza Wolfe Associates Inc., 2011
2,000 square feet per worker	Housing Impact Fee Nexus Study: Mountain View, CA, KMA, 2012
Retail/ Restaurants/ Services	
528 -1,246 square feet per worker in retail and services	Energy Information Administration, 2003 Commercial Buildings Energy Consumption Survey, Revised June 2006
605 square feet per worker	A.C. Nelson, "Reshaping Metropolitan America," 2013
300 square feet per worker	San Mateo County Housing Needs Study, Economic & Planning Systems, 2006
350 square feet per worker	Jobs Housing Impact Fee Draft Nexus Study: City of Napa, CA, Vernazza Wolfe Associates Inc., 2011
384.6 square feet per worker	Housing Impact Fee Nexus Study: Mountain View, CA, KMA, 2012
Office/ R&D/ Medical Office	
185-340 square feet per employee	Norm Miller, "Estimating Office Space per Worker: Implications for Future Office Space Demand," 2012
306 square feet per worker	Building Owners and Managers Association Survey, 2012
434 square feet per worker	Energy Information Administration, 2003 Commercial Buildings Energy Consumption Survey, Revised June 2006
300 square feet per worker	A.C. Nelson, "Reshaping Metropolitan America," 2013
250-350 square feet per worker	San Mateo County Housing Needs Study, Economic & Planning Systems, 2006
300 square feet per worker	Jobs Housing Impact Fee Draft Nexus Study: City of Napa, CA, Vernazza Wolfe Associates Inc., 2011
312.5 square feet per worker	Housing Impact Fee Nexus Study: Mountain View, CA, KMA, 2012

Figure III-3. Employment Density by Prototype

Commercial Prototype	Prototype Size (SF)	Average Density	Number of Workers in Prototype
Hotel	100,000 SF 133 rooms	1,000 SF per worker 0.75 workers per room	100 workers
Retail/ Restaurant/ Personal Services	100,000 SF	667 square feet per worker	150 workers
Office/ R&D/ Medical Office	100,000 SF	333 square feet per worker	300 workers

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

Number of Worker Households

Based on the total number of workers directly employed in the prototypes, the total number of worker households is estimated. The number of worker households is calculated by dividing the number of workers by the average number of wage-earners per household in Menlo Park. Based on data from the U.S. Census American Community Survey 3-Year Estimates, 2010-2012, there is an average of 1.53 workers per household in Menlo Park. The calculation of total new worker households is demonstrated in Figure III-4 below. The number of worker households associated with the prototypes is 65 for hotels, 98 for retail/ restaurants/ services; and 196 for office/R&D/medical office.

Figure III-4. Number of Worker Households by Prototype

Commercial Prototype	Number of New Workers	Workers Per Household	Number of New Worker Households
Office/R&D/Medical Office	300	1.53	196
Retail/Restaurant/Personal Services	150	1.53	98
Hotel	100	1.53	65

Sources: US Census, American Community Survey 3-Year Estimates, 2010-2012; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Calculate Worker Wages and Household Income

The first step in calculating employee wages is to establish a list of the industries that can be associated with each prototype. Using industry data from Quarterly Census of Employment and Wages (QCEW), industries (defined by NAICS Codes) were identified that are associated with each prototype, or land use. Figure III-5 below describes the industries that are associated with the hotel, retail/ restaurants/ services and office/ R&D/ medical office prototypes. The hotel category shown in Figure III-5 has only one industry attached to it, while the other land uses are associated with a larger number of industries. The industries associated with the retail/ restaurants/ services prototype are defined in Figure III-6. The office/R&D/ medical office industries are shown in Figure III-7.

Figure III-5. Definition of Industries for Hotel Prototype

NAICS Code	Description	Percent Total Workers in Prototype
721	Accommodation	100%
Total		100%

Note; Unlike other prototypes, the hotel prototype only includes one NAICS industry category.
Source: United States Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 2013.

Figure III-6. Definition of Industries for Retail/ Restaurants/ Services Prototype

NAICS Code	Description	Percent Total Workers in Prototype
7225	Restaurants	34.1%
4451	Grocery stores	9.8%
4529	Other general merchandise stores	4.9%
8111	Automotive repair and maintenance	4.0%
4411	Automobile dealers	3.9%
4521	Department stores	3.6%
4441	Building material and supplies dealers	3.5%
8129	Other personal services	3.2%
4481	Clothing stores	3.1%
4461	Health and personal care stores	3.0%
8121	Personal care services	2.3%
5321	Automotive equipment rental and leasing	2.3%
8123	Dry-cleaning and laundry services	2.1%
4511	Sporting goods and musical instrument stores	1.8%
4431	Electronics and appliance stores	1.7%
4471	Gasoline stations	1.6%
4532	Office supplies, stationery, and gift stores	1.4%
4541	Electronic shopping and mail-order houses	1.2%
4421	Furniture stores	1.1%
4452	Specialty food stores	1.1%
4413	Auto parts, accessories, and tire stores	1.0%
4539	Other miscellaneous store retailers	1.0%
5322	Consumer goods rental	0.9%
4422	Home furnishings stores	0.7%
8122	Death care services	0.7%
5615	Travel arrangement and reservation services	0.5%
4237	Hardware and plumbing merchant wholesalers	0.5%
4512	Book, periodical, and music stores	0.4%
4482	Shoe stores	0.4%
4453	Beer, wine, and liquor stores	0.4%
7224	Drinking places, alcoholic beverages	0.4%
8113	Commercial machinery repair and maintenance	0.4%
4483	Jewelry, luggage, and leather goods stores	0.4%
4533	Used merchandise stores	0.4%
4231	Motor vehicle and parts merchant wholesalers	0.4%
4233	Lumber and const. supply merchant wholesalers	0.3%
5324	Machinery and equipment rental and leasing	0.3%
4442	Lawn and garden equipment and supplies stores	0.3%
8114	Household goods repair and maintenance	0.3%
4531	Florists	0.2%
5323	General rental centers	0.2%
4543	Direct selling establishments	0.2%
8112	Electronic equipment repair and maintenance	0.1%
4412	Other motor vehicle dealers	0.1%
4542	Vending machine operators	0.0%
Total		100%

Sources: United States Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Figure III-7. Definition of Industries for Office/ R&D/ Medical Office Prototype

NAICS Code	Description	Percent Total Workers in Prototype
5415	Computer systems design and related services	12.0%
5417	Scientific research and development services	10.1%
5112	Software publishers	8.7%
5613	Employment services	6.3%
5416	Management and technical consulting services	4.6%
5191	Other information services	4.6%
5617	Services to buildings and dwellings	4.4%
523	Securities, commodity contracts, investments	3.9%
5511	Management of companies and enterprises	2.9%
6211	Offices of physicians	2.8%
6214	Outpatient care centers	2.7%
7223	Special food services	2.5%
5616	Investigation and security services	2.4%
6212	Offices of dentists	2.1%
5411	Legal services	2.1%
3341	Computer and peripheral equipment mfg.	2.1%
5222	Non-depository credit intermediation	2.0%
5412	Accounting and bookkeeping services	1.8%
5221	Depository credit intermediation	1.8%
5242	Insurance agencies and brokerages	1.7%
5182	Data processing, hosting and related services	1.6%
5413	Architectural and engineering services	1.5%
3345	Electronic instrument manufacturing	1.4%
5611	Office administrative services	1.2%
5313	Activities related to real estate	1.2%
517	Telecommunications	1.2%
5311	Lessors of real estate	1.0%
5419	Other professional and technical services	0.9%
5121	Motion picture and video industries	0.9%
5111	Newspaper, book, and directory publishers	0.8%
3344	Semiconductor and electronic component mfg.	0.8%
6213	Offices of other health practitioners	0.8%
5418	Advertising, pr, and related services	0.7%
3391	Medical equipment and supplies manufacturing	0.7%
6215	Medical and diagnostic laboratories	0.7%
5312	Offices of real estate agents and brokers	0.5%
5241	Insurance carriers	0.5%
5619	Other support services	0.4%
515	Broadcasting, except internet	0.4%
5614	Business support services	0.4%
5223	Activities related to credit intermediation	0.3%
3353	Electrical equipment manufacturing	0.2%
5414	Specialized design services	0.2%
3342	Communications equipment manufacturing	0.1%
5331	Lessors of nonfinancial intangible assets	0.0%
5612	Facilities support services	0.0%
5122	Sound recording industries	0.0%
5259	Other investment pools and funds	0.0%
Total		100%

Sources: United States Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015

The next step is to identify all the occupations that are associated with each industry based on data provided by the U.S. Bureau of Labor Statistics (BLS). National level data on occupations are the best available; state level industry-occupation data exist but do not include all relevant industries. The national BLS occupational matrix is then calibrated to match the county's employment mix by weighting the national employment distribution to reflect the distribution of employment by industry within San Mateo County. Finally, the average wage by worker is calculated using data on average annual wages by occupation in the San Francisco-Redwood City-San Mateo Metro Division (the smallest geographic level at which wage data are available) from the California Employment Development Department.

Figure III-8 below summarizes the results of these calculations, computing the average weighted wages[3] for each prototype. As shown, the average wage is lowest for workers of retail/ restaurants/ services, since the occupations in these industries tend to have the lowest wages. Hotel workers have a slightly higher average wage than retail/restaurant/service workers. Office/R&D/medical office employees have the highest average wage of the three prototypes, due to a larger percentage of occupations in higher wage categories.

Figure III-8. Average Annual Wage by Prototype

Commercial Prototype	Weighted Average Annual Wage (a)
Hotel	$39,935
Retail/ Restaurants/ Services	$29,833
Office/ R&D /Medical Office	$77,342

Notes:
(a) Average wages are weighted to take into account the proportion of jobs in each occupational wage category.
Sources: Bureau of Labor Statistics, Occupational Employment Statistics, 2013 and Quarterly Census of Employment and Wages (QCEW), 2013; California Economic Development Department, OES Employment and Wages by Occupation, 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

The complete occupational mix, and wage data tables for each prototype are presented in Figure III-9, Figure III-10 and Figure III-11.

[3] The weighted average wage takes into account the proportion of jobs in each occupational category.

Figure III-9. Occupational Mix and Average Wages for Hotel Industry

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
11-0000	Management Occupations		
11-9081	Lodging Managers	$74,498	1.586%
11-1021	General and Operations Managers	$150,628	0.964%
11-9051	Food Service Managers	$63,767	0.487%
11-2022	Sales Managers	$161,570	0.376%
11-3031	Financial Managers	$169,227	0.201%
11-3011	Administrative Services Managers	$110,659	0.165%
11-9199	Managers, All Other	$141,691	0.125%
11-3121	Human Resources Managers	$136,986	0.092%
11-1011	Chief Executives	$207,735	0.064%
11-9141	Property, Real Estate, and Community Association Managers	$85,117	0.056%
11-2021	Marketing Managers	$175,141	0.054%
11-2011	Advertising and Promotions Managers	$119,666	0.039%
11-3061	Purchasing Managers	$146,940	0.026%
11-3021	Computer and Information Systems Managers	$165,650	0.025%
11-2031	Public Relations and Fundraising Managers	$133,651	0.008%
11-3111	Compensation and Benefits Managers	$143,112	0.007%
11-9151	Social and Community Service Managers	$78,548	0.006%
11-3131	Training and Development Managers	$152,542	0.003%
11-9041	Architectural and Engineering Managers	$168,643	0.003%
11-3071	Transportation, Storage, and Distribution Managers	$119,656	0.003%
11-9021	Construction Managers	$138,900	0.002%
	Weighted Average Annual Wage	**$112,338**	**4.293%**
13-0000	Business and Financial Operations Occupations		
13-1121	Meeting, Convention, and Event Planners	$63,284	0.475%
13-2011	Accountants and Auditors	$86,991	0.457%
13-1071	Human Resources Specialists	$80,583	0.197%
13-1199	Business Operations Specialists, All Other	$94,719	0.094%
13-1023	Purchasing Agents, Except Wholesale, Retail, and Farm Products	$79,939	0.081%
13-1161	Market Research Analysts and Marketing Specialists	$87,374	0.068%

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
13-1151	Training and Development Specialists	$82,770	0.027%
13-1141	Compensation, Benefits, and Job Analysis Specialists	$81,621	0.018%
13-2051	Financial Analysts	$124,663	0.017%
13-2099	Financial Specialists, All Other	$118,407	0.012%
13-1041	Compliance Officers	$87,616	0.012%
13-1131	Fundraisers	$59,012	0.011%
13-1075	Labor Relations Specialists	$83,656	0.009%
13-1111	Management Analysts	$119,726	0.006%
13-1022	Wholesale and Retail Buyers, Except Farm Products	$60,856	0.004%
13-2031	Budget Analysts	$86,457	0.002%
13-2041	Credit Analysts	$101,611	0.002%
	Weighted Average Annual Wage	**$79,133**	**1.493%**
15-0000	Computer and Mathematical Occupations		
15-1151	Computer User Support Specialists	$70,345	0.036%
15-1199	Computer Occupations, All Other	$97,276	0.025%
15-1142	Network and Computer Systems Administrators	$95,860	0.023%
15-1152	Computer Network Support Specialists	$82,738	0.015%
15-1121	Computer Systems Analysts	$104,935	0.009%
15-1134	Web Developers	$91,692	0.005%
15-1141	Database Administrators	$105,451	0.005%
15-1131	Computer Programmers	$100,716	0.003%
15-1132	Software Developers, Applications	$115,740	0.002%
	Weighted Average Annual Wage	**$88,477**	**0.124%**
17-0000	Architecture and Engineering Occupations		
17-3023	Electrical and Electronics Engineering Technicians	$68,604	0.004%
17-2051	Civil Engineers	$108,648	0.003%
17-2141	Mechanical Engineers	$100,372	0.003%
	Weighted Average Annual Wage	**$91,281**	**0.011%**

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
19-0000	Life, Physical, and Social Science Occupations	$96,012	0.006%
	Weighted Average Annual Wage	**$96,012**	**0.006%**
21-0000	Community and Social Service Occupations		
21-1099	Community and Social Service Specialists, All Other	$53,338	0.003%
	Weighted Average Annual Wage	**$53,338**	**0.003%**
23-0000	Legal Occupations		
23-1011	Lawyers	$171,324	0.002%
23-2011	Paralegals and Legal Assistants	$71,528	0.002%
	Weighted Average Annual Wage	**$128,554**	**0.004%**
25-0000	Education, Training, and Library Occupations		
25-3021	Self-Enrichment Education Teachers	$46,984	0.034%
25-3099	Teachers and Instructors, All Other, Except Substitute Teachers	$69,029	0.004%
25-2011	Preschool Teachers, Except Special Education	$37,039	0.003%
25-9031	Instructional Coordinators	$71,751	0.002%
	Weighted Average Annual Wage	**$49,878**	**0.043%**
27-0000	Arts, Design, Entertainment, Sports, and Media Occupations		
27-4011	Audio and Video Equipment Technicians	$58,639	0.149%
27-2022	Coaches and Scouts	$45,133	0.074%
27-3031	Public Relations Specialists	$83,345	0.053%
27-3099	Media and Communication Workers, All Other	$60,146	0.021%
27-4099	Media and Communication Equipment Workers, All Other	$97,539	0.013%
27-1024	Graphic Designers	$72,419	0.009%
27-1023	Floral Designers	$36,644	0.008%
27-4014	Sound Engineering Technicians	$49,190	0.008%
27-2012	Producers and Directors	$95,971	0.002%

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
27-1025	Interior Designers	$76,587	0.002%
	Weighted Average Annual Wage	**$61,155**	**0.339%**
29-0000	Healthcare Practitioners and Technical Occupations		
29-1141	Registered Nurses	$129,166	0.006%
29-2041	Emergency Medical Technicians and Paramedics	$57,354	0.006%
29-9011	Occupational Health and Safety Specialists	$98,501	0.004%
	Weighted Average Annual Wage	**$95,944**	**0.016%**
31-0000	Healthcare Support Occupations		
31-9011	Massage Therapists	$45,586	0.425%
	Weighted Average Annual Wage	**$45,586**	**0.425%**
33-0000	Protective Service Occupations		
33-9032	Security Guards	$32,013	1.558%
33-9092	Lifeguards, Ski Patrol, and Other Recreational Protective Service Workers	$29,746	0.392%
33-1099	First-Line Supervisors of Protective Service Workers, All Other	$54,040	0.137%
33-9099	Protective Service Workers, All Other	$56,801	0.062%
33-9021	Private Detectives and Investigators	$86,255	0.003%
	Weighted Average Annual Wage	**$33,786**	**2.152%**
35-0000	Food Preparation and Serving Related Occupations		
35-3031	Waiters and Waitresses	$25,413	7.428%
35-2014	Cooks, Restaurant	$29,161	3.335%
35-9011	Dining Room and Cafeteria Attendants and Bartender Helpers	$24,284	2.633%
35-3011	Bartenders	$30,119	2.106%
35-3041	Food Servers, Nonrestaurant	$33,434	1.813%
35-9021	Dishwashers	$23,035	1.735%
35-1012	First-Line Supervisors of Food Preparation and Serving Workers	$40,256	1.268%
35-2021	Food Preparation Workers	$23,942	1.015%
35-9031	Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop	$26,673	0.900%

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
35-3021	Combined Food Preparation and Serving Workers, Including Fast Food	$23,509	0.819%
35-1011	Chefs and Head Cooks	$60,066	0.733%
35-3022	Counter Attendants, Cafeteria, Food Concession, and Coffee Shop	$23,710	0.541%
35-2012	Cooks, Institution and Cafeteria	$38,049	0.322%
35-2015	Cooks, Short Order	$29,030	0.314%
35-9099	Food Preparation and Serving Related Workers, All Other	$32,386	0.276%
35-2019	Cooks, All Other	$36,487	0.094%
35-2011	Cooks, Fast Food	$25,514	0.086%
	Weighted Average Annual Wage	**$28,537**	**25.418%**
37-0000	Building and Grounds Cleaning and Maintenance Occupations		
37-2012	Maids and Housekeeping Cleaners	$35,419	24.068%
37-2011	Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$28,396	2.545%
37-1011	First-Line Supervisors of Housekeeping and Janitorial Workers	$50,352	1.736%
37-3011	Landscaping and Groundskeeping Workers	$42,100	1.036%
37-1012	First-Line Supervisors of Landscaping, Lawn Service, and Groundskeeping Workers	$62,696	0.117%
37-3019	Grounds Maintenance Workers, All Other	$28,819	0.047%
	Weighted Average Annual Wage	**$36,023**	**29.549%**
39-0000	Personal Care and Service Occupations		
39-3011	Gaming Dealers	$20,999	2.029%
39-6011	Baggage Porters and Bellhops	$31,257	1.334%
39-6012	Concierges	$44,649	0.684%
39-3091	Amusement and Recreation Attendants	$24,899	0.665%
39-1011	Gaming Supervisors	$55,441	0.617%
39-9032	Recreation Workers	$29,101	0.600%
39-1021	First-Line Supervisors of Personal Service Workers	$49,758	0.232%
39-9099	Personal Care and Service Workers, All Other	$37,948	0.210%
39-3093	Locker Room, Coatroom, and Dressing Room Attendants	$29,867	0.133%
39-3031	Ushers, Lobby Attendants, and Ticket Takers	$27,761	0.087%
39-5094	Skincare Specialists	$47,632	0.082%

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
39-3012	Gaming and Sports Book Writers and Runners	$30,159	0.061%
39-9041	Residential Advisors	$29,887	0.060%
39-5012	Hairdressers, Hairstylists, and Cosmetologists	$39,520	0.058%
39-5092	Manicurists and Pedicurists	$23,005	0.057%
39-7011	Tour Guides and Escorts	$31,761	0.047%
39-9011	Childcare Workers	$31,540	0.039%
39-2011	Animal Trainers	$45,123	0.003%
	Weighted Average Annual Wage	**$31,928**	**7.056%**
41-0000	Sales and Related Occupations		
41-3099	Sales Representatives, Services, All Other	$85,023	0.890%
41-2011	Cashiers	$26,859	0.790%
41-2031	Retail Salespersons	$30,457	0.309%
41-1011	First-Line Supervisors of Retail Sales Workers	$47,883	0.130%
41-2021	Counter and Rental Clerks	$31,919	0.075%
41-1012	First-Line Supervisors of Non-Retail Sales Workers	$96,139	0.070%
41-3041	Travel Agents	$44,829	0.033%
41-9041	Telemarketers	$29,198	0.029%
41-4012	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products	$65,591	0.020%
41-9022	Real Estate Sales Agents	$68,040	0.007%
41-3011	Advertising Sales Agents	$72,989	0.005%
	Weighted Average Annual Wage	**$53,482**	**2.358%**
43-0000	Office and Administrative Support Occupations		
43-4081	Hotel, Motel, and Resort Desk Clerks	$35,774	12.525%
43-1011	First-Line Supervisors of Office and Administrative Support Workers	$66,668	1.466%
43-3031	Bookkeeping, Accounting, and Auditing Clerks	$50,052	1.084%
43-9061	Office Clerks, General	$39,997	0.551%
43-6014	Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$43,612	0.485%
43-4051	Customer Service Representatives	$45,657	0.444%
43-4181	Reservation and Transportation Ticket Agents and Travel Clerks	$35,784	0.442%

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
43-2011	Switchboard Operators, Including Answering Service	$37,607	0.361%
43-4171	Receptionists and Information Clerks	$37,546	0.244%
43-5081	Stock Clerks and Order Fillers	$32,149	0.215%
43-6011	Executive Secretaries and Executive Administrative Assistants	$69,716	0.190%
43-5071	Shipping, Receiving, and Traffic Clerks	$36,220	0.123%
43-3051	Payroll and Timekeeping Clerks	$53,413	0.092%
43-5032	Dispatchers, Except Police, Fire, and Ambulance	$44,634	0.074%
43-3021	Billing and Posting Clerks	$47,723	0.063%
43-3061	Procurement Clerks	$49,322	0.031%
43-5061	Production, Planning, and Expediting Clerks	$57,140	0.019%
43-4041	Credit Authorizers, Checkers, and Clerks	$44,847	0.011%
43-4151	Order Clerks	$41,890	0.011%
43-3011	Bill and Account Collectors	$49,221	0.009%
43-9051	Mail Clerks and Mail Machine Operators, Except Postal Service	$34,184	0.008%
43-4199	Information and Record Clerks, All Other	$48,826	0.007%
43-4071	File Clerks	$39,187	0.005%
43-5111	Weighers, Measurers, Checkers, and Samplers, Recordkeeping	$31,056	0.005%
43-9011	Computer Operators	$48,685	0.005%
43-9071	Office Machine Operators, Except Computer	$32,747	0.004%
43-3099	Financial Clerks, All Other	$43,338	0.003%
	Weighted Average Annual Wage	**$40,271**	**18.649%**
45-0000	Farming, Fishing, and Forestry Occupations		
45-2093	Farmworkers, Farm, Ranch, and Aquacultural Animals	$26,179	0.032%
45-2092	Farmworkers and Laborers, Crop, Nursery, and Greenhouse	$25,936	0.003%
45-1011	First-Line Supervisors of Farming, Fishing, and Forestry Workers	$78,486	0.002%
	Weighted Average Annual Wage	**$29,280**	**0.037%**
47-0000	Construction and Extraction Occupations		
47-2141	Painters, Construction and Maintenance	$47,652	0.077%
47-2031	Carpenters	$63,165	0.057%

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
47-2111	Electricians	$84,223	0.030%
47-1011	First-Line Supervisors of Construction Trades and Extraction Workers	$85,954	0.011%
47-2152	Plumbers, Pipefitters, and Steamfitters	$82,675	0.010%
47-2061	Construction Laborers	$48,816	0.009%
47-2073	Operating Engineers and Other Construction Equipment Operators	$77,565	0.008%
47-2041	Carpet Installers	$53,208	0.003%
47-4051	Highway Maintenance Workers	$56,618	0.002%
	Weighted Average Annual Wage	**$62,281**	**0.208%**
49-0000	Installation, Maintenance, and Repair Occupations		
49-9071	Maintenance and Repair Workers, General	$50,605	4.446%
49-1011	First-Line Supervisors of Mechanics, Installers, and Repairers	$90,340	0.391%
49-9091	Coin, Vending, and Amusement Machine Servicers and Repairers	$38,422	0.092%
49-9099	Installation, Maintenance, and Repair Workers, All Other	$51,032	0.043%
49-9021	Heating, Air Conditioning, and Refrigeration Mechanics and Installers	$56,193	0.027%
49-9098	Helpers--Installation, Maintenance, and Repair Workers	$48,488	0.023%
49-3053	Outdoor Power Equipment and Other Small Engine Mechanics	$45,302	0.011%
49-9041	Industrial Machinery Mechanics	$70,075	0.010%
49-3023	Automotive Service Technicians and Mechanics	$55,124	0.008%
49-3042	Mobile Heavy Equipment Mechanics, Except Engines	$58,707	0.007%
49-9043	Maintenance Workers, Machinery	$42,351	0.007%
49-2022	Telecommunications Equipment Installers and Repairers, Except Line Installers	$59,633	0.002%
49-2094	Electrical and Electronics Repairers, Commercial and Industrial Equipment	$65,933	0.002%
	Weighted Average Annual Wage	**$53,515**	**5.070%**
51-0000	Production Occupations		
51-6011	Laundry and Dry-Cleaning Workers	$28,552	1.573%
51-3011	Bakers	$29,436	0.175%
51-8021	Stationary Engineers and Boiler Operators	$75,624	0.053%
51-1011	First-Line Supervisors of Production and Operating Workers	$67,828	0.049%
51-6052	Tailors, Dressmakers, and Custom Sewers	$35,179	0.017%
51-9061	Inspectors, Testers, Sorters, Samplers, and Weighers	$42,183	0.011%

Figure III-9. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
51-3021	Butchers and Meat Cutters	$34,265	0.008%
51-6031	Sewing Machine Operators	$26,245	0.006%
51-6021	Pressers, Textile, Garment, and Related Materials	$24,822	0.006%
51-6093	Upholsterers	$40,577	0.004%
51-3092	Food Batchmakers	$28,450	0.002%
51-6051	Sewers, Hand	$26,031	0.002%
51-9198	Helpers--Production Workers	$31,286	0.002%
	Weighted Average Annual Wage	**$31,128**	**1.907%**
53-0000	Transportation and Material Moving Occupations		
53-6021	Parking Lot Attendants	$28,363	0.453%
53-7062	Laborers and Freight, Stock, and Material Movers, Hand	$30,670	0.290%
53-1031	First-Line Supervisors of Transportation and Material-Moving Machine and Vehicle Operators	$59,643	0.033%
53-1021	First-Line Supervisors of Helpers, Laborers, and Material Movers, Hand	$51,208	0.018%
53-3033	Light Truck or Delivery Services Drivers	$41,869	0.017%
53-7061	Cleaners of Vehicles and Equipment	$26,168	0.008%
53-7199	Material Moving Workers, All Other	$58,830	0.005%
53-6031	Automotive and Watercraft Service Attendants	$26,859	0.004%
53-6061	Transportation Attendants, Except Flight Attendants	$40,660	0.003%
53-5021	Captains, Mates, and Pilots of Water Vessels	$83,149	0.003%
53-7051	Industrial Truck and Tractor Operators	$43,099	0.003%
53-3031	Driver/Sales Workers	$33,058	0.002%
53-3032	Heavy and Tractor-Trailer Truck Drivers	$46,595	0.002%
	Weighted Average Annual Wage	**$31,621**	**0.840%**
	Total, Land Use	**$39,935**	**100.000%**

Notes:
(a) Occupational mix by industry was obtained from US Bureau of Labor Statistics, Occupational Employment Statistics, 2013.
(b) Wage data for the San Francisco-Redwood City-San Mateo Metro Division obtained from California Economic Development Department, OES Employment and Wages by Occupation, 2013.
(c) Distribution of workers is calculated based on the existing distribution of employment by industry in San Mateo County, provided by Quarterly Census of Employment and Wages (QCEW), 2013.
Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Figure III-10. Occupational Mix and Average Wages for Retail/ Restaurants/ Services

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Retail/ Restaurants/ Services Workers (c)
11-0000	Management Occupations		
11-9051	Food Service Managers	$63,767	1.301%
11-1021	General and Operations Managers	$150,628	0.820%
11-2022	Sales Managers	$161,570	0.081%
	Weighted Average Annual Wage	**$99,709**	**2.202%**
13-0000	Business and Financial Operations Occupations		
13-2011	Accountants and Auditors	$86,991	0.045%
13-1199	Business Operations Specialists, All Other	$94,719	0.038%
13-1022	Wholesale and Retail Buyers, Except Farm Products	$60,856	0.037%
13-1071	Human Resources Specialists	$80,583	0.023%
13-1151	Training and Development Specialists	$82,770	0.022%
13-1121	Meeting, Convention, and Event Planners	$63,284	0.020%
13-1051	Cost Estimators	$87,676	0.020%
13-1161	Market Research Analysts and Marketing Specialists	$87,374	0.016%
13-1023	Purchasing Agents, Except Wholesale, Retail, and Farm Products	$79,939	0.012%
13-2072	Loan Officers	$99,586	0.010%
	Weighted Average Annual Wage	**$81,548**	**0.243%**
15-0000	Computer and Mathematical Occupations		
15-1151	Computer User Support Specialists	$70,345	0.009%
15-1142	Network and Computer Systems Administrators	$95,860	0.003%
15-1132	Software Developers, Applications	$115,740	0.003%
15-1134	Web Developers	$91,692	0.002%
15-1131	Computer Programmers	$100,716	0.002%
15-1152	Computer Network Support Specialists	$82,738	0.002%
15-1121	Computer Systems Analysts	$104,935	0.001%
15-1133	Software Developers, Systems Software	$118,614	0.001%
15-1199	Computer Occupations, All Other	$97,276	0.001%
	Weighted Average Annual Wage	**$89,553**	**0.026%**

Figure III-10. Occupational Mix and Average Wages for Retail/ Restaurants/ Services (Continued)

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Retail/ Restaurants/ Services Workers (c)
17-0000	Architecture and Engineering Occupations		
17-3011	Architectural and Civil Drafters	$67,421	0.001%
17-2072	Electronics Engineers, Except Computer	$105,947	0.000%
17-2141	Mechanical Engineers	$100,372	0.000%
17-3023	Electrical and Electronics Engineering Technicians	$68,604	0.000%
17-2112	Industrial Engineers	$107,849	0.000%
17-2071	Electrical Engineers	$108,982	0.000%
17-2061	Computer Hardware Engineers	$121,274	0.000%
17-3019	Drafters, All Other	$62,261	0.000%
17-2199	Engineers, All Other	$113,444	0.000%
	Weighted Average Annual Wage	**$87,823**	**0.002%**
19-0000	Life, Physical, and Social Science Occupations		
19-4099	Life, Physical, and Social Science Technicians, All Other	$42,118	0.000%
19-1032	Foresters	$85,449	0.000%
	Weighted Average Annual Wage	**$50,019**	**0.000%**
21-0000	Community and Social Service Occupations		
21-1019	Counselors, All Other	$54,835	0.000%
21-1091	Health Educators	$74,644	0.000%
	Weighted Average Annual Wage	**$63,741**	**0.000%**
23-0000	Legal Occupations		
23-2093	Title Examiners, Abstractors, and Searchers	$76,809	0.000%
23-2099	Legal Support Workers, All Other	$64,021	0.000%
23-1011	Lawyers	$171,324	0.000%
23-2011	Paralegals and Legal Assistants	$71,528	0.000%
	Weighted Average Annual Wage	**$87,762**	**0.001%**
25-0000	Education, Training, and Library Occupations		
25-3021	Self-Enrichment Education Teachers	$46,984	0.004%
25-3099	Teachers and Instructors, All Other, Except Substitute Teachers	$69,029	0.000%

Figure III-10. Occupational Mix and Average Wages for Retail/Restaurants/Services (Continued)

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Retail/ Restaurants/ Services Workers (c)
	Weighted Average Annual Wage	**$47,770**	**0.004%**
27-0000	Arts, Design, Entertainment, Sports, and Medial Occupations		
27-1023	Floral Designers	$36,644	0.025%
27-1026	Merchandise Displayers and Window Trimmers	$38,931	0.025%
27-3031	Public Relations Specialists	$83,345	0.008%
27-1024	Graphic Designers	$72,419	0.006%
27-1025	Interior Designers	$76,587	0.004%
27-3012	Public Address System and Other Announcers	$31,566	0.003%
	Weighted Average Annual Wage	**$47,673**	**0.071%**
29-0000	Healthcare Practitioners and Technical Occupations		
29-2052	Pharmacy Technicians	$46,326	0.291%
29-1051	Pharmacists	$137,654	0.210%
29-2081	Opticians, Dispensing	$38,051	0.033%
	Weighted Average Annual Wage	**$81,749**	**0.534%**
31-0000	Healthcare Support Occupations		
31-9095	Pharmacy Aides	$28,446	0.046%
31-9011	Massage Therapists	$45,586	0.024%
31-9099	Healthcare Support Workers, All Other	$44,780	0.003%
	Weighted Average Annual Wage	**$34,717**	**0.073%**
33-0000	Protective Service Occupations		
33-9032	Security Guards	$32,013	0.047%
33-9099	Protective Service Workers, All Other	$56,801	0.011%
33-1099	First-Line Supervisors of Protective Service Workers, All Other	$54,040	0.007%
	Weighted Average Annual Wage	**$38,701**	**0.065%**
35-0000	Food Preparation and Serving Related Occupations		
35-3021	Combined Food Preparation and Serving Workers, Including Fast Food	$23,509	23.920%
35-3031	Waiters and Waitresses	$25,413	19.241%
35-2014	Cooks, Restaurant	$29,161	8.873%

Figure III-10. Occupational Mix and Average Wages for Retail/Restaurants/Services (Continued)

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Retail/ Restaurants/ Services Workers (c)
35-1012	First-Line Supervisors of Food Preparation and Serving Workers	$40,256	5.919%
35-2011	Cooks, Fast Food	$25,514	4.716%
35-2021	Food Preparation Workers	$23,942	4.395%
35-9021	Dishwashers	$23,035	3.592%
35-9031	Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop	$26,673	3.111%
35-9011	Dining Room and Cafeteria Attendants and Bartender Helpers	$24,284	2.560%
	Weighted Average Annual Wage	**$26,226**	**76.327%**
37-0000	Building and Grounds Cleaning and Maintenance Occupations		
37-2011	Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$28,396	0.485%
37-2012	Maids and Housekeeping Cleaners	$35,419	0.041%
	Weighted Average Annual Wage	**$28,945**	**0.527%**
39-0000	Personal Care and Service Occupations		
39-5012	Hairdressers, Hairstylists, and Cosmetologists	$39,520	0.214%
39-2021	Nonfarm Animal Caretakers	$35,348	0.064%
39-5092	Manicurists and Pedicurists	$23,005	0.046%
39-3091	Amusement and Recreation Attendants	$24,899	0.031%
39-1021	First-Line Supervisors of Personal Service Workers	$49,758	0.019%
39-5094	Skincare Specialists	$47,632	0.017%
	Weighted Average Annual Wage	**$36,583**	**0.390%**
41-0000	Sales and Related Occupations		
41-2011	Cashiers	$26,859	6.363%
41-2031	Retail Salespersons	$30,457	3.344%
41-1011	First-Line Supervisors of Retail Sales Workers	$47,883	1.214%
	Weighted Average Annual Wage	**$30,298**	**10.921%**
43-0000	Office and Administrative Support Occupations		
43-5081	Stock Clerks and Order Fillers	$32,149	2.065%
43-4051	Customer Service Representatives	$45,657	0.446%
43-9061	Office Clerks, General	$39,997	0.363%

