

RESOLUTION NO 2007-71

A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF HUNTINGTON BEACH SETTING FORTH AN AFFORDABLE HOUSING
IN-LIEU FEE AS AUTHORIZED BY ZONING & SUBDIVISION
ORDINANCE 3687 SECTION 230 26

WHEREAS, on November 1, 2004 the Council adopted Ordinance No 3687 adding Zoning & Subdivision Ordinance Section 230 26 relating to the goals and objectives of the City's Housing Element which is intended to encourage very-low low and median housing,

Pursuant to Section 230 26(B), a minimum of ten (10) percent of all residential construction projects of three (3) or more units must provide affordable housing units,

Pursuant to Section 230 26(b)(4) developers of residential projects consisting of nine or fewer units may elect to pay a fee in lieu of providing the required affordable units on site to fulfill the City's requirement of the Inclusionary Housing Ordinance unless the affordable housing requirement is outlined as part of a Specific Plan Project

The City Council has received the report from Keyser Marston Associates dated January 23, 2006 which includes an analysis pertaining to the City's Inclusionary Housing Ordinance and proposes an in-lieu fee consistent with the provisions of Zoning & Subdivision Ordinance Section 230 26 A copy of this study, as updated since January 23, 2006, is attached hereto as **Exhibit A** and incorporated herein by this reference

NOW THEREFORE, the City Council of the City of Huntington Beach does hereby resolve as follows

- 1 The Keyser Marston report attached hereto as **Exhibit A** is received and filed
- 2 The proposed per project in-lieu fee shall be as follows

<u>Project Size</u>	<u>In Lieu Fee</u>	<u>Total Fee</u>
Three Units	\$9,430	\$28,290
Four Units	\$10,600	\$42,400
Five Units	\$11,780	\$58,900
Six Units	\$12,960	\$77 760
Seven Units	\$14 140	\$98,980
Eight Units	\$15 330	\$122,640
Nine Units	\$16,500	\$148 500

- 3 An Affordable Housing Trust Fund shall be created and used to receive all deposits of in-lieu fees paid pursuant to Zoning & Subdivision Section 230 26 Interest shall accrue to the fund and no other funds shall be commingled

4 Monies in the Affordable Housing Trust Fund shall be used only to fund projects which have a minimum of fifty (50) percent of the dwelling units affordable to very-low and low income households with at least twenty (20) percent of the units available to very-low income households based on the Orange County median income adjusted for appropriate family size as published by the United States Department of Housing and Urban Development or established by the State of California, pursuant to Health and Safety Code Sections 50079.5 and 50093, or a successor statute

5 Permitted uses of the Affordable Housing Trust Fund shall be at the Council's discretion and include for pre-development costs, land or air rights acquisition, rehabilitation land write-downs, administrative costs, gap financing and lowering the interest rate of construction loans or permanent financing

6 Any units that obtain or benefit from the Affordable Housing Trust Funds shall maintain the affordability of the units for a minimum of sixty (60) years

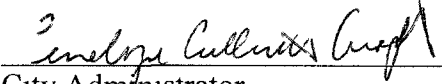
7 The Affordable Housing In-Lieu Fee shall be adjusted every January beginning 2008 by the Cost of Living Index

8 The City Administrator or her designee shall administer the Affordable Housing Trust Fund and shall provide an annual report to City Council, which report shall include the beginning balance, ending balance a description of the projects funded or to be funded each fiscal year The first annual report shall be provided on or before December 1, 2007 for the 2007-08 fiscal year

PASSED AND ADOPTED by the City Council of the City of Huntington Beach at a regular meeting thereof held on the 15th day of October, 2007


Mayor

REVIEWED AND APPROVED


City Administrator

APPROVED AS TO FORM

 10/18/07
City Attorney

INITIATED AND APPROVED

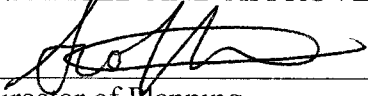

Director of Planning

EXHIBIT A



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To Mary Beth Broeren Principal Planner
City of Huntington Beach

From Kathleen Head
Julie Romey

Date January 23 2006

Subject. Inclusionary Housing Ordinance - In-Lieu Fee

At your request, Keyser Marston Associates Inc (KMA) prepared the following analysis pertaining to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance) Specifically KMA evaluated the Ordinance provision that allows developers of projects with nine or fewer units to pay a fee in lieu of providing affordable housing units within their project The purpose of the following memorandum is to assist the City in establishing an in-lieu fee payment schedule to be applied to small projects

INCLUSIONARY HOUSING ORDINANCE REQUIREMENTS

The Ordinance requirements that must be considered in establishing an in-lieu fee schedule are

- 1 All for-sale and rental new construction housing projects with three or more units must make at least 10% of the units available to the following households ¹
 - a For-sale units must be made available to very-low low or median income households ²
 - b Rental units must be made available to very-low or low income households

¹ New residential projects are defined as an entirely new project or new units added to an existing project. Only new units are used to calculate the required number of affordable housing units

² The median is defined as the Orange County median income (Median)

4

To Mary Beth Broeren City of Huntington Beach
Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 2

- 2 The income and affordability covenants must remain in place for at least 60 years
- 3 The affordable units must be
 - a Dispersed throughout the project;
 - b Proportional in number bedroom size and location to the market rate units
 - c Comparable with the market rate units in terms of the base design appearance materials and finish quality and
 - d Constructed and occupied concurrently with or prior to the construction and occupancy of market rate units
- 4 For small projects defined as projects including nine or fewer units, the inclusionary housing requirements may be satisfied by payment of an in-lieu fee established by resolution of the City Council and updated annually³
 - a The in-lieu fees will be deposited into a dedicated affordable housing account
 - b The account will only be used to provide funding assistance for construction or retention of affordable housing and for reasonable administration costs
- 5 Developers may choose to provide the affordable units at an off-site location as long as these units are under the full control of the Developer or other approved party The following outlines the other conditions
 - a Off-site projects can be new construction or major physical rehabilitation of existing non-restricted units At risk units and mobile homes may also be used to satisfy this requirement.
 - b Off-site units must be constructed or rehabilitated prior to or concurrently with the primary project

³ The fees are to be based upon the total number and size of the new residential units

To Mary Beth Broeren City of Huntington Beach
 Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 3

- c The sales prices or rents must be affordable to very-low low or median income households pursuant to the terms of an Affordable Housing Agreement.

METHODOLOGY

The vast majority of new residential projects within Huntington Beach are expected to be comprised of "for sale" projects. However, it is possible that rental development may also occur. Recognizing that the project economics vary between ownership and rental projects, and to avoid imposing onerous requirements on development, the KMA analysis evaluates both development types.

