

bae urban economics

Inclusionary Housing and In-Lieu Fee Study

Prepared for the Town of Atherton

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INTRODUCTION

This study provides analysis to assist the Town of Atherton in considering the adoption of an inclusionary housing ordinance and associated inclusionary housing in-lieu fees. The Town of Atherton is situated in one of the highest-cost regions in the country and has been identified as the most expensive zip code in the nation to buy a home.¹ According to data from Redfin, the median home sale price in Atherton was \$9.3 million as of December 2023. As a result, housing costs in Atherton are out of reach for lower-income and moderate-income households as well as for most households with above-moderate incomes.

The Town of Atherton is considering the adoption of an inclusionary housing program and associated inclusionary housing in-lieu fees, which would require that some new housing units in Atherton be made affordable to a wider range of households. Inclusionary housing ordinances generally require that a portion of units in new residential developments be made affordable to lower-income or moderate-income households, while revenue from in-lieu fees generally supports affordable housing initiatives. This study provides economic analysis to inform the Town in its consideration of an inclusionary housing program and related in-lieu fees.

Town of Atherton 2023-2031 Housing Element Update

The Town of Atherton's adopted Housing Element Update includes a program stating that the Town will adopt an inclusionary housing ordinance for multifamily development, with a nexus study evaluating whether a 20 percent inclusionary requirement is feasible. The program language reads as follows:

Adopt a new inclusionary ordinance for multifamily development and a housing fee for all new single-family housing construction and addition. Generate funds to support an affordable ADU rental program (Program 3.812 (B)) and other affordable housing opportunities.

The Town is currently completing a nexus study that will inform the development of the zoning ordinance. The nexus study will ensure that a 20% affordable requirement is not a constraint, and propose a revised percentage if 20% is determined to be a constraint or if a higher percentage of inclusionary units is feasible.

¹ See <https://www.sfgate.com/local/article/bay-area-expensive-zip-codes-18475302.php>

The analysis presented in this report supports the Town's implementation of this Housing Element program by analyzing the feasibility of a 20-percent inclusionary requirement for multifamily developments. Although not explicitly mentioned in the Housing Element program identified above, the analysis presented in this report also identifies potential in-lieu fees for multifamily developments because inclusionary ordinances often offer in-lieu fees as an alternative to providing affordable units, either in-lieu of meeting an entire inclusionary requirement or in-lieu of meeting a requirement for fractional units. This report also provides an analysis of housing fees for new single-family units as referenced in the Housing Element program cited above. According to information provided by Town staff, the Town is considering a requirement for single-family units that would call for either a deed-restricted ADU or the payment of a housing fee. Therefore, this analysis also includes an evaluation of the feasibility of constructing single-family homes with deed-restricted ADUs.

Components of the Analysis

The analysis provided in this report consists of two key components: a financial feasibility analysis to evaluate inclusionary housing requirements and an analysis of potential inclusionary housing in-lieu fees.

Inclusionary Housing Financial Feasibility Analysis

This component of the report evaluates the financial feasibility of residential development in Atherton with the inclusionary housing requirements that the Town is currently considering. This includes an analysis of residential developments that conform to existing development standards in Atherton as well as developments that would be consistent with new standards for residential development in Atherton that are currently under consideration. The purpose of this analysis is to evaluate whether future residential developments in Atherton can absorb the inclusionary requirements that are currently under consideration while remaining financially feasible.

Inclusionary Housing In-Lieu Fee Analysis

An inclusionary housing in-lieu fee is a fee that local jurisdictions may allow developers to pay instead of providing inclusionary units in a new development, with revenue from the fee used to support affordable housing initiatives elsewhere in the jurisdiction. This report includes analysis to inform the Town of Atherton's consideration of inclusionary housing in-lieu fees as part of an inclusionary housing program.

Inclusionary housing in-lieu fees are typically not a requirement for new development but are instead offered as an alternative to providing affordable inclusionary units. Therefore, inclusionary housing in-lieu fees are typically not

considered to be impact fees. Nonetheless, this study provides a nexus analysis that is consistent with the analysis that would be needed to support an impact fee to evaluate an inclusionary housing in-lieu fee for new residential development in Atherton. This analysis quantifies the estimated relationship between new market-rate residential development in Atherton, the need for workforce housing, and the public cost to construct housing that is affordable to lower-income workers. The concept of the residential nexus analysis is that residents in new market-rate units make expenditures in the local economy, thereby creating a demand for additional workers. A portion of these workers will have wages and household incomes that are not high enough to enable them to afford market-rate housing, and as a result new market-rate residential development is associated with a need for additional affordable housing. The nexus analysis estimates the fees that the Town of Atherton would need to charge to generate the funds necessary to support the construction of affordable units for these workers.

While many jurisdictions adopt inclusionary housing in-lieu fees without conducting a nexus analysis, a nexus analysis can inform policy decisions by identifying the in-lieu fee rates that would be necessary to mitigate the affordable housing needs associated with the construction of new market-rate residential units. In addition, a nexus study may be required if the Town were to require that some developments pay the in-lieu fee, with no option to provide affordable units instead of paying the fee, rather than providing the in-lieu fee as an alternative to providing inclusionary units for those developments.

In addition to the inclusionary housing in-lieu fee nexus analysis, this study includes a financial feasibility analysis to evaluate the feasibility of paying an in-lieu fee, as well as other analysis to inform recommendations related to setting the Town's inclusionary housing in-lieu fee rates.