Figure III-10. Occupational Mix and Average Wages for Retail/Restaurants/Services (Continued)

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Retail/ Restaurants/ Services Workers (c)
43-3031	Bookkeeping, Accounting, and Auditing Clerks	$50,052	0.356%
43-1011	First-Line Supervisors of Office and Administrative Support Workers	$66,668	0.265%
43-5071	Shipping, Receiving, and Traffic Clerks	$36,220	0.158%
	Weighted Average Annual Wage	**$39,003**	**3.653%**
45-0000	Farming, Fishing, and Forestry Occupations		
45-2041	Graders and Sorters, Agricultural Products	$34,254	0.005%
45-2092	Farmworkers and Laborers, Crop, Nursery, and Greenhouse	$25,936	0.004%
	Weighted Average Annual Wage	**$30,537**	**0.009%**
47-0000	Construction and Extraction Occupations		
47-2121	Glaziers	$56,415	0.009%
47-2031	Carpenters	$63,165	0.005%
47-1011	First-Line Supervisors of Construction Trades and Extraction Workers	$85,954	0.002%
47-2041	Carpet Installers	$53,208	0.001%
	Weighted Average Annual Wage	**$61,425**	**0.017%**
49-0000	Installation, Maintenance, and Repair Occupations		
49-3023	Automotive Service Technicians and Mechanics	$55,124	0.521%
49-3021	Automotive Body and Related Repairers	$52,600	0.141%
49-9071	Maintenance and Repair Workers, General	$50,605	0.120%
49-1011	First-Line Supervisors of Mechanics, Installers, and Repairers	$90,340	0.091%
49-3093	Tire Repairers and Changers	$32,447	0.040%
49-3031	Bus and Truck Mechanics and Diesel Engine Specialists	$55,399	0.039%
49-9098	Helpers--Installation, Maintenance, and Repair Workers	$48,488	0.037%
	Weighted Average Annual Wage	**$56,300**	**0.988%**
51-0000	Production Occupations		
51-3011	Bakers	$29,436	0.392%
51-3021	Butchers and Meat Cutters	$34,265	0.313%
51-1011	First-Line Supervisors of Production and Operating Workers	$67,828	0.071%

Figure III-10. Occupational Mix and Average Wages for Retail/Restaurants/Services (Continued)

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Retail/ Restaurants/ Services Workers (c)
51-6011	Laundry and Dry-Cleaning Workers	$28,552	0.064%
51-3022	Meat, Poultry, and Fish Cutters and Trimmers	$24,425	0.062%
51-3092	Food Batchmakers	$28,450	0.047%
	Weighted Average Annual Wage	**$33,458**	**0.949%**
53-0000	Transportation and Material Moving Occupations		
53-3031	Driver/Sales Workers	$33,058	1.421%
53-7064	Packers and Packagers, Hand	$26,940	0.434%
53-7062	Laborers and Freight, Stock, and Material Movers, Hand	$30,670	0.370%
53-3033	Light Truck or Delivery Services Drivers	$41,869	0.328%
53-7061	Cleaners of Vehicles and Equipment	$26,168	0.239%
53-6031	Automotive and Watercraft Service Attendants	$26,859	0.107%
53-6021	Parking Lot Attendants	$28,363	0.100%
	Weighted Average Annual Wage	**$31,915**	**2.999%**
	Total, Minor Occupation Grouping	**$29,832.77**	**100.000%**

Notes:
(a) Occupational mix by industry was obtained from US Bureau of Labor Statistics, Occupational Employment Statistics, 2013.
(b) Wage data for the San Francisco-Redwood City-San Mateo Metro Division obtained from California Economic Development Department, OES Employment and Wages by Occupation, 2013.
(c) Distribution of workers is calculated based on the existing distribution of employment by industry in San Mateo County, provided by Quarterly Census of Employment and Wages (QCEW), 2013.
Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
11-0000	Management Occupations		
11-1021	General and Operations Managers	$150,628	2.410%
11-3021	Computer and Information Systems Managers	$165,650	1.436%
11-3031	Financial Managers	$169,227	0.920%
11-9199	Managers, All Other	$141,691	0.499%
11-2022	Sales Managers	$161,570	0.494%
11-2021	Marketing Managers	$175,141	0.469%
11-1011	Chief Executives	$207,735	0.347%
11-3011	Administrative Services Managers	$110,659	0.339%
11-9041	Architectural and Engineering Managers	$168,643	0.336%
	Weighted Average Annual Wage	**$159,380**	**7.251%**
13-0000	Business and Financial Operations Occupations		
13-2011	Accountants and Auditors	$86,991	2.067%
13-1111	Management Analysts	$119,726	1.797%
13-1199	Business Operations Specialists, All Other	$94,719	1.416%
13-1161	Market Research Analysts and Marketing Specialists	$87,374	1.124%
13-1071	Human Resources Specialists	$80,583	1.109%
13-2051	Financial Analysts	$124,663	0.768%
13-2052	Personal Financial Advisors	$125,077	0.660%
13-2072	Loan Officers	$99,586	0.579%
13-1151	Training and Development Specialists	$82,770	0.460%
	Weighted Average Annual Wage	**$99,264**	**9.980%**
15-0000	Computer and Mathematical Occupations		
15-1132	Software Developers, Applications	$115,740	4.510%
15-1121	Computer Systems Analysts	$104,935	2.827%
15-1151	Computer User Support Specialists	$70,345	2.316%
15-1133	Software Developers, Systems Software	$118,614	2.487%
15-1131	Computer Programmers	$100,716	2.286%
15-1142	Network and Computer Systems Administrators	$95,860	1.371%

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
15-1152	Computer Network Support Specialists	$82,738	0.685%
15-1143	Computer Network Architects	$125,331	0.732%
	Weighted Average Annual Wage	**$103,790**	**17.214%**
17-0000	Architecture and Engineering Occupations		
17-2141	Mechanical Engineers	$100,372	0.408%
17-2061	Computer Hardware Engineers	$121,274	0.396%
17-2071	Electrical Engineers	$108,982	0.315%
17-2051	Civil Engineers	$108,648	0.315%
17-2072	Electronics Engineers, Except Computer	$105,947	0.309%
17-2112	Industrial Engineers	$107,849	0.300%
17-2199	Engineers, All Other	$113,444	0.260%
17-3023	Electrical and Electronics Engineering Technicians	$68,604	0.254%
17-2011	Aerospace Engineers	$107,788	0.168%
17-1011	Architects, Except Landscape and Naval	$102,163	0.139%
17-3029	Engineering Technicians, Except Drafters, All Other	$73,531	0.137%
17-3011	Architectural and Civil Drafters	$67,421	0.136%
	Weighted Average Annual Wage	**$102,350**	**3.138%**
19-0000	Life, Physical, and Social Science Occupations		
19-1042	Medical Scientists, Except Epidemiologists	$116,975	0.489%
19-2031	Chemists	$102,011	0.259%
19-4021	Biological Technicians	$66,854	0.250%
19-1021	Biochemists and Biophysicists	$115,416	0.189%
19-2041	Environmental Scientists and Specialists, Including Health	$103,842	0.176%
19-4099	Life, Physical, and Social Science Technicians, All Other	$42,118	0.167%
19-4031	Chemical Technicians	$52,559	0.142%
19-4061	Social Science Research Assistants	$41,288	0.124%
	Weighted Average Annual Wage	**$89,127**	**1.795%**

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
21-0000	Community and Social Service Occupations		
21-1014	Mental Health Counselors	$43,140	0.105%
21-1093	Social and Human Service Assistants	$39,234	0.097%
21-1023	Mental Health and Substance Abuse Social Workers	$54,987	0.097%
21-1011	Substance Abuse and Behavioral Disorder Counselors	$44,900	0.072%
21-1022	Healthcare Social Workers	$79,571	0.059%
21-1021	Child, Family, and School Social Workers	$53,429	0.046%
21-1091	Health Educators	$74,644	0.037%
21-1094	Community Health Workers	$45,861	0.032%
21-1099	Community and Social Service Specialists, All Other	$53,338	0.029%
21-1015	Rehabilitation Counselors	$36,442	0.022%
21-1012	Educational, Guidance, School, and Vocational Counselors	$63,516	0.022%
	Weighted Average Annual Wage	**$51,827**	**0.618%**
23-0000	Legal Occupations		
23-1011	Lawyers	$171,324	1.165%
23-2011	Paralegals and Legal Assistants	$71,528	0.572%
23-2093	Title Examiners, Abstractors, and Searchers	$76,809	0.090%
	Weighted Average Annual Wage	**$135,415**	**1.827%**
25-0000	Education, Training, and Library Occupations		
25-3098	Substitute Teachers	$36,300	0.247%
25-9041	Teacher Assistants	$34,995	0.057%
25-4021	Librarians	$77,396	0.054%
25-4031	Library Technicians	$53,641	0.037%
25-2021	Elementary School Teachers, Except Special Education	$67,562	0.035%
25-3099	Teachers and Instructors, All Other, Except Substitute Teachers	$69,029	0.033%
25-9099	Education, Training, and Library Workers, All Other	$37,302	0.026%
25-2022	Middle School Teachers, Except Special and Career/Technical Education	$69,808	0.023%
25-2031	Secondary School Teachers, Except Special and Career/Technical Education	$70,729	0.023%
	Weighted Average Annual Wage	**$48,507**	**0.536%**

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
27-0000	Arts, Design, Entertainment, Sports, and Media Occupations		
27-3042	Technical Writers	$85,935	0.228%
27-3031	Public Relations Specialists	$83,345	0.218%
27-1014	Multimedia Artists and Animators	$84,934	0.114%
27-2012	Producers and Directors	$95,971	0.090%
27-3043	Writers and Authors	$66,197	0.061%
27-3022	Reporters and Correspondents	$53,510	0.053%
27-1011	Art Directors	$127,071	0.048%
27-4011	Audio and Video Equipment Technicians	$58,639	0.033%
	Weighted Average Annual Wage	**$83,997**	**0.845%**
29-0000	Healthcare Practitioners and Technical Occupations		
29-1141	Registered Nurses	$129,166	1.422%
29-2061	Licensed Practical and Licensed Vocational Nurses	$63,060	0.602%
29-1069	Physicians and Surgeons, All Other	$192,701	0.506%
29-2021	Dental Hygienists	$114,294	0.474%
29-1062	Family and General Practitioners	$196,758	0.282%
29-1021	Dentists, General	$167,318	0.231%
29-2071	Medical Records and Health Information Technicians	$54,359	0.222%
29-1171	Nurse Practitioners	$127,193	0.212%
29-1071	Physician Assistants	$112,877	0.199%
	Weighted Average Annual Wage	**$127,464**	**4.150%**
31-0000	Healthcare Support Occupations		
31-9092	Medical Assistants	$44,014	1.318%
31-9091	Dental Assistants	$49,244	0.750%
31-1014	Nursing Assistants	$42,130	0.363%
31-1011	Home Health Aides	$28,587	0.166%
	Weighted Average Annual Wage	**$44,273**	**2.598%**

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
33-0000	Protective Service Occupations		
33-9032	Security Guards	$32,013	2.059%
33-1099	First-Line Supervisors of Protective Service Workers, All Other	$54,040	0.088%
	Weighted Average Annual Wage	**$32,919**	**2.147%**
35-0000	Food Preparation and Serving Related Occupations		
35-3021	Combined Food Preparation and Serving Workers, Including Fast Food	$23,509	0.389%
35-3031	Waiters and Waitresses	$25,413	0.305%
35-2021	Food Preparation Workers	$23,942	0.192%
35-2012	Cooks, Institution and Cafeteria	$38,049	0.164%
35-3022	Counter Attendants, Cafeteria, Food Concession, and Coffee Shop	$23,710	0.159%
35-1012	First-Line Supervisors of Food Preparation and Serving Workers	$40,256	0.139%
35-3041	Food Servers, Nonrestaurant	$33,434	0.131%
35-9021	Dishwashers	$23,035	0.113%
35-9011	Dining Room and Cafeteria Attendants and Bartender Helpers	$24,284	0.108%
35-2014	Cooks, Restaurant	$29,161	0.068%
35-3011	Bartenders	$30,119	0.061%
	Weighted Average Annual Wage	**$27,622**	**1.828%**
37-0000	Building and Grounds Cleaning and Maintenance Occupations		
37-2011	Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$28,396	4.662%
37-3011	Landscaping and Groundskeeping Workers	$42,100	2.565%
37-2012	Maids and Housekeeping Cleaners	$35,419	0.784%
37-2021	Pest Control Workers	$53,698	0.316%
37-1011	First-Line Supervisors of Housekeeping and Janitorial Workers	$50,352	0.307%
37-1012	First-Line Supervisors of Landscaping, Lawn Service, and Groundskeeping Workers	$62,696	0.303%
	Weighted Average Annual Wage	**$35,758**	**8.938%**

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
39-0000	Personal Care and Service Occupations		
39-9021	Personal Care Aides	$24,476	0.269%
39-3031	Ushers, Lobby Attendants, and Ticket Takers	$27,761	0.096%
39-9011	Childcare Workers	$31,540	0.037%
39-2021	Nonfarm Animal Caretakers	$35,348	0.032%
39-1021	First-Line Supervisors of Personal Service Workers	$49,758	0.022%
39-9032	Recreation Workers	$29,101	0.021%
	Weighted Average Annual Wage	**$27,782**	**0.476%**
41-0000	Sales and Related Occupations		
41-3099	Sales Representatives, Services, All Other	$85,023	1.745%
41-3031	Securities, Commodities, and Financial Services Sales Agents	$140,636	1.096%
41-4011	Sales Representatives, Wholesale and Manufacturing, Technical and Scientific Products	$100,443	0.666%
41-3021	Insurance Sales Agents	$86,434	0.564%
41-4012	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products	$65,591	0.388%
41-1012	First-Line Supervisors of Non-Retail Sales Workers	$96,139	0.292%
41-2031	Retail Salespersons	$30,457	0.284%
41-9041	Telemarketers	$29,198	0.256%
	Weighted Average Annual Wage	**$92,201**	**5.290%**
43-0000	Office and Administrative Support Occupations		
43-9061	Office Clerks, General	$39,997	3.754%
43-4051	Customer Service Representatives	$45,657	3.408%
43-6014	Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$43,612	2.641%
43-3031	Bookkeeping, Accounting, and Auditing Clerks	$50,052	1.862%
43-1011	First-Line Supervisors of Office and Administrative Support Workers	$66,668	1.612%
43-4171	Receptionists and Information Clerks	$37,546	1.585%
43-6011	Executive Secretaries and Executive Administrative Assistants	$69,716	1.228%
43-3071	Tellers	$31,987	1.057%
43-6013	Medical Secretaries	$44,675	0.919%

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
43-3021	Billing and Posting Clerks	$47,723	0.787%
43-0000	Office and Administrative Support Occupations		
	Weighted Average Annual Wage	**$46,632**	**18.852%**
45-0000	Farming, Fishing, and Forestry Occupations		
45-2092	Farmworkers and Laborers, Crop, Nursery, and Greenhouse	$25,936	0.020%
45-2093	Farmworkers, Farm, Ranch, and Aquacultural Animals	$26,179	0.008%
45-1011	First-Line Supervisors of Farming, Fishing, and Forestry Workers	$78,486	0.004%
45-2011	Agricultural Inspectors	$66,342	0.002%
45-4011	Forest and Conservation Workers	$56,628	0.001%
	Weighted Average Annual Wage	**$34,801**	**0.034%**
47-0000	Construction and Extraction Occupations		
47-2031	Carpenters	$63,165	0.122%
47-2111	Electricians	$84,223	0.116%
47-4011	Construction and Building Inspectors	$74,833	0.066%
47-2152	Plumbers, Pipefitters, and Steamfitters	$82,675	0.044%
47-1011	First-Line Supervisors of Construction Trades and Extraction Workers	$85,954	0.043%
47-2141	Painters, Construction and Maintenance	$47,652	0.043%
47-2073	Operating Engineers and Other Construction Equipment Operators	$77,565	0.040%
	Weighted Average Annual Wage	**$73,634**	**0.474%**
49-0000	Installation, Maintenance, and Repair Occupations		
49-9071	Maintenance and Repair Workers, General	$50,605	0.826%
49-2022	Telecommunications Equipment Installers and Repairers, Except Line Installers	$59,633	0.254%
49-2011	Computer, Automated Teller, and Office Machine Repairers	$51,460	0.185%
49-9099	Installation, Maintenance, and Repair Workers, All Other	$51,032	0.152%
49-1011	First-Line Supervisors of Mechanics, Installers, and Repairers	$90,340	0.143%
49-9052	Telecommunications Line Installers and Repairers	$68,467	0.129%
49-2098	Security and Fire Alarm Systems Installers	$44,478	0.103%
	Weighted Average Annual Wage	**$56,122**	**1.792%**

Figure III-11. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
51-0000	Production Occupations		
51-2092	Team Assemblers	$32,811	1.384%
51-9198	Helpers--Production Workers	$31,286	0.925%
51-2099	Assemblers and Fabricators, All Other	$28,796	0.631%
51-9199	Production Workers, All Other	$35,474	0.511%
51-9111	Packaging and Filling Machine Operators and Tenders	$34,458	0.477%
51-9061	Inspectors, Testers, Sorters, Samplers, and Weighers	$42,183	0.428%
51-2022	Electrical and Electronic Equipment Assemblers	$38,168	0.323%
51-4041	Machinists	$60,011	0.238%
	Weighted Average Annual Wage	**$34,930**	**4.916%**
53-0000	Transportation and Material Moving Occupations		
53-7062	Laborers and Freight, Stock, and Material Movers, Hand	$30,670	3.512%
53-7064	Packers and Packagers, Hand	$26,940	0.932%
53-7051	Industrial Truck and Tractor Operators	$43,099	0.401%
53-3032	Heavy and Tractor-Trailer Truck Drivers	$46,595	0.270%
53-3033	Light Truck or Delivery Services Drivers	$41,869	0.189%
	Weighted Average Annual Wage	**$32,163**	**5.304%**
	Total, Office/R&D/Medical Office	**$77,342**	**100.000%**

Notes:
(a) Occupational mix by industry was obtained from US Bureau of Labor Statistics, Occupational Employment Statistics, 2013.
(b) Wage data for the San Francisco-Redwood City-San Mateo Metro Division obtained from California Economic Development Department, OES Employment and Wages by Occupation, 2013.
(c) Distribution of workers is calculated based on the existing distribution of employment by industry in San Mateo County, provided by Quarterly Census of Employment and Wages (QCEW), 2013.
Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Household Incomes

Based on the employee wage calculations discussed above, household incomes are estimated for each prototype. This step assumes that the income of the second wage-earner is similar to the wage of the first wage-earner. In order to calculate the annual household income, the average worker wage is multiplied by the number of wage-earners per household. According to the U.S. Census Bureau American Community Survey 3-Year Estimates, 2010-2012, there is an average of 1.53 wage-earners per household in Menlo Park. The average annual wage per employee within each occupation was multiplied by 1.53 in order to determine annual average household income.

Employee households are then categorized as very low, low, moderate, and above moderate income based on the income definitions and cut-offs established by the California Housing and Community Development Department (HCD). According to the U.S. Census Bureau American Community Survey 5-Year Estimates, 2008-2012, the average household size Menlo Park is 2.5. This has been rounded to 3, the nearest whole number, as a conservative estimate, since incomes are higher for three-person households than for two-person households. The income categories for very low, low, moderate, and above moderate income households are therefore based on the household size of three persons, using the California Department of Housing and Community Development's definitions of income thresholds for area median income, as shown in Figure III-12.

Figure III-12. Household Income Categories

Income Category	3-Person Household
Very Low Income (<=50% AMI)	$50,900
Low Income (51-80% AMI)	$81,450
Moderate Income (81-120% AMI)	$111,250
Above Moderate Income (>=120%)	>$111,250

Source: California Department of Housing and Community Development, "State Income Limits for 2014", February 28, 2014.

Using the income categories described above, the new worker households were sorted into income groups. For example, worker households that earn $50,900 or less were qualified as very low income households; those earning between $50,900 and $81,540 were classified as low income households, and those earning between $81,450 and $111,250 were categorized as moderate income households. As shown in Figure III-13 below, most hotel worker households are in very low and low income categories, the vast majority of retail/ restaurants/ services worker households are in the very low income categories, and less than half of office/ R&D/ medical office workers are in very low, low, and moderate income categories. Above moderate income households were removed from the subsequent steps of the nexus analysis, as it is determined that these income groups would be able to afford market-rate housing.

Figure III-13. Number of Worker Households by Income Category

Prototype	Number of Employee Households
Hotel	
Very Low Income (<=50% AMI)	22.8
Low Income (51-80% AMI)	35.2
Moderate Income (81-120% AMI)	3.2
Above Moderate (>=120%)	4.2
Total	**65.4**
Retail, Restaurants and Personal Services	
Very Low Income (<=50% AMI)	84.4
Low Income (51-80% AMI)	10.0
Moderate Income (81-120% AMI)	2.3
Above Moderate (>=120%)	1.4
Total	**98.0**
Office, R&D and Medical Office Land Use	
Very Low Income (<=50% AMI)	34.7
Low Income (51-80% AMI)	52.0
Moderate Income (81-120% AMI)	18.7
Above Moderate (>=120%)	90.7
Total	**196.1**

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

IV. HOUSING AFFORDABILITY GAP

Estimating the housing affordability gap is necessary to calculate the maximum potential housing impact fee. This affordability gap analysis was conducted at the county-wide level so that it can be applied to all the jurisdictions in San Mateo County participating in the multi-city nexus study.[4] This section summarizes the approach to calculating the housing affordability gap and the results of the analysis.

METHODOLOGY

The housing affordability gap is defined as the difference between what very low, low, and moderate income households can afford to pay for housing and the development cost of new, modest housing units. Calculating the housing affordability gap involves the following three steps:

1. Estimating affordable rents and housing prices for households in target income groups.

2. Estimating development costs of building new, modest housing units, based on current cost and market data.

3. Calculating the different between what renters and owners can afford to pay for housing and the cost of development of rental and ownership units.

The housing affordability gap is estimated at a countywide level, and assumed to be the same for all the jurisdictions participating in the multi-city nexus studies, for the following reasons:

- Both the California Department of 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. This analysis uses 2014 income limits published by California Department of Housing and Community Development (HCD).

- 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.

[4] Although there is a single housing affordability gap estimate for all jurisdictions participating in the multi-city nexus studies, the subsequent steps in the fee calculations considers market and household characteristics for the City of Menlo Park, generating a unique maximum fee for each jurisdiction in the county, as described in Section V of this report.

ESTIMATING 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. For eligibility purposes, most affordable housing programs define very low income households as those earning approximately 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 use the top incomes in each category, the analysis uses a point within the income ranges for the low and moderate income groups.[5]

Figure IV-1 and Figure IV-2 show the calculations for rental housing. The maximum affordable monthly rent is calculated as 30 percent of gross monthly household income, minus a deduction for utilities. 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. Figure IV-3 and Figure IV-4 demonstrate housing affordability for homeowners. Homeowners are assumed to pay a maximum of 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, including a five 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 $348,526 home.

Key assumptions used to calculate the maximum affordable rents and housing prices 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 and household size 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.[6]

[5] 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 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.

[6] 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.

- **Targeted income levels for rental housing:** For rental housing, affordable rents were calculated for very low income, low income, and moderate income households (see Figure IV-1 and Figure IV-2). 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 moderate income households and 90 percent of AMI is used to represent moderate income households.

- **Targeted income levels for ownership housing** For ownership housing, affordable home prices were calculated only for moderate income households. Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain. It is assumed that moderate income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI).

- **Maximum monthly housing costs.**[7] For all renters, maximum monthly housing costs are assumed to be 30 percent of gross household income. For homebuyers, 35 percent of gross income is assumed to be available for monthly housing costs, reflecting the higher incomes of this group.[8] These standards are based on California's Health & Safety Code Sections 50052.5 and 50053.

- **Utilities.** The monthly utility cost assumptions 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 mortgage calculations are based on the terms typically offered to first-time homebuyers (such as the terms offered by the California Housing Finance Authority), which is a 30-year mortgage with a five percent down payment. A five percent down payment standard is also used by many private lenders for first-time homebuyers. Based on recent interest rates to first-time buyers, the analysis assumes a 5.375 percent annual interest rate.[11] In addition to mortgage payments and utilities, monthly

[7] 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 all lenders.

[8] The assumption that homebuyers spend 35 percent of gross household income on housing results in a reduced affordability gap than if 30 percent of gross household income were used instead.

[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.

ownership housing costs include homeowner association (HOA) dues,[12] property taxes,[13] private mortgage insurance,[14] and hazard and casualty insurance.[15]

[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 five 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.

Figure IV-1. Calculation of Affordable Rents in San Mateo County by Household Size, 2014

Persons per Household (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 (HH Size) (b)	$961	$1,091	$1,220	$1,346	$1,458
Low Income (70% AMI)					
Maximum Household Income at 70% AMI	$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 (HH Size) (b)	$1,233	$1,402	$1,569	$1,735	$1,879
Moderate Income (90% AMI)					
Maximum Household Income at 90% AMI	$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 (HH Size) (b)	$1,593	$1,814	$2,033	$2,250	$2,435

Notes:

(a) 30 percent of maximum monthly household income.

(b) Maximum monthly housing cost minus utility deduction.

Acronyms:

AMI: Area median income

HH: Household

Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2014.

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

Affordable Rents by Unit Type (a)	Studio (1 person)	1 Bedroom (2 persons)	2 Bedroom (3 persons)	3 Bedroom (4 and 5 persons)
Very Low Income (50% AMI)	$961	$1,091	$1,220	$1,402
Low Income (70% AMI)	$1,233	$1,402	$1,569	$1,807
Moderate Income (90% AMI)	$1,593	$1,814	$2,033	$2,342

Notes:
(a) Affordable rents are calculated as follows: Studios are calculated as one-person households; One-bedroom units are calculated as two-person households; Two-bedroom units are calculated as three-person households; Three-bedroom units are calculated as an average of four and five person households.

Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2014.

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

Persons per Household (HH)	1	2	3	4	5
Moderate Income (110% AMI)					
Maximum Household Income at 110% AMI (a)	$79,310	$90,640	$101,970	$113,300	$122,375
Maximum Monthly Housing Cost (b)	$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 (c)	$517	$607	$690	$773	$844
Monthly Income Available for Mortgage Payment (d)	$1,390	$1,631	$1,854	$2,076	$2,269
Maximum Mortgage Amount (e)	$248,195	$291,274	$331,100	$370,795	$405,155
Maximum Affordable Sales Price - HH Size (f)	$261,258	$306,604	$348,526	$390,311	$426,479

Notes:

(a) Calculated as 110 percent of the median household income reported by HCD for each household size.

(b) Maximum housing cost is estimated at 35 percent of household income for homebuyers.

(c) 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.

(d) Maximum monthly housing cost minus deductions

(e) Assumes 5.375 percent interest rate and 30 year loan term

(f) Assumes 5 percent down payment (75 percent loan-to-value ratio)

Acronyms:

AMI: Area median income

HH: Household

HOA: Home owners association

Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-4. Calculation of Affordable Sales Prices in San Mateo County by Unit Type, 2014

Affordable Sales Price by Unit Type (a)	1 Bedroom (1 and 2 persons)	2 Bedroom (3 persons)	3 Bedroom (4 and 5 persons)
Moderate Income (110% AMI)	$283,931	$348,526	$408,395

Notes:
(a) Affordable sales prices are calculated as follows: One-bedroom units are calculated as an average of one- and two-person households; Two-bedroom units are calculated as three-person households; Three-bedroom units are calculated as an average of four and five person households.
Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2014.

ESTIMATING HOUSING DEVELOPMENT COSTS

The second step in calculating the housing affordability gap is to estimate the cost of developing new, modest housing units. 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 are too costly to meet the standard for modest housing.

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 costs for each. The following describes the data sources used to calculate rental and for-sale housing development costs.

Rental Housing

Rental housing development costs were based on pro forma data obtained from three recent affordable housing projects in San Mateo County. Figure IV-5 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-5 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 estimate that, under the prevailing wage requirement, labor costs are 25 percent higher than would otherwise be the case. 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] Finally, on average, land acquisition costs accounted for 20 percent or less of these total adjusted costs.

[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-5. Affordable Housing Project Pro Forma Data

Project Description	Project 1	Project 2	Project 3
Location	San Mateo	San Mateo	San Bruno
Year Built	2013	2010	2011
Land Area (acres)	1.05	1.0	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-6, 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 (in Figure IV-5) represent the lower range of current land values, which results in a lower affordability gap estimate. The lower gap estimate is a more conservative approach, because it results in a lower maximum fee calculation, as described in Section V.

Figure IV-6. 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.
Acronyms:
SF: Square feet

Sources: DataQuick, January-May 2014; Vernazza Wolfe Associates, Inc; Strategic Economics, 2014.

For-Sale Housing

Since affordable housing developers do not typically build for-sale housing in San Mateo County, the cost of developing new, modest for-sale housing was estimated using two data methods: the first method used price data for recently built condominium units as a proxy for development costs; the second approach estimated development costs based on published market and cost data for similar projects in San Mateo County. Each of these cost estimate approaches is described in more detail below.

Review of condominium sales data – In this approach, average sales prices from condominium units built in San Mateo County between 2008 and 2012 are used as a proxy for development costs [17] 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 sales prices of condominium units of various sizes in the seven cities that experienced condominium development that exceeded 10 units in the aggregate between 2008 and 2012. These seven cities included 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-7 summarizes the information that was used to generate a per-square-foot cost for condominium development of $420.

Cost estimate of hypothetical condominium project - The second approach relied on published industry data sources and recent financial feasibility studies to estimate the development costs of a hypothetical condominium project, as described in Figure IV-8.[18] Land costs were estimated based on recent DataQuick land transactions shown in Figure IV-6. RS Means cost data, adjusted for the Bay Area's construction costs, was used to calculate hard costs. Based on a review of recent financial feasibility analyses in the Bay Area, soft costs were estimated at 30 percent of hard costs, and developer fees and profits were estimated at 12 percent of hard and soft costs. Using this second method, the development costs are estimated at $495 per

[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 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 increase. Adjusting land costs for inflation is not easily done.

[18] The hypothetical condominium building type is a Type V building with underground parking and floor-area ratio of 1.7. The building characteristics are described in Figure IV-8.

net square foot of building area. In order to ensure that the results of the affordability gap analysis are conservative, the lower development cost estimate of $420 per net square foot was selected for ownership units.

Figure IV-7. 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 Unit 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
Average	1.9	1.9	1,248	$423	$527,401

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

Figure IV-8. Estimate of Development Costs of Hypothetical Condominium Project

Building Characteristics	
Land Area (SF)	110,727
Gross Building Area (SF)	188,235
Net Building Area (SF)	160,000
Number of Units	100
Parking Type	Underground
Floor-area ratio (FAR)	1.7
Density (units per acre)	39
Average Unit Size	1,600
Land Acquisition Costs per Square Foot (a)	$189
Development Cost	**Cost per Net SF**
Land Cost (b)	$131
Hard Costs	$250
Soft Costs (c)	$75
Developer Fees (d)	$39
Total Development Costs	$495

Notes:

(a) Land value is calculated based on DataQuick records of vacant land transactions in the county. See Figure IV-6.
(b) Calculated based on RS Means cost estimates per square foot of net building area.
(c) Estimated at 30 percent of hard costs. Includes design, engineering, city permits and fees, construction interest, contingencies, legal, etc.
(d) Estimated at 12 percent of hard costs and soft costs.
Acronyms:
SF: square feet
Sources: RS Means, 2014; DataQuick 2014; Recent financial feasibility studies; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Cost Estimates by Unit Size

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 in San Mateo County was analyzed. For ownership units, the average sizes of recently built condominium units (Figure IV-7) were analyzed.

Figure IV-9 provides the unit sizes and development cost estimates for rental units. Per-unit development costs were calculated by multiplying average unit sizes by the per-square foot development costs of $410. Rental unit costs range from $205,000 for studio units to $479,700 for three-bedroom units.

Figure IV-10 summarizes the costs of condominium units. The per-unit costs were derived by multiplying the average unit size by the development cost per square foot of $420. Condominium development costs range from $357,000 for one-bedroom units to $672,000 for three-bedroom units.

Figure IV-9. Rental Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
Studio	$410	500	$205,000
One bedroom	$410	700	$287,000
Two bedroom	$410	970	$397,700
Three bedroom	$410	1,170	$479,700

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

Figure IV-10. For-Sale Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
One bedroom	$420	850	$357,000
Two bedroom	$420	1,200	$504,000
Three bedroom	$420	1,600	$672,000

Acronyms:
SF: Square feet
Sources: 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. 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 because not all "modest" housing is built with public subsidies, and tax credits and tax-exempt bond financing are highly competitive programs that will not always be available to developers of modest housing units.

Figure IV-11 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. Because household sizes are not uniform and the types of units each household may occupy is variable, the average housing affordability gap is calculated by averaging the housing affordability gaps for the various unit sizes.

Figure IV-12 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 in order to reflect that households in each income group vary in size, and may occupy any of these unit types.

Finally, the tenure-neutral estimates of the housing affordability gap were estimated for very low, low, and moderate income households (Figure IV-13). Because very low and low income households that are looking for housing in today's market are much more likely to be renters, an ownership gap was not calculated for these income groups. The rental gap represents the overall affordability gap for these two income groups. On the other hand, moderate income households could be either renters or owners. Therefore, the rental and ownership gaps are averaged for this income group to calculate the overall affordability gap for moderate income households. The calculated average affordability gap per unit is $280,783 for very low income households; $240,477 for low income households, and $175,558 for moderate income households. The housing affordability gap is highest for very low income households because those households with higher incomes can afford to pay more for housing.

Figure IV-11. 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
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 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 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 Affordability Gap								**$187,066**

Notes:
(a) Affordable rents are based on State of California Housing and Community Development FY 2014 Income Limits for San Mateo County. See Figure IV-2.
(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 based on comparable project pro formas.
(f) Calculated as the difference between development costs and supportable debt.
Acronyms:
SF: Square feet
AMI: Area median income
Sources: Housing and Community Development, 2014; Selected San Mateo Rental Housing Pro Formas; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure IV-12. 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)
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.
(b) Assumes $420/SF for development costs, based on recent condominium sales data.
(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, 2015.