The first step in establishing an in-lieu fee is to quantify the financial impact associated with fulfilling the affordable housing requirements within market rate projects. That financial impact is equal to the difference between the market rate prices and the affordable price for the required income restricted units. This difference is known as the "affordability gap" and it is quantified using the following methodology:

- 1 The projected market rate sales prices and rents are compiled for prospective new residential projects.
- 2 The maximum affordable prices and rents are calculated based on the standards imposed by California Health and Safety Code (Code) Sections 50052.5 and Section 50053.
- 3 The difference between the market rate price and the defined affordable price represents the affordability gap associated with each income restricted unit required to be included in a market rate residential project.
- 4 The affordability gap per income restricted unit is multiplied times the number of units that must be income restricted. This represents the effective cost to a developer of fulfilling the inclusionary housing requirements on-site.
- 5 Since a fee is going to be paid in-lieu of providing any affordable units on-site, the effective cost is divided by the total square footage of the project. This represents the Base In-Lieu Fee amount.
- 6 The Ordinance limits the in-lieu fee option to projects with nine or fewer units. The in-lieu fee analysis recognizes that the inclusionary requirement has a greater impact on smaller projects than it does for a typically sized project.

To Mary Beth Broeren City of Huntington Beach
 Subject. Inclusionary Housing Ordinance - In-Lieu Fee

January 23, 2006
 Page 4

- 7 The Small Project in-lieu fee reflects the number of units in the project, which can range between three and nine units To achieve this it is necessary to create a Sliding Scale In-Lieu Fee amount that can be justified based on both the affordability gap and the feasibility analysis for the three- to nine-unit projects

Household Incomes

The Ordinance specifically identifies the Code Section 50093 income definition for moderate income households However, the Ordinance limits the moderate income category to 100% of the Median instead of the 120% of Median maximum that is allowed by Section 50093

The Ordinance also imposes very-low and low income restrictions To account for these requirements KMA assumed that Code Section 50105 would apply for very-low income households and that Code Section 50079 5 would apply for low income households

The income information is published by the State of California Housing and Community Development Department (HCD) annually The income ranges for Orange County in 2005 are

Household Size	Very-Low Income (Section 50105)	Low Income (Section 50079 5)	Median Income (Section 50093)
1 Person	\$0 - \$26 900	\$26 900 - \$43 000	\$43 000 - \$53,000
2 Person	\$0 - \$30 700	\$30 700 - \$49 150	\$49,150 - \$60 550
3 Person	\$0 - \$34 550	\$34 550 - \$55,300	\$55 300 - \$68 150
4 Person	\$0 - \$38,400	\$38 400 - \$61,450	\$61,450 - \$75,700
5 Person	\$0 - \$41,450	\$41,450 - \$66,350	\$66 350 - \$81,750
6 Person	\$0 - \$44 550	\$44,550 - \$71 250	\$71 250 - \$87,800
7 Person	\$0 - \$47,600	\$47,600 - \$76 200	\$76 200 - \$93,850
8 Person	\$0 - \$50 700	\$50 700 - \$81,100	\$81 100 - \$99 900

Affordable Housing Cost Calculation Methodology

The Ordinance does not identify a methodology for calculating affordable housing cost However historically the City has used the calculation methodologies imposed by the California Health and Safety Code Section 50053 defines the calculation methodology for rental units and Section 50052 5 provides the methodology for ownership units

To Mary Beth Broeren City of Huntington Beach
 Subject Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 5

AFFORDABILITY GAP ANALYSIS – OWNERSHIP PROJECTS (APPENDIX A)

Market Rate Sales Prices

Hanleywood Market Intelligence information indicates that the following single-family detached and attached residential projects are currently selling or recently sold out in Huntington Beach

	Year Built	Sold Out	Product Type	Number of Units
Seabridge Villas ⁴	2003	2004	Condos	344
Bel Air	2004	---	Duplex	102
Peninsula Point	2004	---	Detached	13
Sea Cove	2004	---	Townhomes	106
Total Units				565

As shown in Appendix A – Table 1 the following summarizes the sales prices for each product type

	Average Unit Size (Sf)	Average Sales Prices	Average \$/Sf
One-bedroom Units	811	\$348 500	\$430
Two-bedroom Units	1 418	\$567,000	\$400
Three-bedroom Units	2 484	\$923 800	\$367
Averages	1 841	\$854 000	\$464

Pricing Assumptions

The market rate sales prices are based on the following assumptions

	Unit Size (Sf)	\$/Sf	Sales Prices
One-bedroom Units	800	\$430	\$343,600
Two-bedroom Units	1 400	\$400	\$559,700
Three-bedroom Units	2 500	\$367	\$918 600

⁴ The project was built in the 1980 s and was converted from apartments to condominiums in 2003

To Mary Beth Broeren City of Huntington Beach
Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 6

Affordable Housing Cost Calculation

The affordable housing cost calculations included in the Code Section 50052 5 definition are

- 1 The household incomes are based on a benchmark household size equal to one person more than the number of bedrooms
- 2 The Ordinance sets the maximum household income for moderate income units at 100% of the Median as published by HCD ⁵
- 3 Thirty-five percent (35%) of the defined household income is allocated to housing related expenses These expenses are defined as mortgage debt service payments property taxes, maintenance costs, insurance costs home owner's association (HOA) dues and utility costs The Huntington Beach Redevelopment Agency (Agency) has historically calculated these costs for the City using the following assumptions
 - a Typically the Agency estimates HOA fees inclusive of homeowner's insurance based on the actual HOA fees for a project. Therefore, KMA estimated the HOA fees by calculating the weighted average of the project comparables in Appendix A – Table 1
 - b The maintenance costs are estimated at \$50 per month
 - c The 2005 utility allowances are provided by the Orange County Housing Authority and include gas electricity trash and water expenses These costs are as follows

One-bedroom Units	\$71
Two-bedroom Units	\$82
Three-bedroom Units	\$115
 - d In accordance with the Agency's methodology the property tax cost is estimated at 1.08% of the projected affordable price for the units
- 4 The mortgage amount that can be supported by a Median income household is based on a 30-year fully amortizing mortgage at 6.5% interest rate ⁶

⁵ It is reasonable to assume that given a choice a developer will provide Median income ownership units rather than very-low or low income ownership units

To Mary Beth Broeren, City of Huntington Beach
 Subject Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 7

Assuming the home buyer makes a down payment equal to 10% of the affordable purchase price the affordable prices for the Median income units in 2005 are

	One-Bedroom Units	Two-Bedroom Units	Three-Bedroom Units
Supportable Mortgage	\$188 500	\$217,800	\$242,800
Home Buyer Down Payment	20 900	24 100	27 000
Affordable Purchase Price	\$209 400	\$241 900	\$269,800

Affordability Gap Calculations

The results of the affordability gap analysis for Median income households are presented in Appendix A – Table 3. The analysis identifies the gaps between the maximum affordable prices and the projected market rate sales prices for one- two- and three-bedroom units. The results are summarized below:

	One- Bedroom Units	Two- Bedroom Units	Three- Bedroom Units
Market Sales Prices	\$343 600	\$559 700	\$918 600
(Less) Median Income Sales Prices	(209 400)	(241,900)	(269,800)
Affordability Gap	\$134 200	\$317,800	\$648 800

For the purposes of this analysis KMA distributed the units as follows: 25% one bedrooms, 25% two bedrooms, and 50% three bedrooms. Based on these assumptions, the average affordability gap per Median income unit is estimated at \$437 400.

Inclusionary Housing Obligation Cost

The Ordinance requires developers to impose income and affordability restrictions on at least 10% of the units in an ownership project. It is the KMA assumption that developers would typically minimize the financial gap by earmarking the units for Median income households rather than for very-low or low income households. When the \$437 400 gap per affordable unit is distributed across all units in a project, the cost is equal to \$43 700 per unit ($\$437\,400 \times 10\% = \$43\,700$).