Affordability of Market-Rate Housing

Table 1 below shows the average market-rate rent in San Mateo County as of the January 2024 as well as the maximum affordable monthly rent for households of various sizes and income levels. The U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) characterize households as “extremely low-income,” “very low-income,” “low-income,” “moderate-income,” or “above-moderate income” based on percentages of the Area Median Income (AMI). These income categories are defined below.

- Extremely Low-Income: Up to 30 percent of AMI
- Very Low- Income: 31 percent to 50 percent of AMI
- Low-Income: 51 percent to 80 percent of AMI
- Moderate-Income: 81 percent to 120 percent of AMI
- Above-Moderate Income: More than 120 percent of AMI

In accordance with guidelines established by HUD, housing costs are generally considered to be affordable if a household's housing costs are equal to no more than 30 percent of their household income. For lower-income households, having housing costs above this threshold often signifies that a household is at risk of losing their housing and may struggle to afford housing costs while also paying for food, transportation, health care, and other basic needs.

The analysis shown in Table 1 indicates that market-rate rents in San Mateo County exceed the affordability threshold for extremely low- and very low-income households, as well as for most low-income households. It should be noted that the incomes shown in the table are at the top of the income range for each group. Therefore, while Table 1 indicates that some one-person households with incomes equal to 80 percent of AMI can afford market-rate rents, most lower-income households have incomes that fall somewhere below 80 percent of AMI. As a result, market-rate rents exceed the affordability threshold for all but a small portion of lower-income households.

It is likely that market-rate rents for multifamily units in Atherton would be higher than the averages shown for San Mateo County due in part to Atherton's location near the center of Silicon Valley. Data from Costar indicate that the effective monthly rent in Menlo Park, which is adjacent to Atherton, averages \$2,736 for a studio, \$3,312 for a one-bedroom unit, \$4,447 for a two-bedroom unit, and \$5,418 for a three-bedroom unit. These rents are approximately \$450 to \$950 per month higher than the countywide averages shown in Table 1. Data from Costar indicate that average effective rents in Redwood City, which borders Atherton on the opposite side, are lower than in Menlo Park but nonetheless higher than the countywide averages shown in Table 1. Multifamily rents in Atherton can be expected to be higher than the countywide averages shown in Table 1 due to the Town's reputation as a desirable community in which to live and the lack of multifamily rental units in the Town, which creates a shortage in supply. Due to the lack of multifamily rental units in Atherton, data are not available on the rental rates within Atherton itself.

This analysis indicates that many new workers in San Mateo County that have moderate or above moderate household incomes will generally be able to afford market-rate rental units within the County, while workers with lower household

incomes will generally not be able to afford market-rate housing in San Mateo County. While some market-rate units in San Mateo County have rents that fall below the averages shown in Table 1, data from Costar indicate that the multifamily rental vacancy rate in San Mateo County is approximately five percent, which is the vacancy rate that housing analysts typically consider indicative of a relatively stabilized housing market. This suggests that new housing will need to be built to accommodate an increase in worker housing demand regardless of the level of affordability needed. The market-rate rents shown in Table 1 are based on all market-rate units in San Mateo County, regardless of property age, and therefore are lower than the rents that would be charged at a newer development. As a result, new market-rate units are unlikely to provide housing that is affordable for worker households with extremely low, very low, and low incomes, and these households will need rent-restricted affordable housing in order to be able to afford to live locally.

Based on the calculations shown in Table 1, the nexus analysis provided in this study evaluates the extent to which new development generates a need for housing for extremely low-income, very low-income, and low-income households. The nexus analysis does not focus on the housing need for moderate or above-moderate income households because households at these income levels are more likely to be able to afford market-rate housing.

Table 1: Affordability of Market-Rate Multifamily Rental Units, San Mateo County, 2023

	Household (Unit) Size			
	1 Person (Studio)	2 Person (1 Bedroom)	3 Person (2 Bedrooms)	4 Person (3 Bedrooms)
Average Market-Rate Rent (a)	\$2,287	\$2,833	\$3,500	\$4,809
Utility Costs (b)	\$157	\$175	\$233	\$293
Maximum Affordable Monthly Rent				
Extremely Low Income (up to 30% AMI)				
Household Income (c)	\$39,150	\$44,750	\$50,350	\$55,900
Max. Affordable Monthly Rent (d)	\$822	\$944	\$1,026	\$1,105
Amount Above (Below) Market Rate Rent	(\$1,465)	(\$1,889)	(\$2,474)	(\$3,705)
Very Low Income (31-50% AMI)				
Household Income (c)	\$65,250	\$74,600	\$83,900	\$93,200
Max. Affordable Monthly Rent (d)	\$1,474	\$1,690	\$1,865	\$2,037
Amount Above (Below) Market Rate Rent	(\$813)	(\$1,143)	(\$1,636)	(\$2,772)
Low Income (51-80% AMI)				
Household Income (c)	\$104,400	\$119,300	\$134,200	\$149,100
Max. Affordable Monthly Rent (d)	\$2,453	\$2,808	\$3,122	\$3,435
Amount Above (Below) Market Rate Rent	\$166	(\$26)	(\$378)	(\$1,375)
Median Income (81-100% AMI)				
Household Income (c)	\$122,500	\$140,000	\$157,500	\$175,000
Max. Affordable Monthly Rent (d)	\$2,906	\$3,325	\$3,705	\$4,082
Amount Above (Below) Market Rate Rent	\$619	\$492	\$205	(\$727)
Moderate Income (101-120% AMI)				
Household Income (c)	\$147,000	\$168,000	\$189,000	\$210,000
Max. Affordable Monthly Rent (d)	\$3,518	\$4,025	\$4,492	\$4,957
Amount Above (Below) Market Rate Rent	\$1,231	\$1,192	\$992	\$148

Notes:

- (a) The average effective multifamily rent by number of bedrooms in San Mateo County as of January 2024, as reported by CoStar.
- (b) Housing Authority of San Mateo County 2023 allowances for tenant-furnished utilities and other services for a multifamily unit that uses electricity for cooking, heating, and water heating, as well as electricity for lights and appliances. Figure assumes the tenant is charged for water and sewer services. The allowance is based on the number of bedrooms in the unit and a household is assumed to have one bedroom fewer than the number of people in the household.
- (c) California Department of Housing and Community Development 2023 income limits for San Mateo County.
- (d) Assumes 30 percent of income spent on rent and utilities.