Figure IV-13. Average Housing Affordability Gap by Income Group

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low Income (50% AMI)	$280,783	N/A	$280,783
Low Income (70% - 80% AMI) (a)	$240,477	N/A	$240,477
Moderate Income (90% - 110% AMI) (b)	$187,066	$164,049	$175,558

Notes:
(a) Low income households are defined at 70 percent of AMI for renters and 80 percent of AMI for owners.
(b) Moderate income households are defined at 90 percent of AMI for renters and 110 percent AMI for owners.
Acronyms: AMI: Area median income.
Source: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

V. MAXIMUM LINKAGE FEES

This section builds on the findings of the previous analytical steps to calculate the maximum justified linkage fees for each commercial prototype.

MAXIMUM FEE CALCULATION

To derive the maximum nexus-based fee, the housing affordability gap (see Section IV) is applied to the number of lower-income worker households linked to the prototypes. This is the basis for developing an estimate of the total affordability gap for each prototype. The total gap for each prototype is then divided by the size of each development prototype to calculate a single maximum fee per square foot.

Figure V-1 presents the results of the linkage fee calculations for each prototype. The calculations shown below assume that 100 percent of the very low, low, and moderate income households linked to the new commercial space would be accommodated in Menlo Park. The maximum fee results are $154 per square foot for hotel, $265 per square foot for retail/ restaurants/ services, and $255 per square foot for office/ R&D/ medical office.

The calculated linkage fees are high for two reasons: 1) the cost of housing development in San Mateo County is high, creating a large affordability gap for very low, low, and moderate income households; 2) many of the workers associated with new commercial development, especially those in the retail and hotel industries, earn low wages and fall into very low and low income household categories. For these reasons, the highest fees are associated with retail/ restaurant/ personal services, generally referred to as service industries. Occupations in these industries offer workers the lowest average wage; hence the total affordability gap is highest for these employee households. Although average wages for hotel workers are similarly low, the density of workers in hotels is lower than in retail and in office/ R&D/ medical office space; therefore maximum linkage fees for hotels are the lowest among the three prototypes. Finally, while office workers earn the highest average wage of all three prototypes, the employment density of this prototype is the highest. Therefore, the calculated fees for the category covering office/ R&D/ medical office are higher than those calculated for hotel developments, and lower than the retail/ restaurants/ services.

The maximum fees shown in Figure V-1 are not the recommended fees for adoption. They are the nexus-justified fees that represent the maximum that the City of Menlo Park could charge to mitigate affordable housing demand related to commercial development.

Figure V-1. Maximum Commercial Linkage Fees

	Worker Households Requiring Affordable Housing	Total Affordability Gap	Size of Prototype (SF)	Maximum Fee per SF
Hotel	61	$15,411,161	100,000	$154
Retail, Restaurants and Personal Services	97	$26,497,820	100,000	$265
Office, R&D and Medical Office	105	$25,538,453	100,000	$255

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

SUMMARY OF CONSERVATIVE ASSUMPTIONS

- **Employment density assumptions**. For each commercial building prototype, an average employment density was applied based on a combination of national survey data for existing commercial buildings and a review of recently completed linkage fee nexus studies in the Bay Area. In order to create conservative assumptions about the number of jobs associated with new commercial development, the lower range of the density figures were selected for the analysis. Though some office developments in the Bay Area have much higher employment densities, particularly for high-technology tenants, the analysis used a lower estimate of density for the office/R&D/medical office prototype, resulting in a lower maximum fee estimate.

- **Cost estimates for affordability gap analysis**. The affordability gap analysis measures the difference between what households can afford to pay for housing and the cost of new housing units. To ensure that the gap is conservative, the development cost estimates are based on the lower range of land and construction costs in San Mateo County. In many sub-areas of the county, including priority-development areas and downtown locations, land costs for housing sites may be higher, particularly under today's market conditions.

- **Exclusion of extremely low income households**. Although new commercial development could potentially have impacts on affordable housing demand from extremely low income households, those impacts are not included in the analysis, thereby reducing the total fee calculation.

- **Affordability gap for owner households**. The calculation of the affordability gap for ownership households only considers moderate-income households. Low and very low income households are not considered in the calculation. This also results in a lower estimate of the maximum fee.

- **Feasibility analysis**. The analysis takes into account the financial feasibility of adding the maximum impact fee and reduced fee levels to the total cost of new development. The financial feasibility component of the analysis incorporates market-supportable assumptions about revenues, costs, land costs, and developer return expectations based on research on recent development trends. The results of financial analysis informed the final recommendations on the linkage fee.

- **Comparison to other jurisdictions**. The Consultant Team researched existing linkage fee in other Bay Area cities to determine the competitiveness of the maximum fee and reduced fee levels. The fee recommendations in this report incorporate the findings from the comparative analysis.

- **Overlap analysis**. The City is undertaking two impact fee nexus studies at the same time: the commercial linkage fee nexus study and the housing impact fee nexus study. To minimize the potential that some jobs could be double-counted by including the same worker households in both studies, the Consultant Team ensured that the recommended fees for the two programs (commercial linkage and housing fees) would – when combined –mitigate less than 100 percent of the total impact.

VI. FEASIBILITY AND POLICY CONSIDERATIONS

There are a number of policy considerations that can be taken into account when a jurisdiction considers an update to its commercial linkage fee. These policy factors include the likely impact of the proposed fee levels on future development, the potential increase to the city's existing fees on commercial development, a comparison of proposed linkage fees with those fees already charged in adjacent jurisdictions, and how potential revenues from new linkage fees can benefit the city's overall affordable housing goals. This section provides a discussion of some of the key financial and policy questions for Menlo Park.

PROTOTYPES AND FEE LEVELS

Commercial Prototypes

As described in Section III, the analysis estimates linkage fees for three commercial prototypes: hotel, retail/ restaurants/ services, and office/ R&D/ medical office. The building characteristics, including size, density (floor-area-ratio), and parking assumptions are based on a review of recently built and proposed projects in San Mateo County (Figure VI-1). The financial feasibility of potential fee levels is tested for each of these prototypes.

Figure VI-1. Description of Commercial Prototypes

	Hotel	Retail/ Restaurants/ Services	Office/R&D/ Medical Office
Prototype Description			
Gross Building Area (GBA)	100,000	100,000	100,000
Podium Parking Area	11,970	30,000	63,000
Gross Building Area including Podium Parking (SF)	111,970	130,000	163,000
Efficiency Ratio (a)	N/A	0.95	0.9
Net Leasable Sq. Ft. (NSF)	N/A	95,000	90,000
Hotel Rooms	133		
Parking Spaces	160	400	300
Podium Parking	40	100	210
Surface Parking	120	300	90
Floor Area Ratio (b)	1.1	0.5	2.0
Land Area (Acres)	2.3	6.0	1.9
Land Area (SF)	101,791	260,000	81,500

Notes:
(a) Refers to ratio of gross building area to net leasable area. An efficiency ratio of 0.9 means that 90% of the gross building area is leasable.
(b) The floor-area-ratio (FAR) is often used as a measure of density. In this analysis, it is calculated as the gross building area (including podium parking) divided by the total land area.

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

Fee Levels

In order to provide Menlo Park with some guidance on how proposed fees could impact development decisions, the Consultant Team conducted a financial feasibility analysis that tested the impact of the maximum linkage fee, the existing fee, and other potential fee levels, on developer profit. Figure VI-2 illustrates the different fee scenarios by prototype.

Figure VI-2. Linkage Fee Scenarios by Prototype

Fee Scenarios	Hotel	Retail/ Restaurants / Services	Office/ R&D/ Medical Office
Existing Fee	$8.76	$8.76	$16.15
Scenario 1 - Maximum Fee	$154.11	$264.98	$255.38
Scenario 2	$15	$15	$50
Scenario 3	$10	$10	$35
Scenario 4	$5	$5	$25

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

METHODOLOGY

Financial feasibility was tested using a pro forma model that measures the return on cost of the commercial prototypes. Return on cost is a commonly used metric indicating the profitability of a commercial project. The pro forma model tallies all development costs, including land, direct construction costs, indirect costs (including financing), and developer fees. Revenues from lease rates or hotel room rates are the basis for calculating annual income from the new commercial development. The total operating costs are subtracted from the total revenues to calculate the annual net operating income. The return on cost is then estimated by dividing the annual net operating income by the total development costs. The fee levels were then added as an additional development cost to measure the resulting change in the developer's return on cost.

KEY INPUTS

The key revenue and cost inputs to the financial pro forma analysis are based on market research and published resources. The data inputs are explained in more detail below.

Revenues

To estimate income from commercial development, the analysis used rental data from Costar for the Southern San Mateo County sub-market for existing retail and office buildings. A 20 percent increase was applied to account for the value premium of new commercial space. Hotel room revenue is estimated based on July 2015 estimates of average daily rates ($210 per room) and occupancy rates (80 percent) obtained from HVS Consulting and Smith Travel Research for the Silicon Valley market area. A five percent increase in room rates was applied to account for the higher rates achieved in the Menlo Park market. The revenue inputs are shown in Figure VI-3.

Direct and Indirect Costs

Cost estimates for the commercial prototypes include direct construction costs (site work, building costs, and parking), indirect costs, financing costs, and developer overhead and profit. Direct building construction cost estimates for office/ R&D/ medical office and retail/ restaurants/ services are based on RS Means. Hotel costs were estimated based on recent data from HVS Consulting and Smith Travel Research, and include costs for Furniture, Fixtures, and Equipment (FF&E). Direct and indirect cost inputs for the pro forma analysis are shown in Figure VI-4.

Land Costs

One of the critical cost factors for a commercial development project is land cost. To determine the land value of sites zoned for commercial uses, the Consultant Team analyzed recent sales transactions in the county and reviewed third-party property appraisals, with a focus on the Southern San Mateo County submarket (where the City of Menlo Park is located). According to the data, land value for commercially zoned land sold in recent years is $122 per square foot. Based on this work, the pro forma analysis estimated a land value of $125 per square foot in Menlo Park (see Figure VI-5). The actual value of any particular site is likely to vary based on its location, amenities, and property owner expectations, among other factors.

Return on Cost Thresholds

In order to understand how the different fee levels impact financial feasibility, the return on cost results can be compared to an investor's expectations for each type of development. The thresholds for this analysis were pegged to investor expectations regarding overall capitalization rates (cap rate) for each product type in the Bay Area. The cap rate, which is measured by dividing net income generated by a property by the total project value, is a commonly used metric to estimate potential returns. Lower cap rates signify high performing markets. In this analysis, the total project value is equivalent to the total development cost. PWC Real Estate Investor Survey (Fourth Quarter 2014) was the primary data source for determining cap rates for office/ R&D/ medical office and retail/restaurant/services uses. For hotel, cap rate data was obtained from HVS, a hotel consulting firm that tracks hotel markets.

To ensure that the financial analysis is conservative and does not reflect peak market conditions, the thresholds selected for determining project feasibility are slightly higher than the published cap rates. It was determined that the threshold for the return on cost is between 6.75 percent and 7.0 percent for office/ R&D/ medical office and retail/ restaurants/ services prototypes, and between 7.0 percent and 7.25 percent for hotel (see Figure VI-6).

Figure VI-3. Pro Forma Revenue Inputs by Prototype

Prototypes	Metric	Input
Hotel		
Average Daily Room Rate	Per Room	$220
Occupancy Rate	Annual	80%
Revenue per Available Room	Per Room	$176
Other Revenue per Room	Per Room	$30
Gross Annual Room Income (a)	RevPAR	$64,240
Gross Annual Other Revenue	Per Room	$10,950
Less: Vacancy (b)		$0
Less: Operating Expenses (c)	70%	$52,633
Annual Net Operating Income		$22,557
Retail/Services		
Revenues and Expenses (d)		
Monthly Rent - Triple Net	per NSF	$43
Operating Expenses	% of Gross	10%
Vacancy Rate	% of Gross	3%
Estimates		
Net Square Footage		95,000
Annual Gross Revenues		$4,085,000
Operating Expenses		($408,500)
Vacancy Rate		($122,550)
Annual Net Operating Income		$3,553,950
Office/R&D		
Revenues and Expenses (d)		
Monthly Rent - Gross	per NSF	$65
Operating Expenses	% of Gross	28%
Vacancy Rate	% of Gross	5%
Estimates		
Net Square Footage		90,000
Annual Gross Revenues		$5,850,000
Operating Expenses		($1,638,000)
Vacancy Rate		($292,500)
Net Operating Income		$3,919,500

Notes:

(a) RevPAR is a measure of revenue per room, calculated as occupancy percentage times average daily rate.

(b) Expense ratio for limited service and full-service hotels, based on a report from HVS and STR Consulting, July 2015.

(c)Vacancy is already reflected in RevPAR estimate.

(d) Costar Group average rents in the Southern San Mateo County submarket. A premium of 20% is applied to account for newer product.

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

Figure VI-4. Direct and Indirect Cost Inputs

Development Assumptions	Metric	Hotel	Retail/ Restaurants/ Services	Office/R&D/ Medical Office
Direct Costs (a)				
Building & On-Site Improvements (b)	per sq. ft. of GBA	$200	$130	$200
Parking Costs - Podium	per space	$25,000	$25,000	$25,000
Parking Costs - Surface	per space	$2,500	$2,500	$2,500
Indirect Costs (c)				
A&E & Consulting	% of Direct Costs	8%	8%	8%
Tenant Improvements	per NSF	N/A	$30	$40
Permits & Fees (d)	total	vary by city	vary by city	vary by city
Taxes, Insurance, Legal & Accounting	% of Direct Costs	3%	3%	3%
Financing Costs	% of Direct Costs	6%	6%	6%
Developer Overhead &Fee	% of Direct Costs	9%	9%	9%
Contingency	% of Indirect Costs	5%	5%	5%

Notes:

(a) Review of pro formas for similar projects in San Mateo County; RS Means, 2014.

(b) Hotel costs include Furniture, Fixtures & Equipment (FF&E).

(c) Indirect costs (except permits and fees) based on review of pro formas for similar projects in Bay Area.

(d) Permits & Fee provided by County staff.

Sources: Project pro formas; RS Means, 2014; HVS Consulting and Smith Travel Research, 2014; City staff; Strategic Economics, 2015.

Figure VI-5. Recent Commercial Vacant Land Transactions in San Mateo County

Property	City	Site Area	Sale Price/ Appraised Value	Sale Price/ SF	Sale Date
Central San Mateo County					
480 East 4th Ave	San Mateo	50,573	$5,100,000	$101	2013
1804 Leslie Street	San Mateo	13,939	$1,000,000	$72	2011
900 El Camino Real	Belmont	8,400	$655,000	$78	2010
Average		24,304	$2,251,667	$84	
Northern San Mateo County					
480 El Camino Real	Millbrae	5,663	$1,100,000	$194	On Market
1001-1015 E. Market Street	Daly City	37,897	$2,250,000	$59	On Market
6800 Mission Street	Daly City	17,424	$1,350,000	$77	2012
7255 Mission Street	Daly City	20,038	$1,225,000	$61	2012
Average		20,256	1,481,250	$98	
Southern San Mateo County					
3264 Haven Ave	Redwood City	27,000	$3,179,000	$118	On Market
1706 El Camino Real	Menlo Park	27,007	$2,200,000	$81	2011
1300 El Camino Real	Menlo Park	145,490	$24,500,000	$168	2012
Average		27,004	$2,689,500	$122	

Sources: Property appraisals; Loopnet, 2015; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure VI-6. Feasibility Thresholds for Return on Cost

Prototype	Capitalization Rates	Selected Threshold for Return on Cost
Hotel (a)	6.75% - 7.25%	7.0% - 7.25%
Retail/ Restaurants/ Services (b)	6.21% - 7.05%	6.75% - 7.0%
Office/ R&D/ Medical Office(c)	5.88% - 6.71%	6.75% - 7.0%

Notes:

(a) HVS Consulting, January 2015. Cap rate data was only available at the national level. However, the Bay Area market generally outperforms the rest of the country, so this estimate is likely lower than cap rates for San Mateo County.

(b) PWC Real Estate Investor Survey, National Retail Market, 4th Quarter 2014. Cap rates are lower for regional malls and power centers (under 7%) than for strip shopping centers. The feasibility threshold is set at the higher end of the range to represent smaller retail centers rather than large regional malls.

(c) PWC Real Estate Investor Survey, San Francisco Office Market, 4th Quarter 2014. Because capitalization rates for office may be peaking in the Bay Area market, and R&D and medical office uses have higher cap rates, the financial analysis set the threshold at a higher rate.

Sources: HVS Consulting, January 2015; PWC Real Estate Investor Survey, 4Q2014; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

RESULTS

Hotel

The financial analysis shows that without any commercial linkage fees, the hotel prototype is financially feasible (see Figure VI-7). The annual net operating income is approximately $3 million ($22,557 per room). The total development costs, including land, direct and indirect costs total about $41 million. The net operating income divided by total development costs yields a return on costs of 7.4 percent without the linkage fee. The minimum return on cost required for financial feasibility is 7.0 percent. When the existing BMR In Lieu Fee of $8.76 per square foot is added to development costs, the calculated return on costs is 7.2 percent. For the other fee scenarios, the results are as follows:

- The maximum fee level ($154 per square foot) increases total development costs to $56.1 million. The maximum fee accounts for 27 percent of total development costs. This fee scenario generates a calculated return on cost of 5.4 percent, which is an insufficient return on cost to attract development.

- Fee scenario 2, a lower nexus fee of $15 per square foot, is equivalent to 3.56 percent of development costs and generates a potential return on costs of 7.1 percent. The project is financially feasible with this return on cost.

- Scenario 3, a fee of $10 per square foot, would account for 2.4 percent of development costs. At this fee level, the return on cost is estimated at 7.2 percent, which is also financially feasible.

- Scenario 4 is a fee of $5 per square foot. This fee is 1.21 percent of the project's total development costs. The return on costs is estimated at 7.3 percent, which is also financially feasible.

Retail/ Restaurant/Services

The feasibility analysis indicates that at current market rents, without the addition of new linkage fees, new retail projects would obtain an annual net operating income of approximately $3.6 million, with a total development cost of $57.3 million. The net operating income divided by total cost results in a return on cost estimate of 6.2 percent (see Figure VI-7).

A retail prototype that provides this return on cost is not financially feasible in today's market, which would require a return of at least 6.75 percent. However in Menlo Park, most new retail development is likely to be incorporated into a mixed-use project, and would have stronger financial feasibility results, because it would share land costs with the residential or office component. Furthermore, with increased rental rates or reductions in land or construction costs, it is possible that the single-use retail prototype could be feasible in the near future.

To understand the financial burden of the fee scenarios on overall development costs, the pro forma analysis measures the fees as a percent of total development costs. The financial feasibility results for the retail/ restaurants/services prototype are as follows:

- Scenario 1, the maximum linkage fee ($265 per square foot) reduces the return on cost to 4.2 percent. The maximum fee accounts for almost one-third of total development costs.

- Scenario 2 ($15 per square foot) would correspond to 2.6 percent of development costs. At this fee level, the retail/restaurant/services prototype generates a return on costs of 6.0 percent.

- Scenario 3, a nexus fee of $10 per square foot, would be equivalent to 1.7 percent of total development costs. The calculated return on cost is estimated at 6.1 percent. While this is still under the feasibility threshold with today's rental rates, given that the current retail vacancy rate is under five percent, it is likely that the retail market will see growth in rental rates over the short term. With a modest increase in rental rates, a new development project with a linkage fee of $10 per square foot or less could be financially feasible in the near future.

- Scenario 4, a fee of $5 per square foot, accounts for less than one percent of total development costs. The return on cost with this linkage fee is estimated at 6.15 percent. For the reasons listed above, it is likely that given the strength of the retail market that a new development project with a linkage fee of $5 per square foot or less could be financially feasible in the near future.

Office/R&D/Medical Office

Under a base scenario with no commercial linkage fees on office/R&D/medical office development, a prototypical project generates an estimated net operating income of $3.9 million, with total development costs estimated at $47.3 million. The net operating income divided by the total development costs results in an estimated return on cost of 8.29 percent. A project that provides this return on cost would be financially attractive, given that the minimum expected return for this product type is between 6.75 and 7.0 percent (see Figure VI -7). When the City's existing BMR In Lieu fee on office/ R&D/ medical office development is applied, the return on cost is still very healthy at over eight percent.

For other fee scenarios, the feasibility analysis yields the following results:

- Scenario 1, a fee set at the maximum level of $255, would account for over one third of total development costs for the office/R&D/medical office prototype. The return on cost is estimated at 5.4 percent, which would not be financially feasible.

- Scenario 2, a fee level of $50 per square foot, would amount to 9.6 percent of total development costs. The calculated return on cost is 7.5 percent, which is financially feasible.

- Scenario 3, a fee level of $35 per square foot, is equivalent to 6.9 percent of total project development costs. Under this scenario, the office/R&D/medical office project generates a return on cost of 7.7 percent, which is financially feasible.

- The fee scenario 4 of $25 per square foot would be about five percent of total project costs. At this fee level, the prototype is financially feasible, with an estimated return on costs of almost 7.9 percent.

Figure VI-7. Pro Forma Analysis Results

	Hotel		Retail/Restaurants/ Services		Office/R&D/Medical Office	
Development Costs (a)	**per Room**	**Total**	**per SF of GBA**	**Total**	**per SF of GBA**	**Total**
Land	$95,668	$12,723,864	$325	$32,500,000	$102	$10,187,500
Direct Costs						
Building & On-Site Improvements	$150,376	$20,000,000	$130	$13,000,000	$200	$20,000,000
Parking	$9,750	$1,296,750	$33	$3,250,000	$55	$5,475,000
Total Direct Costs	$160,126	$21,296,750	$163	$16,250,000	$255	$25,475,000
Indirect Costs						
A&E & Consulting	$12,810	$1,703,740	$13	$1,300,000	$20	$2,038,000
Tenant Improvements			$29	$2,850,000	$36	$3,600,000
FF&E (b)	$0	$0				
Permits & Fees (Excl. BMR In Lieu Fee) (c)	$6,785	$902,410	$12	$1,165,979	$10	$986,716
Taxes, Insurance, Legal & Accounting	$4,804	$638,903	$5	$487,500	$8	$764,250
Financing Costs	$9,608	$1,277,805	$10	$975,000	$15	$1,528,500
Developer Overhead & fee	$13,611	$1,810,224	$14	$1,381,250	$22	$2,165,375
Contingency	$2,381	$316,654	$4	$407,986	$6	$554,142
Total Indirect Costs	$49,998	$6,649,735	$86	$8,567,715	$116	$11,636,983
Total Development Costs (TDC) without Nexus Fees		$40,670,348		$57,317,715		$47,299,483
TDC with Nexus Fees by Fee Scenario	**Linkage Fee/SF**	**TDC incl. Linkage Impact Fee**	**Linkage Fee/SF**	**TDC incl. Linkage Impact Fee**	**Linkage Fee/SF**	**TDC incl. Linkage Impact Fee**
No Fee	$0.00	$40,670,348	$0.00	$57,317,715	$0.00	$47,299,483
Existing BMR In Lieu Fee	$8.76	$41,546,348	$8.76	$58,193,715	$16.15	$48,914,483
Scenario 1: Maximum Fee	$154.11	$56,081,510	$264.98	$83,815,535	$255.38	$72,837,936
Scenario 2	$15.00	$42,170,348	$15.00	$58,817,715	$50.00	$52,299,483
Scenario 3	$10.00	$41,670,348	$10.00	$58,317,715	$35.00	$50,799,483
Scenario 4	$5.00	$41,170,348	$5.00	$57,817,715	$25.00	$49,799,483
Revenues	**per Room**	**Total**	**per SF of GBA**	**Total**	**per SF of GBA**	**Total**
Annual Net Operating Income (d)	$22,557	$3,000,081	$36	$3,553,950	$39	$3,919,500
Return on Cost by Fee Scenario:	**Nexus Fee per SF**	**Return on Costs**	**Nexus Fee per SF**	**Return on Costs**	**Nexus Fee per SF**	**Return on Costs**
No Fee	$0.00	7.38%	$0.00	6.20%	$0.00	8.29%
Existing BMR In Lieu Fee	$8.76	7.22%	$8.76	6.11%	$16.15	8.01%
Scenario 1: Maximum Fee	$154.11	5.35%	$264.98	4.24%	$255.38	5.38%
Scenario 2	$15.00	7.11%	$15.00	6.04%	$50.00	7.49%
Scenario 3	$10.00	7.20%	$10.00	6.09%	$35.00	7.72%
Scenario 4	$5.00	7.29%	$5.00	6.15%	$25.00	7.87%
Fees as % of TDC	**Nexus Fee per SF**	**Nexus Fee as % of TDC**	**Nexus Fee per SF**	**Nexus Fee as % of TDC**	**Nexus Fee per SF**	**Nexus Fee as % of TDC**
No Fee	$0.00	0.00%	$0.00	0.00%	$0.00	0.00%
Existing BMR In Lieu Fee	$8.76	2.11%	$8.76	1.51%	$16.15	3.30%
Scenario 1: Maximum Fee	$154.11	27.48%	$264.98	31.61%	$255.38	35.06%
Scenario 2	$15.00	3.56%	$15.00	2.55%	$50.00	9.56%
Scenario 3	$10.00	2.40%	$10.00	1.71%	$35.00	6.89%
Scenario 4	$5.00	1.21%	$5.00	0.86%	$25.00	5.02%
Return on Cost - Threshold for Feasibility		7.0-7.25%		6.75-7.0%		6.75-7.0%

Notes:
(a) See Figure VI-4.
(b) Furniture Fixtures & Equipment for hotel is included in the direct costs.
(c) Permit & fee calculations provided by City Staff. These are estimates for the prototypes created in this analysis; specific development projects may have different results.
(d) See Figure VI-3.

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

POLICY CONSIDERATIONS

While the nexus study provides the necessary economic analysis for the linkage fees, it is up to policymakers to decide what percentage of the maximum fee to charge to new development. Financial feasibility is one important factor to examine. In addition, there are a number of other policy issues to consider, such as:

- How much development fees would increase with a new commercial linkage fee;
- How a commercial linkage fee in Menlo Park would compare with those in neighboring jurisdictions;
- What options exist for establishing alternatives to the payment of fees; and
- How a commercial linkage fee fits into Menlo Park's overall housing strategy

Existing City Fees on Commercial Development

In addition to its existing BMR in lieu fee, the City of Menlo Park has other permits and fees on new development. The City may wish to consider the amount that total fees would increase with an updated commercial linkage fee. Based on the current schedule of fees in Menlo Park, existing fees (including the existing BMR in lieu fees) for the commercial prototypes are estimated to be $18 per square foot for the hotel prototype, $20 per square foot for the retail/restaurants/services prototype, and $26 per square foot for the office/R&D/medical office prototype. If the maximum linkage fees were adopted, the total development fees and permits would be $163 per square foot for hotel, $277 per square foot for retail, and $265 for office, as shown in Figure VI-8.

Figure VI-8. Existing City Fees on Commercial Development by Prototype

	Hotel	Retail/ Restaurants/ Services	Office/R&D/ Medical Office
Existing Fees/ Permits per SF (excl. linkage fee)	$9	$12	$10
Current Linkage Fee	$9	$9	$16
Total Existing Fees Per SF	$18	$20	$26
Fee Scenario 1 (Maximum Fees)			
Nexus Fee Per SF	$154	$265	$255
Combined Fees Per SF	$163	$277	$265
Fee Scenario 2			
Nexus Fee Per SF	$15	$15	$50
Combined Fees Per SF	$24	$27	$60
Fee Scenario 3			
Nexus Fee Per SF	$10	$10	$35
Combined Fees Per SF	$19	$22	$45
Fee Scenario 4			
Nexus Fee Per SF	$5	$5	$25
Combined Fees Per SF	$14	$17	$35

Sources: City of Menlo Park, 2014; Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

Comparison with Fees Charged in Other Jurisdictions

Figure VI-9 provides comparative information for Menlo Park and other jurisdictions in San Mateo County and Santa Clara County that charge commercial linkage fees.[19] At present, Menlo Park has fees of $8.76 per square foot for hotel and retail/restaurant/services development, and $16.15 per square foot for office/R&D/medical office development. Menlo Park's existing fees are similar to the linkage fees adopted in Sunnyvale, San Francisco and Cupertino, which range from $7.5 to $24 per square foot, depending on the land use. In most cases, cities have adopted higher fee levels for office/ R&D/ medical office uses than for retail and hotel uses. For example, in Cupertino, the commercial linkage fee for hotel and retail/ restaurants/ services is $10 per square foot, compared to $20 per square foot for office/ R&D/ medical office uses. The maximum fees for Menlo Park are significantly higher than adopted linkage fees in the region. The lower fee scenarios (Scenarios 2, 3, and 4) are similar to those in place in nearby communities.

[19] It is important to note that Palo Alto is currently conducting a new nexus study that may result in revised commercial linkage fees.

Figure VI-9. Comparison to Linkage Fees in Neighboring Cities

	Hotel	Retail/ Restaurant/ Services	Office/R&D/ Medical Office	Date Fee Was Adopted
Linkage Fee Scenarios (per SF)				
Existing Linkage Fee	$9	$9	$16	2000
Scenario 1 - Maximum Fee	$154	$265	$255	N/A
Scenario 2	$15	$15	$50	N/A
Scenario 3	$10	$10	$35	N/A
Scenario 4	$5	$5	$25	N/A
Fees in Nearby Cities				
Cupertino	$10	$10	$20	2015
Mountain View (a)	$2.50	$2.50	$25	2015
Palo Alto (b)	$19	$19	$19	2014
San Francisco (c)	$18	$22	$16-$24	2015
Sunnyvale	$7.50	$7.50	$15 (d)	N/A

Notes:
(a) New gross floor area under 25,000 SF pays 50 percent of full fee.
(b) Palo Alto has a single fee of $19.31 per SF for commercial and industrial projects and for any new gross square footage. A new nexus study is currently underway that may result in an updated fee.
(c) The fee for R&D is $16.01 and the fee for office is $24.03. The fee for a small enterprise is $18.89.
(d) The fee on the first 25,000 SF is discounted by 50 percent.
Sources: City staff and websites; Nonprofit Housing Association of Northern California, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Other cities in the Bay Area outside of San Mateo and Santa Clara counties also have commercial linkage fees that can be compared to the potential fee scenarios for Menlo Park. A summary of some of these existing fees is shown in Figure VI-10, based on the most current information available. The fee amounts vary significantly by jurisdiction. San Francisco has the highest impact fees on commercial development, ranging from $16 for R&D space to $24 for office space.

Figure VI-10. Existing Linkage Fees in Bay Area Cities

City	Commercial Development Subject to Fees	Fee Amount
Walnut Creek	All development commercially classified i.e. R&D, for-profit medical offices/hospitals, etc.	$5.00 per SF
Oakland	Office and Warehouse/Distribution	$5.24 per SF used for office of warehouse /distribution needs beyond 25,000 SF
San Francisco	Entertainment, Hotel, Office, R&D, Retail, Integrated PDR, Small Enterprise Workspace	Based on type of space and additional gross SF past 25,000 Entertainment/retail: $22.42 per SF Office: $24.03 per SF Integrated PDR/small enterprise: $18.89 per SF Hotel: $17.99 per SF R&D: $16.01 per SF
Dublin	Industrial, Office, R&D, Retail, Services & Accommodations	Industrial: $.048 per SF Office: $1.24 per SF R&D: $0.81 per SF Retail: $1.00 per SF Services & Acc.: $0.42 per SF * Buildings less than 20,000 SF are exempt.
Pleasanton	All commercial office or industrial development projects	$2.87 per SF Adjusted annually based on CPI
Alameda	Retail, Office, Warehousing, Manufacturing, Hotel//Motel	Retail: $2.24 per SF Office: $4.42 per SF Warehouse & Manufacturing: $0.77 per SF Hotel/Motel: $1,108 per room/suite May be adjusted annually based on CPI
Napa	Office, Hotel, Retail, Industrial (Industrial, Warehouse, Wine Production)	Office: $1.00 per SF Hotel: $3.00 per SF Retail: $0.80 per SF Industrial: $0.50 per SF
San Rafael	Office or R&D, Retail, Restaurant, Personal Service, Manufacturing, Light Industrial, Warehouse, Hotel/Motel	5,000 SF or more to provide affordable housing units or pay a fee * $254,599 per unit Office & R&D: 0.03 units Retail, Restaurant or Personal Service: 0.0225 units Manufacturing or Light Industrial: 0.01625 units Warehouse: 0.00875 units Hotel/Motel: 0.0075 units

Figure VI-12. Summary of Existing Linkage Fees in Other Bay Area Cities (Continued)

City	Commercial Development Subject to Fees	Fee Amount
Petaluma	Commercial, Retail, Industrial	Commercial: $2.14 per SF Retail: $3.69 per SF Industrial: $2.21 per SF
Emeryville	Any development of non residential uses for which a discretionary permit or building permit is required	$4.00 per SF
Berkeley	Developments in non-residential and R-4 Zones, except in South Berkeley IX Target Area, over 7,500 SF	Office/Retail/Restaurant/Hotel/Lodging/R&D: $4.50 per SF Industrial/Manufacturing/Warehouse/Storage: $2.25 per sq. ft

Sources: The Non-Profit Housing Association of Northern California, Strategic Economics, and Vernazza Wolfe Associates, Inc, 2015.

Options for Establishing Alternatives to Payment of Fees

When Menlo Park updates its ordinance governing commercial linkage fees, it can provide options that developers may choose instead of the payment of fees. For example, one option would be for the developer to provide affordable housing units on- or off-site or to provide a building site for affordable housing. This flexibility is provided to allow development of creative solutions that may provide more affordable housing than would be created by payment of fees. Regardless of whether a commercial developer elects to provide affordable housing or provide a building site, it is necessary to calculate how these alternatives would compare with any fees established by the City.

The first step in establishing options for a specific development project would be for the City to calculate the total fees that are owed by the new development. Then, establishing an alternative compliance method will depend on what is offered by the developer. For example, if the developer offers to provide land for an affordable housing site, a recent site appraisal generally suffices to place a value on a contribution of land. This land value can then be compared with the fees that the developer would normally pay. If, instead of paying a fee, the developer elects to provide affordable housing units, it is also possible to estimate the value of these units by multiplying the number of affordable units to be provided by a current affordability gap estimate per unit. The value of alternative compliance measures needs to be calculated at the time a developer requests one.