⁶ The level annual debt service amount on a loan at 6.5% interest is equal to 7.58% multiplied times the original balance on the first trust deed mortgage.

To Mary Beth Broeren City of Huntington Beach
 Subject Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 8

AFFORDABILITY GAP ANALYSIS – RENTAL PROJECTS (APPENDIX B)

The methodology used in the KMA affordability gap analysis for rental developments can be described as follows

- 1 KMA obtained rents for recently renovated market rate apartment complexes in Huntington Beach from www.rentnet.com
- 2 KMA calculated the maximum affordable rents for low income households based on the household income statistics distributed by HCD and the affordability standards imposed by Code Section 50053⁷
- 3 To maximize management efficiency new apartment projects typically include at least 50 units⁸ For the purposes of this analysis KMA created a 50-unit prototype apartment project, and estimated the affordability gap associated with the imposition of low income rents on 10% of the units The affordability gap was then translated into the value reduction generated by the income and affordability restrictions imposed by the Ordinance
- 4 The Ordinance does not allow projects with more than nine units to pay the in-lieu fee However given the dearth of small new apartment projects it is necessary to premise the affordability gap analysis on a larger project. The gap derived from this analysis is then adjusted to reflect the characteristics associated with a project that would qualify for the in-lieu fee payment option

The tables that detail the rental analysis are located in Appendix B and are organized as follows

Table 1	Apartment Rental Rate Comparables
Table 2.	Affordable Rent for Low Income Households
Table 3	Project Value – 100% Market Rate Units
Table 4	Project Value – 100% Low Income Units
Table 5	Affordability Gap Calculation – Rental Projects

⁷ KMA assumed that developers will choose to provide low income units rather than very-low income units

⁸ Small investors will sometimes develop a smaller project to hold over the long-term However in the current market place it is far more financially advantageous to build a small condominium project rather than a small apartment project.

To Mary Beth Broeren City of Huntington Beach
 Subject. Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 9

Market Rate Rents

The vast majority of the recently constructed apartment projects in Huntington Beach have been subject to long-term income and affordability restrictions. Given the lack of new rental development, KMA gathered rent comparables for apartment buildings that have been renovated since 2000. The following illustrates the average asking rents for recently rehabilitated apartment units in Huntington Beach.

Unit Type	Unit Size (Sf)	Monthly Rents	\$/Sf
Studio Units	452	\$1 000	\$2.26
One-bedroom Units	723	\$1 200	\$1.67
Two-bedroom Units	988	\$1 500	\$1.50
Three-bedroom Units	1 364	\$1 700	\$1.27

Based on the current market and development trends, KMA assumed that a typical apartment project would be focused on one- and two-bedroom units. Assuming a 15% premium for new construction, the projected market rents for a new apartment project are as follows:

Unit Type	Unit Size (Sf)	\$/Sf	Monthly Rents
One-bedroom Units	750	\$1.92	\$1 443
Two-bedroom Units	1 000	\$1.73	\$1 729

Affordable Housing Rent Calculations

The Ordinance requires 10% of the units in a rental development to be subject to very-low or low income and affordability restrictions. Historically, the City has applied the Code Section 50053 affordable housing cost definition to the inclusionary housing rental units. The calculations are presented in Appendix B – Table 2, and the results can be summarized as follows:

- 1 The household incomes are based on benchmark household sizes of two persons for one-bedroom units and three persons for two-bedroom units.
- 2 The household income is set at 60% of the Median for low income units.
- 3 30% of the defined household income is allocated to housing related expenses.

To Mary Beth Broeren, City of Huntington Beach
Subject. Inclusionary Housing Ordinance - In-Lieu Fee

January 23, 2006
 Page 10

- 4 The maximum allowable rent must be adjusted to reflect the fact that the tenants will be required to pay for interior utility costs. Based on the 2005 allowances provided by the County of Orange Housing Authority, the utilities are estimated at \$32 per month for one-bedroom units and \$40 per month for two-bedroom units.⁹
- 5 The income and affordability covenants must be imposed over at least a 60-year term.

The maximum allowable 2005 low income rents under the defined income categories are as follows:

Unit Type	Monthly Rents
One-bedroom Units	\$877
Two-bedroom Units	\$982

As a practical matter, tenants will not be willing to pay rent that exceeds the prevailing rate in the market area. As such, it is important to estimate the rents that could be achieved by apartments that are not subject to income and affordability restrictions. As can be seen in the following table, the projected market rents exceed the maximum affordable rents by 39% to 43%. Thus, KMA has applied the defined affordable rents to our affordability gap analysis.

Unit Type	Market Rate	Low Income	Difference
One-bedroom Units	\$1,443	\$877	(39%)
Two-bedroom Units	\$1,729	\$982	(43%)

Affordability Gap Calculations

The affordability gap calculations are presented in Appendix B. Table 3 provides a pro forma analysis for a market rate project and Table 4 presents the findings for a low income project. The assumptions that were applied to each scenario are:

- 1 The market rate and income restricted rents are based on the assumptions discussed in the preceding section of this analysis.
- 2 The revenue analyses include \$15 per unit per month in miscellaneous income and a 5% vacancy and collection allowance.

⁹ Rental utility allowances include gas and electricity expenses only.

To Mary Beth Broeren, City of Huntington Beach
 Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 11

- 3 The general operating expenses are estimated at \$3 800 per unit and a \$250 per unit per year allowance is provided to fund an operating and capital reserve account.
- 4 The property tax expense estimates vary among the market rate and income restricted apartment projects. The expense cost is equal to the value supported by the project at a 1.1% property tax rate.
- 5 The net operating income (NOI) for both the market rate and income restricted units was capitalized at a 6.0% rate to estimate the relative values supported by market rate and low income units.

Based on the preceding assumptions the values per unit are estimated as follows:

	NOI / Unit	Value / Unit
100% Market Rate	\$12 000	\$200 000
100% Low Income	\$5 700	\$95 000

Appendix B – Table 5 illustrates the affordability gaps per affordable unit, which are summarized as follows:

Market Rate Scenario Value/Unit	\$200 000
(Less) Low Income Value/Unit	(95 500)
Affordability Gap	\$105 000

Inclusionary Housing Obligation Cost

The Ordinance requires developers to set-aside 10% of the units in a rental project for very-low or low income households. Based on the KMA analysis the affordability gap is estimated at an average of \$105,000 per income restricted unit included in the project.

A developer that chooses to pay the in-lieu fee will not be providing any affordable units within their market rate project. To translate the weighted average affordability gap into an in-lieu fee payment per market rate unit, it is necessary to multiply \$105,000 times the 10% inclusionary housing requirement. This equates to \$10 500 per unit development in a market rate project.

To Mary Beth Broeren, City of Huntington Beach
 Subject. Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 12

2005 MAXIMUM ALLOWABLE IN-LIEU FEES

The City's objective is to establish an in-lieu fee schedule that provides the City with adequate funds to produce the inclusionary units in similar locations and product types. However, the primary reason the Ordinance allows projects with nine or fewer units to pay an in-lieu fee is that the City recognizes that the imposition of income and affordability restrictions has a disproportionate impact on small projects. Therefore, it is necessary to establish an in-lieu fee schedule that does not render small projects economically infeasible.