Sources: CoStar, 2024; California Department of Housing and Community Development, 2023; BAE, 2024.

Atherton Residential Development Standards and Relevant State Laws

Before October of 2024, Atherton's zoning ordinance consisted of a total of four zoning designations: two Residential designations (R-1A and R-1B), Park and Open Space, and Public Facilities and Schools. The vast majority of the Town is designated R-1A, with some parcels near El Camino Real designated R-1B and a limited number of parcels with Park and Open Space or Public Facilities and Schools designations. Both the R-1A and R-1B zoning designations allow for single-family homes with a minimum lot size of one acre. In both the R-1A and R-1B Districts, the development of Accessory Dwelling Units (ADUs) and lot splits pursuant to Senate Bill (SB) 9 are allowed in accordance with State law.

Residential uses are not generally allowed in the Park and Open Space of Public Facilities and Schools Districts, with the exception of emergency shelters, which are allowed in the Public Facilities and Schools District, and possible exceptions for caretaker housing or other residential uses associated with another use on the same site. No zoning districts in Atherton allowed for the development of multifamily housing.

In October 2024, as part of the Town's 2023-2031 Housing Element Update process, Atherton adopted changes to the Town's Zoning Ordinance to allow for the development of multifamily housing on some sites. The Town adopted three new zoning overlays to allow for multifamily development, allowing for densities of up to ten dwelling units per acre, 20 dwelling units per acre, or 40 dwelling units per acre, depending on the overlay, with multifamily housing allowed by right.

Senate Bill 9

California SB 9, which went into effect on January 1, 2022, allows property owners to split their lots and build up to four homes on a single-family parcel, regardless of local zoning regulations. This means that SB 9 lot splits do not have to meet the lot size requirements of the underlying zone. SB 9 also allows for the development of two homes on each lot resulting from an SB 9 lot split. Many lots in Atherton are particularly well-suited for SB 9 lot splits because the Town's large minimum lot sizes provide opportunities for split lots with sufficient land to develop homes on each lot. The Town has received multiple applications for SB 9 lot splits and has identified numerous additional lots with SB 9 lot split opportunities. According to the Town's Adopted Housing Element Update, there are 24 parcels in Atherton that could support SB 9 subdivisions. Several of these parcels are vacant and the remainder have existing homes but could accommodate additional homes pursuant to SB 9.

State Density Bonus

As in all local jurisdictions in California, developments in Atherton that provide qualifying affordable housing units are eligible for density bonuses and other concessions and incentives under the State Density Bonus law. The Density Bonus law provides density bonuses on a sliding scale to projects that provide affordable units, with larger bonuses for projects that provide more affordable units, up to a maximum density bonus of 100 percent. The proportion of affordable units that are required to be eligible for each tier of density bonus varies based on whether a project is a rental or ownership project and on the affordability level of the affordable units. Appendix B shows the density bonuses that are allowable for projects with various affordability levels and proportions. The State Density Bonus law also provides for parking reductions and various development incentives and concessions for projects that meet designated affordability thresholds. Under

State law, affordable units that are provided to satisfy an inclusionary requirement also make a project eligible for the benefits of the State Density Bonus – such as density bonuses, concessions, incentives, and waivers – provided that the affordable units align with the affordability levels and proportions identified in the State Density Bonus Law.

AB 602 Requirements

The provisions of Assembly Bill 602 (AB 602) came into effect in January 2022, enacting new requirements for impact fees and impact fee nexus studies. Inclusionary housing in-lieu fees are not impact fees, and therefore are not subject to the AB 602 requirements. However, the Town of Atherton may wish to consider the provisions of AB 602 on a voluntary basis to inform policy decisions. Key provisions of AB 602 include that impact fee nexus studies include analysis related to level of service for public facilities. When a nexus study supports an increase to an existing fee, AB 602 requires an analysis of the prior nexus study and fees collected based on the prior nexus study. AB 602 also requires that jurisdictions adopt a capital improvement plan as part of a nexus study, charge fees on residential uses in a manner that is proportional to the square footage of a unit, adopt any new fees in a public meeting with at least 30 days for public notice, and update nexus studies at least every eight years. Although the inclusionary housing in-lieu fees that are analyzed in this report are not impact fees, for informational purposes Appendix A provides an analysis of the provisions of AB 602 in relation to the inclusionary housing in-lieu fees that are evaluated in this report.

AB 1505 Requirements

California State Assembly Bill 1505 (AB 1505), which was signed into law as part of the State's 2017 housing legislation package, provides cities with the authority to adopt inclusionary ordinances for rental developments. Inclusionary ordinances for for-sale developments were already permissible under State law prior to the adoption of AB 1505. One of the key provisions of AB 1505 requires that local jurisdictions with inclusionary ordinances for rental developments provide developers with at least one alternative for complying with the ordinance, such as an in-lieu fee payment, land dedication, or off-site construction of affordable units.