Benefit to the City of Menlo Park's Overall Affordable Housing Strategy

The City of Menlo Park adopted its Below Market Rate Housing Ordinance in 1988, which set up an inclusionary housing program for residential development. The inclusionary housing program requires that all residential developments of five or more units provide below-market rate units. Since 2009, due to the Palmer court decision, the City has not enforced BMR requirements on rental residential projects; the requirement only applies to for-sale housing development projects. Projects with 20 units or less are required to provide at least 10 percent of the units at BMR prices, and projects with more than 20 units are required to provide 15 percent of units at BMR prices. In some cases, the payment of in lieu fees is permitted.

In addition to the inclusionary housing program, the ordinance also enabled the establishment of a commercial linkage fee on commercial developments of 10,000 square feet or more (churches, schools, and public facilities are exempt). The fees for the upcoming 2015-2016 fiscal year are approximately $16 per square foot for office and R&D uses, and $8 per square foot for retail, hotel, and other commercial uses.

The revenues collected from the commercial linkage fee provide an important source of local funding for affordable housing; however, fee revenues do not generally cover the entire funding gap encountered by sponsors of new affordable housing. Additional funding is almost always required.

Currently, affordable housing in the City of Menlo Park is funded through the use of a variety of sources, including funding provided by the City and San Mateo County, as well as the federal government, e.g., CDBG and HOME. Equity required for affordable housing development is also provided directly by developers and indirectly raised through the allocation and sale of Low Income Housing Tax Credits. Also, a portion of permanent financing comes from conventional loans obtained from private lending institutions.

Commercial linkage fee revenues would continue to be deposited into the City's Housing Fund to support affordable housing for extremely low, very low, low and moderate income households. The City's Housing. The existence of a local revenue source such as linkage fees can also make certain projects more competitive for outside funding. It should be noted that revenues from a commercial linkage fee need to be spent on

housing that benefits the workforce since the funds stem from affordable housing impacts related to new employment.

Potential for Overlap between Residential and Commercial Fees

The Consultant Team has prepared a housing impact fee nexus study simultaneous to this commercial linkage fee nexus study. The City has the option of adopting housing impact fee as well as the commercial linkage fee considered in this report. One issue that may arise if a city considers the adoption of both fees is whether there is any overlap between the two impact fees, resulting in potential "double-counting" of impacts.

The commercial linkage fee study examined jobs located in new commercial buildings including office/ R&D/ medical office buildings, retail/ restaurants/ services, and hotels. The nexus analysis then calculated the average wages of the workers associated with each commercial building to derive the annual income of the new worker households. The analysis determines the area median income (AMI) level of the new worker households to identify the number of worker households that would require affordable housing.

The housing impact fee nexus analysis provided in a separate nexus report to the City examined households buying or renting new market rate units in the jurisdiction. The household expenditures by these new residents have an economic impact in the City, which can be linked to new jobs. The nexus analysis quantified the jobs linked to new household spending, and then calculated the wages of new workers and the household income of new worker households. Each worker household was then categorized by AMI to determine the number of households that require affordable housing.

There may be a share of jobs counted in the commercial linkage fee analysis that are also included in the residential nexus analysis, particularly those in the service sector. Other types of jobs counted in the residential nexus analysis are unique to that analysis, and are not included in the commercial linkage fee analysis (for example, public sector employees). The commercial linkage fee analysis is limited to private sector office/ R&D/ medical office buildings, hotels, and retail/ restaurants/ services space.

There is potential that some jobs could be counted in both analyses, and that the two programs may overlap in mitigating the affordable housing demand from the same worker households. Each of the proposed fees is required to mitigate no more than 100 percent of the demand for affordable units by new worker households. In order to reduce the potential for overlap between the two programs, it is advisable to set both the commercial linkage fees and housing impact fees at below 100 percent of the nexus-based maximum. In this way, when combined, the programs would mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

Administrative Issues

Similar to any impact fee, the fee should be adjusted annually for inflation and increases in construction costs. Adjustments are also needed due to possible changes in the housing affordability gap. However, the connection between new residential construction and growth in employment derived from employment densities is unlikely to change in the short run.

It is advisable that the City continue adjusting its commercial linkage fee annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees to compensate for inflation in development costs. To simplify annual adjustments, it is recommended that the City select a cost index that is routinely published. While there is no index that tracks changes in the City of Menlo Park's development costs, including land, there are a few other options to consider.

- The first option is the Consumer Price Index (Shelter Only). The shelter component of the index covers costs for rent of primary residence, lodging away from home, owner's equivalent rent of primary residence, and household insurance. Of the total shelter index, costs associated with the owner's equivalent rent of primary residence constitute 70 percent of total costs entered into the index.

- A second option to adjust the fee for annual inflation is the construction cost index published in the Engineering News Record (ENR). This index is routinely used to update other types of impact fees. Cost index information for the San Francisco area, the closest geographical area to Menlo Park, is available on an annual basis. While this index measures inflation in construction costs, it does not incorporate changes in land costs and public fees charged on new development.

While both indices measure changes in housing costs, both understate the magnitude of inflation for the reasons presented above. However, since these indices are readily available and relatively simple to use, it is recommended, that City use these indices for annual adjustments. It is further recommended that the City base its annual adjustment mechanism on the higher of the two indices (CPI or ENR), using a five-year moving average as the inflation factor.

In addition to revising the fee annually for inflation, the City is encouraged to update the commercial linkage fee study every five years, or at the very least, update the housing affordability gap used in the basic model. The purpose of these updates is to insure that the fee is still based on a cost/revenue structure that remains applicable in the Menlo Park housing market. In this way, the fee will more accurately reflect any structural changes between affordable prices/rents and market rate sales prices/development costs.

VII. GLOSSARY OF TERMS AND ACRONYMS

GLOSSARY OF TERMS

Affordable Housing: Under state and federal statutes, housing is defined as affordable if housing costs do not exceed 30 to 35 percent of gross household income.

Annual Adjustment Mechanism: Due to inflation in housing construction costs, it is frequently necessary to adjust impact fees. An index, such as the Consumer Price Index (CPI) or a published construction cost index (for example, from the Engineering News Record) is used to revise housing fees to reflect inflation in housing construction costs.

Assisted Housing: Housing that has received public subsidies (such as low interest loans, density bonuses, direct financial assistance, etc.) from federal, state, or local housing programs in exchange for restrictions requiring a certain number of housing units to be affordable to very low, low, and moderate income households.

Boomerang Funds: Monies returned to the City by the State of California, after dissolution of redevelopment agencies in the State.

Consumer price index (CPI): Index that measures changes in the price level of a market basket of consumer goods and services purchased by households.

Employment Densities: The amount of square feet per employee is calculated for each property use that is subject to a commercial development housing linkage fee. Employment densities are used to estimate the number of employees that will work in a new commercial development.

Household: The US Census Bureau defines a household as all persons living in a housing unit whether or not they are related. A single person living in an apartment as well as a family living in a house is considered a household. Households do not include individuals living in dormitories, prisons, convalescent homes, or other group quarters.

Household Income: The total income of all the persons living in a household. Household income is commonly grouped into income categories based upon household size and income, relative to the regional median family income.

Housing Affordability Gap: The affordability gap is defined as the difference between what a household can afford to spend on housing and the market rate cost of housing. Affordable rents and sales prices are defined as a percentage of gross household income, generally between 30 percent and 35 percent of income.

For renters, rental costs are assumed to include the contract rent as well as the cost of utilities, excluding cable and telephone service. The difference between these gross rents and affordable rents is the housing affordability gap for renters. This calculation assumes that 30% of income is paid for gross rent.

For owners, costs include mortgage payments, mortgage insurance, property taxes, property insurance, and homeowner association dues.[20] The difference between these housing expenses and affordable ownership costs is the housing affordability gap for owners. This calculation assumes that 35% of income is paid for housing costs.

Housing Subsidy: Housing subsidies refer to government assistance aimed at reducing housing sales prices or rents to more affordable levels.

Housing Unit: A housing unit can be a room or group of rooms used by one or more individuals living separately from others in the structure, with direct access to the outside or to a public hall and containing separate toilet and kitchen facilities.

Inclusionary Zoning: Inclusionary zoning, also known as inclusionary housing, refers to a planning ordinance that requires that a given percentage of new construction be affordable to households with very low, low, moderate, or workforce incomes.

In-Lieu Fee: A literal definition for an in-lieu fee for inclusionary units would be a fee adopted "in place of" providing affordable units. For the purposes of operating an inclusionary housing program, a public jurisdiction may adopt a fee option for developers that prefer paying fees over providing housing units on- or off-site. A fee study is frequently undertaken to establish the maximum fee that can be charged as an in-lieu fee. This fee study must show that there is a reasonable relationship between the fee and the cost of providing affordable housing.

Market-Rate Housing: Housing which is available on the open market without any public subsidy. The price for housing is determined by the market forces of supply and demand and varies by location.

Nexus Study: In order to adopt a residential housing impact fee or a commercial linkage fee, a nexus study is required. A nexus requires local agencies proposing a fee on a development project to identify the purpose of the fee, the use of the fee, and to determine that there is "a reasonable relationship between the fee's use and the type of development project on which the fee is imposed." A Nexus Study establishes and quantifies a causal link or "nexus" between new residential and commercial development and the need for additional housing affordable to new employees.

Non-Residential Development Housing Impact Fee (or Linkage Fee): A fee or charge imposed on commercial developers to pay for a development's impact on the need for affordable housing. The fee is

[20] Mortgage terms for first-time homebuyers typically allow down payment of five percent; these terms require private mortgage insurance.

based on projected household incomes of new employees that will work in newly created space. The fee varies according to the type of property use.

Palmer Case: This civil suit affects rental housing only. It affirmed that the Costa Hawkins Rental Act, passed in 1995 by the California State Legislature, applies to inclusionary rental units. The implication of this finding is that cities or counties cannot require rental property owners to rent inclusionary units that become vacant at below market rents, unless the developer accepted financial assistance (including fee waivers) or received other incentives that lowered development costs.

Patterson Case: This civil suit affects fees for both rental and ownership housing. This decision addressed the way in which in-lieu housing fees were calculated in the City of Patterson, which had been somewhat arbitrary. The Court ruled, that, as long as an in-lieu fee is based on a formula related to the cost of developing inclusionary units, a locality can continue to operate an inclusionary program for for-sale housing that requires either units or payment of an in-lieu fee.

Property Prototypes: Property prototypes are used for residential and commercial developments in order to define housing impact fees. The prototypes generally represent new development projects built in a community and are used to estimate affordable housing impacts associated with new market rate commercial and residential developments. While the prototypes should be "typical" of what is built, for ease of mathematical computation, they are often expressed as larger developments in order to avoid awkward fractions.

Residential Housing Impact Fee: A fee imposed on residential development to pay for a development's impact on the need for affordable housing. The fee is based on projected incomes of new employees associated with the expansion of market rate developments. Two steps are needed to define the fees. The first step is the completion of a nexus study, and the second step entails selection of the actual fee amount, which can be below the amount justified by the fee study, but not above that amount.

RS Means: Data source of information for construction cost data.

DEFINITION OF ACRONYMS

AMI: Area Median Income

CBIA: California Building Industry Association

EDD: State of California Employment Development Department

FAR: Floor-area-ratio

FF&E: Furniture, Fixtures, and Equipment

GBA: Gross Building Area

HCD: Department of Housing and Community Development (State of California)

NAICS: North American Industry Classification System

NSF: Net Square Feet

QCEW: Quarterly Census of Employment and Wages

R&D: Research and development

SF: Square Feet

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DRAFT REPORT

Residential Impact Fee Nexus Study

July 2016

prepared for:
City of Menlo Park

STRATEGIC ECONOMICS

VWA

Vernazza Wolfe Associates, Inc.

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I. EXECUTIVE SUMMARY

INTRODUCTION

This report is part of the 21 Elements multi-city nexus study, a collaborative effort to mitigate the impacts of new development on the demand for affordable housing in San Mateo County. In February 2014, 22 jurisdictions in the county partnered to hire Strategic Economics and Vernazza Wolfe Associates, Inc. to develop nexus studies for commercial linkage fees and residential impact fees.[1] The project was initiated by 21 Elements, a countywide collaboration among all the cities in San Mateo County on housing issues. The preparation of these fee studies may result in the adoption of new impact fees on either residential, commercial or both types of developments. This draft report describes the methodology, data sources, and analytical steps required for the residential nexus analysis for the City of Menlo Park.

BACKGROUND

The City of Menlo Park currently has an inclusionary housing program, including an in-lieu fee on for-sale housing units, as well as a commercial linkage fee in place. Menlo Park is now potentially interested in adopting an affordable housing impact fee on new residential development. The purpose of this fee would be to mitigate the impact of an increase in affordable housing demand from new worker households associated with new market-rate residential units. When a city or county adopts a development impact fee, it must establish a reasonable relationship or connection between the development project and the fee that is charged. Studies undertaken to demonstrate this connection are called nexus studies. This nexus study quantifies the connection between the development of market rate housing and the demand for affordable housing units. This project also includes an update to the City's commercial linkage fee, the results of which are provided in a separate report.

This residential nexus study measures the income and spending generated by the new market rate households renting or buying new units in Menlo Park. 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, for example in the retail and personal services sectors. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in Menlo Park, 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.

REPORT ORGANIZATION

This executive summary provides an overview of the housing nexus analysis methodology and results. The subsequent chapters of the report contain more detailed information regarding the methodology, data sources, and the steps of the analysis. The report is organized into seven sections and a glossary of terms. Following this executive summary, Section II provides an introduction to the purpose of the study, and an overview of the methodology. Section III presents the residential prototypes used in the analysis. Section IV describes the methodology and results of the IMPLAN economic impact analysis. Section V covers the housing affordability gap analysis. Section VI presents the maximum fee calculation based on the nexus analysis and affordability gap results. The final section, Section VII, discusses financial feasibility and other policy considerations that jurisdictions typically weigh before implementing a nexus fee.

[1] Participating jurisdictions include: Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Millbrae, Pacifica, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo City, San Mateo County, South San Francisco, and Woodside.

NEXUS FEE IMPLEMENTATION OPTIONS

Menlo Park has the option of implementing a new impact fee on single-family detached, single-family attached, rental and condominium housing or continuing its existing below market rate (BMR) programs for rental and for-sale housing consistent with recent court decisions.[2] The maximum single-family detached impact fee per unit is $197,963 ($66 per square foot), the maximum townhouse fee per unit is $112,387 ($66 per square foot), the maximum condominium impact fee per unit is $81,203 ($45 per square foot), and the maximum apartment fee per unit is $72,766 ($79 per square foot). If Menlo Park elects to adopt an impact fee on single-family detached housing, the recommended fee range is between $25 and $50 per square foot. For single-family attached housing, if the City decides to adopt an impact fee, the recommended range is between $25 and $50 per square foot. In the case of a condominium housing impact fee, the recommended fee range is between $25 and $35 per square foot. If the City proceeds with a rental housing impact fee, the recommended fee orange is between $25 and $50 per square foot. These recommendations are based on the findings of the financial feasibility analysis, a comparison of fees in neighboring jurisdictions, and the potential for overlap between the residential impact fee and the commercial linkage fee. The maximum and recommended fee levels are shown in Figure I-1.

Figure I-1. Recommended Housing Nexus Fees by Residential Prototype

Prototype	Maximum Justified Fee per Unit	Maximum Justified Fee per SF	Recommended Fee per Unit	Recommended Fee per SF
Single-Family Detached	$197,963	$66	$75,000 - $150,000	$25 - $50
Single-Family Attached	$112,387	$66	$42,500 - $85,000	$25 - $50
Condominium	$81,203	$45	$45,000 - $63,000	$25 - $35
Apartments	$72,766	$79	$22,900 - $45,800	$25 - $50

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

NEXUS ANALYSIS RESULTS

This section describes the steps taken to calculate the nexus-based fee amount per housing unit. More detail on each step can be found in other sections of this report.

Prototypes

The first step in the nexus analysis is developing residential housing prototypes. The prototypes establish the types of market rate housing development that are occurring or are expected to occur in the city that could potentially be subject to the affordable housing impact fee. The fees calculated in this nexus study are only applicable to the housing prototypes defined in this analysis.

Based on historical development trends, market data, broker interviews, and input from city staff, the Consultant Team constructed four housing prototypes that represent the type of development that is likely to occur in Menlo Park: for-sale single-family detached, single-family attached, and condominiums, and rental apartments. These development prototypes are not intended to represent specific development projects; rather, they are designed to illustrate the type of projects that are likely to be built in Menlo Park in the near future. Figure I-2 provides information on the unit type and size, as well as estimated sales prices and average monthly rents for each prototype.

[2] The City can operate its inclusionary program for rental housing, assuming that it provides cost off-sets and other incentives that allow its program to be consistent with the Palmer case decision.

Figure I-2. Sales Prices and Rental Rates of Residential Prototypes

Prototype	Unit Type	Number of Units	Net Area (SF)	Unit Sales Price/ Monthly Rent	Price or Rent per SF
Single-Family Detached (For-Sale)					
Wood siding wood frame	4 BD/4 BA	10	3,000	$2,600,000	$867
6 units per acre					
Attached garage					
Net Residential Area (Net SF)			30,000		
Single-Family Attached (For-Sale)					
Type V wood frame	3 BD/3 BA	20	1,700	$1,428,000	$840
13 units per acre					
Tuck-under podium parking					
Net Residential Area			34,000		
Condominiums (For-Sale)					
Type V wood frame	4 BD/3 BA	150	1,800	$980,000	$544
35 units per acre					
Subterranean parking					
Net Residential Area (Net SF)			270,000		
Apartments (Rental)					
Type V wood frame	Studio	9	600	$2,700	$4.50
43 units per acre	1 BD/1 to 2 BA	79	800	$3,200	$4.00
Podium parking	2 BD/1 to 2 BA	59	1,100	$4,200	$3.82
	3 BD/2 BA	3	1,300	$4,000	$3.08
Net Residential Area			137,400		
Average Net SF per Unit			916		

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

Household Income

The next step is to calculate the annual household incomes of the buyers of new for-sale condominium units and the renters occupying new apartment units by using the sales prices and rents shown in Figure I-2. Threshold incomes needed to purchase or rent units are based on standards used in the housing industry.[3] Figure I-3 shows the estimated household income of buyers of single-family detached units, Figure I-4 does so for buyers of single-family attached units, Figure I-5 summarizes the estimated household incomes of condominium buyers, and Figure I-6 presents the calculated household incomes of apartment renters. Household incomes are a key input to the IMPLAN3 economic impact analysis described in Section IV of this report.

Figure I-3. Estimated Annual Household Incomes of Buyers of Single-Family Detached Units

	Single-Family Detached Unit Type
	4 BR/4 BA
Number of Households	10
Sales Price	$2,600,000
Household Income	$463,706

Source: Applied Development Economics, Inc., 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

[3] These standards are presented in Section III of this report.

Figure I-4. Estimated Annual Household Incomes of Buyers of Single-Family Attached Units

	Single-Family Attached Unit Type
	3 BR/3 BA
Number of Households	20
Sales Price	$1,428,000
Household Income	$263,253

Source: Applied Development Economics, Inc., 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

Figure I-5. Estimated Annual Household Incomes of Buyers of Condominium Units

	Condominium Unit Type
	4 BR/3 BA
Number of Households	150
Sales Price	$980,000
Household Income	$190,210

Source: Applied Development Economics, Inc., 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

Figure I-6. Estimated Annual Household Incomes of Renters of Apartment Units

	Apartment Unit Type			
	Studio	1 BR/ 1 to 2 BA	2 BR/ 1 to 2 BA	3 BR/ 2 BA
Number of Households	9	79	59	3
Monthly Rent	$2,700	$3,200	$4,200	$4,000
Household Income	$108,000	$128,000	$168,000	$160,000

Source: Applied Development Economics, Inc., 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

Economic Impact Analysis (IMPLAN)

The next step is to determine employment and wage impacts of each prototype based on the incomes of the occupants of new housing units. The buyers and renters of the new market-rate condominiums and apartments create new spending in the local economy. These new expenditures can be linked to new jobs, many of which pay low wages. The job and wage impacts related to new market-rate housing units are measured using IMPLAN3, an economic impact analysis tool. An economics consulting firm, Applied Development Economics (ADE) undertook the IMPLAN3 analysis.

The results of the IMPLAN analysis indicate that many of the induced jobs generated within San Mateo County are in low-wage sectors like retail and food services (restaurants). However, a significant proportion of induced jobs are also in higher-paying resident-serving categories such as health care and government.

Demand for Affordable Housing

Recognizing that many households have more than one wage-earner, the next step is to calculate the number of worker households by dividing the total number of new workers by the average number of wage-earners per household in Menlo Park. However, not all of the worker households require affordable housing. To estimate the affordable housing demand, the average annual household income of worker households is sorted into income categories that are consistent with area median income (AMI) levels defined for San Mateo County and is specific to the average household size in the jurisdiction. Figure I-7 indicates that of the 11 new worker households associated with a single-family

detached development, there are 9 households that need affordable housing. The comparable figures for single-family attached, condominium and apartment developments are, respectively, about 10, 53, and 47 households.

Figure I-7. New Worker Households by Income Group for Single-Family Detached, Single-Family Attached, Condominium and Apartment Prototypes

Worker Households by Income Category	Single-Family Detached	Single-Family Attached	Condominium	Apartment
Households Requiring Affordable Housing				
Very Low Income (<=50% AMI)	2.7	3.1	16.8	15.5
Low Income (51-80% AMI)	2.8	3.1	17.0	15.1
Moderate Income (81-120% AMI)	3.1	3.5	19.2	16.7
Subtotal Very Low, Low, Moderate Income	8.6	9.8	53.0	47.3
Above Moderate Income Households	2.1	2.4	13.2	11.7
Total All Worker Households	10.8	12.2	66.2	59.0

Source: Applied Development Economics, Inc., 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

Affordability Gap

The next step is to quantify the total gap between what very low, low, and moderate-income households can afford to pay and the cost of building new, modest rental and for-sale housing units. This housing "affordability gap" number is then multiplied by the number of income-qualified households in each income category for single-family detached, single-family attached, condominium and apartment developments separately in order to estimate the total housing affordability gap for each prototype. Figures I-8 through I-11 present these totals for single-family detached, single-family attached, condominiums and apartments.

Figure I-8. Total Affordability Gap for Single-Family Detached

Income Level	Households Requiring Affordable Housing	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	2.7	$280,783	$768,368
Low-Income (50-80% AMI)	2.8	$240,477	$663,661
Moderate-Income (80-120% AMI)	3.1	$175,558	$547,599
Total	8.6		$1,979,628

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2014.

Figure I-9. Total Affordability Gap for Single-Family Attached

Income Level	Households Requiring Affordable Housing	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	3.1	$280,783	$872,429
Low-Income (50-80% AMI)	3.1	$240,477	$753,541
Moderate-Income (80-120% AMI)	3.5	$175,558	$621,761
Total	9.8		$2,247,731

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2014.

Figure I-10. Total Affordability Gap for Condominiums

Income Level	Households Requiring Affordable Housing	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	16.8	$280,783	$4,727,715
Low-Income (50-80% AMI)	17.0	$240,477	$4,083,459
Moderate-Income (80-120% AMI)	19.2	$175,558	$3,369,338
Total	53.0		$12,180,512

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2014.

Figure I-11.Total Affordability Gap for Apartments

Income Level	Households Requiring Affordable Housing	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	15.47	$280,783	$4,344,566
Low-Income (50-80% AMI)	15.12	$240,477	$3,635,157
Moderate-Income (80-120% AMI)	16.72	$175,558	$2,935,222
Total	47.31		$10,914,945

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2014.

Maximum Nexus-Based Fee

The final step in calculating the maximum housing impact fee by prototype is to divide the total gap at each income level by the number of units in each prototype. This maximum fee amount represents the ceiling on the fee that could be charged to mitigate affordable housing impacts from new residential development. The maximum single-family detached impact fee per unit is $197,963, the maximum single-family attached fee per unit is $112,387, the maximum condominium impact fee per unit is $81,203, and the maximum apartment fee per unit is $72,766. On a per-unit basis, the fees are highest for single-family detached units. The fees are also calculated on a per-square-foot basis by dividing the unit fee by the average size of the unit. On a per-square-foot basis, the maximum impact fee is $66 for single-family detached, $66 for single-family attached, $45 for condominiums and $79 for apartments. The per-square-foot fee is highest for apartments because the average unit size for apartments is smaller. Figure I-12 presents the results of this final step.

Figure I-12. Maximum Housing Impact Fee by Prototype

Prototype	Single-Family Detached	Single-Family Attached	Condominiums	Apartments
Total Number of Units	10	20	150	150
Average Unit Size	3,000	1,700	1,800	916
Total Affordability Gap	$1,979,628	$2,247,731	$12,180,512	$10,914,945
Maximum Fee per Unit	$197,963	$112,387	$81,203	$72,766
Maximum Fee per SF	$66	$66	$45	$79

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

POLICY CONSIDERATIONS

There are a number of policy considerations that should be taken into account when Menlo Park considers whether to adopt an affordable housing impact fee on new market-rate residential development to replace its existing inclusionary zoning program. These policy considerations may include factors such as: the likely financial impact of the proposed housing impact fees on development; the additional cost of the new fees on the existing city fee structure; a comparison of the fee scenarios to existing housing impact fees in nearby cities; the role of the fee in the City's overall strategy for affordable housing implementation; and the potential overlap with a commercial linkage fee. This section provides a discussion of each of these policy questions for Menlo Park.

Comparison to Neighboring Jurisdictions – A comparison of the nexus fee scenarios to current housing impact fees charged in nearby cities is an important element of the policy analysis. This comparison is challenging, because most cities in San Mateo County are participating in this multi-city nexus study, and may decide to adopt new fees or update existing fees. The maximum-justified fee levels for Menlo Park are considerably higher than the affordable housing impact fees that are currently in place in San Mateo County, in most cases. However, San Francisco has adopted fees ranging from $199,000 to $522,000 per unit, depending on the unit size, which are significantly higher than the maximum fee levels calculated for Menlo Park. If Menlo Park adopted fees within the recommended fee ranges, its fees would place it at the top end of the range for all unit types when compared to other cities in San Mateo and Santa Clara Counties, as shown in Figure I-13; however, its fees would be somewhat comparable to those charged in some cases in San Carlos, and possibly Sunnyvale's, depending on sales prices.

Figure I-I-13. Housing Impact Fees in Neighboring Cities

City	Single-Family Detached	Townhouses	Condominiums	Apartments
Cupertino	$15	$16.50	$20	$25
Daly City	$14	$18	$22	$25
East Palo Alto	$24	$23	$23-$44	$23
Mountain View	N/A	N/A	N/A	$17
San Carlos	$24-44	$21-$42	$21-$42	$24-$44
San Jose	N/A	N/A	N/A	$17
Sunnyvale	N/A	N/A	N/A	$17

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

Financial Feasibility – Financial feasibility is just one of several factors to consider in making a decision regarding a potential nexus fee. In order to provide Menlo Park with guidance on how proposed fees could impact development decisions, the Consultant Team conducted a financial feasibility analysis that tested the impact of proposed fee options on developer profit for each prototype. The four fee scenarios were tested at various calculated levels, including the maximum fee level and lower fee levels.

The feasibility analysis showed that establishing a fee at the maximum fee level would not have a negative impact on the financial feasibility of any of the housing prototypes. The financial feasibility results are particularly strong for the single-family detached and single-family attached prototypes, which currently command very high sales prices. The maximum fee levels for for-sale condominiums and rental apartments are marginally feasible under today's market conditions, generating a residual land value that is above the minimum price for multi-family land in Menlo Park. Slightly lower residential impact fees would increase the financial feasibility of the condominium and apartment prototypes.

Total Development Costs – Currently, the total development costs (including building and onsite improvements, parking, indirect costs, financing costs, and developer profit) are $241 per net square foot for the single-family detached prototype, $252 per net square foot for the townhouse prototype, $385 per net square foot for the condominium prototype and $365 per net square foot for the apartment prototype. When land costs are added to the project's development costs, costs increase to between $2576 and $361 per net square foot for the single-family detached prototype (depending on the land price of the site), between $287 and $372 per net square foot for the townhouse prototype, between $535 and $635 per net square foot for the condominium prototype, and between $515 and $615 per net square foot for the apartment prototype. The maximum housing impact fees represent 21.5 percent, 20.8 percent, 10.5 percent and 17.8 percent of total development cost of the single-family detached, townhouse, condominium and apartment prototypes, respectively (Figure I-14). A fee of $30 per square foot represents 11.1 percent, 10.7 percent, and 7.6 percent of total development costs for single-family detached, single-family attached, and apartment units. A $20 per square foot fee for condominium units represents 4.9 percent of total development costs.

Comparison to Existing City Fees – Menlo Park has existing city permits and fees on new development that would increase with the adoption of a new housing impact fee. The City may wish to consider the amount that total city fees would increase with the addition of a new housing impact fee. Based on the current schedule of fees in Menlo Park, existing fees (excluding the nexus fees) for the residential prototypes are estimated to be $31 per square foot for single-family detached units ($91,908 per unit), $42 per square foot for townhouses ($71,278 per unit), $38 per square foot for condominiums ($68,506 per unit) and $21 per square foot for rental apartments ($19,405 per unit).[4] These fee amounts do not include the BMR in-lieu fees that are currently charged. The maximum residential impact fee would increase city fees by about 200 to 400 percent, depending on the prototype, as shown in Figure I-15. A residential impact fee of $30 per square foot increases the total city permits and fees to $61 per square foot for single-family detached units, $72 per square foot for townhouses, and $51 per square foot for apartments. A residential impact fee of $20 per square foot for condominiums would increase total city permits and fees to $58 per square foot.

[4] The fee estimates presented above represent the best approximations available from Menlo Park.

Figure I-14: Housing Impact Fee Scenarios as Percent of Total Development Costs

Residential Impact Fee Scenario	Single-Family Detached		Townhouses		Condominiums		Apartments	
	Fee Amount	Fee as % of TDC	Fee Amount	Fee as % of TDC	Fee Amount	Fee as % of TDC	Fee Amount	Fee as % of TDC
No Fee	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Scenario 1: Max Fee	$66	21.48%	$66	20.77%	$45	10.47%	$79	17.80%
Scenario 2	$50	17.16%	$50	16.57%	$35	8.34%	$50	12.05%
Scenario 3	$40	14.22%	$40	13.71%	$25	6.10%	$40	9.88%
Scenario 4	$30	11.06%	$30	10.65%	$20	4.94%	$30	7.60%

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

Figure I-15: Total City Fees and Permits per Square Foot

Fee Scenario	Single-Family Detached		Single-Family Attached		Condominiums		Apartments	
	Residential Impact Fee	Total Permits and Fees	Residential Impact Fee	Total Permits and Fees	Residential Impact Fee	Total Permits and Fees	Residential Impact Fee	Total Permits and Fees
Existing Permits and Fees	$0	$31	$0	$42	$0	$38	$0	$21
Scenario 1 (Maximum Fee)	$66	$97	$66	$108	$45	$83	$79	$100
Scenario 2	$50	$81	$50	$92	$35	$73	$50	$71
Scenario 3	$40	$71	$40	$82	$25	$63	$40	$61
Scenario 4	$30	$61	$30	$72	$20	$58	$30	$51

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

Comparison to Existing BMR Policy – Menlo Park currently has an inclusionary housing program in place for ownership housing. The City's BMR Housing Program requires that 10 percent of new units in projects of between 5 and 20 units and 15 percent of new units in projects over 20 units must be affordable for very low, low, and/or moderate income households. While the City's primary objective is for BMR housing units to be built on-site, it does allow for the payment of an in-lieu fee, which is set at three percent of the sales price of for-sale units. If the City chooses to adopt a residential impact fee, the fee scenarios are equivalent to between 3.5 percent and 8.3 percent of sales price for ownership units.

Use of Fee Revenues – Residential impact fee revenues (and commercial linkage fee revenues) could augment the existing BMR Housing Fund. The existence of additional local revenue sources such as the residential nexus fees can also make certain projects more competitive for outside funding. Fee revenues must be spent on housing that benefits very low, low, and moderate income worker households.

Overlap with Commercial Linkage Fee - In addition to the residential impact fee described in this report, Menlo Park is also considering updating its linkage fees on commercial development. There may be a small share of jobs counted in the residential nexus analysis that are also included in the commercial impact fee analysis. Thus, the two programs may have some overlap in mitigating the affordable housing demand from the same worker households. In order to reduce the potential for overlap between the two programs, it is advisable to set both the commercial linkage fees and housing impact fees at below 100 percent of the nexus-based maximum. In this way, when combined, the programs would mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

II. INTRODUCTION AND METHODOLOGY

Menlo Park is considering a housing impact fee on new residential development. The purpose of this fee would be to mitigate the impact of an increase in demand for affordable housing due to employment growth associated with potential new residential 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. Nexus studies for school impact fees, traffic mitigation fees, and park fees are common. For housing impact fees, a methodology exists that establishes a connection between the development of market rate housing and the need to expand the supply of affordable housing. This study is based on this methodology.

The approach for this nexus study is to estimate the number of new workers that will be required to provide goods and services to the market rate households that are occupying new units in Menlo Park. Although growth in employment will provide jobs at various wage rates, many of the new jobs will be at low-wage rates in retail trade and services, consistent with job patterns in the County. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in Menlo Park, a housing impact fee can bridge the difference between what these new households can afford to pay and the costs of developing new housing units for them.

New market rate housing units in Menlo Park create a need for low-wage employees to provide goods and services to residents of the new units. If new market rate housing were not built, there would not be an increase in employment nor the accompanying demand for affordable housing from these new workers. Because housing impact fees are directly related to employment growth, the revenues collected from these fees needs to be spent on workforce housing and not on housing for households that do not participate in the labor force, such as retired seniors, unemployed homeless, and full-time student populations.

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 have usually been established based on the police power of cities and counties to enact legislation benefitting public health, safety, and welfare. In its recent decision on *California Building Industry Ass'n v. City of San Jose,* the California Supreme Court upheld this power of cities, finding that the objective of increasing affordable housing supply in economically diverse developments was "unquestionably" permitted by the U.S. Constitution.

However, in 2009, in *Palmer/Sixth Street Properties, L.P. v. City of Los Angeles,* the Court of Appeal held that inclusionary *rental* requirements violate the Costa Hawkins Rental Housing Act, which allows landlords to determine the rents of all new units. Affordable rental housing may still be required if a developer agrees by contract to do so, in exchange for financial assistance or regulatory incentives. However, in the absence of these incentives, restricted rents 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. Although a nexus analysis is not required to adopt inclusionary ordinances and in-lieu fees on for-sale housing, conducting a nexus study provides additional support for these requirements.

The nexus analyses presented in this study are 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. The maximum fee is not necessarily the recommended fee. Subsequent sections of this report address additional policy considerations to consider when adopting housing impact fees.

THE NEXUS CONCEPT

In a balanced housing market, the development of new market rate housing results in population growth. Residents purchasing and renting these new units now 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 households that purchase new housing units (or 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.