In order to demonstrate the effective cost of fulfilling the Ordinance's production requirements, the KMA financial analysis is based on the characteristics embodied by larger projects than would be allowed to pay the in-lieu fee. This in turn provides the foundation for creating an in-lieu fee schedule that does not render small development financially infeasible.

- 1 The Base In-Lieu fee is calculated at the 100% estimated affordability gap for a typically sized project.
- 2 Based on the survey data presented in this report, the average ownership unit is estimated at 1 800 square feet in size and the average rental unit is estimated at 875 square feet in size.
- 3 The Base In-Lieu fees that correlate to the financial analyses presented in the financial analysis (Base In-Lieu Fees) are as follows:

	Per Affordable Unit	Per Market Rate Unit	Per Sf of Building Area
Ownership Projects	\$437 400	\$43 700	\$24
Rental Projects	\$105 000	\$10,500	\$12

KMA prepared comparative pro forma analyses of 30-unit and nine-unit "for sale" projects to assist in understanding the financial characteristics of the different project sizes (Appendix C – Table 1). Based on current projections, the developer profit per unit is approximately 46% less for the nine-unit project than the projected profit for the 30-unit project. To equalize the impact of the Ordinance's production requirement for projects with 10 or more units and the in-lieu fee option provided to projects with nine or fewer units, KMA reduced the Base In-Lieu Fee by 46%.

To Mary Beth Broeren, City of Huntington Beach
Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 13

The resulting fees for nine-unit projects are

	Per Sf of Building Area
Ownership Projects	\$13
Rental Projects	\$7

It is important to recognize that the financial impacts grow at a disproportionate rate as the project size decreases. To reflect this, KMA created the following sliding scale for three- to nine-unit projects ¹⁰

Project Size	As a % of Small Project Base Fee
Three Units	57%
Four Units	64%
Five Units	71%
Six Units	79%
Seven Units	92%
Eight Units	93%
Nine Units	100%

The in-lieu fees that result from the sliding scale are

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

¹⁰ It is difficult to precisely project the financial impact generated at each project size. The recommended sliding scale percentages are based on the scales currently being applied in West Hollywood and Pasadena.

To Mary Beth Broeren, City of Huntington Beach
 Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 14

IN-LIEU FEE COMPARISON ANALYSIS

To assist the City in setting the in-lieu fee payment amount, KMA compiled information from other Southern California jurisdictions that have inclusionary housing requirements, and that allow in-lieu fees to be paid. It is important to note, however, that the majority of the surveyed cities calculate the in-lieu fee on a case-by-case basis. In addition, many cities require the City Council to provide discretionary approval for a fee to be paid in-lieu of producing the affordable units.

For the surveyed cities that have established fee schedules, the in-lieu fee is calculated on one of the following bases:

- 1 Per square foot of building area included in the project;
- 2 Per unit developed in a market rate project, or
- 3 As a percentage of project or construction valuation.

The in-lieu fees charged in the surveyed cities are presented in the following tables:

Per Square Foot of Building Area	
Jurisdiction	In-Lieu Fee Amount
Chino ¹¹	\$2.72
Duarte	\$6.50
Pasadena ¹²	
Rental Projects	\$12 - \$22
Ownership Projects	\$5 - \$41
San Diego ¹³	\$1.25 - \$2.50
Santa Monica ¹⁴	\$22.33 - \$26.08
West Hollywood ¹⁵	\$6.70 - \$13.40

¹¹ The in-lieu fee amount is only applicable to projects developed in the Preserve.

¹² Projects with fewer than 10 units are exempt from the Program.

¹³ The lower fee is charged for projects with fewer than 10 units.

¹⁴ The lower fee is charged for apartment projects and the higher fee is charged for ownership projects.

¹⁵ An in-lieu fee can only be paid for projects with 20 or fewer units. The fee varies by number of units in the project.

To Mary Beth Broeren City of Huntington Beach
 Subject Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006
 Page 15

Per Unit in a Market Rate Project	
Junsdiction	In-Lieu Fee Amount
Agoura Hills ¹⁶	\$4 541 - \$6,277
Laguna Beach ¹⁷	\$7 047
Coronado	\$7 000

As a % of Project / Construction Valuation	
Junsdiction	In-Lieu Fee Amount
San Clemente	1 00%
San Juan Capistrano	1 00%

The in-lieu fees being charged by the surveyed cities vary widely. Moreover, since many cities negotiate the in-lieu fee on a case-by-case basis, it is very difficult to identify the "typical" in-lieu fee being charged by cities that are implementing inclusionary housing programs. However, based on the available information, the maximum supportable fee in Huntington Beach is within the range of the fees currently being charged by other Southern California cities.

IN-LIEU FEE RECOMMENDATIONS

The establishment of an in-lieu fee amount requires several subjective judgments and decisions. To provide a framework for our recommendations, KMA considered the following factors:

1. The City's primary objective is to attract sufficient housing to fulfill the affordable housing production requirements imposed by Code Section 33413 and to eliminate the unmet need for affordable housing identified in the Regional Housing Needs Assessment (RHNA).
2. An inclusionary housing production requirement has a greater financial impact on small projects than it does on large projects. To mitigate this, the provision of an in-lieu fee option is an efficient method of enforcing the Ordinance without stopping the development of smaller projects.

¹⁶ The lower fee is charged for apartment projects and the higher fee is charged for ownership projects.

¹⁷ The fee is set at \$46,978 per affordable lot or unit. 15% of the units are required to be affordable.

To Mary Beth Broeren City of Huntington Beach
 Subject. Inclusionary Housing Ordinance - In-Lieu Fee

January 23 2006

Page 16

The preceding analysis indicates that the affordability gap is \$24 per square foot for ownership units and \$12 per square foot for rental projects. However, it is the KMA conclusion that fees of this magnitude are likely to render small projects infeasible. To balance the City's objective to generate revenues to pursue affordable housing activities against the need to ensure that the in-lieu fee does not result in a constraint to development, KMA recommends that the in-lieu fee schedule be set as follows:

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

KMA also offers the following recommendations:

1. The City should create a mechanism for re-evaluating the in-lieu fee amount on a periodic basis. KMA suggests that the re-evaluation be performed at least every two years so that the in-lieu fee can keep pace with changes in the market place.
2. The Ordinance should be amended to provide the following clarifications:
 - a. The Ordinance should make it clear that developers can fulfill the inclusionary requirements with Median income units for ownership projects and low income units for rental projects.
 - b. The Ordinance should mandate that the affordable housing cost be calculated in accordance with the Code Section 50052.5 standards for ownership units and Code Section 50053 standards for rental units¹⁸, and
 - c. The Ordinance should only allow new development and substantial rehabilitation as defined by the Code Section 33413 affordable housing production requirements to fulfill the off-site inclusionary housing option allowed by the Ordinance.

¹⁸ The City has set 100% of the Median as the maximum income for the moderate income "for sale" units. This standard should replace the 110% of the Median applied in the Code Section 50052.5 affordable housing cost calculation.