AB 1505 provides the State Department of Housing and Community Development (HCD) with the authority to review inclusionary ordinances in some circumstances by requesting that a local jurisdiction submit an economic feasibility study. A review by HCD would be limited to inclusionary requirements on rental developments and would not apply to inclusionary requirements on for-sale

developments. A feasibility study would potentially be required only in cases where all of the following apply:

- The ordinance requires more than 15 percent of units to be affordable to households with incomes equal to 80 percent of the AMI or less.
- Either: 1) the jurisdiction did not meet at least 75 percent of its above-moderate income Regional Housing Needs Allocation (RHNA) over at least a five-year period, or 2) the jurisdiction failed to submit its annual Housing Element report for at least two consecutive years.
- Less than ten years have passed since the adoption or amendment of the ordinance.

However, meeting the criteria above does not necessarily trigger a review by HCD. Reviews are conducted only if HCD receives a complaint, and HCD has the authority to determine whether to conduct a review after receiving a complaint. To date, HCD has not required that any jurisdiction submit an economic feasibility study for an inclusionary ordinance based on AB 1505.

Regardless of the specific provisions of AB 1505, HCD could consider the financial feasibility of the Town's inclusionary ordinance as part of its review of the Town's Housing Element Update, in order to assess whether the requirements constitute an undue constraint on housing production.

INCLUSIONARY HOUSING FINANCIAL FEASIBILITY ANALYSIS

This chapter provides an analysis to evaluate the financial feasibility of the inclusionary housing requirements that the Town of Atherton is currently considering. This analysis evaluates the financial feasibility of four residential development prototypes. The findings from the financial feasibility analysis are intended to inform the Town of Atherton in considering the adoption of an inclusionary housing ordinance and in-lieu fee. The in-lieu fee is evaluated in the following chapter of this report.

Prototypes

The financial feasibility analysis evaluates four residential prototypes, consisting of two rental prototypes and two for-sale housing prototypes at varying densities. The analysis provided in this chapter evaluates prototypes that would provide inclusionary units in accordance with the proposed inclusionary policy for the Town of Atherton. For the purpose of this analysis, the inclusionary policy is assumed to require the following:

- For multifamily rental developments, 20 percent of units affordable to very low-income households (i.e., up to 50 percent of AMI)
- For multifamily for-sale developments, 20 percent of units affordable to lower-income households (i.e., up to 80 percent of AMI)
- For single-family homes, provide an ADU with a deed restriction that requires the ADU to be affordable to low-income households (i.e., up to 80 percent of AMI) or pay an in-lieu fee.

To the extent that meeting these inclusionary requirements would make a prototype eligible for a density bonus under the State Density Bonus law, the prototypes evaluated in this chapter incorporate these bonuses. The prototypes that were evaluated in this analysis are described in more detail below and summarized in Table 2.

Table 2: Summary of Residential Prototype Development Programs, Inclusionary Housing Scenarios

	Prototype 1	Prototype 2	Prototype 3	Prototype 4
Tenure	Rental	Rental	For-Sale	For-Sale
Base Density (a)	20 du/acre	10 du/acre	10 du/acre	Single-Family
Site Size (acres)	1.5	1.0	1.0	1.0
Development Program , Inclusionary Scenario				
Development Typology	Multifamily Apts.	Tow nhouses	Tow nhouses	Single-Family
Total Units	51	17	14	2
Affordable Units	6	2	2	1
Average Unit Size (net sq. ft.)	999	1,476	1,900	7,000 SF single-family home & 1,000 SF ADU
Parking Spaces	64	34	28	3+

Note:

(a) Base density shown reflects assumed density for site before applying any density bonuses.

Source: BAE, 2024.

Prototype 1: Multifamily Rental Apartments, 20 du/acre Base Zoning. Prototype 1 is a multifamily rental apartment development on a 1.5-acre site with a base zoning allowing for 20 dwelling units per acre. The prototype evaluated in this analysis includes six units affordable to very low-income households (i.e., 50 percent of AMI), which is equal to 20 percent of the 30 units that would be allowed under the base zoning. This makes the project consistent with the inclusionary requirements identified above and eligible for a 70-percent density bonus under State law. The resulting project with the density bonus consists of a total of 51 rental units. This project would be eligible for an additional density bonus under State Law if the project were to provide additional very low-income units or moderate-income units. Parking for Prototype 1 would be provided in a surface parking lot at a ratio of 1.25 spaces per unit.

Prototype 2: Rental Townhouses, 10 du/acre Base Zoning. Prototype 2 is a rental townhouse apartment development on a 1.0-acre site with a base zoning allowing for 10 dwelling units per acre. The prototype evaluated in this analysis includes two units affordable to very low-income households (i.e., 50 percent of AMI), which is equal to 20 percent of the 10 units that would be allowed under the base zoning, making the project eligible for a 70-percent density bonus under State law. The resulting project with the density bonus consists of a total of 17 rental units. Like Prototype 1, this project could be eligible for an additional density bonus under State Law if the project were to provide additional very low-income units or additional moderate-income units. Parking for Prototype 2 would be provided in private garages within each unit at a ratio of two spaces per unit.