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 Menlo Park, a housing impact fee addresses the demand for affordable housing.

METHODOLOGY

The first step of the nexus analysis is to estimate the market prices or rents of new housing units. Based on these prices or rents, gross household incomes of buyers and renters are calculated. The gross household incomes of buyers and renters are then translated into direct economic impacts (new spending on retail goods and personal services), and induced impacts (new jobs and wage income) using the IMPLAN3 model. The IMPLAN3 analysis provides information on likely incomes of new workers. These incomes can then be used to estimate the demand for affordable housing from new worker households, and the costs of providing these affordable units.

Each step of the nexus analysis is described in greater detail below.

Step 1. Define the residential prototypes that represent new market rate housing development.
Based on a review of recent development trends, pipeline projects, and market data for the city and county, the residential prototypes are defined. The prototypes represent typical new market-rate development projects likely to occur in the city. The prototype definitions include information on the building characteristics, net residential area, unit mix and sizes, and sales prices or rents.

Step 2. Estimate household income of buyers and renters of new market rate units.
The average gross household income required to purchase or rent new market rate units is estimated based on the market value or rents of new units. For ownership units, the calculation assumes typical mortgage terms and assumes that buyers spend 35 percent of their gross incomes on housing costs. For rental units, is assumed that renter households spend 30 percent of their gross incomes on housing.

Step 3. Estimate economic impacts of new buyers and renters using IMPLAN3.
The IMPLAN3 model uses Bureau of Labor Statistics Consumer Expenditure Survey data to model the spending patterns of different income groups. The model estimates the increase in expenditures from new households, the number of new (induced) workers related to new households, and the occupations and wages of these new workers.

Step 4. Estimate the number of new worker households and annual household incomes.
The number of new induced workers from the IMPLAN3 analysis is divided by the average number of workers per household in the city (defined by the U.S. Census Bureau) to calculate the total number of worker households associated with each housing prototype. The average worker's wage calculated in the IMPLAN3 analysis is multiplied by the number of workers per household in the city to derive gross household income. This step assumes that the all wage-earners in a household have the same income.

Step 5. Estimate the demand for affordable housing from new worker households.
Based on the calculation of new worker household income, the worker households are categorized by target income group (very low income, low income, moderate income, and above moderate income). Worker households with above-moderate incomes are removed from the nexus analysis, because they would not require affordable housing.

Step 6. Estimate the affordability gap of new households requiring affordable housing.
The affordability gap represents the difference between what households can afford to pay for housing and the development cost of a modest housing unit. For very low and low income households, a rental housing gap is used. For moderate income households, the housing affordability gap is calculated separately for renter and owner households, and then the two gaps are combined to derive an average affordability gap for moderate income households.

Step 7. Estimate nexus-based fees for each prototype.
The number of new households requiring affordable housing is multiplied by the average affordability gap per household to estimate the total affordability gap for each prototype. The maximum per-unit and per-square foot fees are then calculated by dividing the aggregate affordability gap by the number of units or net residential area in each prototype.

III. RESIDENTIAL PROTOTYPES

The first step in the nexus analysis is developing residential housing prototypes. The residential prototypes establish the types of residential development that are occurring or are expected to occur in the city and could potentially be subject to the affordable housing impact fee. The housing prototypes are not intended to represent specific development projects; rather, they are designed to illustrate the type of projects that are likely to be built in Menlo Park in the near future. The fees calculated in this nexus study are only applicable to the housing prototypes defined in this analysis.

Based on estimated sales prices and rents of new market-rate units, the household incomes of buyers and renters of new units are estimated. This section of the report describes the methodology for establishing the prototypes and calculating the household incomes of buyers and renters of new market-rate units in Menlo Park. The estimated household incomes are then used as inputs to the IMPLAN3 analysis to estimate the employment impacts of the market-rate households, which is described in more detail in Section IV of this report.

RECENT HOUSING DEVELOPMENT TRENDS

In order to ensure that the prototypes accurately reflect current market conditions, the Consultant Team analyzed recently built market rate housing development projects in Menlo Park. Menlo Park has recently attracted new single-family detached and single-family attached development.

Figure III-1 summarizes the market data for recently built single-family detached units in Menlo Park. The table shows that units sold, on average, for approximately $2.7 million, and had an average size over 2,800 square feet. Figure III-2 presents the market data for single-family attached units recently built and sold in Menlo Park. These units had, on average, a size of 1,700 square feet, and a price of approximately $1.4 million. Menlo Park has not seen recent condominium developments; however, the City anticipates that such development could take place in the near future. In order to create a condominium prototype representative of Menlo Park's market, the Consultant Team has studied condominium development in two nearby and comparable cities, Redwood City and Palo Alto. Figure III-3 presents a summary of recent condominium projects in Redwood City and Palo Alto: units had an average size of 1,800 square feet and an average price of $978,000. Similarly, market data on Redwood City and Mountain View's apartment market was used to construct an apartment prototype for Menlo Park. As shown in Figure III-4, average asking monthly rents are approximately $2,700 for studios, $3,200 for one bedroom units, $4,200 for two-bedroom units, and $4,000 for three-bedroom units.

MENLO PARK RESIDENTIAL PROTOTYPES

Based on historical development trends, market data, broker interviews, and input from city staff, the Consultant Team constructed four housing prototypes that represent the type of development that is likely to occur in Menlo Park. These development prototypes are not intended to represent specific development projects; rather, they are designed to illustrate the type of projects that are likely to be built in Menlo Park in the near future. The prototypes, as shown in Figure III-5, provide information on the building type, number of units, average size by unit type, and average monthly rents or sales prices by unit type.

For-Sale Single-Family Detached Units

The for-sale single-family detached prototype is a wood siding wood-frame building with an attached garage and a net residential area of 30,000 square feet. The estimated density is 6 units per acre. This

building type is representative of recently built single-family detached units in Menlo Park. These are four-bedroom and four-bathroom units of a size per unit of 3,000 square feet. The estimated unit sale price is $2,600,000.

For-Sale Single-Family Attached Units

The for-sale single-family attached prototype is a Type V wood-frame building with a tuck-under podium parking and a net residential area of 34,000 square feet. The estimated density is 13 units per acre. This type of building is typical for new single-family attached units in Menlo Park. These are three bedroom units with an average size of 1,700 square feet and a price of $1,428,000.

For-Sale Condominiums

The for-sale condominium prototype is a Type V wood-frame building with an underground parking garage and net residential area of 270,000 square feet. The estimated average density is 35 units per acre. This building type is representative of recently built condominium projects in the nearby, comparable markets of Redwood City and Palo Alto, and approximate potential future development in Menlo Park. Units have four bedrooms and an average size of 1,800 square feet. The average estimated price of newly built condominiums is $980,000.

Rental Apartments

The rental apartment prototype is a Type V wood-frame building with podium parking and net residential area of 137,400 square feet. The estimated density is 43 units per acre. This prototype, based on market data from Redwood City and Mountain View, represents a potential future new market-rate apartment development in Menlo Park. The apartment unit mix consists of mostly one- and two-bedroom units, with a smaller number of studios and three-bedroom units. Estimated monthly rents range from $2,700 to $4,200 per unit, depending on unit size and number of bedrooms.

*Figure III-1. Sales of Recently Built Single-Family Detached Units in Menlo Park**

Address	City	Year Built	Square Feet	Beds	Baths	Sale Date	Sale Amount
739 Cambridge Ave	Menlo Park	2011	2,680	3.0	3.5	Dec 12, 2011	$2,499,000
1206 N Lemon Ave	Menlo Park	2011	3,308	4.0	3.5	Jul 27, 2011	$2,500,000
2027 Menalto Ave	Menlo Park	2011	2,564	5.0	3.5	May 09, 2012	$1,705,000
1015 Windsor Dr	Menlo Park	2011	3,591	4.0	4.0	May 12, 2011	$4,000,000
8 Shasta Ln	Menlo Park	2011	4,460	5.0	4.5	Jan 05, 2012	$4,300,000
440 Cotton St	Menlo Park	2011	4,379	5.0	5.0	May 26, 2011	$4,100,000
611 College Ave	Menlo Park	2012	2,620	4.0	3.0	Dec 15, 2011	$2,125,000
140 Campo Bello Ln	Menlo Park	2012	3,010	4.0	4.0	Mar 04, 2013	$3,475,000
1131 Saxon Way	Menlo Park	2012	3,430	5.0	5.5	Feb 22, 2013	$3,850,000
2 Robert S Dr	Menlo Park	2012	4,410	5.0	6.5	Oct 22, 2012	$4,000,000
521 Laurel Ave	Menlo Park	2013	1,947	3.0	2.5	Feb 28, 2011	$600,000
1255 Santa Cruz Ave	Menlo Park	2013	2,680	4.0	3.5	Jun 12, 2013	$2,300,000
2199 Clayton Dr	Menlo Park	2013	3,190	4.0	3.5	May 15, 2013	$3,395,000
140 Royal Oaks Ct	Menlo Park	2013	3,540	5.0	4.5	Apr 27, 2012	$3,600,000
480 Lemon St	Menlo Park	2013	3,530	5.0	4.5	May 01, 2013	$3,850,000
2189 Clayton Dr	Menlo Park	2013	4,610	5.0	4.5	Oct 18, 2013	$3,880,000
240 University Dr	Menlo Park	2012	2,530	3.0	4.5	Jul 05, 2012	$3,995,000
389 El Camino Real (Artisan; 9 Units)	Menlo Park	2014	1,941	4.0	2.5	2014	$1,750,000
Average (Weighted)			**2,844**	**4.2**	**3.6**		**$2,689,385**

*Includes transactions that occurred between 2011 and April 2014, of single-family homes built in or after 2011.

Source: DataQuick, April 2014; Sales Office Interviews, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

*Figure III-2. Sales of Recently Built Single-Family Attached Units in Menlo Park**

Address	City	Subdivision/Complex	Bedrooms	Baths	Square Feet	Year Built	Year Sold	Sale Amount
1071 Fremont St	Menlo Park	Fremont Street	3	2.5	1590	2011	2011	$1,685,000
1071 Fremont St	Menlo Park	Fremont Street	3	2.5	1590	2011	2011	$1,801,000
1071 Fremont St	Menlo Park	Fremont Street	3	2.5	1590	2011	2011	$1,699,000
1071 Fremont St	Menlo Park	Fremont Street	3	2.5	1590	2011	2011	$1,699,000
1071 Fremont St	Menlo Park	Fremont Street	3	2.5	1590	2011	2011	$1,700,000
389 El Camino Real	Menlo Park	Artisan (2 Units)	2		1,434	2014	2014	$900,000
389 El Camino Real	Menlo Park	Artisan (14 Units)	3		1,733	2014	2014	$1,400,000
Average (Weighted)			**2.9**	**2.5**	**1,670**	**2014**		**$1,427,810**

*Includes transactions that occurred between 2011 and 2014, of townhouses built in or after 2011.

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

*Figure III-3. Sales of Recently Built Condominium Units in Palo Alto and Redwood City**

Project	City	Subdivision/Complex	Bedrooms	Baths	Number of Units	Square Feet	Year Built	Year Sold	Sale Amount
Redwood Gate	Palo Alto	Redwood Gate	4	3.5	34	2,121	2009-2011	2009-2013	$1,389,588
One Marina	Redwood City	One Marina	2	N/A	73	1,406	2012	2012-2014	$566,204
Average						1,764			**$977,896**

*Includes all closed condominium sales of recent development projects as reported by Polaris Pacific, May 2014.

Sources: Polaris Pacific, May 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

*Figure III-4. Asking Rents of Recently Built Apartment Units in Redwood City and Mountain View**

Project	Address	City	Year Built	Bedrooms	Baths	Number of Units	Average Size (SF)	Average Rent
Carmel the Village	555 San Antonio Rd	Mountain View	2013	0	1	41	537	$2,795
Carmel the Village	555 San Antonio Rd	Mountain View	2013	1	1	192	693	$3,350
Carmel the Village	555 San Antonio Rd	Mountain View	2013	2	2	97	1054	$4,820
201 Marshall	201 Marshall St	Redwood City	2014	0	1	10	634	$2,495
202 Marshall	202 Marshall St	Redwood City	2014	1	1 to 2	64	1,030	$3,378
203 Marshall	203 Marshall St	Redwood City	2014	2	1 to 2	39	1,129	$4,260
Radius	640 Veteran's Dr	Redwood City	2014	1	1	150	840	$3,100
	640 Veteran's Dr	Redwood City	2014	2	1 to 2	100	1,132	$3,845
	640 Veteran's Dr	Redwood City	2014	3	2	14	1,289	$4,093
Township Apartments	333 Main St	Redwood City	2013	1	1	41	725	$3,063
	333 Main St	Redwood City	2013	2	2	88	1,080	$3,600
	333 Main St	Redwood City	2013	3	2	3	1,224	$3,300
Woodside	885 Woodside Rd	Redwood City	2011	1	1	14	840	$3,365
	885 Woodside Rd	Redwood City	2011	2	2	21	1,424	$5,290
Percent of Total/Average by Unit Type								
Studio						**6%**	**556**	**$2,736**
1 bedroom						**53%**	**795**	**$3,247**
2 bedroom						**39%**	**1,114**	**$4,191**
3 bedroom						**2%**	**1,277**	**$3,953**

*Apartment asking rents from summer 2014, for apartment units built since 2011.
Sources: CoStar, May and June 2014; Leasing Websites, Summer 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-5. Menlo Park Prototypes

Prototype	Unit Type	Number of Units	Net Area (SF)	Unit Sales Price/ Monthly Rent	Price or Rent per SF
Single-Family Detached (For-Sale)					
Wood siding wood frame	4 BD/4 BA	10	3,000	$2,600,000	$867
6 units per acre					
Attached garage					
Net Residential Area (Net SF)			30,000		
Single-Family Attached (For-Sale)					
Type V wood frame	3 BD/3 BA	20	1,700	$1,428,000	$840
13 units per acre					
Tuck-under podium parking					
Net Residential Area			34,000		
Condominiums (For-Sale)					
Type V wood frame	4 BD/3 BA	150	1,800	$980,000	$544
35 units per acre					
Subterranean parking					
Net Residential Area (Net SF)			270,000		
Apartments (Rental)					
Type V wood frame	Studio	9	600	$2,700	$4.50
43 units per acre	1 BD/1 to 2 BA	79	800	$3,200	$4.00
Podium parking	2 BD/1 to 2 BA	59	1,100	$4,200	$3.82
	3 BD/2 BA	3	1,300	$4,000	$3.08
Net Residential Area			137,400		
Average Net SF per Unit			916		

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

HOUSEHOLD INCOMES OF BUYERS AND RENTERS

Using the sales prices and rents shown in Figure III-5, the next step is to calculate the annual household incomes of the buyers of new for-sale single-family detached units, single-family attached units, and condominium units, and the renters occupying new apartment units. The household income is a key input to the IMPLAN3 economic impact analysis described in Section IV of this report.

Incomes of Single-Family Detached Units Buyers

To calculate the household income of buyers of new single-family detached units, the analysis used typical mortgage terms for San Mateo County: 20 percent down payment, 30 year fixed rate mortgage, and 4.35 percent interest rate. Menlo Park's property tax rate was estimated from recent budget documents. Total housing costs, including monthly payments for mortgage payments, property taxes

and insurance, are assumed to be 35 percent of available monthly income. This is a conservative assumption, given that many households spend a higher share of their disposal incomes on housing, once other types of debt such as auto loans, student loans, and personal credit loans are considered. The result of the income estimates for households buying new single-family detached units is shown in Figure III-6. As shown in the calculations, for single-family detached units, household incomes are estimated to be well over $450,000.

Income of Single-Family Attached Buyers

For buyers of single-family attached units, the analysis applied the same typical mortgage terms as those used for single-family detached units, and Menlo Park's property tax rates. Homeowner association (HOA) fees were based on a review of HOA fees at similar new single-family attached developments in San Mateo County. As in the previous case, households are expected to spend 35 percent of available monthly income (a conservative estimate) on total housing costs, including monthly payments for mortgage payments, property taxes, insurance and HOA fees. Figure III-7 shows the result of the income estimates for households buying new single-family attached units. As shown in the calculations, for single-family attached units, household incomes are estimated to be over $250,000.

Incomes of Condominium Buyers

To calculate the household income of buyers of new condominium units, the analysis applied mortgage terms typical for San Mateo County: 20 percent down payment, 30 year fixed rate mortgage, and 4.35 percent interest rate. Property tax rates were estimated from recent budget documents, and homeowner association (HOA) fees were based on a review of HOA fees at similar new condominium developments in San Mateo County. Total housing costs, including monthly payments for mortgage payments, property taxes, insurance, and HOA fees, are assumed to be 35 percent of available monthly income; as mentioned previously, this is a conservative estimate. The result of the income estimates for households buying new condominium units is shown in Figure III-8. As shown in the calculations, for condominium units, household incomes are estimated to be over $150,000.

Incomes of Apartment Renters

For renter households, maximum annual housing costs are assumed to be 30 percent of gross household income, a standard established in California's Health and Safety Code Sections 50052.5 and 50053, although it is acknowledged that many renters in San Mateo County spend a higher share of their gross income on housing. The estimated household income of renters varies by unit type, as indicated in Figure III-9. Studio renter households have an estimated annual income of $108,000. One-bedroom, two-bedroom and three-bedroom unit renter households have estimated household incomes of $128,000, $168,000 and $160,000, respectively.

Figure III-6. Estimated Annual Household Incomes of Buyers of Single-Family Detached Units

	Single-Family Detached Units
	4 BR/4 BA
Number of Households	10
Sales Price	$2,600,000
Down Payment (a)	$520,000
Loan Amount	$2,080,000
Monthly Debt Service (b)	$10,354
Annual Debt Service	$124,254
Annual Property Taxes (c)	$28,943
Fire and Hazard Insurance (d)	$9,100
Annual Housing Costs (e)	$162,297
Household Income	$463,706

Notes:
(a) Down payment is estimated at 20% of sales price, based on Freddie Mac data for San Mateo County.
(b) Interest rate is estimated at 4.35% for a 30-year term, based on Freddie Mac data, http://www.freddiemac.com/pmms/pmms30.htm.
(c) Property tax rate is 1.1132% based on Menlo Park CAFR.
(d) Industry standard, estimated at 0.35%.
(e) Homeownership housing burden is estimated at 35%, based on California Health & Safety Code Sections 50052.5 and 50053.
Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-7. Estimated Annual Household Incomes of Buyers of Single-Family Attached Units

	Single-Family Attached Units
	3 BR/3 BA
Number of Households	20
Sales Price	$1,428,000
Down Payment (a)	$285,600
Loan Amount	$1,142,400
Monthly Debt Service (b)	$5,687
Annual Debt Service	$68,244
Annual Property Taxes (c)	$15,896
Annual HOA Fees (d)	$3,000
Fire and Hazard Insurance (e)	$4,998
Annual Housing Costs (f)	$92,139
Household Income	$263,253

Notes:
(a) Down payment is estimated at 20% of sales price, based on Freddie Mac data for San Mateo County.
(b) Interest rate is estimated at 4.35% for a 30-year term, based on Freddie Mac data, http://www.freddiemac.com/pmms/pmms30.htm.
(c) Property tax rate is 1.1132% based on Menlo Park CAFR.
(d) Homeownership association (HOA) fees are estimated at $250 per month, based on fees charged at a sample of recently built projects in San Mateo County.
(e) Industry standard
(f) Homeownership housing burden is estimated at 35%, based on California Health & Safety Code Sections 50052.5 and 50053.
Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-8. Estimated Annual Household Incomes of Buyers of Condominium Units

	Condominium Units
	4 BR/3 BA
Number of Households	150
Sales Price	$980,000
Down Payment (a)	$196,000
Loan Amount	$784,000
Monthly Debt Service (b)	$3,903
Annual Debt Service	$46,834
Annual Property Taxes (c)	$10,909
Annual HOA Fees (d)	$5,400
Fire and Hazard Insurance (e)	$3,430
Annual Housing Costs (f)	$66,573
Household Income	$190,210

Notes:
(a) Down payment is estimated at 20% of sales price, based on Freddie Mac data for San Mateo County.
(b) Interest rate is estimated at 4.35% for a 30-year term, based on Freddie Mac data, http://www.freddiemac.com/pmms/pmms30.htm.
(c) Property tax rate is 1.1132% based on Menlo Park CAFR.
(d) Homeownership association (HOA) fees are estimated at $450 per month, based on review of new condominiums in San Mateo County.
(e) Industry standard
(f) Homeownership housing burden is estimated at 35%, based on California Health & Safety Code Sections 50052.5 and 50053.
Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-9. Estimated Annual Household Incomes of Renters of Apartment Units

	Apartment Unit Type			
	Studio	1 BR/ 1 to 2 BA	2 BR/ 1 to 2 BA	3 BR/ 2 BA
Number of Households	9	79	59	3
Monthly Rent	$2,700	$3,200	$4,200	$4,000
Annual Housing Costs	$32,400	$38,400	$50,400	$48,000
Housing Costs as % of Income (a)	30%	30%	30%	30%
Household Income	$108,000	$128,000	$168,000	$160,000

Notes:
(a) Renter housing burden is estimated at 30%, based on California Health & Safety Code Sections 50052.5 and 50053.
Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

IV. ECONOMIC IMPACT ANALYSIS (IMPLAN3)

The buyers and renters of the new market-rate single-family detached units, single-family attached units, condominiums and apartments create new spending in the local economy. These new expenditures can be linked to new jobs, many of which pay low wages. The job and wage impacts related to new market-rate housing units are measured using IMPLAN3, an economic impact analysis tool. An economics consulting firm, Applied Development Economics (ADE) undertook the IMPLAN3 analysis with the information on residential prototypes and associated buyers' and renters incomes provided by Strategic Economics and Vernazza Wolfe Associates Inc. In this section of the report, the methodology and results of the IMPLAN3 analysis are described in detail.

THE IMPLAN3 MODEL

The IMPLAN model is an economic dataset that has been used for over 35 years to measure the economic impacts of new investments and spending using the industrial relationships defined through an Input-Output Model. The IMPLAN model can estimate economic impacts resulting from changes in industry output, employment, income, and other measures. The latest version of this model is referred to as IMPLAN3.

For this analysis, the input-output model used data specific to San Mateo County in order to estimate the multiplier effects resulting from the households that could potentially rent or buy new housing units in Menlo Park. In this case, all of the multiplier effects derive from new demand for goods and local services (including government) that new households would generate within San Mateo County. It does not account for economic impacts generated during the construction period, or any economic impacts that would occur outside of the county.

The economic impacts estimated by the model generally fall into one of three categories - direct, indirect, or induced. For this analysis, the direct impacts represent the household income brought into the community by new residents. Indirect impacts would normally result from demand for commodities and services provided by suppliers for business operations. (Because the direct impacts come only from household spending, and not from business activity, the indirect effects were not calculated.) Induced impacts represent the potential effects resulting from household spending at local establishments by the new workers hired as a result of increased household expenditures. These impacts affect all sectors of the economy, but primarily affect retail businesses, health services, personal services providers, and government services. The employment estimates provided by the IMPLAN3 model cover all types of jobs, including full and part time jobs.

The first analysis undertaken by the IMPLAN3 model estimated the household demand for retail goods and personal services. It is assumed that buyers and renters of new housing units in Menlo Park increase demand for goods and services within San Mateo County. This demand is based on the projected incomes of renters and owners for each prototype. The IMPLAN3 model's calculations are based on changes in household income, which adjusts the gross income to account for the payment of income taxes and savings.[5]

The second analysis estimated the induced impacts, or multiplier effects of new household spending in terms of jobs and wage income. The jobs and income calculations are focused on the induced jobs that would be created through local spending by the new households. More specifically, the output of

[5] According to IMPLAN Group LLC, when the economic impact is modeled based on household income change, IMPLAN3 will adjust the input for income taxes and savings.

the model tracks how household demand moves through the supply chain. Industries that produce goods and services for final demand or consumption must purchase inputs from other producers, which in turn, purchase goods and services. The model tracks these linkages through the economy to the point where leakages from the region stop the cycle. The input-output model estimates the job impacts by detailed industry sector. The detailed industry job impact estimates are then distributed by occupational category. The occupational employment data used in the analysis came from the California Employment Development Department (EDD) Labor Market Information Division, and aggregates together data for all of California. After converting the industry level data into occupational employment, the income distribution was calculated using the occupational wage data for the San Francisco-San Mateo-Redwood City Metropolitan Division (MD) that combines San Francisco, Marin, and San Mateo counties. The average wage by occupation was used to make this calculation. The 2014 (first quarter) occupational wage data used in the analysis comes from EDD.

HOUSEHOLD INCOME IMPACTS

Since the IMPLAN3 Model bases its household income impacts on Consumer Expenditure Survey data, income categories are used in the model instead of continuous income information. Because of this feature, the analysis sorted the renters and buyers of new market rate units into income groups, and then calculated the economic impacts based on the total income calculated for each income group.

Figure IV-1 below summarizes the household income data for single-family detached and attached households. As shown, all 10 single-family detached buyer households are in the income category of $150,000 or higher, with a total combined household income of $4.64 million. All 20 single-family attached buyer households have an average household income over $150,000, and an aggregate household income of $5.27 million. Figure IV-2 demonstrates the same calculation for condominium buyer households and renter households. The 150 households of the condominium prototype have an average household income over $150,000, and a combined income of $28.53 million. The rental prototype has 88 households in the $100,000-$150,000 income category, and 62 households in the over $150,000 income category. The combined total household income for renter households is $21.48 million. These total income figures, adjusted to account for taxes and savings, were used as inputs for the IMPLAN3 analysis.

EMPLOYMENT AND WAGE IMPACTS

Based on the incomes of the new buyers and renters, the next step is to determine employment and wage impacts from each prototype. Estimated employment and wages are shown in Figure IV-3 for each IMPLAN3 industry sector, indicating the number of induced jobs, the industry's share of total employment growth by prototype, and the average wage by industry. Figure IV-4 provides the same IMPLAN3 output data, organized by occupation rather than industry, for each prototype. As shown in both figures, many of the induced jobs generated within San Mateo County are in low-wage sectors and occupations related to retail and food services (restaurants). However, a significant proportion of induced jobs are in higher-paying resident-serving categories such as health care and government.

ESTIMATING WORKER-HOUSEHOLDS

Recognizing that many households have more than one wage-earner, the next step is to calculate the number of worker–households by dividing the total number of new workers by the average number of wage-earners per household in Menlo Park. According to the U. S. Census Bureau 2008-2012 American Community Survey 3-Year Estimate, Menlo Park has an average of 1.53 workers per household. The number of induced jobs is divided by 1.53 to calculate the total number of worker households. Figure IV-5 illustrates this calculation.

ESTIMATING DEMAND FOR AFFORDABLE HOUSING

To estimate the demand for affordable housing, it is first necessary to determine the incomes of the new households. Once the average annual household income of worker households is calculated, the next step is to categorize households into area median income (AMI) levels based on the thresholds set by California Department of Housing and Community Development for San Mateo County. The average household size in Menlo Park is 2.5 (rounded to 3.0), according to the US Census American Community Survey 5-Year Estimates 2008-2012. The income threshold for a three-person household in San Mateo County was therefore used to determine the AMI categories of each new worker household.[6] Figure IV-6 indicates that of the 10.8 new worker households associated with a single-family detached development, there will be 8.6 households that need affordable housing. The comparable figures for single-family attached, condominium and apartment developments are, respectively, 9.8, 53 and 47.3 households.

[6] The average Menlo Park household size is 2.5, according to the US Census, American Community Survey 5 Year Estimates, 2008-2012. This figure was rounded to 3.0 persons.

Figure IV-1. Estimated Incomes by Income Categories for Buyers of Single-Family Detached and Single-Family Attached Units

	Single-Family Detached Prototype			Single-Family Attached Prototype		
Income Category	New Households	Aggregate Household Incomes	Average Household Income	New Households	Aggregate Household Incomes	Average Household Income
Less than $10,000	0	$0	n/a	0	0	n/a
$10,000-$15,000	0	$0	n/a	0	0	n/a
$15,000-$25,000	0	$0	n/a	0	$0	n/a
$25,000-$35,000	0	$0	n/a	0	$0	n/a
$35,000-$50,000	0	$0	n/a	0	$0	n/a
$50,000-$75,000	0	$0	n/a	0	$0	n/a
$75,000-$100,000	0	$0	n/a	0	$0	n/a
$100,000-$150,000	0	$0	n/a	0	$0	n/a
Over $150,000	10	$4,637,058	$463,706	20	$5,265,058	$263,253
Total	10	$4,637,058	$463,706	20	$5,265,058	$263,253

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

Figure IV-2. Estimated Incomes by Income Categories for Buyers of Condominiums Units and Renters of Apartment Units

	Condominium Prototype			Apartment Prototype		
Income Category	New Households	Aggregate Household Incomes	Average Household Income	New Households	Aggregate Household Incomes	Average Household Income
Less than $10,000	0	$0	n/a	0	0	n/a
$10,000-$15,000	0	$0	n/a	0	0	n/a
$15,000-$25,000	0	$0	n/a	0	$0	n/a
$25,000-$35,000	0	$0	n/a	0	$0	n/a
$35,000-$50,000	0	$0	n/a	0	$0	n/a
$50,000-$75,000	0	$0	n/a	0	$0	n/a
$75,000-$100,000	0	$0	n/a	0	$0	n/a
$100,000-$150,000	0	$0	n/a	88	$11,084,000	$125,955
Over $150,000	150	$28,531,497	$190,210	62	$10,392,000	$167,613
Total	150	$28,531,497	$190,210	150	$21,476,000	$143,173

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

Figure IV-3. Estimated Job and Wage Impacts of Prototypes by Industry

	Industry (NAICS code)	Average Wage	Single-Family Detached Prototype Jobs	Single-Family Detached Prototype % Of Jobs	Single-Family Attached Prototype Jobs	Single-Family Attached Prototype % Of Jobs	Condominium Prototype Jobs	Condominium Prototype % Of Jobs	Apartment Prototype Jobs	Apartment Prototype % Of Jobs
11	Forestry, fishing, hunting, and agriculture	$38,309	0.01	0%	0.01	0%	0.06	0%	0.06	0%
21	Mining	$70,505	0.01	0%	0.01	0%	0.04	0%	0.04	0%
22	Utilities	$74,144	0.03	0%	0.03	0%	0.17	0%	0.16	0%
23	Construction	$68,376	0.36	2%	0.41	2%	2.23	2%	1.82	2%
31	Manufacturing	$66,946	0.04	0%	0.05	0%	0.27	0%	0.24	0%
42	Wholesale trade	$62,797	0.20	1%	0.23	1%	1.25	1%	1.12	1%
44	Retail trade	$54,808	2.53	15%	2.88	15%	15.59	15%	14.08	16%
48	Transportation & warehousing	$49,308	0.37	2%	0.42	2%	2.28	2%	1.94	2%
51	Information	$77,312	0.21	1%	0.24	1%	1.32	1%	1.22	1%
52	Finance & insurance	$71,830	0.81	5%	0.92	5%	5.01	5%	4.50	5%
53	Real estate & rental & leasing	$66,316	0.77	5%	0.88	5%	4.75	5%	4.47	5%
54	Professional, scientific & technical services	$91,389	0.50	3%	0.57	3%	3.09	3%	2.65	3%
55	Management of companies & enterprises	$88,955	0.02	0%	0.02	0%	0.13	0%	0.12	0%
56	Admin, support, waste mgt, remediation services	$54,197	0.68	4%	0.77	4%	4.19	4%	3.76	4%
61	Educational services	$62,584	0.74	4%	0.84	4%	4.53	4%	3.47	4%
62	Health care and social assistance	$68,778	2.92	18%	3.32	18%	17.97	18%	17.11	19%
71	Arts, entertainment & recreation	$49,614	0.57	3%	0.64	3%	3.49	3%	3.04	3%
72	Accommodation & food services	$31,520	2.32	14%	2.64	14%	14.28	14%	13.37	15%
81	Other services (except public administration)	$53,217	1.66	10%	1.88	10%	10.20	10%	9.28	10%
91	Government	$70,961	1.66	10%	1.89	10%	10.22	10%	7.61	8%
	Total		16.43	100%	18.65	100%	101.09	100%	90.06	100%

Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry.
Sources: Applied Development Economics, Inc, 2015; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure IV-4. Estimated Job and Wage Impacts of Prototypes by Occupation

SOC Code	Occupational Title	Average Annual Wage	Single-Family Detached Jobs	Single-Family Attached Jobs	Condominium Jobs	Apartment Jobs
11-0000	Management Occupations	$146,537	0.76	0.86	4.68	4.15
13-0000	Business and Financial Operations Occupations	$95,505	0.80	0.90	4.90	4.22
15-0000	Computer and Mathematical Occupations	$104,996	0.28	0.32	1.71	1.47
17-0000	Architecture and Engineering Occupations	$100,605	0.15	0.17	0.91	0.73
19-0000	Life, Physical, and Social Science Occupations	$96,012	0.14	0.16	0.86	0.71
21-0000	Community and Social Services Occupations	$54,663	0.37	0.42	2.28	2.01
23-0000	Legal Occupations	$140,841	0.11	0.12	0.65	0.53
25-0000	Education, Training, and Library Occupations	$59,459	0.63	0.72	3.89	3.14
27-0000	Arts, Design, Entertainment, Sports, Media Occupations	$70,952	0.25	0.28	1.53	1.35
29-0000	Healthcare Practitioners and Technical Occupations	$111,876	1.05	1.19	6.47	6.04
31-0000	Healthcare Support Occupations	$41,374	0.49	0.56	3.04	2.87
33-0000	Protective Service Occupations	$61,618	0.43	0.49	2.64	2.09
35-0000	Food Preparation and Serving-Related Occupations	$27,076	2.46	2.79	15.14	14.06
37-0000	Building and Grounds Cleaning and Maintenance	$33,575	0.52	0.59	3.20	2.85
39-0000	Personal Care and Service Occupations	$33,716	1.18	1.34	7.25	6.62
41-0000	Sales and Related Occupations	$54,767	2.17	2.47	13.36	12.09
43-0000	Office and Administrative Support Occupations	$46,720	2.54	2.88	15.60	13.78
45-0000	Farming, Fishing, and Forestry Occupations	$34,770	0.02	0.02	0.11	0.09
47-0000	Construction and Extraction Occupations	$63,327	0.32	0.36	1.95	1.59
49-0000	Installation, Maintenance, and Repair Occupations	$58,564	0.59	0.67	3.64	3.23
51-0000	Production Occupations	$41,105	0.31	0.36	1.93	1.72
53-0000	Transportation and Material Moving Occupations	$42,255	0.87	0.99	5.36	4.71
	Total all occupations		16.43	18.65	101.09	90.06

Sources: Applied Development Economics, 2015; IMPLAN3 input-output model, 2015; California Labor Market Information Division, 2015.