APPENDIX A
OWNERSHIP ANALYSIS

APPENDIX A - TABLE 1

**NEW CONSTRUCTION SALES COMPARABLES
IN-LIEU FEE ANALYSIS
HUNTINGTON BEACH, CALIFORNIA**

Project/Address	Year Built / Sold Out	Type HOA Fee	Floorplans		Unit Size (Sf)	Base Price	\$/Sf
			Unit Type	# of Units			
I Seabridge Villas Beach Blvd & Adams	2003	Condo	One-bedroom	72	485	\$230 000	\$474
	2004	\$350	One-bedroom	19	760	310 000	408
			One-bedroom	83	765	300 000	392
			One-bedroom	46	885	360 000	407
			Two-bedrooms	24	970	335 000	345
			Two-bedrooms	59	1 095	405 000	370
			Two-bedrooms	8	1 100	340 000	309
			Two-bedrooms	4	1,240	415 000	335
			Two-bedrooms	29	1 285	470 000	366
			Totals/Averages	344	850	\$330 974	\$389
II Bel Air Gothard & Garfield	2004	Duplex \$276	Three-bedrooms	28	2,484	\$910 000	\$366
			Three-bedrooms	25	2 497	898 820	360
			Three-bedrooms	26	2,555	920 000	360
			Three-bedrooms	23	2,636	907 855	344
			Totals/Averages	102	2 539	\$909,365	\$358
III Peninsula Point Main Street & Clay	2004	SFD \$95	Three-bedrooms	5	1 990	\$869 900	\$437
			Three-bedrooms	7	2,174	899 900	414
			Three-bedrooms	1	2,260	919,900	407
			Totals/Averages	13	2,110	\$889,900	\$422
IV Sea Cove PCH & Goldenwest	2004	Townhomes \$405	One-bedroom	26	1 770	\$838 990	\$474
			Two-bedrooms	19	1 620	829 990	512
			Two-bedrooms	21	1 845	917 990	498
			Two-bedrooms	19	2,690	987 990	367
			Three-bedrooms	21	2,450	1 014 990	414
			Totals/Averages	106	2,058	\$914 603	\$445
V	Attached Units / Large Projects			552	1 834	\$853 140	\$465
	One-bedroom			246	811	\$348 470	\$430
	Two-bedrooms			183	1 418	\$567 019	\$400
	Three-bedrooms			123	2,524	\$927 399	\$367
VI.	Detached Units / Small Project			13	2,110	\$889,900	\$422
	Three-bedroom Units			13	2,110	\$889 900	\$422
VII.	All Units			565	1,841	\$853,986	\$464
	One-bedroom			246	811	\$348 470	\$430
	Two-bedrooms			183	1 418	\$567 019	\$400
	Three-bedrooms			136	2,484	\$923 814	\$367

Source Hanleywood Market Intelligence for the City of Huntington Beach

APPENDIX A - TABLE 2

AFFORDABLE HOUSING PRICES
EU FEE ANALYSIS
HUNTINGTON BEACH, CALIFORNIA

	One-bedroom Units	Two-bedroom Units	Three-bedroom Units
I Household Income @ 100% of County Median ¹	\$60 550	\$68 150	\$75 700
II <u>Income Available for Mortgage Debt Service</u>			
Income Allotted for Housing @ 35% of Income ²	\$21,200	\$23 900	\$26 500
(Less) Ongoing Expenses			
HOA, Insurance Maintenance ³	(3 792)	(3 792)	(3 792)
Utilities ⁴	(852)	(984)	(1,380)
Property Taxes @ 1.08% of Affordable Price ⁵	(2,262)	(2,603)	(2,914)
Income Available for Mortgage Debt Service	\$14 294	\$16 521	\$18 414
III Maximum Mortgage @ 6.5% Interest Rate ⁵	\$188 500	\$217 800	\$242,800
V Home Buyer Down Payment @ 10% Affordable Price ³	\$20 900	\$24 100	\$27 000
VI Maximum Affordable Home Price	\$209 400	\$241 900	\$269,800

¹ Based on the 2005 Orange County median incomes provided by HCD. Per the requirements imposed by California Health and Safety Code Section 50052.5, the household size is set at three persons for two-bedroom units and four persons for three-bedroom units. The Ordinance limits the moderate income units to households earning 100% of the median.

² Based on California Health and Safety Code Section 50052.5

³ Based on the Redevelopment Agency's assumptions. The Agency calculates the affordable prices for the City.

⁴ Based on the current Orange County utility allowances. Includes gas, electricity, water and trash.

⁵ Based on the current 30-year fixed mortgage rate.

APPENDIX A - TABLE 3

AFFORDABILITY GAP CALCULATION - OWNERSHIP PROJECTS
IN-LIEU FEE ANALYSIS
HUNTINGTON BEACH, CALIFORNIA

	One-bedroom Units	Two-bedroom Units	Three-bedroom Units
I Affordability Gap Calculation			
Market Sales Prices ¹	\$343 600	\$559 700	\$918 600
(Less) Maximum Affordable Sales Prices ²	(209 400)	(241 900)	(269 800)
Affordability Gap / Affordable Unit	\$134 200	\$317,800	\$648 800
II Average Affordability Gap Calculation		Affordability Gap	Unit Type Distribution ³
One-bedroom Units		\$134,200	25%
Two-bedroom Units		\$317 800	25%
Three-bedroom Units		\$648 800	50%
Average Affordability Gap / Affordable Unit			\$437 400
III Affordability Gap / Total Unit Calculation			
Average Affordability Gap / Affordable Unit			\$437 400
Affordable Units as a % of Total Units ⁴			10%
Affordability Gap / Total Unit			\$43,700

¹ Market rate prices are based on the following 800 sf one-bedroom units @ \$430/sf 1 400 sf two-bedroom units @ \$400/sf and 2 500 sf three-bedroom units @ \$367/sf