Prototype 3: For-Sale Townhouses, 10 du/acre Base Zoning. Prototype 3 is a for-sale townhouse apartment development on a 1.0-acre site with a base zoning

allowing for 10 dwelling units per acre. The prototype evaluated in this analysis includes two units affordable to low-income households (i.e., 70 percent of AMI), which is equal to 20 percent of the 10 units that would be allowed under the base zoning.² This makes the project consistent with the inclusionary requirements identified above and eligible for a 35-percent density bonus under State law. The resulting project with the density bonus consists of a total of 14 units (rounded up to the nearest whole unit). Like the prototypes described above, this project would be eligible for an additional density bonus under State Law if the project were to provide additional qualifying affordable units. Parking for Prototype 3 would be provided in private garages within each unit at a ratio of two spaces per unit.

Prototype 4: Single-Family Home with an ADU. Prototype 4 is a for-sale single-family home with an ADU that is deed-restricted to be affordable to households with incomes equal to 80 percent of AMI. The primary home measures 7,000 square feet while the ADU would be detached from the primary home and measure 1,000 square feet. Parking would be provided in a two-car garage attached to the primary home, plus one space in a covered carport. Additional parking would likely be available in the driveway or on other paved areas.

Methodology for Financial Feasibility Analysis

The methodology used for this study involved preparation of static pro-forma financial feasibility models for each of the four prototypes described above. The static pro-forma models represent a form of financial feasibility analysis that developers often use at a conceptual level of planning for a development project, as an initial test of financial feasibility for a development concept to screen for viability. The detailed pro-formas that BAE prepared for this analysis are provided in Appendix C.

The pro-forma models are structured to calculate the residual land value associated with each prototype. The residual land value for a residential rental project is equal to the value of the completed project, net of total development costs and developer profit. The capitalized value of the project at stabilization is defined as the annual net operating income (NOI) from the project (i.e., annual income from the project net of operating expenses), divided by the capitalization rate (cap rate). The cap rate is a common metric used to estimate the value of a

² Under State Law, affordable ownership units must be affordable to households with incomes equal to 70 percent of AMI or less in order to be eligible for the density bonuses that are available for projects with low-income units. Rents for low-income ownership units in Prototype 3 are assumed to be affordable to households at 70 percent of AMI to make the project eligible for a density bonus based on the provision of low-income units.

property based on its NOI, and varies based on property type, location, and other property-specific characteristics. The residual land value for a residential rental project can be summarized as follows:

$$\begin{aligned} &\text{Capitalized Value at Stabilization (i.e., NOI / cap rate)} - \text{Total Development Costs} \\ &= \\ &\text{Residual Land Value} \end{aligned}$$

The residual land value for a for-sale project is equal to the net sale proceeds from the project (i.e., total revenue from sales after subtracting marketing costs) net of total development costs and developer profit:

$$\begin{aligned} &\text{Net Sale Proceeds (total revenues less marketing costs)} - \text{Total Development Costs} \\ &= \\ &\text{Residual Land Value} \end{aligned}$$

The residual land value approximates the maximum amount that a developer should be willing to pay for a given site, based on the value of the project that the developer would build on that site. In general, a development pro-forma that shows a residual land value that is approximately equivalent to the typical sale price for land indicates a financially feasible project. If a developer is able to acquire land for a price that is lower than the residual land value associated with his or her project, the difference between the residual land value and the actual sale price essentially represents additional project profit. A project that generates a residual land value that is lower than typical site acquisition costs is generally not considered financially feasible and would be unlikely to be built.

Residual Land Value Threshold

This analysis uses a residual land value threshold of \$5.0 million to \$6.5 million per acre to establish feasibility. In instances where the pro-formas show that a prototype generates a residual land value of \$6.5 million per acre or more, this analysis identifies these prototypes as financially feasible. Where the pro-formas show that a prototype generates a residual land value of less than \$5.0 million per acre, this analysis determines that the prototype would experience financial feasibility challenges. Prototypes that generate a residual land value ranging between \$5.0 million and \$6.5 million per acre would be considered marginally feasible.

This residual land value threshold is based on an analysis of recent sales of vacant land in Atherton, as reported by Redfin. These data show sales of eight vacant parcels in Atherton between 2019 and 2023, as summarized in Table 3. The sale prices for these parcels ranged from \$5.2 million to \$9.8 million per acre, with an

average of \$7.1 million per acre and a median of \$6.7 million per acre. Land sales that occurred in 2022 and 2023 show the same pricing characteristics, indicating that land prices have been relatively consistent across the 2018 to 2023 time period.

Table 3: Vacant Land Sales in Atherton, 2018-2023

Sale Date	Sale Price	Size Size (Acres)	Price/Acre
9/13/2019	\$6,400,000	1.00	\$6,398,678
3/18/2020	\$8,000,000	1.05	\$7,648,143
7/31/2020	\$2,500,000	0.28	\$9,075,000
1/21/2021	\$7,000,000	1.26	\$5,556,527
1/11/2022	\$5,450,000	1.05	\$5,170,805
2/9/2022	\$9,300,000	1.43	\$6,503,476
5/4/2023	\$25,000,000	2.56	\$9,765,678
10/30/2023	\$4,500,000	0.66	\$6,832,346
Minimum, 2018-2023			\$5,170,805
Maximum, 2018-2023			\$9,765,678
Average, 2018-2023			\$7,118,832
Median, 2018-2023			\$6,667,911
Average, 2022-2023			\$7,068,076
Median, 2022-2023			\$6,667,911

Sources: Redfin, 2024; BAE, 2024.