Figure IV-5. Induced Employment Impacts, Menlo Park

Project Prototype	Single-Family Detached	Single-Family Attached	Condominium	Apartment
Number of Units	10	20	150	150
Induced Employment (Workers)	16	19	101	90
Average Number of Workers per Household	1.53	1.53	1.53	1.53
New Worker Households	10.74	12.19	66.07	58.86

Source: Applied Development Economics, 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

Figure IV-6. New Worker Households by Income Group for Single-Family Detached, Single-Family Attached, Condominium and Apartment Prototypes

Worker Households by Income Category	Income Thresholds (3-Person Household)	Single-Family Detached	Single-Family Attached	Condominium	Apartment
Households Requiring Affordable Housing					
Very Low Income (<=50% AMI)	$50,900	2.7	3.1	16.8	15.5
Low Income (51-80% AMI)	$81,450	2.8	3.1	17.0	15.1
Moderate Income (81-120% AMI)	$92,700	3.1	3.5	19.2	16.7
Subtotal Very Low, Low, Moderate Income		8.6	9.8	53.0	47.3
Above Moderate Income Households (>120% AMI)	>$92,700	2.1	2.4	13.2	11.7
Total All Worker Households		10.8	12.2	66.2	59.0

Source: Applied Development Economics, Inc., 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

V. AFFORDABILITY GAP ANALYSIS

Estimating the housing affordability gap is necessary to calculate the maximum potential housing impact fee. This affordability gap analysis was conducted at the county-wide level so that it can be applied to all the jurisdictions in San Mateo County participating in the multi-city nexus study.[7] This section summarizes the approach to calculating the housing affordability gap and the results of the analysis.

METHODOLOGY

The housing affordability gap is defined as the difference between what very low, low, and moderate income households can afford to pay for housing and the development cost of new, modest housing units. Calculating the housing affordability gap involves the following three steps:

1. Estimating affordable rents and housing prices for households in target income groups.

2. Estimating development costs of building new, modest housing units, based on current cost and market data.

3. Calculating the different between what renters and owners can afford to pay for housing and the cost of development of rental and ownership units.

The housing affordability gap is estimated at a countywide level, and assumed to be the same for all the jurisdictions participating in the multi-city nexus studies, for the following reasons:

- Both the California Department of 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. This analysis uses 2014 income limits published by California Department of Housing and Community Development (HCD).

- 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.

[7] Although there is a single housing affordability gap estimate for all jurisdictions in the county, the subsequent steps in the fee calculation considers market and household characteristics for Menlo Park, generating a unique maximum fee for each jurisdiction in the county, as described in Section V.

ESTIMATING 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. For eligibility purposes, most affordable housing programs define very low income households as those earning approximately 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 use the top incomes in each category, the analysis uses a point within the income ranges for the low and moderate income groups.[8]

Figure V-1 and Figure V-2 show the calculations for rental housing. The maximum affordable monthly rent is calculated as 30 percent of gross monthly household income, minus a deduction for utilities. 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.

Figure V-3 and Figure V-4 demonstrate housing affordability for homeowners. Homeowners are assumed to pay a maximum of 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, including a five percent down payment (Figure V-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 $348,526 home. Key assumptions used to calculate the maximum affordable rents and housing prices 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 and household size 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.[9]
- **Targeted income levels for rental housing:** For rental housing, affordable rents were calculated for very low income, low income, and moderate income households (see Figure V-1 and Figure V-2). For eligibility purposes, most affordable housing programs define very low

[8] 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 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.

[9] 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.

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 moderate income households and 90 percent of AMI is used to represent moderate income households.

- **Targeted income levels for ownership housing** For ownership housing, affordable home prices were calculated only for moderate income households (see Figure V-3 and Figure V-4). Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain. It is assumed that moderate income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI).

- **Maximum monthly housing costs.**[10] For all renters, maximum monthly housing costs are assumed to be 30 percent of gross household income. For homebuyers, 35 percent of gross income is assumed to be available for monthly housing costs, reflecting the higher incomes of this group.[11] These standards are based on California's Health & Safety Code Sections 50052.5 and 50053.

- **Utilities.** The monthly utility cost assumptions are based on utility allowances calculated by the U.S. Department of Housing and Urban Development for San Mateo County.[12] 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.[13]

- **Mortgage terms and costs included for ownership housing.** The mortgage calculations are based on the terms typically offered to first-time homebuyers (such as the terms offered by the California Housing Finance Authority), which is a 30-year mortgage with a five percent down payment. A five percent down payment standard is also used by many private lenders for first-time homebuyers. Based on recent interest rates to first-time buyers, the analysis assumes a 5.375 percent annual interest rate.[14] In addition to mortgage payments and utilities, monthly

[10] 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 all lenders.

[11] The assumption that homebuyers spend 35 percent of gross household income on housing results in a lower affordability gap than if 30 percent of gross household income were used instead.

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

[13] 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."

[14] 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.

ownership housing costs include homeowner association (HOA) dues,[15] property taxes,[16] private mortgage insurance,[17] and hazard and casualty insurance.[18]

[15] 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.

[16] 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.

[17] 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 five percent down payment. Sources: Genworth, February 2014; MGIC, December 2013; Radian, April 2014.

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

Figure V-1. Calculation of Affordable Rents in San Mateo County by Household Size, 2014

Persons per Household (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 (HH Size) (b)	$961	$1,091	$1,220	$1,346	$1,458
Low Income (70% AMI)					
Maximum Household Income at 70% AMI	$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 (HH Size) (b)	$1,233	$1,402	$1,569	$1,735	$1,879
Moderate Income (90% AMI)					
Maximum Household Income at 90% AMI	$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 (HH Size) (b)	$1,593	$1,814	$2,033	$2,250	$2,435

Notes:

(a) 30 percent of maximum monthly household income.

(b) Maximum monthly housing cost minus utility deduction.

Acronyms:

AMI: Area median income

HH: Household

Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

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

Affordable Sales Price by Unit Type (a)	Studio (1 person)	1 Bedroom (2 persons)	2 Bedroom (3 persons)	3 Bedroom (4 and 5 persons)
Very Low Income (50% AMI)	$961	$1,091	$1,220	$1,402
Low Income (70% AMI)	$1,233	$1,402	$1,569	$1,807
Moderate Income (90% AMI)	$1,593	$1,814	$2,033	$2,342

Notes:

(a) Affordable rents are calculated as follows: Studios are calculated as one-person households; One-bedroom units are calculated as two-person households; Two-bedroom units are calculated as three-person households; Three-bedroom units are calculated as an average of four and five person households. See Figure V-1.

Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure V-3. Calculation of Affordable Sales Prices in San Mateo County by Household Size, 2014

Persons per Household (HH)	1	2	3	4	5
Moderate Income (110% AMI)					
Maximum Household Income at 110% AMI (a)	$79,310	$90,640	$101,970	$113,300	$122,375
Maximum Monthly Housing Cost (b)	$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 (c)	$517	$607	$690	$773	$844
Monthly Income Available for Mortgage Payment (d)	$1,390	$1,631	$1,854	$2,076	$2,269
Maximum Mortgage Amount (e)	$248,195	$291,274	$331,100	$370,795	$405,155
Maximum Affordable Sales Price - HH Size (f)	$261,258	$306,604	$348,526	$390,311	$426,479

Notes:

(a) Calculated as 110 percent of the median household income reported by HCD for each household size.

(b) Maximum housing cost is estimated at 35 percent of household income for homebuyers.

(c) 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.

(d) Maximum monthly housing cost minus deductions

(e) Assumes 5.375 percent interest rate and 30 year loan term

(f) Assumes 5 percent down payment (75 percent loan-to-value ratio)

Acronyms:

AMI: Area median income

HH: Household

HOA: Home owners association

Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure V-4. Calculation of Affordable Sales Prices in San Mateo County by Unit Type, 2014

Affordable Sales Price by Unit Type (a)	1 Bedroom (1 and 2 persons)	2 Bedroom (3 persons)	3 Bedroom (4 and 5 persons)
Moderate Income (110% AMI)	$283,931	$348,526	$408,395

Notes:

(a) One-bedroom units are calculated as an average of one- and two-person households; Two-bedroom units are calculated as three-person households; and three-bedroom units are calculated as an average of four and five person households. See Figure V-3

Sources: California Department of Housing and Community Development, 2014; U.S. Department of Housing and Urban Development, 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

ESTIMATING HOUSING DEVELOPMENT COSTS

The second step in calculating the housing affordability gap is to estimate the cost of developing new, modest housing units. 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 are too costly to meet the standard for modest housing.

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 costs for each. The following describes the data sources used to calculate rental and for-sale housing development costs.

Rental Housing

Rental housing development costs were based on pro forma data obtained from three recent affordable housing projects in San Mateo County. Figure V-5 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 V-5 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 estimate that, under the prevailing wage requirement, labor costs are 25 percent higher than would otherwise be the case. 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.[19] Finally, on average, land acquisition costs accounted for 20 percent or less of these total adjusted costs.

[19] 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 V-5. Affordable Housing Project Pro Forma Data

Project Description	Project 1	Project 2	Project 3
Location	San Mateo	San Mateo	San Bruno
Year Built	2013	2010	2011
Land Area (acres)	1.05	1	0.63
Gross Building Area (square feet)	106,498	127,718	42,688
Net Building Area (square feet)	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
Land Cost (per sq. ft. of net building area)	$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 V-6, 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 (in Figure V-5) represent the lower range of current land values, which results in a lower affordability gap estimate (and a lower maximum fee calculation, as described in Section VI).

Figure V-6. 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.

Acronyms:

SF: Square feet

Sources: DataQuick, January-May 2014; Vernazza Wolfe Associates, Inc; Strategic Economics, 2014.

For-Sale Housing

Since affordable housing developers do not typically build for-sale housing in San Mateo County, the cost of developing new, modest for-sale housing was estimated using two data methods: the first method used price data for recently built condominium units as a proxy for development costs; the second approach estimated development costs based on published market and cost data for similar projects in San Mateo County. Each of these cost estimate approaches is described in more detail below.

Review of condominium sales data – In this approach, average sales prices from condominium units built in San Mateo County between 2008 and 2012 are used as a proxy for development costs.[20] 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 sales prices of condominium units of various sizes in the seven cities that experienced condominium development that exceeded 10 units in the aggregate between 2008 and 2012. These seven cities included 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 V-7 summarizes the information that was used to generate a per-square-foot cost for condominium development of $420.

Cost estimate of hypothetical condominium project - The second approach relied on published industry data sources and recent financial feasibility studies to estimate the development costs of a hypothetical condominium project, as described in Figure V-8.[21] Land costs were estimated based on recent DataQuick land transactions shown in Figure V-6. RS Means cost data, adjusted for the Bay Area's construction costs, was used to calculate hard costs. Based on a review of recent financial

[20] 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 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 increase. Adjusting land costs for inflation is not easily done.

[21] The hypothetical condominium building type is a Type V building with underground parking and floor-area ratio of 1.7. The building characteristics are described in Figure IV-8.

feasibility analyses in the Bay Area, soft costs were estimated at 30 percent of hard costs, and developer fees and profits were estimated at 12 percent of hard and soft costs. Using this second method, the development costs are estimated at $495 per net square foot of building area. In order to ensure that the results of the affordability gap analysis are conservative, the lower development cost estimate of $420 per net square foot was selected for ownership units.

Figure V-7. 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 Unit 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.

Figure V-8. Estimate of Development Costs of Hypothetical Condominium Project

Building Characteristics	
Land Area (SF)	110,727
Gross Building Area (SF)	188,235
Net Building Area (SF)	160,000
Number of Units	100
Parking Type	Underground
Floor-area ratio (FAR)	1.7
Density (units per acre)	39
Average Unit Size	1,600
Land Acquisition Costs per Square Foot (a)	$189
Development Cost	**Cost per Net SF**
Land Cost (b)	$131
Hard Costs	$250
Soft Costs (c)	$75
Developer Fees (d)	$39
Total Development Costs	$495

Notes:

(a) Land value is calculated based on DataQuick records of vacant land transactions in the county. See Figure IV-6.
(b) Calculated based on RS Means cost estimates per square foot of net building area.
(c) Estimated at 30 percent of hard costs. Includes design, engineering, city permits and fees, construction interest, contingencies, legal, etc.
(d) Estimated at 12 percent of hard costs and soft costs.

Acronyms:

SF: square feet

Sources: RS Means, 2014; DataQuick 2014; Recent financial feasibility studies; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Cost Estimates by Unit Size

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 in San Mateo County was analyzed. For ownership units, the average sizes of recently built condominium units (Figure V-7) were analyzed.

Figure V-9 provides the unit sizes and development cost estimates for rental units. Per-unit development costs were calculated by multiplying average unit sizes by the per-square foot development costs of $410. Rental unit costs range from $205,000 for studio units to $479,700 for three-bedroom units.

Figure V-10 summarizes the costs of condominium units. The per-unit costs were derived by multiplying the average unit size by the development cost per square foot of $420. Condominium development costs range from $357,000 for one-bedroom units to $672,000 for three-bedroom units.

Figure V-9. Rental Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
Studio	$410	500	$205,000
One bedroom	$410	700	$287,000
Two bedroom	$410	970	$397,700
Three bedroom	$410	1,170	$479,700

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

Figure V-10. For-Sale Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
One bedroom	$420	850	$357,000
Two bedroom	$420	1,200	$504,000
Three bedroom	$420	1,600	$672,000

Acronyms:
SF: Square feet
Sources: 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. 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 because not all "modest" housing is built with public subsidies, and tax credits and tax-exempt bond financing are highly competitive programs that will not always be available to developers of modest housing units.

Figure V-11 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. Because household sizes are not uniform and the types of units each household may occupy is variable, the average housing affordability gap is calculated by averaging the housing affordability gaps for the various unit sizes.

Figure V-12 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 in order to reflect that households in each income group vary in size, and may occupy any of these unit types.

Finally, the tenure-neutral estimates of the housing affordability gap were estimated for very low, low, and moderate income households (Figure V-13). Because very low and low income households that are looking for housing in today's market are much more likely to be renters, an ownership gap was not calculated for these income groups. The rental gap represents the overall affordability gap for these two income groups. On the other hand, moderate income households could be either renters or owners. Therefore, the rental and ownership gaps are averaged for this income group to calculate the overall affordability gap for moderate income households. The calculated average affordability gap per unit is $280,783 for very low income households; $240,477 for low income households, and $175,558 for moderate income households. The housing affordability gap is highest for very low income households because those households with higher incomes can afford to pay more for housing.

Figure V-11. 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
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 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 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 Affordability Gap								**$187,066**

Notes:
(a) Affordable rents are based on State of California Housing and Community Development FY 2014 Income Limits for San Mateo County. See Figure V-2.
(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 based on comparable project pro formas.
(f) Calculated as the difference between development costs and supportable debt.
Acronyms:
SF: Square feet
AMI: Area median income
Sources: Housing and Community Development, 2014; Selected San Mateo Rental Housing Pro Formas; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure V-12. 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)
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 V-3.
(b) Assumes $420/SF for development costs, based on recent condominium sales data.
(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, 2015.

Figure V-13. Average Housing Affordability Gap by Income Group

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low Income (50% AMI)	$280,783	N/A	$280,783
Low Income (70% - 80% AMI) (a)	$240,477	N/A	$240,477
Moderate Income (90% - 110% AMI) (b)	$187,066	$164,049	$175,558

Notes:
(a) Low income households are defined at 70 percent of AMI for renters and 80 percent of AMI for owners.
(b) Moderate income households are defined at 90 percent of AMI for renters and 110 percent AMI for owners.
Acronyms:
AMI: Area median income.
Source: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

VI. NEXUS FEES AND REQUIREMENTS

This section builds on the findings of the previous analytical steps to calculate maximum justified housing impact fees for each prototype.

MAXIMUM FEE CALCULATION

To derive the maximum nexus-based fee, the housing affordability gap is applied to the number of lower-income worker households linked to the prototypes. This is the basis for developing an estimate of the total affordability gap for each prototype. The total gap for each prototype is then divided by the number of units in the development prototype to calculate a single maximum fee per unit.

Figure VI-1 presents the results of the nexus fee calculation for the single-family detached prototype. The per unit housing affordability gap number is multiplied by the number of income-qualified worker households linked to the prototype to estimate the total gap. The total affordability gap is then divided by the number of units in the prototype to derive the maximum fee per unit, estimated at $197,963 per unit. The same steps are taken for the single-family attached, condominium and apartment prototypes to estimate the maximum fee per unit, as shown in Figures VI-2 through VI-4. The calculated maximum fees are $112,387 per single-family attached unit, $81,203 per condominium unit, and $72,766 per apartment unit.

The fees can also be calculated on per-square-foot basis by dividing the total gap by the net residential area for each prototype. The maximum fee per square foot is $66 for the 30,000-square-foot single-family detached prototype (Figure VI-5), $66 for the 34,000-square-foot single-family attached prototype (Figure VI-6), $45 per square foot for the 270,000-square-foot condominium prototype (Figure VI-7), and $79 for the 137,400-square-foot prototype (Figure VI-8).

The per-unit and per-square-foot fees shown in the tables below express the total nexus-based fees for new market-rate single-family detached, single-family attached, condominium and rental apartment development in Menlo Park. They represent the maximum justified fees based on the nexus analysis that could be imposed on new development. The city may adopt fees or require mitigations at a lower level than these justified fees, depending on financial feasibility and other policy considerations.

Figure VI-1. Maximum Per-Unit Fee for Single-Family Detached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$280,783	2.7	$768,368		
Low Income (51-80% AMI)	$240,477	2.8	$663,661		
Moderate Income (81-120% AMI)	$175,558	3.1	$547,599		
Total			$1,979,628	10	$197,963

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-2. Maximum Per-Unit Fee for Single-Family Attached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$280,783	3.1	$872,429		
Low Income (51-80% AMI)	$240,477	3.1	$753,541		
Moderate Income (81-120% AMI)	$175,558	3.5	$621,761		
Total			$2,247,731	20	$112,387

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-3. Maximum Per-Unit Fee for Condominium Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$280,783	16.8	$4,727,715		
Low Income (51-80% AMI)	$240,477	17.0	$4,083,459		
Moderate Income (81-120% AMI)	$175,558	19.2	$3,369,338		
Total			$12,180,512	150	$81,203

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-4. Maximum Per-Unit Fee for Apartment Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$280,783	15.5	$4,344,566		
Low Income (51-80% AMI)	$240,477	15.1	$3,635,157		
Moderate Income (81-120% AMI)	$175,558	16.7	$2,935,222		
Total			$10,914,945	150	$72,766

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-5. Maximum Fee per SF for Single-Family Detached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$280,783	2.7	$768,368		
Low Income (51-80% AMI)	$240,477	2.8	$663,661		
Moderate Income (81-120% AMI)	$175,558	3.1	$547,599		
Total			$1,979,628	30,000	$66

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-6. Maximum Fee per SF for Single-Family Attached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$280,783	3.1	$872,429		
Low Income (51-80% AMI)	$240,477	3.1	$753,541		
Moderate Income (81-120% AMI)	$175,558	3.5	$621,761		
Total			$2,247,731	34,000	$66

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-7. Maximum Fee per SF for Condominium Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$280,783	16.8	$4,727,715		
Low Income (51-80% AMI)	$240,477	17.0	$4,083,459		
Moderate Income (81-120% AMI)	$175,558	19.2	$3,369,338		
Total			$12,180,512	270,000	$45

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-8. Maximum Fee per SF for Apartment Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Maximum Fee Revenues for Prototype	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$280,783	15.5	$4,344,566		
Low Income (51-80% AMI)	$240,477	15.1	$3,635,157		
Moderate Income (81-120% AMI)	$175,558	16.7	$2,935,222		
Total			$10,914,945	137,400	$79

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

INCLUSIONARY HOUSING REQUIREMENTS

At present, inclusionary housing is one of the primary tools for providing affordable housing units in Menlo Park. The inclusionary housing program requires that 10 percent of new units in projects of between 5 and 20 units and 15 percent of new units in projects over 20 units must be affordable for very low, low, and/or moderate income households. If the City adopts a housing impact fee, it could replace its inclusionary housing program with an impact fee program that still allows developers the option of providing affordable units; or it could continue to require on-site units in for-sale projects.

The findings of the nexus analysis can be used to calculate the percentage of units provided on-site within a project that would fully mitigate the affordable housing impacts. The percentages are calculated for a combined total of market rate and affordable units. For example, a 150-unit market-rate condominium project is linked to 53 households that require affordable housing, for a total combined project of 203 units. The percentage is calculated as 53 divided by 203, for an inclusionary percentage of 35 percent.

Figure VI-9 below presents the results of the analysis for each of the ownership prototypes. The inclusionary percentage was not calculated for the apartment prototype due to legal restrictions on inclusionary housing policies for rental projects. The analysis supports maximum inclusionary percentages between 33 percent and 46 percent for the ownership prototypes. The analysis indicates that the nexus-based inclusionary percentage rates are higher than the City's existing inclusionary policy. Therefore, the results of the nexus analysis support the current inclusionary requirements.

Figure VI-9. Calculated Inclusionary Rates Based on Potential Housing Impact Fees

	Households Requiring Affordable Housing	Total Market-Rate Units in Prototype	Combined Affordable and Market-Rate Units	Calculated Inclusionary Rate
Single-Family Detached	8.6	10	18.6	46%
Single-Family Attached	9.8	20	29.8	33%
Condominiums	53.0	150	203.0	35%

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

SUMMARY OF CONSERVATIVE ASSUMPTIONS

The housing impact fee nexus analysis methodology utilizes conservative assumptions that result in a lower estimate of the nexus-supported maximum fee. Some of the conservative assumptions undertaken in the analysis include the following:

- **Prices and rental rates for new development**. Because there has been little new housing development completed in San Mateo County, the sale prices and rental rates for new market-rate housing are based on older market data. The rental rates and sale prices for projects that are coming on the market today are significantly higher. The use of lower prices and rents results reduces the total nexus fee calculation.

- **Economic impact analysis model**. The IMPLAN3 model only measures the impacts of new market-rate housing development in San Mateo County. It does not measure any of the impacts that could be occurring in other Bay Area counties. The economic impact analysis is modeled

on a household income change approach, which adjusts for income taxes and savings when calculating the employment impacts of new households.

- **Cost estimates for affordability gap analysis.** The affordability gap analysis measures the difference between what households can afford to pay for housing and the cost of new housing units. To ensure that the gap is conservative, the development cost estimates are based on the lower range of land and construction costs in San Mateo County. In many sub-areas of the county, including priority-development areas and downtown locations, land costs for housing sites may be higher, particularly under today's market conditions.

- **Affordability gap for owner households**. The calculation of the affordability gap for ownership households only considers moderate-income households. Low and very low income households are not considered in the calculation. This also results in a lower estimate of the maximum fee.

- **Feasibility analysis**. The analysis takes into account the financial feasibility of adding the maximum impact fee and reduced fee levels to the total cost of new development. The financial feasibility component of the analysis incorporates market-supportable assumptions about revenues, costs, land costs, and developer return expectations based on research on recent development trends. The results of financial analysis informed the final recommendations on the housing impact fee.

- **Comparison to other cities**. The Consultant Team researched existing impact fees and BMR policies in other nearby cities to determine the competitiveness of the maximum fee and reduced fee levels. The fee recommendations in this report incorporate the findings from the comparative analysis.

- **Overlap analysis**. The City is undertaking two impact fee nexus studies at the same time: the commercial linkage fee nexus study and the housing impact fee nexus study. To minimize the potential that some jobs could be double-counted by including the same worker households in both studies, the Consultant Team ensured that the recommended fees for the two programs (commercial linkage and housing fees) would – when combined –mitigate less than 100 percent of the total impact.

VII. FEASIBILITY AND POLICY CONSIDERATIONS

There are a number of policy considerations that can be taken into account when jurisdictions consider adopting an affordable housing impact fee on new market-rate development. These may include factors such as the likely impact of the proposed fee levels on local housing development, the competitiveness of the city in attracting development relative to neighboring jurisdictions, the impact of the proposed fee on existing city fee level, and the role of the proposed fee in meeting the city's overall affordable housing objectives. This section provides a discussion of some of the key financial and policy questions for Menlo Park.

FINANCIAL FEASIBILITY ANALYSIS

Summary of Residential Prototypes

As discussed in more detail in Section III of this report, this nexus analysis is based on four residential prototypes: ownership single-family detached, single-family attached and condominiums, and rental apartments. Figure VII-1 summarizes the characteristics of the four development prototypes that were tested for financial feasibility. These prototypes are representative of the types of market rate housing development projects that can reasonably be expected in Menlo Park. The single-family detached units are wood siding wood frame buildings with an attached garage and a density of six units per acre. The average net residential area is 3,000 square feet per unit. The single-family attached units are Type V wood frame buildings with a tuck-under parking, a density of 13 units per acre, and an average net area per unit of 1,700 square feet. The condominiums are Type V wood frame buildings with underground parking and a density of 35 units per acre. The average net residential area is 1,800 square feet per unit. The apartment prototype building is Type V wood frame construction, with podium parking and a density of 43 units per acre. The average net area per unit is 916 square feet. Most of the apartment units are one and two bedrooms, with a smaller number of studios and three bedroom units.

Figure VII-1. Residential Prototypes

Building Characteristics	Single-Family Detached	Single-Family Attached	Condominiums	Apartments
Building Type	Wood Siding	Type V	Type V	Type V
Total Residential Units (a)	10	20	150	150
Avg. Size Unit in Square Feet (SF)	3,000	1,700	1,800	916
Net Square Footage (NSF)	30,000	34,000	270,000	137,400
Parking Type	Attached Garage	Tuck-Under	Underground	Podium
Efficiency Factor (b)	85%	85%	85%	65%
Gross Square Footage (GSF)	35,294	40,000	317,647	211,385
Floor Area Ratio (FAR) (c)	0.5	0.6	1.7	1.4
Land Area (SF)	70,588	66,667	186,851	150,989
Land Area (Acres)	1.62	1.53	4.29	3.47
Units per Acre	6	13	35	43

Notes:

(a) Unit characteristics are described in more detail in Section III.

(b) Ratio of leasable square footage to gross square footage.

(c) Floor area ratio (FAR) measures density by dividing gross building area by total site area.

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

Fee Levels

In order to provide Menlo Park with guidance on how proposed fees could impact development decisions, the Consultant Team conducted a financial feasibility analysis that tested the impact of proposed fee options on developer profit. The fees were tested for four fee scenarios, which include the maximum nexus-supported fee and three reduced fee levels.

Figure VII-2 demonstrates the calculated fees per unit for each prototype for all four scenarios. The fees can also be calculated on per square foot basis. The per-square-foot fees at different fee levels are shown in Figure VII-3.

Figure VII-2. Fee Levels per Unit for Prototypes

Prototype	Net Residential SF per Unit	Scenario 1 (Maximum Fee)	Scenario 2	Scenario 3	Scenario 4
Single-Family Detached	3,000	$197,963	$150,000	$120,000	$90,000
Single-Family Attached	1,700	$112,387	$85,000	$68,000	$51,000
Condominium	1,800	$81,203	$63,000	$45,000	$36,000
Apartments	916	$72,766	$45,800	$36,640	$27,480

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

Figure VII-3. Fee Levels per Square Foot for Prototypes

Prototype	Net Residential SF per Unit	Scenario 1 (Maximum Fee)	Scenario 2	Scenario 3	Scenario 4
Single-Family Detached	3,000	$66	$50	$40	$30
Single-Family Attached	1,700	$66	$50	$40	$30
Condominium	1,800	$45	$35	$25	$20
Apartments	916	$79	$50	$40	$30

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

Methodology

Financial feasibility of the fee options was tested using a pro forma model that measures the residual land value of a given development project. Many pro forma models are structured to solve for the financial return for the developer or investors (internal rate of return). In contrast, the residual land value method of analysis solves for the value of the land. This method recognizes that the value of land is inextricably linked to what can be built on it, and that development potential is heavily influenced by zoning, lot size/configuration, neighborhood context, and other factors. The pro forma model tallies all development costs (minus land) including direct construction costs, indirect costs (including financing), and developer fees. Revenues from unit sales or rental leases are then summed. The total project costs are then subtracted from the total project revenues. The balance is the residual value, representing the price a developer would pay for the land if pursuing that project. The fee levels were then added as an additional development cost to measure the effect on the residual land value.

Revenues

To estimate income from residential development, the analysis uses the sales prices and monthly rents presented in Section III of this report and summarized in Figure VII-4. These revenue assumptions were based on a review of local and regional market data, including information on the type of development that has been recently constructed or is planned or proposed in Menlo Park; and current sales prices

and rental rates of recently built (or sold) residential development in Menlo Park and neighboring cities. For single-family detached, single-family attached and condominium projects, the revenues are calculated by multiplying the unit count by the sales price. Single-family detached units are estimated at $2,600,000, single-family attached at $1,428,000, and condominium units at $980,000. For rental projects, the revenues were estimated using an income capitalization approach. This valuation approach first estimates the annual net operating income (NOI) of the apartment prototype, which is the difference between total project income (annual rents) and project expenses, including operating costs[22] and vacancies. The NOI is then divided by the capitalization rate (cap rate) to derive total project value. Figure VII-5 summarizes the calculations and data source used for estimating the value of the apartment prototype.

Figure VII-4. Prototype Sales Prices and Rents

Prototype	Unit Type	Number of Units	Net Area (SF)	Unit Sales Price/ Monthly Rent	Price or Rent per SF
Single-Family Detached (For-Sale)					
Wood siding wood frame	4 BD/4 BA	10	3,000	$2,600,000	$867
6 units per acre					
Attached garage					
Net Residential Area (Net SF)			30,000		
Single-Family Attached (For-Sale)					
Type V wood frame	3 BD/3 BA	20	1,700	$1,428,000	$840
13 units per acre					
Tuck-under podium parking					
Net Residential Area			34,000		
Condominiums (For-Sale)					
Type V wood frame	4 BD/3 BA	150	1,800	$980,000	$544
35 units per acre					
Subterranean parking					
Net Residential Area (Net SF)			270,000		
Apartments (Rental)					
Type V wood frame	Studio	9	600	$2,700	$4.50
43 units per acre	1 BD/1 to 2 BA	79	800	$3,200	$4.00
Podium parking	2 BD/1 to 2 BA	59	1,100	$4,200	$3.82
	3 BD/2 BA	3	1,300	$4,000	$3.08
Net Residential Area			137,400		
Average Net SF per Unit			916		

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

[22] Operating costs were calculated based on the Institute of Real Estate Management Survey of Apartment Buildings in the San Francisco Metropolitan Statistical Area (MSA).

Figure VII-5. Apartment Revenue Calculations

Apartment Revenues	Calculation	Total
Gross Annual Rental Income (a)	Gross annual rents	$6,442,800
Operating Expenses (b)	30 percent of income	($1,932,840)
Vacancy (c)	5 percent of income	($322,140)
Annual Net Operating Income (c)	Income less expenses and vacancy	$4,187,820
Capitalization Rate (d)	5 percent	5.00%
Capitalized Value	Project value	$83,756,400

Notes:

(a) Average monthly rents multiplied by 12 months multiplied by unit count for each unit type.

(b) Institute of Real Estate Management, San Francisco MSA Apartment Properties, 2011.

(c) Assumes a vacancy rate of 5 percent in a stabilized rental market.

(d) According to DTZ's San Francisco Real Estate Forecast 2015, the cap rate for apartments is approximately 5 percent.

Sources: IREM, DTZ, Strategic Economics, 2015.

Development Costs

Cost estimates for the residential prototypes include direct construction costs (site work, building costs, and parking), indirect costs, financing costs, and developer overhead and profit. Development cost estimates for the pro forma analysis are distinct from the cost estimates provided in the countywide affordability gap analysis. Direct building construction cost estimates are based on RS Means and project pro formas for recent projects in San Mateo County.[23] Soft costs and developer overhead/profit were calculated based on a review of similar project pro formas in the Bay Area. City fee calculations were provided by City staff. Each of the cost factors used in the analysis is summarized in Figure VII-6.

[23] The development cost estimates used in the pro forma analysis are slightly different from those used in the affordability gap analysis because they include more recent real estate data, and are more tailored for Menlo Park and Central San Mateo County, rather than an overall estimate for the entire county. Furthermore, the market-rate units are generally larger and costlier to build than the "modest" units described in the affordability gap analysis.

Figure VII-6. Development Cost Factors

Development Costs		Metric
Direct Costs (a)		
Single-Family Detached	$155	Per NSF
Single-Family Attached	$150	Per NSF
Condominiums	$225	Per NSF
Apartments	$210	Per NSF
Indirect Costs (b)		
A&E & Consulting	6.00%	of direct costs
Permits & Fees (Excl. Housing) (c)	Varies by prototype	
Taxes, Insurance, Legal & Accounting	3.00%	of direct costs
Other (d)	3.00%	of direct costs
Contingency	5.00%	of indirect costs
Total Indirect Costs		
Financing Costs (b)		
Loan to Cost Ratio (LTC)	80%	of total costs
Loan Interest Rate	6%	annual rate
Compounding Period	12	months
Construction/Absorption Period (e)	12 to 24	months
Utilization Rate	55%	of loan
Loan Fees	2%	of loan
Developer Overhead & Profit	12%	of total costs (excl. land)

Notes:
(a) Direct costs include site work, building construction, and parking costs of $30,000 per space for underground parking and $25,000 per space for podium parking. Costs estimates are based on review of Bay Area pro formas for similar projects and data from RS Means.
(b) Based on review of similar project pro formas in the Bay Area and interviews with developers.
(c) Permits & fees are a generalized estimate of costs based on prototypes, calculated by City staff. Permits and fees for actual projects vary depending on many factors.
(d) Other soft costs include marketing, personal property, environmental studies, etc.
(e) Absorption periods are estimated at 24 months for apartments, condominiums and townhouses; and 18 months for single-family subdivisions.
Sources: RS Means, 2014; Similar pro formas; Menlo Park, 2015; Strategic Economics, 2015.

Land Value

In order to understand what the different fee levels indicate regarding financial feasibility, the residual land values for each fee scenario can be compared with the market value of residential land in Menlo Park. If the residual value is higher than the market value, the project is feasible. If the residual value is lower than the market price, then the project is infeasible.