² See APPENDIX A - TABLE 2

³ KMA estimate

⁴ Based on the City Ordinance

APPENDIX B
RENTAL ANALYSIS

}

APPENDIX B - TABLE 1

APARTMENT RENTAL RATE COMPARABLES
IN-LIEU FEE ANALYSIS
HUNTINGTON BEACH CALIFORNIA

	Name & Address	Zip Code	Year Built / Renovated	Total Units	Unit Type	Base Rent	SF / Unit	\$ / SF
1	La Quinta Hermosa 16211 Parkside Lane	92647	1971 2000	94	1/1 2/1 2/1 2/1	\$1 155 1 405 1 415 1 530	725 940 945 1 110	\$1 59 \$1 49 \$1 50 \$1 38
2	Las Brisas/Vida Del Mar Apartments 16602 and 16552 Sell Circle	92649	1976 2000	62	1/1 2/2	1 170 1 450	800 1,200	\$1 46 \$1.21
3	Archstone Huntington Beach 8945 Riverbend Drive	92647	1986 2000	152	1/1 2/1	1,300 1 650	725 925	\$1 79 \$1 78
4	Huntington Breakers 21270 Beach Blvd	92648	1985 2000	324	0/1 1/1 1/1 2/2 2/2 2/2	1 050 1 305 1 355 1 615 1 655 1 655	450 635 625 925 900 900	\$2.33 \$2.06 \$2.17 \$1 75 \$1.84 \$1 84
5	Los Patos Apartments 17172 Bolsa Chica	92649	1973 2004	71	0/1 1/1 2/1	1 000 1,200 1 500	400 700 1 000	\$2.50 \$1 71 \$1.50
6	Maddox Apartments 7051 Maddox Dr	92647	1971 2002	56	1/1 2/1 2/2	1 045 1 300 1 400	750 980 1 050	\$1 39 \$1.33 \$1.33
7	Ocean Breeze Villas 6401 Warner Ave	92647	1975 2000	288	1/1 1/1 2/1 2/1 2/2 3/2 3/2	1 125 1 150 1 225 1,275 1 450 1 700 1 750	718 800 850 900 1 100 1 288 1 440	\$1 57 \$1 44 \$1 44 \$1 42 \$1 32 \$1.32 \$1.22
8	Avalon At Pacific Bay 6700 Warner Ave	92647	1970 1999	304	1/1 2/1 2/2	1 195 1 540 1 495	750 1 000 1 000	\$1 59 \$1 54 \$1 50
9	Huntington Creek 8211 San Angelo Dr	92647	1978 2001	194	0/1 1/1 2/1 5	990 1 190 1 510	505 729 1 075	\$1 96 \$1 63 \$1 40

	Sample Size	Average Unit Size	Min. Rent	Max. Rent	Avg. Rent	Avg \$ / Sf
Studios	3	452	\$1 000	\$1 100	\$1 000	\$2.26
1-Bedroom Units	11	723	\$1 000	\$1 400	\$1 200	\$1 67
2-Bedroom Units	17	988	\$1,200	\$1 700	\$1 500	\$1.50
3-Bedroom Units	2	1 364	\$1 700	\$1 800	\$1 700	\$1.27

Source RentNet.com, 07/06/05

APPENDIX B - TABLE 2

AFFORDABLE RENTS FOR LOW INCOME HOUSEHOLDS

EU FEE ANALYSIS

HUNTINGTON BEACH CALIFORNIA

		One-Bedroom Units ¹	Two-Bedrooms Units ¹
I	Low Income		
	Income @ 60% County Median ²	\$36 340	\$40 880
	% of Income Allotted to Housing ³	30 0%	30 0%
	Monthly Housing Expenses	\$909	\$1 022
	(Less) Utilities Expenses ⁴	(32)	(40)
	Monthly Rent	\$877	\$982

¹ Based on the 2005 Orange County median incomes provided by HCD. Per the requirements imposed by California Health and Safety Code Section 50053 the household size is set at two persons for one-bedroom units and three persons for two-bedroom units

² Based on the 2005 Orange County median incomes provided by HCD and the requirements imposed by California Health and Safety Code Section 50053

³ Based on the City Ordinance

⁴ Based on the current Orange County utility allowances. Includes gas and electricity

APPENDIX B - TABLE 3

PROJECT VALUE - 100% MARKET RATE UNITS
 RENTAL PROTOTYPE
 IN-LIEU FEE ANALYSIS
 HUNTINGTON BEACH CALIFORNIA

I. <u>Rental Income</u>				
One-Bedroom ¹	25 Units	\$1 443 /Unit	\$433 000	
Two-Bedrooms ²	25 Units	\$1 729 /Unit	518 800	
Miscellaneous Income	50 Units	\$15 00 /Unit	9 000	
Gross Income			\$960 800	
(Less) Vacancy Allowance	5 0% of Gross Income		(48 000)	
Effective Gross Income				\$912,800
II <u>Operating Expenses</u>				
General Operating Expenses	50 Units	\$3 800 /Unit	(\$190 000)	
Property Taxes ³	50 Units	\$2 201 /Unit	(110 000)	
Operating & Capital Reserves	50 Units	\$250 /Unit	(12 500)	
Total Operating Expenses				(\$312,500)
III				
Net Operating Income			\$600 300	
Per Unit			\$12,000	
IV				
Project Value ⁴			\$10 005 000	
Per Unit			\$200 000	

¹ Assumes one-bedroom units at 750 square feet and rent at \$1 92 /sf

² Assumes two-bedroom units at 1 000 square feet and rent at \$1 73 /sf

³ The value is projected based on a 6 0% capitalization rate The property tax rate is set at 1 10% of value.

⁴ The value is projected based on a 6 0% capitalization rate

APPENDIX B - TABLE 4

PROJECT VALUE - 100% LOW INCOME UNITS

FAL PROTOTYPE

IN-LIEU FEE ANALYSIS

HUNTINGTON BEACH CALIFORNIA

I Rental Income				
One-Bedroom ¹	25 Units	\$877 /Unit	\$263 100	
Two-Bedrooms ¹	25 Units	\$982 /Unit	294 600	
Miscellaneous Income	50 Units	\$15 00 /Unit	9 000	
Gross Income			\$566 700	
(Less) Vacancy Allowance	5 0% of Gross Income		(28 300)	
Effective Gross Income				\$538 400
II Operating Expenses				
General Operating Expenses	50 Units	\$3 800 /Unit	(\$190 000)	
Property Taxes ²	50 Units	\$1 041 /Unit	(52,000)	
Operating & Capital Reserves	50 Units	\$250 /Unit	(12,500)	
Total Operating Expenses				(\$254,500)
III Net Operating Income				
Per Unit			\$283 900	
			\$5 700	
IV Project Value ³				
Per Unit			\$4 732,000	
			\$95 000	

¹ See APPENDIX B - TABLE 2² The value is projected based on a 6 0% capitalization rate The property tax rate is set at 1 10% of value³ The value is projected based on a 6 0% capitalization rate

APPENDIX B - TABLE 5

AFFORDABILITY GAP CALCULATION - RENTAL PROJECTS
IN-LIEU FEE ANALYSIS
HUNTINGTON BEACH, CALIFORNIA

		<u>Net Operating Income</u>	<u>Project Value</u>	<u>Affordability Gap</u>
I	<u>Affordability Gap</u>			
	<u>Low Income Gap / Unit</u>			
	Market Rate Scenario ¹	\$12 000	\$200 000	
	Low Income Scenario ²	\$5 700	\$95 000	
	Affordability Gap / Unit			\$105 000
II	<u>Affordability Gap / Total Unit Calculation</u>			
	Affordability Gap / Affordable Unit			\$105 000
	Affordable Units as a % of Total Units			10%
	Affordability Gap / Total Unit			\$10,500

¹ See APPENDIX B - TABLE 3

² See APPENDIX B TABLE 4

APPENDIX C
IN-LIEU FEE CALCULATION

APPENDIX C - TABLE 1

SMALL PROJECT ANALYSIS
IN-LIEU FEE ANALYSIS
HUNTINGTON BEACH, CALIFORNIA

Prototype Project			
I. Projected Sales Revenues ¹	# of Units	Sales Prices	Total Revenue
One-bedroom Units	5	\$343 600	\$1 718 000
Two-bedroom Units	5	559 700	2,799 000
Three-bedroom Units	20	918 600	18 372,000
Total Project Revenue	30	\$762,967	\$22 889 000
II Land + Construction Costs	\$649 000 /Unit		\$19 456 000
III Developer Profit			
Total	15% Sales Revenues		\$3 433 000
Per Unit			\$114 000
Small Project			
I. Projected Sales Revenues ¹	# of Units	Sales Prices	Total Revenue
One-bedroom Units	2	\$343 600	\$687 000
Two-bedroom Units	2	559 700	1 119 000
Three-bedroom Units	5	918 600	4 593 000
Total Project Revenue	9	\$711 000	\$6 399 000
II Land + Construction Costs	\$649 000 /Unit		\$5 841 000
III Developer Profit			
Total			\$558 000
Profit Per Unit			\$62 000
Profit Differential Per Unit			\$52,000
% Difference			46%

¹ See APPENDIX A TABLE 3² Based on stabilized return on total investment.