The residual land value thresholds identified above could also apply to the purchase of non-vacant parcels in Atherton that are purchased for the purpose of pursuing new residential development. New residential development in Atherton could occur on parcels with existing homes rather than on vacant parcels, with the existing homes demolished to accommodate new development or with one or more new homes constructed alongside an existing home. Data from Redfin show sales of 14 homes in Atherton in 2023 with a sale price of less than \$6.5 million per acre, all with older homes (i.e., built in 1974 or earlier) on the property. These data indicate that, in addition to potential opportunities to purchase vacant land, there are potential opportunities to purchase lots with existing homes in Atherton at a price that is consistent with the residual land value thresholds used in this analysis. These data also show sales of five properties with existing homes for less than \$5.0 million per acre, indicating that some developers may be able to acquire land for a price that is lower than the minimum residual land value that this analysis uses to determine feasibility. Nonetheless, this analysis uses a residual land value of \$5.0 million to \$6.5 million per acre to avoid potentially overstating the feasibility of new residential development.

Inclusionary Housing Financial Feasibility Findings

The following section summarizes the findings from the financial feasibility analysis for the four housing prototypes described above. A summary of the financial feasibility findings is included below in Table 4.

Prototype 1: Multifamily Rental Apartments, 20 du/acre Base Zoning

The financial feasibility analysis indicates that the 51-unit multifamily rental apartment prototype with a base zoning of 20 dwelling units per acre is financially feasible. The project has a total development cost of \$29.0 million, not including land, and a capitalized value totaling \$44.3 million. After accounting for developer profit, the residual land value associated with this prototype is \$11.8 million, or \$7.9 million per acre. This is higher than the \$5.0 million to \$6.5 million residual land value threshold that this analysis uses to determine whether a project is financially feasible, indicating that the project would be financially feasible under current market conditions.

It should be noted that this project would be eligible for an additional density bonus under the State Density Bonus law if the project were to provide either moderate-income units or additional very low-income units (see Appendix B). If the project were to pursue an additional density bonus, it could support a higher residual land value and generate additional profit for the developer, improving the financial feasibility of the project.

Prototype 2: Rental Townhouses, 10 du/acre Base Zoning

The financial feasibility analysis indicates that the 17-unit rental townhouse prototype with a base zoning of 10 dwelling units per acre faces financial feasibility challenges in the current market. The project has a total development cost of \$15.9 million, not including land, and a capitalized value totaling \$21.3 million. After accounting for developer profit, the residual land value associated with this prototype is \$3.5 million per acre. This is lower than the \$5.0 million to \$6.5 million residual land value threshold that this analysis uses to determine whether a project is financially feasible, indicating that the project would face financial feasibility challenges under current market conditions. It should be noted that this prototype would not be feasible even with no inclusionary units, indicating that the potential inclusionary requirements are not the barrier to financial feasibility for this project.

Like Prototype 1, Prototype 2 would be eligible for an additional density bonus under the State Density Bonus law if the project were to provide additional qualifying affordable units. If the project were to pursue an additional density bonus, it could support a higher residual land value and generate additional profit to the developer, improving the financial feasibility of the project.

Prototype 3: For-Sale Townhouses, 10 du/acre Base Zoning

The financial feasibility analysis indicates that the 14-unit for-sale townhouse prototype with a base zoning of 10 dwelling units per acre is financially feasible. The project has a total development cost of \$17.0 million, not including land, and net sale proceeds totaling \$29.6 million. After accounting for developer profit, the residual land value associated with this prototype is \$10.9 million per acre. This is higher than the \$5.0 million to \$6.5 million residual land value threshold that this analysis uses to determine whether a project is financially feasible, indicating that the project would be financially feasible under current market conditions.

Like Prototypes 1 and 2, Prototype 3 would be eligible for an additional density bonus under the State Density Bonus law if the project were to provide additional qualifying affordable units. If the project were to pursue an additional density bonus, it could support a higher residual land value and generate additional profit to the developer, improving the financial feasibility of the project.

Prototype 4: Single-Family Home with an ADU

The financial feasibility analysis indicates that a single-family prototype with a deed-restricted ADU is marginally feasible. The project has a total development cost of \$6.7 million, not including land, and net sale proceeds totaling \$13.9 million. After accounting for developer profit, the residual land value associated with this prototype is \$6.5 million per acre. This is equal to the \$6.5 million residual land value threshold that this analysis uses to determine whether a project is financially feasible.

While this study does not include an analysis of a development that involves an urban lot split or additional unit as permitted under SB 9, the analysis indicates that a development that involves an SB 9 lot split would likely be financially feasible. In an urban lot split scenario, a developer could construct multiple single-family homes on an area that was previously one lot, significantly reducing land costs on a per-unit basis. The significant decrease in per-unit land costs for split lot projects can be expected to improve the feasibility of developments involving SB 9 lot splits compared to single-family projects that do not involve an SB 9 lot split.

Summary of Findings

The analysis presented above demonstrates that the multifamily rental apartment prototype, the for-sale townhome prototype, and the single-family home prototype are feasible under current market conditions. These findings indicate that the inclusionary requirements that the Town of Atherton is currently considering are feasible for the development typologies that are likely to occur in Atherton in the coming years.

The analysis also demonstrates that the rental townhome prototype is unlikely to be financially feasible in the current market. This prototype is not financially feasible even with no inclusionary requirement, meaning that there are barriers to financial feasibility for the rental townhome prototype that are unrelated to inclusionary requirements, and that changes to the Town's proposed inclusionary requirements would not make this project feasible. This finding is consistent with development trends in the Atherton area, which has experienced limited, if any, build-to-rent townhome development in recent years or other types of rental development at a density that is consistent with this prototype (i.e., 17 dwelling units per acre, or ten dwelling units per acre with no density bonus). This finding does not indicate that a new inclusionary policy would be a significant constraint on development, but rather that this type of project is not generally feasible in the local market.