To determine the land value of sites zoned for lower density uses (single-family detached and single family attached) and higher density multi-family residential uses (condominiums and rental apartments), the Consultant Team analyzed recent sales transactions in Southern San Mateo County and Northern Santa Clara County, and reviewed third-party property appraisals.[24] Figure VII-7 illustrates the results of the land value analysis for lower density single-family detached and single family attached residential uses, while Figure VII-8 shows the value of properties zoned for higher density multi-family residential uses. For lower density residential uses, values range considerably depending on location and size, from $38 per square foot for the lower quartile, to $119 per square foot for the upper quartile. foot. For the financial analysis, the estimated land value is $35 to $120 for lower density sites. For higher-density multi-family housing, the value of land transactions ranges from $72 per square foot for the lower quartile to $192 per square foot for the upper quartile, with the maximum value at $236 per square foot. For the purposes of the financial analysis, the estimated land value is $150 to $250 per square foot for higher density multi-family development, including condominiums and apartments. The higher end of the range for multifamily land values is higher than the maximum value ($250 instead of $236 per square foot) in order to account for recent increases in land prices, and to ensure that the financial feasibility results do not under-estimate the value of land from the perspective of a developer. For all prototypes, the market value of land is presented as a range because the land value of properties is likely to vary depending on location, size, and other conditions.

[24] The land value assumptions utilized in the pro forma analysis are different from the affordability gap analysis in two ways: 1) they include more recent transactional data than the affordability gap analysis, which was completed in July 2014; and 2) they are tailored to Menlo Park and Central San Mateo County, unlike the affordability gap estimate, which is a countywide estimate.

Figure VII-7. Single-Family Vacant Land Sales Transactions in Southern San Mateo County

Site Address	Location	Sale Price	Lot Area	Price/ SF Land
76 Tuscaloosa Ave	Atherton	$4,150,000	42,253	$98.22
190 Almendral Ave	Atherton	$4,550,000	43,560	$104.45
12 Cowell Ln	Atherton	$6,350,000	43,580	$145.71
95 Faxon Rd	Atherton	$18,900,000	130,680	$144.63
270 Atherton Ave	Atherton	$11,000,000	102,366	$107.46
89 Tuscaloosa Ave	Atherton	$4,200,000	28,260	$148.62
81 Faxon Rd	Atherton	$9,800,000	66,647	$147.04
77 Fairview Ave	Atherton	$3,648,000	45,564	$80.06
97 Santiago Ave	Atherton	$4,200,000	62,291	$67.43
237 Atherton Ave	Atherton	$53,000,000	414,691	$127.81
70 Elena Ave	Atherton	$4,450,000	47,916	$92.87
96 Ridge View Dr	Atherton	$7,800,000	70,883	$110.04
1691 Bay Laurel Dr	Menlo Park	$3,500,000	17,400	$201.15
1652 Bay Laurel Dr	Menlo Park	$2,295,000	13,504	$169.95
1976 Menalto Ave	Menlo Park	$1,041,000	7,884	$132.04
205 Cervantes Rd	Portola Valley	$1,900,000	60,548	$31.38
5 Buck Meadow Dr	Portola Valley	$1,205,000	44,431	$27.12
9 Buck Meadow Dr	Portola Valley	$1,990,000	75,800	$26.25
5 Blue Oaks Ct	Portola Valley	$4,100,000	94,525	$43.37
4 Blue Oaks Ct	Portola Valley	$4,100,000	100,188	$40.92
Ramona Rd	Portola Valley	$998,000	15,246	$65.46
130 Golden Hills Dr	Portola Valley	$2,750,000	86,205	$31.90
Redberry Rdg	Portola Valley	$2,750,000	54,600	$50.37
17 Redberry Rdg	Portola Valley	$2,350,000	86,086	$27.30
3038 Oak Knoll Dr	Menlo Park	$1,650,000	11,979	$137.74
3058 Oak Knoll Dr	Menlo Park	$1,650,000	11,979	$137.74
Redwood Ave	Menlo Park	$350,000	13,939	$25.11
65 Palomar Oaks Ln	Menlo Park	$1,135,000	30,003	$37.83
266 Alameda De Las Pulgas	Menlo Park	$885,000	13,250	$66.79
N/A	Menlo Park	$320,000	10,868	$29.44
1525 Connecticut Dr	Menlo Park	$590,000	14,625	$40.34
3724 Laurel Way	Menlo Park	$305,000	8,200	$37.20
2155 Greenways Dr	Woodside	$1,390,000	22,782	$61.01
215 Grandview Dr	Woodside	$550,000	25,700	$21.40
834 W California Way	Woodside	$1,527,500	14,810	$103.14
834 W California Way	Woodside	$1,527,500	14,375	$106.26
834 W California Way	Woodside	$1,527,500	19,166	$79.70
231 Winding Way	Woodside	$6,200,000	117,176	$52.91
125 Ware Rd	Woodside	$576,000	15,682	$36.73
Summary Statistics				
Lower Quartile (25%)				$37.51
Median Value				$67.11
Upper Quartile (75%)				$118.92

Source: CoreLogic, 2015; Strategic Economics, 2015.

Figure VII-8. Multi-Family Vacant Land Sales Transactions in Southern San Mateo County and Northern Santa Clara County, 2010-2014

Site Address	Location	Price	Lot Area	Price/ SF Land
3639 Haven Avenue	Menlo Park	$4,400,000	65,253	$67
1679 Kentfield Avenue	Redwood City	$2,250,000	43,574	$52
755-763 Hamilton Avenue	Menlo Park	$1,851,300	21,780	$85
105 5th Avenue	Redwood City	$1,200,000	18,000	$67
389 El Camino Real	Menlo Park	$12,200,000	53,579	$228
1300 El Camino Real	Menlo Park	$24,500,000	148,165	$165
2963 El Camino Real	Redwood City/Uninc. County	$2,685,000	11,400	$236
1275 El Camino Real	Menlo Park	$3,600,000	17,960	$200
Page Mill Rd.	Palo Alto	$3,959,000	26,926	$147
1275 El Camino Real	Menlo Park	$3,600,000	17,960	$200
3877 El Camino Real	Palo Alto	$4,450,000	32,825	$136
536 N Wishman Rd	Mountain View	$1,050,000	7,000	$150
1958 Latham St, Mountain View, CA 94040	Mountain View	$1,600,000	16,600	$96
3633 Haven Avenue	Menlo Park	$10,600,000	208,652	$51
Lower Quartile (25%)				$72
Average Value				$134
Upper Quartile (75%)				$192

Source: City of Menlo Park, 2015; Property appraisals; DataQuick, 2015; Loopnet, 2015; Strategic Economics, 2015.

Financial Feasibility Results

Figures VII-9 and VII-10 provide the pro forma for the single-family detached, single-family attached, condominium and apartment prototypes. Below is a discussion of the findings.

Single-Family Detached

The feasibility analysis indicates that at current market prices, without the addition of new impact fees, the single-family detached prototype would have revenues of $26 million, with a total development cost of $7.2 million. The difference between the revenues and costs is the residual land value, which is estimated at $266 per square foot. This prototype, with no additional impact fees, yields a residual land value that exceeds the threshold for feasibility in Menlo Park, which is between $35 and $120 per square foot.

With the addition of the potential housing impact fees at different levels, the financial feasibility results are as follows:

- The maximum impact fee of $66 per square foot raises development costs from $7.2 million to $9.2 million. This cost increase results in a residual land value of $238 per square foot, a value over the financial feasibility threshold in Menlo Park.

- Scenario 2, an impact fee set at $50 per square foot increases development costs to $8.7 million. The residual land value under this scenario is $245 per square foot, which exceeds the requirement to be financially feasible.

- Scenario 3, a fee level of $40 per square foot increases development costs to $8.4 million. The residual land value under this fee scenario is $249 per square foot, which is higher than the threshold for financial feasibility.

- A fee level set at $30 per square foot results in total development costs of $8.1 million, and a residual land value of $253 per square foot. As in the other scenarios, this land value would be financially feasible.

Single-Family Attached

According to the feasibility analysis, with no added nexus fees, the single-family attached prototype would have total development costs of $8.6 million and a sale value of $28.6 million. The residual land value, without nexus fees, is then estimated at $300 per square foot, and exceeds the threshold on financial feasibility, defined as between $35 and $120.

Potential impact fees at different levels would impact financial feasibility in the following ways:

- The maximum impact fee of $66 per square foot brings development costs from to $10.8 million. This cost increase results in a residual land value of $266 per square foot, which is over the threshold for financial feasibility in Menlo Park.

- Scenario 2, a $50 per square foot nexus fee, increases development costs to $10.3 million. Under this fee scenario, the residual land value is $275 per square foot, which exceeds the residual land value necessary to be financially feasible.

- Scenario 3, an impact fee of $40 per square foot, increases development costs to $9.9 million. In this case, the residual land value is $280 per square foot, which is also financially feasible.

- Scenario 4, a fee level set at $30 per square foot, brings total development costs to $9.6 million, and the residual land value to $285 per square foot. This land value would meet the requirement to be financially feasible.

Condominiums

The feasibility analysis shows that, following current market prices and without new impact fees, the condominium prototype would have revenues of $147 million, with a total development cost of $103.9 million. The difference between the revenues and costs is the residual land value, which is estimated at $231 per square foot. The residual land value associated with this prototype exceeds the threshold for feasibility in Menlo Park, which is between $150 and $250 per square foot.

Considering different housing impact fee levels, the financial feasibility analysis yields the following results:

- The full justified impact fee of $45 per square foot raises development costs from $103.9 million to $116 million. This cost increase results in a residual land value of $166 per square foot, which is situated within the threshold for financial feasibility in Menlo Park, which was determined to be between $150 and $250 per square foot.

- Scenario 2, a reduced impact fee set at $35 per square foot, raises development costs to $113.3 million. The residual land value under this fee scenario is $180 per square foot, which makes the project financially feasible.

- Scenario 3, a nexus fee at $25 per square foot, results in development costs of $110.6 million, and a residual land value of $195 per square foot, which is financially feasible.

- Scenario 4, a fee level set at $20 per square foot results in a total development cost of $109.3 million, and a residual land value of $202 per square foot. This fee scenario would also be financially feasible.

Apartments

For apartments, the financial analysis shows that under current market conditions, without a nexus fee on affordable housing, a prototypical apartment development costs approximately $50.1 million, with a total project value of $83.8 million. The residual land value on this prototype, excluding a nexus fee, is estimated at $223 per square feet, meeting the threshold for financial feasibility, defined as between $150 to $250 per square foot.

The following describes the feasibility of potential housing impact fees at different levels for apartments:

- Scenario 1, the maximum nexus fee of $79 per square foot brings total development costs up to nearly $61 million. This cost increase results in a residual land value of $151 per square foot, which is marginally feasible.

- Scenario 2, a nexus fee of $50 per square foot, increases development costs to $57 million. The residual land value under this fee scenario is $177 per square foot, which is aligned with the current market value for multi-family land, making it financially feasible.

- Scenario 3, a housing impact fee level of $40 per square foot, increases development costs to $55.6 million. The residual land value in this scenario is $186 per square foot, which falls within the range required for this project to be feasible.

- Scenario 4, a fee level of $30 per square foot increases development costs to $54.3 million, resulting in a residual land value of $195 per square foot. This fee level would also be financially feasible, falling within the range of the market value for multi-family land in Menlo Park.

Figure VII-9. Pro Forma Model Results for Single-Family Detached and Attached Prototypes

	Single-Family Detached		Single-Family Attached	
Development Costs (Excl. Land & Nexus Fee)	**per Unit**	**Total**	**per Unit**	**Total**
Direct Costs (a)				
Building & On-Site Improvements	$465,000	$4,650,000	$255,000	$5,100,000
Building & Onsite per NSF		$155		$150
Parking	Incl. above	Incl. above	Incl. above	Incl. above
Total Direct Costs	$465,000	$4,650,000	$255,000	$5,100,000
Total Direct Costs per NSF		$155		$150
Indirect Costs (a)				
A&E & Consulting	$27,900	$279,000	$15,300	$306,000
Permits & Fees (Excl. Nexus fee) (b)	$91,908	$919,077	$71,278	$1,425,567
Taxes, Insurance, Legal & Accounting	$13,950	$139,500	$7,650	$153,000
Other Indirect Costs	$13,950	$139,500	$7,650	$153,000
Contingency	$7,385	$73,854	$5,094	$101,878
Total Indirect Costs	$155,093	$1,550,931	$106,972	$2,139,446
Financing Costs (a)	$26,292	$262,919	$20,126	$402,513
Developer Overhead & Profit (a)	$77,566	$775,662	$45,852	$917,035
Total Development Costs	$723,951	$7,239,512	$427,950	$8,558,994
Total Development Costs (per NSF)		$241		$252
Income				
Gross Income/Sales Proceeds	$2,600,000	$26,000,000	$1,428,000	$28,560,000
Less: Operating/Sales Expenses & Vacancy				
Net (Operating or Sales) Income	$2,600,000	$26,000,000	$1,428,000	$28,560,000
Capitalized Value/Sales Value (c)	$2,600,000	$26,000,000	$1,428,000	$28,560,000
Residual Land Value Analysis				
Total Development Costs (TDC) Except Land With Various Levels of Nexus Fee	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**
No Fee	$0	$7,239,512	$0	$8,558,994
Scenario 1: Max Fee	$66	$9,219,512	$66	$10,802,994
Scenario 2	$50	$8,739,512	$50	$10,258,994
Scenario 3	$40	$8,439,512	$40	$9,918,994
Scenario 4	$30	$8,139,512	$30	$9,578,994
Residual Land Value per Sq. Ft. at Various Nexus Fee Levels	**Nexus Fee per NSF**	**Residual Land Value per SF**	**Nexus Fee per NSF**	**Residual Land Value per SF**
No Fee	$0	$266	$0	$300
Scenario 1: Max Fee	$66	$238	$66	$266
Scenario 2	$50	$245	$50	$275
Scenario 3	$40	$249	$40	$280
Scenario 4	$30	$253	$30	$285
Nexus Fee as Percentage of Total Development Costs	**Nexus Fee per NSF**	**Fee as % of TDC**	**Nexus Fee per NSF**	**Fee as % of TDC**
No Fee	$0	0.00%	$0	0.00%
Scenario 1: Max Fee	$66	21.48%	$66	20.77%
Scenario 2	$50	17.16%	$50	16.57%
Scenario 3	$40	14.22%	$40	13.71%
Scenario 4	$30	11.06%	$30	10.65%
Current Land Values/ Threshold for Feasibility		$35-120		$35-120

Notes:
(a) See Figure VII-5.
(b) This represents a generalized estimate of the fee and permit costs for each prototype, calculated by city staff. Actual fee and permit costs for development projects will vary depending on many factors.
(c) See Figure VII-4.
(d) Feasibility threshold varies by density of prototype. For single-family and townhomes, the threshold is $35 - $120 per square foot. For multi-family rental apartments and condominiums, the threshold is $170 to $250 per square foot
Acronyms:
SF: square feet
NSF: net square foot
TDC: total development costs
Source: Strategic Economics, 2015.

Figure VII-10. Pro Forma Model Results for Condominium and Apartment Prototypes

	Condominiums		Apartments	
Development Costs (Excl. Land & Nexus Fee)	**per Unit**	**Total**	**per Unit**	**Total**
Direct Costs (a)				
Building & On-Site Improvements	$405,000	$60,750,000	$192,360	$28,854,000
Building & Onsite per NSF		$225		$210
Parking	$45,000	$6,750,000	$37,500	$5,625,000
Total Direct Costs	$450,000	$67,500,000	$229,860	$34,479,000
Total Direct Costs per NSF		$250		$251
Indirect Costs (a)				
A&E & Consulting	$27,000	$4,050,000	$13,792	$2,068,740
Permits & Fees (Excl. Nexus fee) (b)	$68,506	$10,275,879	$19,405	$2,910,794
Taxes, Insurance, Legal & Accounting	$13,500	$2,025,000	$6,896	$1,034,370
Other Indirect Costs	$13,500	$2,025,000	$6,896	$1,034,370
Contingency	$6,125	$918,794	$2,349	$352,414
Total Indirect Costs	$128,631	$19,294,673	$49,338	$7,400,687
Financing Costs (a)	$39,810	$5,971,473	$19,209	$2,881,322
Developer Overhead & Profit (a)	$74,213	$11,131,938	$35,809	$5,371,321
Total Development Costs	$692,654	$103,898,084	$334,216	$50,132,331
Total Development Costs (per NSF)		$385		$365
Income				
Gross Income/Sales Proceeds	$980,000	$147,000,000	$42,952	$6,442,800
Less: Operating/Sales Expenses & Vacancy			$15,033	$2,254,980
Net (Operating or Sales) Income	$980,000	$147,000,000	$27,919	$4,187,820
Capitalized Value/Sales Value (c)	$980,000	$147,000,000	$558,376	$83,756,400
Residual Land Value Analysis				
Total Development Costs (TDC) Except Land With Various Levels of Nexus Fee	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**
No Fee	$0	$103,898,084	$0	$50,132,331
Scenario 1: Max Fee	$45	$116,048,084	$79	$60,986,931
Scenario 2	$35	$113,348,084	$50	$57,002,331
Scenario 3	$25	$110,648,084	$40	$55,628,331
Scenario 4	$20	$109,298,084	$30	$54,254,331
Residual Land Value per Sq. Ft. at Various Nexus Fee Levels	**Nexus Fee per NSF**	**Residual Land Value per SF**	**Nexus Fee per NSF**	**Residual Land Value per SF**
No Fee	$0	$231	$0	$223
Scenario 1: Max Fee	$45	$166	$79	$151
Scenario 2	$35	$180	$50	$177
Scenario 3	$25	$195	$40	$186
Scenario 4	$20	$202	$30	$195
Nexus Fee as Percentage of Total Development Costs	**Nexus Fee per NSF**	**Fee as % of TDC**	**Nexus Fee per NSF**	**Fee as % of TDC**
No Fee	$0	0.00%	$0	0.00%
Scenario 1: Max Fee	$45	10.47%	$79	17.80%
Scenario 2	$35	8.34%	$50	12.05%
Scenario 3	$25	6.10%	$40	9.88%
Scenario 4	$20	4.94%	$30	7.60%
Current Land Values/ Threshold for Feasibility		$150 - $250		$150 - $250

Notes:
(a) See Figure VII-5.
(b) This represents a generalized estimate of the fee and permit costs for each prototype, calculated by city staff. Actual fee and permit costs for development projects will vary depending on many factors.
(c) See Figure VII-4.
(d) Feasibility threshold varies by density of prototype. For single-family and townhomes, the threshold is $35 - $120 per square foot. For multi-family rental apartments and condominiums, the threshold is $170 to $250 per square foot
Acronyms:
SF: square feet
NSF: net square foot
TDC: total development costs
Source: Strategic Economics, 2015.

ADDITIONAL POLICY CONSIDERATIONS

While the nexus study provides the necessary economic analysis for the residential impact fees, it is up to policymakers to decide what percentage of the maximum fee to charge on new development. Financial feasibility is one important factor to examine. In addition, there are a number of other policy issues to consider, such as:

- How much residential fees would increase with a new residential impact fee;
- How a residential impact fee in Menlo Park would compare with those in neighboring jurisdictions;
- How the residential impact fee compares with existing BMR policies; and
- How the revenues generated from the new residential impact fee can be used.

A discussion of each of these topics is presented below.

Comparison to Existing Fees on Residential Development

Figure VII-11 presents information on current city fees charged on the four residential prototypes included in this nexus analysis. It also demonstrates what happens to the fee levels under four residential impact fee scenarios.

Currently, Menlo Park's fees for the residential prototypes are estimated to range from $19,405 for an apartment unit to $91,908 for a single family detached unit not including the costs of the current BMR requirement.[25] Once the nexus-based residential impact fees at various levels are added to existing fees, the total fees increase as presented in Figure VII-11. The maximum fee (Scenario 1) increases total fees by about 200 to over 400 percent, depending on the prototype. The lower fee scenarios would also significantly increase total development fees.

[25] The fee estimates presented above represent the best approximations available from Menlo Park.

Figure VII-11. Menlo Park Total Residential Fees Under Selected Fee Scenarios

	Single-Family Detached	Single-Family Attached	Condominiums	Apartments
Number of Units in Prototype	10	20	150	150
Average Unit Size	3,000	1,700	1,800	916
Total Existing City Fees and Permits for Prototype (Excluding Nexus Fees)	$919,077	$1,425,567	$10,275,879	$2,910,794
Existing Fees and Permits per Unit (Excluding Nexus Fees)	$91,908	$71,278	$68,506	$19,405
Existing Fees and Permits per SF (Excluding Nexus Fees)	$31	$42	$38	$21
Fee Scenario 1: Maximum Fees				
Nexus Fee Per Unit	$197,963	$112,387	$81,203	$72,766
Total Nexus Fees for Prototype	$1,979,628	$2,247,731	$12,180,512	$10,914,945
Combined Existing and Nexus Fees for Prototype	$2,898,705	$3,673,298	$22,456,391	$13,825,739
Combined Fees Per Unit	$289,870	$183,665	$149,709	$92,172
Combined Fees Per SF	$97	$108	$83	$101
Fee Scenario 2				
Nexus Fee Per Unit	$150,000	$85,000	$63,000	$45,800
Total Nexus Fees for Prototype	$1,500,000	$1,700,000	$9,450,000	$6,870,000
Combined Existing and Nexus Fees for Prototype	$2,419,077	$3,125,567	$19,725,879	$9,780,794
Combined Fees Per Unit	$241,908	$156,278	$131,506	$65,205
Combined Fees Per SF	$81	$92	$73	$71
Fee Scenario 3				
Nexus Fee Per Unit	$120,000	$68,000	$45,000	$36,640
Total Nexus Fees for Prototype	$1,200,000	$1,360,000	$6,750,000	$5,496,000
Combined Existing and Nexus Fees for Prototype	$2,119,077	$2,785,567	$17,025,879	$8,406,794
Combined Fees Per Unit	$211,908	$139,278	$113,506	$56,045
Combined Fees Per SF	$71	$82	$63	$61
Fee Scenario 4				
Nexus Fee Per Unit	$90,000	$51,000	$36,000	$27,480
Total Nexus Fees for Prototype	$900,000	$1,020,000	$5,400,000	$4,122,000
Combined Existing and Nexus Fees for Prototype	$1,819,077	$2,445,567	$15,675,879	$7,032,794
Combined Fees Per Unit	$181,908	$122,278	$104,506	$46,885
Combined Fees Per SF	$61	$72	$58	$51

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

Comparison to Neighboring Jurisdictions

It is difficult to show an accurate comparison of fees in neighboring jurisdictions at this time because most cities in San Mateo County are participating in this project to consider adopting new impact fees or updating existing impact fees and therefore current fee levels may not accurately reflect future fee levels. Figure VII-12 provides comparative information of the potential fees under different scenarios in Menlo Park with other jurisdictions in San Mateo, Santa Clara, and San Francisco Counties that have adopted residential impact fees on rental and for-sale housing units. The fee scenarios for Menlo Park are presented on a per square foot and per unit basis and as a percentage of the sales value for each prototype, in order to allow a comparison of each fee scenario to the varying types of fees in neighboring jurisdictions and to Menlo Park's existing in-lieu fee.

If the maximum impact fee levels calculated for Menlo Park were adopted, they would exceed the residential impact fees currently charged in the neighboring jurisdictions in San Mateo and Santa Clara Counties listed in Figure VII-12. However, San Francisco has adopted fees ranging from $199,000 to $522,000 per unit, depending on the unit size, which are significantly higher than the maximum fee levels calculated for Menlo Park. If Menlo Park adopted the Scenario 2 fee levels, its fees would place it at the top end of the range for all unit types when compared to other cities in San Mateo and Santa Clara Counties; however, its fees would be somewhat comparable to those charged in some cases in San Carlos, and possibly Sunnyvale's, depending on sales prices. As shown in the figure, all of the fee scenarios analyzed for Menlo Park are higher than the City's existing in-lieu fee when considered as a percentage of sales value, although the lowest fee scenario is only slightly higher.

Figure VII-12. Comparison with Fees in Neighboring Jurisdictions

	Single Family Detached	Single Family Attached	Condominiums	Apartments	Date Fee Was Adopted
Menlo Park Fee Scenarios					
Scenario 1 (Max): Per SF	$66	$66	$45	$79	
Scenario 1 (Max): Per Unit	$197,963	$112,387	$81,203	$72,766	N/A
Scenario 1 (Max): % Sales Value	7.6%	7.9%	8.3%	13.0%	
Scenario 2: Per SF	$50	$50	$35	$50	
Scenario 2: Per Unit	$150,000	$85,000	$63,000	$45,800	N/A
Scenario 2: % Sales Value	5.8%	6.0%	6.4%	8.2%	
Scenario 3: Per SF	$40	$40	$25	$40	
Scenario 3: Per Unit	$120,000	$68,000	$45,000	$36,640	N/A
Scenario 3: % Sales Value	4.6%	4.8%	4.6%	6.6%	
Scenario 4: Per SF	$30	$30	$20	$30	
Scenario 4: Per Unit	$90,000	$51,000	$36,000	$27,480	N/A
Scenario 4: % Sales Value	3.5%	3.6%	3.7%	4.9%	
Impact Fees					
Cupertino	$15/SF	$16.50/SF (a)	$20/SF	$25/SF	2015
Daly City	$14/SF	$18/SF (b)	$22/SF	$25/SF	2014
East Palo Alto	$22/SF	$22/SF	$22-$44/SF (c)	$22/SF	2014
Mountain View	N/A	N/A	N/A	$17/SF	2015
Redwood City (d)	$25/SF	$25/SF	$20/SF	$20/SF	2015
San Carlos (e)	$23.54-$43.54/SF	$20.59-$42.20/SF	$20.59-$42.20/SF	$23.54-$43.54/SF	2010
San Francisco (f)	$199,698-$522,545/unit	$199,698-$522,545/unit	$199,698-$522,545/unit	$199,698-$522,545/unit	2015
San Jose	N/A	N/A	N/A	$17/SF (g)	2014
Sunnyvale	N/A	N/A	N/A	$17/SF (h)	2015
Inclusionary Policies and In-Lieu Fees					
Menlo Park (i)	3% of Sales Price	3% of Sales Price	3% of Sales Price	N/A	2013
Mountain View	3% of Sales Price	3% of Sales Price	3% of Sales Price	N/A	2015
San Jose (j)	Inclusionary @15% or $17/SF in-lieu fee	Inclusionary @15% or $17/SF in-lieu fee	Inclusionary @15% or $17/SF in-lieu fee	N/A	2014
Sunnyvale	7% of Sales Price	7% of Sales Price	7% of Sales Price	N/A	2015

Notes:
(a) This fee applies to small lot single family and townhomes.
(b) This fee applies to townhomes.
(c) Fee ranges from $22 per square foot for for-sale housing without structured parking to $44 per square foot for housing with structured parking.
(d) The fee applies to projects over 4 units, and is reduced by 25% if all construction workers are paid at the Area Standard Wage, defined as the general prevailing wage determinations for San Mateo County.
(e) Fees shown as ranges. Actual fees charged depend on project size.
(f) Fee charged depends on unit size (number of bedrooms).
(g) Fee goes into effect in 2016. Developments approved before July 2016 are exempt with a longer exemption for downtown development.
(h) Fees for projects that are between 4 and 7 units pay 50 percent of this fee.
(i) Existing in lieu fee.
(j) Inclusionary policy and in-lieu fee apply to for-sale developments of more than 20 units.
Sources: The Non-Profit Housing Association of Northern California; City of San Carlos Municipal Code; Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

The potential fee scenarios can also be compared with existing residential impact fees in other Bay Area cities outside of San Mateo County and Santa Clara County for regional context. This list is not an exhaustive inventory of all Bay Area cities with residential impact fees, but it provides information about many cities that have fees on housing. As shown in Figure VII-13, impact fees in other Bay Area cities vary significantly from city to city.

Figure VII-13. Existing Housing Impact Fees in Bay Area Cities

City	Project Type	Amount
Berkeley	Rental Development	$28,000 per unit ($8,000 discount for eligible projects)
Emeryville	Rental Residential Projects	$28,000 per dwelling unit
Fremont	For-Sale and Rental Development	$19.50 per habitable SF $22.50 per habitable SF for single family homes on lots 6,000 SF or greater.
Napa	For Sale and Rental Development	Single Family: $ 2.20 per SF Condo: $2.20 per SF Rental: $3.75 per sq.
Pleasanton	For-Sale and Rental Development	Single Family (over 1,500 SF): $10,880 per unit Single Family (1,500 SF or less) and Multi-family (Apt. or Condo): $2,696 per unit Adjusted annually based on CPI

Sources: The Non-Profit Housing Association of Northern California, Strategic Economics, and Vernazza Wolfe Associates, Inc, 2015.

Comparison of Fee to Existing BMR Policy

Menlo Park currently has a Below Market Rate (BMR) Housing Program in place for ownership housing. Under the existing program, for projects between 5 and 20 units, 10 percent of units must be affordable to very low, low, and/or moderate income households. For projects larger than 20 units, 15 percent of units must be affordable to very low, low, and/or moderate income households. While the City's primary objective is for BMR housing units to be built on-site, it does allow for the payment of in-lieu fees. The in-lieu fee is set at three percent of the sales price of the market rate units, as shown in Figure VII-12. If a new residential impact fee is adopted in Menlo Park for ownership units, the fee scenarios would be equivalent to between 3.5 percent and 8.3 percent of sales price, as indicated in Figure VII-12.

In addition to the BMR Housing Program, the City also has an existing commercial linkage fee for buildings over 10,000 square feet in size. The current fees are $15.57 per square foot for office and research and development (R&D) uses and $8.45 per square foot for all other commercial and industrial uses. Rather than pay, the fee the City prefers that projects provide BMR housing on-site (if allowed by zoning), or off-site. A density bonus of up to 15 percent may be permitted if BMR housing is provided on-site. However, commercial projects typically pay the fee. The City is in the process of conducting a nexus study to potentially update its commercial linkage fees.

The revenues from the in-lieu fee and commercial linkage fee are deposited in the BMR Housing Fund, which is a separate City fund set aside for the specific purpose of assisting the development of affordable housing units and programs for very low, low, and moderate income households.

Use of Fee Revenues

The revenues generated from a new residential impact fee could be used to augment the existing BMR Housing Fund. The existence of additional local revenue sources such as the residential impact fees can help make certain projects more competitive for outside funding. Revenues generated from a residential impact fee must be spent on housing that benefits the workforce, since the funds stem from affordable housing impacts related to new employment. Furthermore, the funds must target very low, low, and moderate income households, the income groups that are included in this nexus study.

The revenues to be collected from a residential impact fee provide an important source of local funding; however, fee revenues do not generally cover the entire funding gap encountered by sponsors of new affordable housing. Additional funding from a variety of sources will remain critical. These funding sources typically include public subsidies from the City of Menlo Park and San Mateo County, equity from the Low Income Housing Tax Credits, and financing from conventional lenders.

Potential for Overlap Between Residential and Commercial Fees

The City is also undertaking a commercial linkage nexus study simultaneously, and may soon consider whether to modify its existing commercial linkage fee in a parallel process to the residential impact fee considered in this report. One issue that may arise if a city considers the adoption of both fees is whether there is any overlap between the two impact fees, resulting in potential "double-counting" of impacts.

- The commercial linkage fee study examines jobs located in new commercial buildings including office/ R&D/ medical office buildings, retail/ restaurants/ services, and hotels. The nexus analysis then calculated the average wages of the workers associated with each commercial building to derive the annual income of the new worker households. The analysis determines the area median income (AMI) level of the new worker households to identify the number of worker households that would require affordable housing.

- The residential impact fee nexus analysis examines households buying or renting new market rate units in the jurisdiction. The household expenditures by these new residents have an economic impact in the county, which can be linked to new jobs. The nexus analysis quantified the jobs linked to new household spending, and then calculated the wages of new workers and the household income of new worker households. Each worker household was then categorized by AMI to determine the number of households that require affordable housing.

There may be a share of jobs counted in the commercial linkage fee analysis that are also included in the residential nexus analysis, particularly those in the service sector. Other types of jobs counted in the residential nexus analysis are unique to that analysis, and are not included in the commercial linkage fee analysis (for example, public sector employees). The commercial linkage fee analysis is limited to private sector development such as office/ R&D/ medical office buildings, hotels, and retail/ restaurants/ services space.

There is potential that some jobs could be counted in both analyses, and that the two programs may overlap in mitigating the affordable housing demand from the same worker households. Each of the proposed fees is required to mitigate no more than 100 percent of the demand for affordable units by new worker households. However, the recommendations presented in this study (and in the commercial linkage fee study) do not exceed the nexus.

The calculations below show that the nexus fee levels recommended in both studies represent less than the justified nexus amount.

- First, the recommended linkage fees are unlikely to be set at the maximum justified nexus amount for all prototypes. Therefore, the commercial linkage fee would mitigate less than 100 percent of the demand for affordable units generated by the new non-residential space.

- Secondly, the recommended residential impact fee levels are also less than 100 percent of the maximum fee level supported by the residential nexus analysis. Therefore, the combined programs (commercial and housing fees) would mitigate less than 100 percent of the maximum amount justified, and would therefore mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

Administrative Issues

Similar to any impact fee, it will be necessary to adjust the housing impact fees on an annual basis. Adjustments are also needed due to possible changes in the affordability gap. However, the connection between new residential construction and growth in employment derived from the IMPLAN3 Model is unlikely to change in the short run.

It is advisable that the City adjusts its housing impact fee annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees to compensate for inflation in development costs. To simplify annual adjustments, it is recommended that the City select a cost index that is routinely published. While there is no index that tracks changes in Menlo Park's development costs, including land, specifically, there are a few options to consider.

- The first option is the Consumer Price Index (CPI) Shelter component. The shelter component of the CPI covers costs for rent of primary residence, lodging away from home, owner's equivalent rent of primary residence, and household insurance. Of the total shelter index, costs associated with the owner's equivalent rent of primary residence constitute 70 percent of total costs entered into the index.

- A second option to adjust the fee for annual inflation is the construction cost index published in the Engineering News Record (ENR). This index is routinely used to update other types of impact fees. Cost index information for the San Francisco region, the smallest geographical area available for this purpose, is available on an annual basis. The ENR cost index measures inflation in construction costs, but it does not incorporate changes in land costs or public fees charged on new development.

Because these indices are readily available, reliable, and relatively simple to use, it is recommended that Menlo Park use these indices for annual adjustments. However, because both understate the magnitude of inflation, it is recommended that the City base its annual adjustment mechanism on the higher of the two indices (CPI or ENR), using a five-year moving average as the inflation factor.

In addition to revising the fee annually for inflation, the City is encouraged to update the housing impact study every five years, or at the very least, update the housing affordability gap used in the basic model. The purpose of these updates is to ensure that the fee is still based on a cost-revenue structure that remains applicable in the Menlo Park housing market. In this way, the fee will more accurately reflect any potential structural changes in the relationships between affordable prices and rents, market-rate prices and rents, and development costs.

VIII. GLOSSARY OF TERMS AND ACRONYMS

GLOSSARY OF TERMS

Affordable Housing: Under state and federal statutes, housing is defined as affordable if housing costs do not exceed 30 to 35 percent of gross household income.