APPENDIX C - TABLE 2

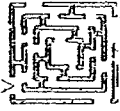
2005 IN-LIEU FEE SUMMARY

U FEE ANALYSIS

HUNTINGTON BEACH CALIFORNIA

I. <u>Base In-lieu Fee</u>		
2005 In-Lieu Fee - Ownership Projects	<u>/Total Unit</u> ¹	<u>/Sf GBA</u> ²
	\$43 700	\$24
2005 In-Lieu Fee Rental Projects	³	⁴
	\$10 500	\$12
II. <u>Base In-lieu Fee for Small Projects</u>		
	<u>Ownership</u>	<u>Rental</u>
Base In-lieu Fee	\$24	\$12
Loss in Profit ⁵	46%	46%
Base In-lieu Fee for Small Projects	\$13	\$7
III. <u>Sliding Scale as a % of the Base In-lieu Fee</u>		
	<u>Ownership</u>	<u>Rental</u>
Three Unit Projects	57%	57%
Four Unit Projects	64%	64%
Five Unit Projects	71%	71%
Six Unit Projects	79%	79%
Seven Unit Projects	92%	92%
Eight Unit Projects	93%	93%
Nine Unit Projects	100%	100%
IV. <u>2005 Sliding Scale In lieu Fee</u>		
	<u>Ownership</u>	<u>Rental</u>
Three Unit Projects	\$7	\$4
Four Unit Projects	\$8	\$4
Five Unit Projects	\$9	\$5
Six Unit Projects	\$10	\$6
Seven Unit Projects	\$12	\$6
Eight Unit Projects	\$12	\$7
Nine Unit Projects	\$13	\$7

¹ See APPENDIX A - TABLE 3² Assumes that the units average 1 800 square feet in size³ See APPENDIX B TABLE 5⁴ Assumes that the units average 875 square feet in size⁵ See APPENDIX C - TABLE 1



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To Mary Beth Broeren Principal Planner
City of Huntington Beach

From Kathleen Head

Date April 9 2007

Subject Inclusionary Housing Ordinance - In-Lieu Fee Update

ADVISORS IN
REAL ESTATE
REDEVELOPMENT
A FORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
ROBERT J. WETMORE

SAN ANGELO
CALVIN E. HOLLIS II
KATHLEEN H. HEAD
JAMES A. RABE
PAUL C. ANDERSON
GREGORY D. SOO HOO
KEVIN E. ENGSTROM
JULIE L. ROMEY

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

In a memorandum dated January 23 2006 Keyser Marston Associates Inc (KMA) recommended an in-lieu fee schedule for residential projects with nine or fewer units that are subject to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance). The recommended schedule is presented in the following table

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

The KMA analysis also recommended that the City create a mechanism for re-evaluating the in lieu fee amount on a periodic basis. The periodic adjustment is intended to keep the fee amount in sync with changes in new housing prices.

It is the KMA recommendation that the City apply an adjustment factor tied to the annual change in new home prices in Orange County. This information is published by the Real Estate Research Council of Southern California in a quarterly report titled *Real Estate and Construction Report*¹

¹ The information source is Data Quick Information Systems. The original data are taken from county records and the prices are calculated from the documentary transfer tax. Adjustments are made to remove very high-end and very low-end sales.

To Mary Beth Broeren City of Huntington Beach
 Subject. Inclusionary Housing Ordinance - In-Lieu Fee Update

April 9 2007
 Page 2

KMA used the fourth quarter reports for 2006 and 2005 to derive the percentage change in Orange County sales prices for new homes That information indicates that the median price in December 2005 was \$707 500 and the median price in December 2006 was \$792 000 This represents an 11 94% increase If this increase is applied to the fee schedule recommended by KMA in January 2006 the resulting schedule for 2007 is as follows

2007 In-Lieu Fee Schedule		
Project Size	Ownership	Rental
Three Units	\$8 28	\$4 48
Four Units	\$9 29	\$5 04
Five Units	\$10 41	\$5 60
Six Units	\$11 42	\$6 16
Seven Units	\$13 32	\$7 16
Eight Units	\$13 54	\$7 28
Nine Units	\$14 55	\$7 84

APPENDIX C TABLE 2

2005 IN-LIEU FEE SUMMARY
 IN-LIEU FEE ANALYSIS
 HUNTINGTON BEACH CALIFORNIA

	Total Fee Per Unit
I <u>Base In lieu Fee</u>	
2005 In Lieu Fee Ownership Projects	\$43 700 ¹
2005 In Lieu Fee Rental Projects	\$10 500 ²
Average Fee Per Unit	\$27 100
II <u>Base In lieu Fee for Small Projects</u>	
Base In-lieu Fee	\$27 100
Loss in Profit ³	46%
Base In-lieu Fee for Small Projects	\$14 739
III <u>Sliding Scale as a % of the Base In lieu Fee</u>	
Three Unit Projects	57%
Four Unit Projects	64%
Five Unit Projects	71%
Six Unit Projects	79%
Seven Unit Projects	92%
Eight Unit Projects	93%
Nine Unit Projects	100%

IV 2005 Sliding Scale In-lieu Fee

Three Unit Projects	\$8 420
Four Unit Projects	\$9 450
Five Unit Projects	\$10 510
Six Unit Projects	\$11 580
Seven Unit Projects	\$13 530
Eight Unit Projects	\$13 690
Nine Unit Projects	\$14 740

2007 Update
11 94%
\$9 430
\$10 580
\$11 760
\$12 960
\$15 150
\$15 320
\$16 500

¹ See APPENDIX A TABLE 3

² See APPENDIX B TABLE 5

³ See APPENDIX C TABLE 1



KEYSER MARSTON ASSOCIATES

ADVISORS IN PUBLIC / PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To Mary Beth Broeren Principal Planner
City of Huntington Beach

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
ROBERT J. WEIMORE

From Kathleen Head

Date October 1 2007

Subject Inclusionary Housing In Lieu Fee Calculation Methodology

LOS ANGELES
CALVIN E. HOLLES II
KATHLEEN H. HEAD
JAMES A. RABE
PAUL C. ANDERSON
C. GREGORY D. SOO HOO

In a memorandum dated January 23 2006 Keyser Marston Associates Inc (KMA) recommended in lieu fee schedules for residential projects with nine or fewer units that are subject to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance) In a memorandum dated April 9 2007 KMA updated the recommended fee schedules to reflect the percentage change in the median price for new homes in Orange County exhibited between December 2005 and December 2006 The fee schedule recommended in the April 9 2007 analysis is presented in the following table