Table 4: Summary of Residential Development Feasibility, Inclusionary Housing Scenarios

	Prototype 1	Prototype 2	Prototype 3	Prototype 4
Tenure	Rental	Rental	For-Sale	For-Sale
Base Density (a)	20 du/acre	10 du/acre	10 du/acre	Single-Family
Site Size (acres)	1.5	1.0	1.0	1.0
Development Program, Inclusionary Scenario				
Total Units	51	17	14	2
Affordable Units	6	2	2	1
Average Unit Size (net sq. ft.)	999	1,476	1,900	7,000 SF single-family home & 1,000 SF ADU
Parking Spaces	64	34	28	3+
Total Development Costs, Excluding Land and Developer Profit, Inclusionary Scenario				
Total Development Cost (TDC)	\$28,988,178	\$15,944,590	\$17,033,792	\$6,675,047
TDC per Unit	\$568,396	\$937,917	\$1,216,699	\$6,675,047
TDC per Gross Building SF	\$467	\$635	\$640	\$834
Residual Land Value Analysis, Inclusionary Scenario				
Capitalized Project Value (Rental)	\$44,310,340	\$21,345,253	N/A	N/A
Net Sales Revenue (for-sale)	N/A	N/A	\$29,640,045	\$13,871,000
Residual Land Value (RLV)	\$11,843,581	\$3,487,312	\$10,902,874	\$6,528,448
Residual Land Value per Acre	\$7,895,721	\$3,487,312	\$10,902,874	\$6,528,448
RLV Feasibility Threshold (per Acre)	\$5.0 - \$6.5 million			
Feasible under current conditions?	Yes	No	Yes	Yes

Note:

(a) Base density shown reflects assumed density for site before applying any density bonuses.

Source: BAE, 2024.

IN-LIEU FEE ANALYSIS

This chapter provides analysis to inform the Town's consideration of inclusionary housing in-lieu fees. Many jurisdictions that have inclusionary housing ordinances provide developers with the option to pay in-lieu fees as an alternative to providing inclusionary units, though jurisdictions differ in terms of the extent to which the in-lieu fee option is available for all projects or only in specific circumstances. In addition, jurisdictions differ in terms of the extent to which in-lieu fees are set at levels that are likely to incentivize developers to pay the fee or to provide inclusionary units on site. In general, a relatively high in-lieu fee tends to create an incentive for developers to provide inclusionary units on site, particularly if the cost of the fee exceeds the cost to provide the inclusionary units. Conversely, a low in-lieu fee may create an incentive for developers to pay the fee rather than provide inclusionary units.

This chapter is divided into five sections:

1. A residential **nexus analysis**, which identifies the relationship between the construction of new market-rate residential units, the need for affordable housing, and the need for Town funds to construct affordable housing. The nexus analysis estimates the amount that the Town would need to charge in in-lieu fees to make the amount of the fee payment commensurate with the revenue needed to address the estimated affordable housing need associated with the construction of new market-rate development.
2. A **financial feasibility analysis** that evaluates how in-lieu fees would impact the feasibility of new development.
3. An analysis of the **cost to construct** an affordable inclusionary unit. Some jurisdictions set inclusionary housing in-lieu fees to be equal to the cost of constructing an affordable unit to ensure that the revenue from an in-lieu fee is sufficient to support the construction of an affordable unit off site.
4. A **point of indifference analysis** that estimates the fee rates that are approximately equivalent in cost to providing inclusionary units within a market-rate project. Fees set higher than the point of indifference will generally encourage developers to provide inclusionary units rather than pay an in-lieu fee, while fees set lower than the point of indifference will generally encourage developers to pay the fee rather than providing inclusionary units.
5. A **summary of the findings** from each of the prior sections of the chapter.

Nexus Analysis

This section presents a nexus analysis for market-rate residential units in Atherton. The residential nexus calculation is based on the premise that new households in Atherton will spend some of their money within the local economy, thereby supporting employment for new workers, a portion of which will need affordable housing. The nexus-based fee for market-rate residential units represents the fee that the Town of Atherton would need to collect to support the construction of the affordable housing needed to house these lower-income worker households.

The process for estimating the relationship between new market-rate residential development and the fee revenue necessary to address the resulting affordable housing need consists of the following steps:

- Step 1: Identify housing types and prices.** This step consists of identifying the types of residential development that will be evaluated in the nexus analysis as well as the typical rental rate or sale price for units of each type.
- Step 2: Estimate incomes of households in new market-rate housing.** Based on the rental rates or sale price for each residential development type, this step estimates the typical household income for households that would reside in each type of unit.
- Step 3: Analyze spending patterns for households in new market-rate units and estimate the number of jobs associated with this spending.** Based on the household incomes estimated in Step 2, Step 3 relies on the IMPLAN software model to estimate the number of new jobs that would be associated with household spending among households in new market-rate units. IMPLAN also provides an estimated distribution of these jobs by industry.
- Step 4: Estimate new worker households by income level.** For each residential development type, the estimated number of worker households at each income level is based on the number of new workers by industry as estimated in Step 3, the typical household income distribution for workers in each industry, and the typical number of workers per household.

This step yields an estimate of the number of lower-income worker households associated with the development of each market-rate unit, by residential development type. This number constitutes the

estimated affordable housing need associated with each residential unit type.

Step 5: Calculate the affordable housing financing gap. The financing gap is the amount of public subsidy needed to finance an affordable housing unit.