Annual Adjustment Mechanism: Due to inflation in housing construction costs, it is frequently necessary to adjust impact fees. An index, such as the Consumer Price Index (CPI) or a published construction cost index (for example, from the Engineering News Record) is used to revise housing fees to reflect inflation in housing construction costs.

Assisted Housing: Housing that has received public subsidies (such as low interest loans, density bonuses, direct financial assistance, etc.) from federal, state, or local housing programs in exchange for restrictions requiring a certain number of housing units to be affordable to very low-, low-, and moderate-income households.

Boomerang Funds: Monies returned to the City by the State of California, after dissolution of redevelopment agencies in the State.

Consumer price index (CPI): Index that measures changes in the price level of a market basket of consumer goods and services purchased by households.

Employment Densities: The amount of square feet per employee is calculated for each property use that is subject to a commercial development housing linkage fee. Employment densities are used to estimate the number of employees that will work in a new commercial development.

Household: The US Census Bureau defines a household as all persons living in a housing unit whether or not they are related. A single person living in an apartment as well as a family living in a house is considered a household. Households do not include individuals living in dormitories, prisons, convalescent homes, or other group quarters.

Household Income: The total income of all the persons living in a household. Household income is commonly grouped into income categories based upon household size and income, relative to the regional median family income.

Housing Affordability Gap: The affordability gap is defined as the difference between what a household can afford to spend on housing and the market rate cost of housing. Affordable rents and sales prices are defined as a percentage of gross household income, generally between 30 percent and 35 percent of income.

For renters, rental costs are assumed to include the contract rent as well as the cost of utilities, excluding cable and telephone service. The difference between these gross rents and affordable rents is the housing affordability gap for renters. This calculation assumes that 30% of income is paid for gross rent.

For owners, costs include mortgage payments, mortgage insurance, property taxes, property insurance, and homeowner association dues.[26] The difference between these housing expenses and affordable ownership costs is the housing affordability gap for owners. This calculation assumes that 35% of income is paid for housing costs.

Housing Subsidy: Housing subsidies refer to government assistance aimed at reducing housing sales prices or rents to more affordable levels.

Housing Unit: A housing unit can be a room or group of rooms used by one or more individuals living separately from others in the structure, with direct access to the outside or to a public hall and containing separate toilet and kitchen facilities.

IMPLAN3: A software model that is used to provide a quantitative assessment of the interdependencies between different branches of a regional (or national) economy. The latest model, IMPLAN3, was used in the nexus studies. The major input is household income, and the major output is direct and induced employment reported by industries

Inclusionary Zoning: Inclusionary zoning, also known as inclusionary housing, refers to a planning ordinance that requires that a given percentage of new construction be affordable to households with very low, low, moderate, or workforce incomes.

In-Lieu Fee: A literal definition for an in-lieu fee for inclusionary units would be a fee adopted "in place of" providing affordable units. For the purposes of operating an inclusionary housing program, a public jurisdiction may adopt a fee option for developers that prefer paying fees over providing housing units on- or off-site. A fee study is frequently undertaken to establish the maximum fee that can be charged as an in-lieu fee. This fee study must show that there is a reasonable relationship between the fee and the cost of providing affordable housing.

Market-Rate Housing: Housing which is available on the open market without any public subsidy. The price for housing is determined by the market forces of supply and demand and varies by location.

Nexus Study: In order to adopt a residential housing impact fee or a commercial linkage fee, a nexus study is required. A nexus requires local agencies proposing a fee on a development project to identify the purpose of the fee, the use of the fee, and to determine that there is "a reasonable relationship between the fee's use and the type of development project on which the fee is imposed." A nexus

[26] Mortgage terms for first-time homebuyers typically allow down payment of five percent; these terms require private mortgage insurance.

study establishes and quantifies a causal link or "nexus" between new residential and commercial development and the need for additional housing affordable to new employees.

Linkage Fee: A fee or charge imposed on commercial developers to pay for a development's impact on the need for affordable housing. The fee is based on projected household incomes of new employees that will work in newly created space. The fee varies according to the type of property use.

Prototypes: Prototypes are used for residential and commercial developments in order to define housing impact fees. The prototypes generally represent new development projects built in a community and are used to estimate affordable housing impacts associated with new market rate commercial and residential developments. While the prototypes should be "typical" of what is built, for ease of mathematical computation, they are often expressed as larger developments in order to avoid awkward fractions.

Residential or Housing Impact Fee: A fee imposed on residential development to pay for a development's impact on the need for affordable housing. The fee is based on projected incomes of new employees associated with the expansion of market rate developments. Two steps are needed to define the fees. The first step is the completion of a nexus study, and the second step entails selection of the actual fee amount, which can be below the amount justified by the fee study, but not above that amount.

RS Means: Data source of information for construction cost data.

DEFINITION OF ACRONYMS

AMI: Area Median Income

BMR: Below Market Rate

CBIA: California Building Industry Association

EDD: State of California Employment Development Department

FAR: Floor-area-ratio

FF&E: Furniture, Fixtures, and Equipment

GBA: Gross Building Area

HCD: Department of Housing and Community Development (State of California)

NAICS: North American Industry Classification System

NSF: Net Square Feet

QCEW: Quarterly Census of Employment and Wages

R&D: Research and development

SF: Square Feet

TDC: Total Development Costs

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STAFF REPORT

Housing Commission
Meeting Date: **8/3/2016**
Staff Report Number: **16-010-HC**

Informational Item: **Hello Housing Background of Services and Report**

Recommendation

This is an informational item and no action is required.

Policy Issues

Hello Housing's role falls within Menlo Park's Policy in for BMR Housing.

Background

Menlo Park's Below Market Rate (BMR) Program was created in 1988 to provide affordable homeownership and rental opportunities for low and moderate income families living or working in Menlo Park. The City currently has 65 owner-occupied BMR units, with three more coming on line soon. They also have 4 rental, city managed, BMR Units and more units available in the Gateway Apartments, Willow Court & Willow Terrace and Crane Place & Partridge Place. There will be more rental units as St Anton and Sequoia Belle Haven finish construction.

In the late 1980s Menlo Park's PAL and Rehab Loan Programs were created. The PAL program was a second mortgage loan designed to help home buyers qualify for a first mortgage loan and was only offered to first time home buyers. PAL loans were funded from the BMR fund and its terms were 30 years at 5%. The Rehab Loan program was funded by the Redevelopment Agency (RDA) and provided home improvement and emergency repair funds to income-qualified home owners in the Belle Haven neighborhood. The RDA was dissolved in early 2012.

San Mateo County also had a loan program called the Community Development Block Grant Loan Program (CDBG). It worked similar to the RDA loans, but was funded by the county and managed by the City of Menlo Park.

Menlo Park's BMR Housing and Loan Programs were managed by its own Housing Division, until 2012 when it was dissolved with the RDA. After the dissolution, Menlo Park contracted with Palo Alto Housing Corporation (PAHC) for BMR program administration and with Hello Housing for PAL Loan management. In June 2014 the City did not renew its contract with PAHC and contracted with Hello Housing to manage BMR and PAL Loan servicing, while city staff managed the RDA and CDBG loans.

In May 2015 the City amended Hello Housing's contract so they managed the Ownership-BMR program, the 4 city-managed BMR Rentals and all three Loan Programs (PAL, RDA, & CDBG).

Analysis

In 2012 the RDA was dissolved when California Supreme Court upheld legislation that disbanded all redevelopment agencies. Menlo Park's Housing department was funded with RDA funds, therefore in 2012 it was too, slowly dissolved. The City decided to partner with Hello Housing because of their remarkable reputation and expertise about the housing in the area, BMR Programs and Loans. Attachment A is Hello Housing's Report to the Housing Commission. It includes an overview of their services and a Fiscal Year 2015-2016 Report.

Public Notice

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

A. Hello Housing's Report

Report prepared by:
Meghan Revolinsky, Management Analyst, Housing and Economic Development

Report reviewed by:
Jim Cogan, Housing and Economic Development Manager

ATTACHMENT A

Hello Housing

Menlo Park BMR Report – Fiscal Year 2015-2016

August 3, 2016

Contents

1. Overview of Hello Housing's Services
2. Overview of BMR Portfolio
3. BMR Homeownership Program
    i. BMR Waiting List Management
    ii. BMR Resales
    iii. BMR Refinances
    iv. Owner Occupancy Monitoring & Enforcement
    v. Recordation of Requests for Copy of Notice of Default
4. BMR Rental Program
    i. BMR Waiting List Management
    ii. Annual Recertification
    iii. Tenant Selection
5. Resources/Communications
6. Loan Servicing of Purchase Assistance Loans, CDBG Loans, Rehab Loans, Emergency Rehab Loans

Attachments

A. BMR Portfolio Summary
B. BMR Waiting List Summary
C. Summary of 2016 BMR Compliance Monitoring Report

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1. Overview of Hello Housing's Services

Hello Housing is a 501(c)3 nonprofit organization that develops affordable housing and services for traditionally underserved communities. Under its Hello Stewardship Program, Hello Housing contracts with local jurisdictions to administer their affordable housing programs. The City of Menlo Park contracted with Hello Housing to administer its Below-Market Rate (BMR) Housing Program in 2014 and this contract has been extended until 2019. Hello Housing's services encompass many facets of the City's BMR program activities, as detailed in the sections below. Some key goals of the Hello Stewardship program activities include: preserving the affordability of existing BMR homes, ensuring that owners understand their deed restrictions and are complying with them, assisting owners when refinancing or selling their homes, assisting community members to navigate the program application process and successfully purchase or rent a BMR home, and providing the City with accurate and timely information about the BMR program portfolio.

In addition to administering the City's BMR Housing Program, Hello Housing provides loan servicing of the City's Purchase Assistance Loans, CDBG Loans, Rehab Loans and Emergency Rehab Loans. The total amount of payments collected between the start of the contract in 2013 and June 30, 2016 was $1,008,735.42.

2. Overview of City of Menlo Park BMR Portfolio

The City currently has 65 owner-occupied BMR units and 4 tenant-occupied BMR rental units. See Attachment A for a list of units.

3. BMR Homeownership Program

As administrator of the City's BMR Housing Program, Hello Housing is contracted to perform the following activities for the BMR homeownership program:

i. BMR Waiting List Management

Hello Housing manages the City's Waiting List for the BMR Housing Program. This includes accepting and processing applications from interested households and doing an annual mailing campaign to recertify current waiting list members. Households may apply to be on the waiting list to rent a BMR unit or to purchase a BMR unit, or both. To be eligible for the ownership waiting list, applicants must currently live or work in Menlo Park, earn below 110% of Area Median Income for San Mateo County, be First Time Homebuyers, and all applicants must currently live together as a household. Waiting list members who are interested in BMR homeownership opportunities pay $15/year and are ranked in order of when they were placed on the waiting list. Currently there are 213 households on the waiting list for homeownership. See Attachment B for more details on the Waiting List.

ii. BMR Resales

There are currently 65 existing BMR homes that are owner-occupied. When a BMR owner decides to sell their home, they must follow the requirements set forth in the deed restrictions they signed when purchasing the home. Hello Housing works with these owners to perform the following functions:

- Provide the owner with detailed instruction on the steps of the resale process and required timelines according to the deed restrictions
- Coordinate the owner's submittal of a Notice of Intent to Sell
- Collect documentation of capital improvements and process these for City approval
- Calculate the maximum BMR resale price of the home based on the CPI-based resale calculation and eligible capital improvements
- Market the BMR purchase opportunity to eligible waiting list members and hold a workshop presentation to inform interested waiting list members about how to submit a complete application package by a set deadline

- Connect applicants with preferred lenders for loan pre-approval
- Coordinate with the City's BMR Realtor to set up one or more open houses
- Review applications for completeness and income-eligibility in order to identify an eligible buyer for City approval
- Coordinate with buyer's lender to verify that 1st loan meets program guidelines
- Draft BMR program documents for buyer's signature and coordinate with City and title company for these to be signed and recorded
- Engage with new buyer to ensure they are aware of deed restrictions and Hello Housing's role as Program Administrator

Two BMR resales took place in Fiscal Year 2015-2016.

iii. BMR Refinances

The City has guidelines for the refinance of BMR homes, which are outlined in the owners' deed restrictions. The main guideline is that the amount of new loans may not exceed the current BMR resale value of the home per the CPI-based formula set forth in the deed restrictions. Hello Housing maintains a list of preferred lenders who are familiar with the program guidelines and deed restrictions and are able to lend to owners in the program. Hello also educates other lenders about the program on an ongoing basis, if an owner is applying for a refinance with a non-preferred lender. Owners contact Hello Housing to initiate a refinance and Hello performs the following functions:

- Ensure that owner is aware of refinancing guidelines
- Direct owners to preferred lenders who are familiar with the BMR program and able to issue loans to Menlo Park BMR owners
- Educate non-preferred lenders about the program requirements and deed restrictions
- Calculate current BMR resale value of home and provides to owner and lender
- Coordinate with lender to verify that loan meets program guidelines
- Draft BMR program documents for buyer's signature and coordinate with City and title company for these to be signed and recorded

Five BMR refinances took place in Fiscal Year 2015-2016.

iv. Owner Occupancy Monitoring & Enforcement

Hello Housing does an annual mailing campaign to all BMR owners to verify that they are meeting the owner-occupancy requirements of the BMR program. The deed restrictions state that the homes must remain owner-occupied and not be rented out to other parties at any time. Hello Housing sends up to two additional letters to owners who do not respond to the initial letter. A final report on the rate of response and names of non-responders is then generated and provided to the City. See Attachment C for a summary of the 2016 Compliance Monitoring Report.

In Fiscal Year 2015-2016, 6 of the 65 BMR owners (9%) did not respond the monitoring request. See Attachment C for a summary of the 2016 Compliance Monitoring Report with further detail on the response rate. In Fiscal Year 2016-2017, Hello Housing will work with the City to implement a plan to address monitoring non-responders.

v. Recordation of Request for Copy of Notice of Default

In 2015, Hello Housing worked with the City to draft and record Requests for Copy of Notice of Default for all 65 BMR ownership units. This allows the City and Hello Housing to be notified if/when an owner goes into default on their first mortgage. Hello Housing would then make contact with the owner to provide them with information on foreclosure prevention resources and discuss their options such as selling their home, etc. depending on their situation. This also allows the City to be prepared to purchase the home before a Trustee's Sale takes place, in order to ensure that

the deed restrictions are not removed from the property. If the City were to purchase the home, Hello Housing would then market the opportunity to eligible households on the waiting list and perform the additional resale activities as listed above under BMR Resales.

4. BMR Rental Program

As administrator of the City's BMR Housing Program, Hello Housing is contracted to perform the following activities for the BMR rental program:

i. BMR Waiting List Management

Hello Housing manages the City's Waiting List for the BMR Housing Program. This includes accepting and processing applications from interested households and doing an annual mailing campaign to recertify current waiting list members. Households may apply to be on the waiting list to rent a BMR unit or to purchase a BMR unit, or both. To be eligible for the rental waiting list, applicants must currently live or work in Menlo Park, earn below 80% of Area Median Income for San Mateo County, and all applicants must currently live together as a household. Waiting list members who are interested in BMR rental opportunities are not required to pay a fee and are *not* in a ranking order. When a BMR rental unit becomes available, priority will be given to eligible households on the waiting list on a first-come, first-served basis. Currently there are 141 households on the waiting list for rental (91 of these are interested in both rental and homeownership). See Attachment B for more details on the Waiting List.

ii. Annual Recertification

Hello Housing is responsible for performing an annual recertification of current BMR tenants' income, to determine if they still meet the program eligibility requirement of earning less than 80% of Area Median Income for San Mateo County.

All four of the BMR tenants were found to be income-eligible from Hello Housing's recertification for Fiscal Year 2015-2016.

iii. Tenant Selection

When BMR rental opportunities become available, Hello Housing reviews applications and performs an income-eligibility certification to select an eligible tenant.

No BMR rentals became available in Fiscal Year 2015-2016.

5. Resources/Communications

Hello Housing maintains a webpage specific to the City of Menlo Park's BMR program with helpful information for existing owners as well as interested applicants. This is available at www.hellohousing.org/stewardship/cityofmenlopark/.

Hello Housing also serves as a central point of contact for current BMR owners, waiting list members, as well as community members who have inquiries about the program. Hello Housing staff is available via phone or email to assist with any inquiries and provide referrals when appropriate.

6. Loan Servicing

In addition to administering the City's BMR Housing Program, Hello Housing provides loan servicing of the City's Purchase Assistance Loans, CDBG Loans, Rehab Loans and Emergency Rehab Loans.

Five of these loans were paid off during Fiscal Year 2015-2016. Since the loan servicing contract began in 2013, 25 delinquent borrowers have begun making payments and are now back in compliance with the City.

Attachment A: City of Menlo Park BMR Portfolio Summary

As of: 8/3/16

BMR Ownership Units

Address	Development	Community	Property Type	# of Bedrooms	# of Bathrooms	Date of Purchase
1 Artisan Way	Artisan	Allied Arts	Condo	2	2.5	6/6/14
1 Heritage Place	Willow Road	Menlo Oaks	SFH (PUD)	3	3	5/14/08
10 Artisan Way	Artisan	Allied Arts	Condo	3	3	6/27/14
10 Heritage Place	Willow Road	Menlo Oaks	SFH (PUD)	3	3	5/8/08
1058 Pine Street	Pine Court	Nativity	Condo	2	1.5	9/4/09
1155 Merrill Street, #107	Menlo Square	Nativity	Condo	1	1	6/16/16
1155 Merrill Street, #206	Menlo Square	Nativity	Condo	2	2	11/13/14
1155 Merrill Street, #209	Menlo Square	Nativity	Condo	3	2	9/4/02
1382 Hollyburne Avenue	NSP Program	Belle Haven	SFH	3	1	1/30/14
1401 Ginger Street	Hamilton Avenue Park	Belle Haven	SFH	3	3	10/23/07
1403 Sage Street	Hamilton Avenue Park	Belle Haven	SFH	3	2.5	1/13/14
1407 Sage Street	Hamilton Avenue Park	Belle Haven	SFH	3	3	9/19/07
1410 Rosemary Street	Hamilton Avenue Park	Belle Haven	SFH	4	3	7/20/07
1413 Rosemary Street	Hamilton Avenue Park	Belle Haven	SFH	4	3	8/14/07
1417 Rosemary Street	Hamilton Avenue Park	Belle Haven	SFH	3	3	8/17/07
1425 Rosemary Street	Hamilton Avenue Park	Belle Haven	SFH	3	3	8/3/07
1441 Almanor Avenue	NSP Program	Belle Haven	SFH	5	2	4/30/13
148 Seminary Drive	Vintage Oaks	Vintage Oaks	SFH	3	3	9/26/97
1490 Rosemary Street	Hamilton Avenue Park	Belle Haven	SFH	3	2.5	7/17/07
150 Seminary Drive	Vintage Oaks	Vintage Oaks	SFH	3	3	9/26/97
151 Morandi Lane	Morgan Lane	Linfield Oaks	SFH	3	2.5	7/29/09
157 Linfield Drive	Morgan Lane	Linfield Oaks	SFH	3	3	4/29/08
158 Linfield Drive	Morgan Lane	Linfield Oaks	SFH	3	2.5	6/9/11
169 Linfield Drive	Morgan Lane	Linfield Oaks	SFH	3	3	4/29/08
175 Hanna Way	Vintage Oaks	Vintage Oaks	SFH	3	2.5	7/22/98
177 Hanna Way	Vintage Oaks	Vintage Oaks	SFH	3	3	7/28/98
180 Seminary Drive	Vintage Oaks	Vintage Oaks	SFH	3	3	11/26/97
182 Seminary Drive	Vintage Oaks	Vintage Oaks	SFH	3	2.5	12/19/08
20 Willow Road, #17	Park Lane	Linfield Oaks	Condo	3	2	3/5/99
20 Willow Road, #22	Park Lane	Linfield Oaks	Condo	2	2	10/10/06
20 Willow Road, #30	Park Lane	Linfield Oaks	Condo	2	2	1/8/99
20 Willow Road, #33	Park Lane	Linfield Oaks	Condo	3	2	5/27/16
202 Ballard Lane	Morgan Lane	Linfield Oaks	SFH	?	?	12/19/08
202 Morgan Lane	Morgan Lane	Linfield Oaks	SFH	3	2.5	12/8/08
205 Gloria Circle	Vintage Oaks	Menlo Oaks	SFH	3	3	3/21/97
215 Gloria Circle	Vintage Oaks	Vintage Oaks	SFH	3	3	6/29/00
2160 Santa Cruz Avenue, #1	Pacific Hill	Sharon Heights	Condo	2	1	2/23/96
2160 Santa Cruz Avenue, #9	Pacific Hill	Sharon Heights	Condo	1	1	10/14/10
228 Morgan Lane	Morgan Lane	Linfield Oaks	SFH	?	?	12/19/08
255 Gloria Circle	Vintage Oaks	Menlo Oaks	SFH	3	3	12/18/96
265 Gloria Circle	Vintage Oaks	Menlo Oaks	SFH	3	3	1/28/97
27 Riordan Place	Vintage Oaks	Vintage Oaks	SFH	3	2.5	12/8/09
29 Artisan Way	Artisan	Allied Arts	Condo	3	3.5	6/27/14
307 Homewood Place	Morgan Lane	Linfield Oaks	SFH	4	3.5	5/12/11
425 Santa Monica Avenue	Vintage Oaks	Vintage Oaks	Townhome	3	3	1/28/99
445 Santa Monica Avenue	Vintage Oaks	Vintage Oaks	Townhome	3	2.5	12/9/97
503 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	2.5	7/16/10
507 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	3	5/11/07
509 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	3	5/18/07
515 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	4	3	5/18/07
520 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	2.5	10/2/07
521 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	3	5/22/07
525 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	4	3	5/24/07
533 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	3	6/1/07
535 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	3	6/8/07
537 Sandlewood Street	Hamilton Avenue Park	Belle Haven	SFH (PUD)	3	3	7/17/07
546 Hopkins Street	Classics at Burgess Park	Linfield Oaks	SFH	3	3	4/29/99
555 Barron Street	Classics at Burgess Park	Linfield Oaks	SFH (PUD)	3	3	3/3/99
555 Hamilton Avenue	Hamilton Avenue Park	Belle Haven	SFH	4	3	10/3/07
559 Hamilton Avenue	Hamilton Avenue Park	Belle Haven	SFH	3	3	10/9/07
560 Barron Street	Classics at Burgess Park	Linfield Oaks	SFH	3	3	4/13/99
600 Willow Road, #4	Pacific Parc	The Willows	Condo	3	2.5	12/10/96
600 Willow Road, #7	Pacific Parc	The Willows	Condo	2	2.5	8/27/96
813 Paulson Circle	Lane Woods	Linfield Oaks	SFH	4	2.5	3/27/09
833 Paulson Circle	Lane Woods	Linfield Oaks	SFH	3	2.5	10/21/08

BMR Rental Units

Address	Development	Community	Property Type	# of Bedrooms	# of Bathrooms	Date of Move-In
1175 A Willow Road	Willow Road	Belle Haven	Duplex	2	1	4/1/15
1175 B Willow Road	Willow Road	Belle Haven	Duplex	1	1	2011
1177 A Willow Road	Willow Road	Belle Haven	Duplex	2	1	2012
1177 B Willow Road	Willow Road	Belle Haven	Duplex	1	1	4/1/15

Attachment B: City of Menlo Park BMR Waiting List Summary

As of: 8/3/16

Households Interested in Ownership	Households Interested in Rental	Households Interested in Ownership & Rental	Households who have been on the Ownership List for 5+ years	Households who have been on the Ownership List for 10+ years	Longest tensure on Ownership List	Average tenure on Ownership List	Households who have been on the Rental list for 5+ years	Households who have been on the Rental list for 10+ years	Longest tenure on Rental List	Average tenure on Ownership List
122	50	91	25	15	18 years	3.03 years	13	1	20 years	1.21 years

Hello Housing

Attachment C

Summary of City of Menlo Park 2016 BMR and PAL Compliance Monitoring Report

Hello Housing performed its second annual monitoring 65 Below Market Rate (BMR) homes and 26 Purchase Assistance Loans (PAL) located in the City of Menlo Park, herein referred to as the 2016 monitoring. The monitoring process includes the mailing of compliance requests based on prior monitoring results, responding to phone and email inquiries, collecting and reviewing responses for completeness and compliance with the City of Menlo Park's primary program guideline of owner occupancy and insurance requirements, and entry of all details in Hello Housing's HomeKeeper database.

The results of the 2015 monitoring drove the following process for 2016 monitoring. The 2015 satisfactory responders received a monitoring request similar to last year's monitoring. However, this year, the partial responders from 2015 received a letter that included details on what documentation was missing from their prior year's response. In addition, partial responders to this year's first and second requests received a follow-up letter requesting the specific missing materials.

2016 Summary

Program	Exempt (2016)	Non-Responders (2016)	Partial-Responders (2016)	Satisfactory (2016)
BMR and PAL	1 (1.5%)	5 (7.5%)	3 (4.5%)	16 (24%)
BMR Only	2 (3%)	1 (1.5%)	0	37 (56%)
PAL Only	0	0	1 (1.5%)	0
Total	3	6	4	53
Percent of Total Portfolio (66 units)	5%	9%	6%	80%

Summary of 2015 + 2016 Non-Responders

(Potential Candidates for Enforcement)

Program	Non-Responders (2015 + 2016)
BMR and PAL	1
BMR Only	0
PAL Only	0
Total	1
Percent of Total Portfolio (66 units)	1.5%

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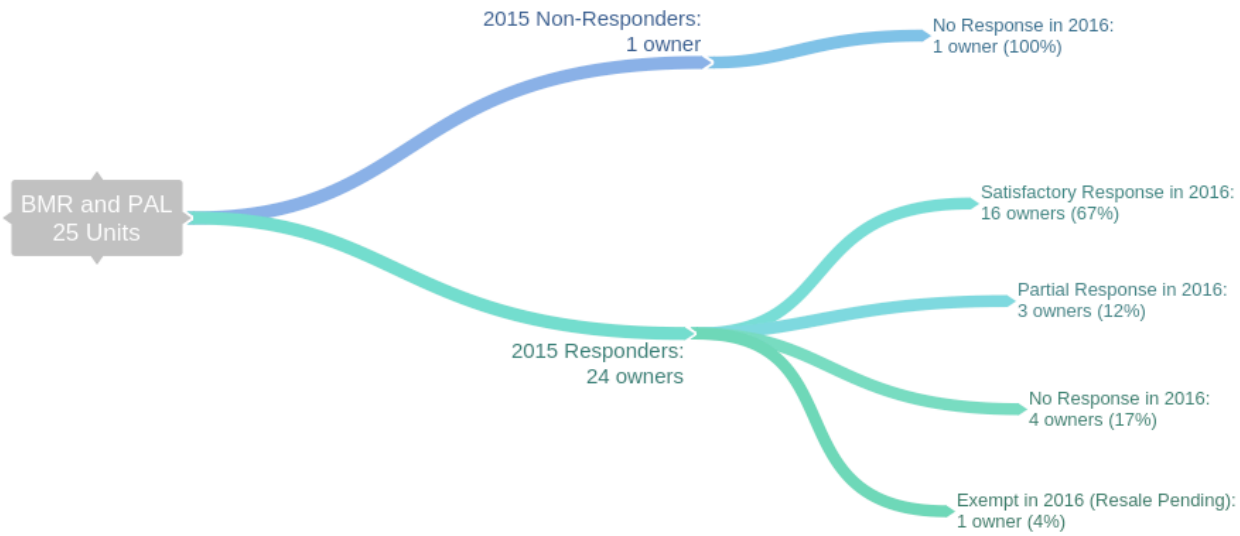
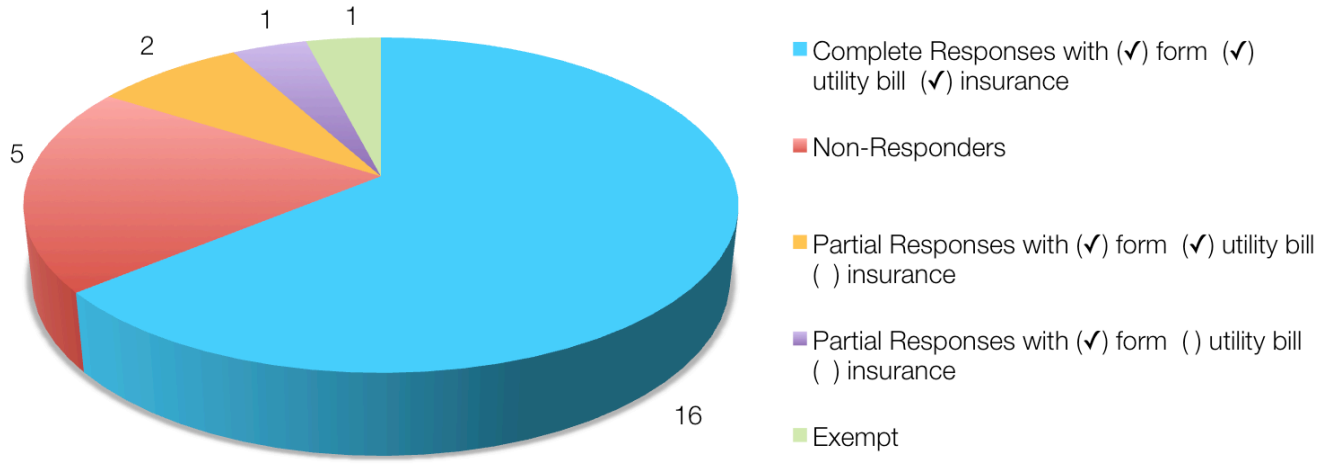
Menlo Park BMR and PAL

The following visual aid reflects the BMR owners with PAL loans with results from 2016 monitoring of the prior year's responders as well as Hello Housing's follow-up with the 2015 non-responders. Please note that the data is broken down into 2015 responders, 2015 non-responders and owners who were not monitored in 2015.



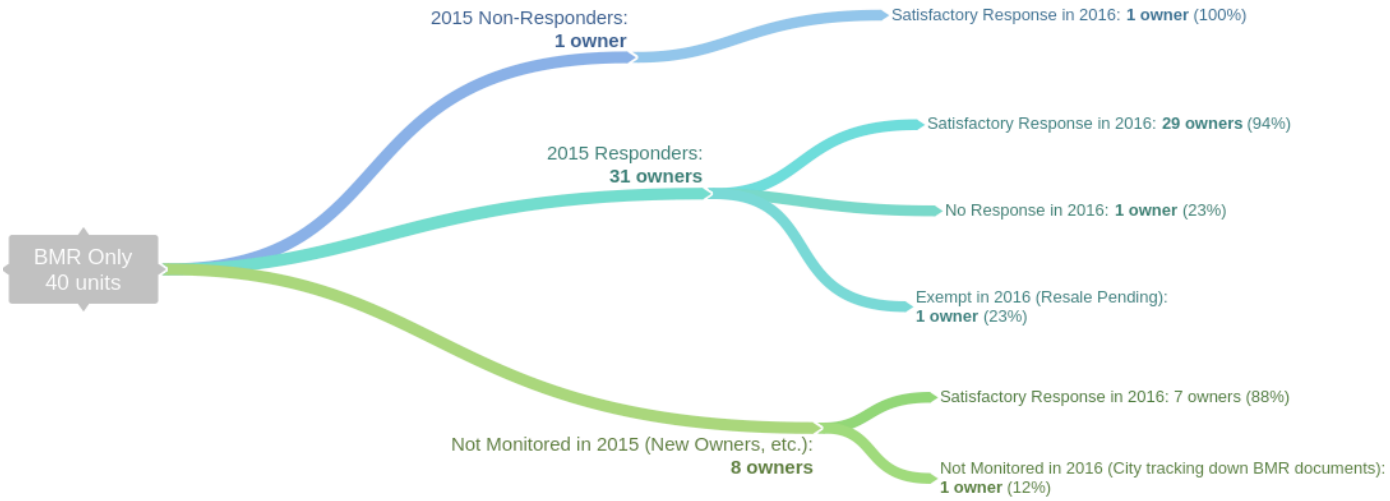
The following chart reflects the completeness of responses from BMR owners and PAL borrowers in the City of Menlo Park:



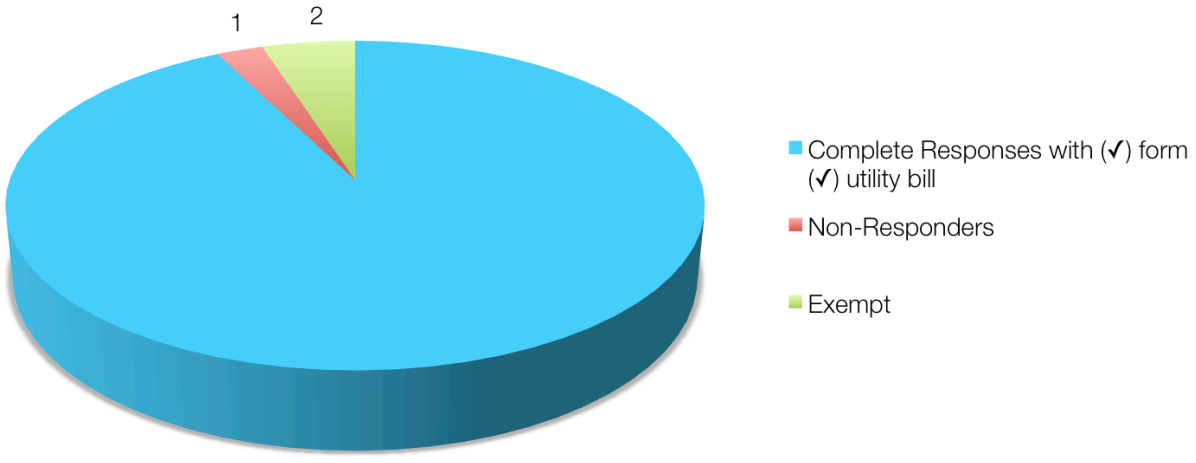
- 64% provided a complete and satisfactory response
- 8% provided a partial response with incomplete insurance documentation
- 4% provided a partial response with no utility bill and incomplete insurance documentation
- 20% did not provide a response
- 4% were exempt from monitoring this year

Menlo Park BMR Only

The following visual aid reflects the BMR Only owners with results from 2016 monitoring of the prior year's responders as well as Hello Housing's follow-up with the 2015 non-responders. Please note that the data is broken down into 2015 responders, 2015 non-responders and BMR Only owners who were not monitored in 2015. The 8 owners not monitored in 2015 were exempt last year due to varying reasons, such as having recently purchased their BMR home.



The following chart reflects the completeness of responses from BMR owners in the City of Menlo Park:



- 92.5% provided a complete and satisfactory response
- 2.5% did not provide a response
- 5% were exempt from monitoring this year

Menlo Park PAL Only

The 1 PAL only borrower provided a partial response to the monitoring request.