2007 In Lieu Fee Schedule - Fee Calculated Per Square Foot of Building Area in the Project		
Base Fee / Sq Ft	\$27	\$13
<u>Project Size</u>	<u>Ownership</u>	<u>Rental</u>
Three Units	\$8 28	\$4 48
Four Units	\$9 29	\$5 04
Five Units	\$10 41	\$5 60
Six Units	\$11 42	\$6 16
Seven Units	\$13 32	\$7 16
Eight Units	\$13 54	\$7 28
Nine Units	\$14 55	\$7 84

To Mary Beth Broeren City of Huntington Beach October 1 2007
Subject Inclusionary Housing In Lieu Fee Calculation Methodology Page 2

PROPOSED MODIFICATIONS TO THE CALCULATION METHODOLOGY

In a workshop held on July 30 2007 the Ad Hoc City Council Committee on Affordable Housing In Lieu Fees (In-Lieu Fee Committee) requested that the in lieu fee calculation methodology be modified as follows

- 1 The in lieu fee should be calculated based on the number of units in the project rather than on the building area in the project
- 2 The in lieu fee should not vary between ownership and rental projects
- 3 The base year in-lieu fee should be set at the average of the fee amount derived for ownership and rental projects

The in lieu fee schedule identified in the January 2006 KMA analysis was based on a scale with uneven increases unit by unit between three and nine units At the City's request the currently recommended fee schedule increases the fee on a pro rata basis

The in lieu fees calculations resulting from the Ad Hoc City Council Committee and City staff direction are provided in Table 1 and can be summarized as follows

2007 In Lieu Fee Schedule Fee Calculated Per Unit in the Project		
Base Fee / Unit	\$30 337	
<u>Project Size</u>	<u>Fee / Unit</u>	<u>Total Fee</u>
Three Units	\$9 430	\$28 290
Four Units	\$10 600	\$42 400
Five Units	\$11 780	\$58 900
Six Units	\$12 960	\$77 760
Seven Units	\$14 140	\$98 980
Eight Units	\$15 330	\$122 640
Nine Units	\$16 500	\$148 500

The KMA analysis recommended that the City adjust the fee amount annually based on the annual change in new home prices in Orange County This information is published by the Real Estate Research Council of Southern California in a quarterly report titled *Real Estate and Construction Report*¹ It is the KMA assumption that this adjustment methodology will be included in the in lieu fee regulations

¹ The information source is Data Quick Information Systems The original data are taken from county records and the prices are calculated from the documentary transfer tax Adjustments are made to remove very high end and very low end sales

To Mary Beth Broeren City of Huntington Beach October 1 2007
Subject Inclusionary Housing In Lieu Fee Calculation Methodology Page 3

FINDINGS

The City's primary objectives in providing an in lieu fee option in the Ordinance is to establish an fee schedule that meets the following criteria

- 1 The funds should be sufficient to allow the City to produce the number of inclusionary units that would have been required within the project that has been allowed to pay the in lieu fee
- 2 The in lieu fee schedule should be set at amounts that do not render small projects economically infeasible

It should be recognized that the currently proposed in lieu fee schedule will be insufficient to produce the inclusionary units in similar locations and product types to the market rate ownership units being developed. However, the establishment of an in-lieu fee schedule requires the City to make several subjective judgments and decisions. To that end, KMA considered the following factors:

- 1 The primary purpose of the Ordinance is to attract good quality affordable housing units to the community. There is no stated objective to provide low and moderate income households with luxury housing units.
- 2 New ownership housing units in Huntington Beach are commonly selling for prices in excess of \$1.0 million. It may be considered financially inefficient to provide affordable housing for moderate income households at that market price range.
- 3 The potential exists to create a diverse mix of affordable housing on a more cost efficient basis in rental units and/or in infill locations. As such, the currently proposed in lieu fee schedule may provide sufficient revenues to produce the requisite number of inclusionary units in off-site locations.

It is the KMA opinion that the currently proposed in lieu fee schedule balances the objectives to attract affordable housing units while limiting the in lieu fee to amounts that can be supported by small projects. If the City wishes to allow projects with more than nine units to pay a fee in lieu of producing the required affordable units, it would be appropriate to use the Base Fee identified in the schedule to calculate the applicable in lieu fee amount.

TABLE 1

**2005 IN LIEU FEE SUMMARY
IN LIEU FEE ANALYSIS
HUNTINGTON BEACH CALIFORNIA**

	Average Unit Size		Fee / Sq Ft	
	(Sq Ft)		Building Area	
I <u>Base In lieu Fee (2005)</u> ¹				Fee / Unit
Ownership Projects	1 800		\$24	
Rental Projects	875		\$12	
Average Fee Per Unit				
				\$27 100
II <u>Base In lieu Fee for Small Projects</u>				
Base In lieu Fee	\$27 100			
Loss in Profit ¹	46%			
Base In lieu Fee for Small Projects	\$14 739			
III <u>Sliding Scale as a % of the Base In lieu Fee</u> ²				
3 Unit Projects	57%			
4 Unit Projects	64%			
5 Unit Projects	71%			
6 Unit Projects	79%			
7 Unit Projects	86%			
8 Unit Projects	93%			
9 Unit Projects	100%			
IV <u>Sliding Scale In lieu Fee</u>			Fee / Unit	Total Fee
			2005 Data	2007 Update
				11 94% ³
3 Unit Projects	\$8 420		\$9 430	\$28 290
4 Unit Projects	\$9 470		\$10 600	\$42 400
5 Unit Projects	\$10 520		\$11 780	\$58 900
6 Unit Projects	\$11 580		\$12 960	\$77 760
7 Unit Projects	\$12 630		\$14 140	\$98 980
8 Unit Projects	\$13 690		\$15 330	\$122 640
9 Unit Projects	\$14 740		\$16 500	\$148 500

¹ Based on KMA analysis dated January 23 2006

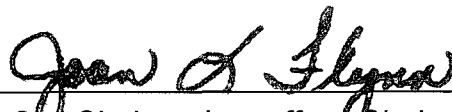
² The three unit and nine unit fee amounts are based on the January 23 2006 analysis The sliding scale has been adjusted to provide pro rata increases on a unit by unit basis

³ Based on the percentage change in the median price for new homes in Orange County between December 2005 and December 2006 The medians were \$707 500 and \$792 000 respectively The source is the Real Estate and Construction Report published by the Real Estate Research Council of Southern California

STATE OF CALIFORNIA
COUNTY OF ORANGE) ss
CITY OF HUNTINGTON BEACH)

I JOAN L FLYNN the duly elected qualified City Clerk of the City of Huntington Beach and ex-officio Clerk of the City Council of said City do hereby certify that the whole number of members of the City Council of the City of Huntington Beach is seven that the foregoing resolution was passed and adopted by the affirmative vote of at least a majority of all the members of said City Council at a **regular** meeting thereof held on **October 15, 2007** by the following vote

AYES	Bohr Carchio Cook Coerper Green Hansen Hardy
NOES	None
ABSENT	None
ABSTAIN	None



City Clerk and ex-officio Clerk of the
City Council of the City of
Huntington Beach California