Step 6: Calculate the maximum nexus-based fee. The maximum nexus-based fee is equal to the number of lower-income worker households from Step 4 multiplied by the affordable housing financing gap from Step 5.

Each of these steps is discussed in more detail in the following sections.

Step 1: Define Housing Types and Identify Housing Prices

This analysis evaluates four market-rate residential unit types, which are consistent with the four prototypes described in the previous chapter: multifamily rental apartment units, rental townhouses, for-sale townhouses, and a single-family home. For the purpose of the nexus analysis, the single-family home does not include a deed-restricted ADU because the nexus analysis evaluates a potential in-lieu fee, which would only be charged in a scenario in which a deed-restricted ADU would not be provided. These unit types encompass the range of development typologies that are anticipated to occur in Atherton over the next several years.

Part of Step 1 is to identify the estimated average rent or sale price for each unit type. To estimate rental rates and sale prices for new multifamily apartment and townhouse developments in Atherton, BAE reviewed data on rental rates among properties in Menlo Park, Palo Alto, and Redwood City. Multifamily rental rates for properties in Atherton could not be used for this analysis due to the lack of existing multifamily properties in the Town. For multifamily rental apartment units, BAE reviewed data from Costar on rental rates among newly-constructed multifamily rental properties in Menlo Park, Palo Alto, and Redwood City. For rental townhomes, BAE reviewed data from Zillow on asking rents among newly-constructed townhomes in Menlo Park, Palo Alto, and Redwood City. For for-sale townhomes, BAE reviewed data from Redfin on sale prices among recently-constructed townhouses in Menlo Park, Palo Alto, and Redwood City. For single-family homes, BAE reviewed data from Redfin on sale prices among newly-constructed single-family homes in Atherton. The resulting average rent and sale price estimates are shown in Table 5 and Table 6, respectively.

Step 2: Estimate the Incomes of Households in New Market Rate Housing

The analysis uses the estimated rent and sale prices for new units in Atherton to estimate the household incomes of households that occupy new rental and for sale units in Atherton. Table 5 presents the annual household income required to rent new market-rate multifamily rental apartment units in Atherton, assuming households spend 30 percent of their gross income on rent and utilities, in accordance with HUD guidelines. Based on an estimated average monthly rent of \$5,097 for new rental units in multifamily rental apartment developments and \$6,808 for new rental townhomes, the estimated annual household income required to afford these market rents is approximately \$210,900 and \$279,300, respectively.

Table 6 shows the estimated annual household income required to afford a new for-sale home in Atherton. Based on the sale prices for new for sale units, the estimated annual household income needed to afford new for-sale units in Atherton is approximately \$452,900 for townhouses and \$2.37 million for single-family units.

Table 5: Household Income Required to Rent New Multifamily Rental Units in Atherton

	<u>Apartment</u>	<u>Townhome</u>
Average Monthly Rent (a)	\$5,097	\$6,808
Plus Utilities (b)	<u>\$175</u>	<u>\$175</u>
Total Monthly Housing Costs	\$5,272	\$6,983
Annual Housing Costs	\$63,264	\$83,796
Household Income Required (c)	\$210,880	\$279,320

Notes:

(a) Estimated average monthly rents for new units based on data from Costar.

(b) Housing Authority of San Mateo County 2023 allowances for tenant-furnished utilities and other services for a multifamily unit that uses electricity for cooking, heating, and water heating, as well as electricity for lights and appliances. Figure assumes the tenant is charged for water service. The allowance used in this table is based on a one-bedroom unit.

(c) 30 percent of gross income spent on housing costs.

Sources: Costar, 2024; Housing Authority of San Mateo County, 2023; BAE, 2024.

Table 6: Household Income Required to Purchase New Market-Rate Units in Atherton

	<u>Townhouse</u>	<u>Single-Family</u>
Estimated Sale Price for New Residential Unit (a)	\$2,582,000	\$13,650,000
Monthly Housing Costs for a New Residential Unit (b)	\$13,210	\$69,265
Annual Housing Costs	\$158,526	\$831,180
Household Income Required	\$452,931	\$2,374,801

Assumptions

Annual Interest Rate (c)	4.43%
Term of Mortgage (years)	30
Percent of sales price as down payment	20%
Property tax as a % of Sale Price (annual) (d)	1.1071%
Annual homeowner's insurance rate as a percent of sale price (single-fam)	0.16%
Annual homeowner's insurance cost (townhouse/condo) (e)	\$513
Monthly homeowners' association fee (townhomes) (f)	\$410
Percent of household income available for housing costs	35%

Notes:

- (a) Estimated sale prices based on data from Redfin on recent sales of townhouses in Menlo Park, Palo Alto, and Redwood City.
- (b) Monthly housing costs are based on the estimated sale price for each unit type and the assumptions shown in the table.
- (c) Equal to the average of the average weekly rate for a 30-year fixed rate mortgage between January 2019 and December 2023 per Freddie Mac.
- (d) The median of the property tax rates in the tax rate areas in the Town of Atherton per the County of San Mateo 2023-2024 Tax Rate Book.
- (e) Based on insurance rate information provided on the California Department of Insurance website for homes in San Mateo County.
- (f) Estimate based on HOA fees for recently-constructed condominiums and townhouses in Menlo Park and Palo Alto that were sold in the past year, according to data from Redfin.

Sources: Redfin, 2024; Freddie Mac, 2019-2023; California Department of Insurance, 2024; San Mateo County Auditor-Controller, 2023/2024; BAE, 2024.

Step 3: Analyze Projected Spending Patterns for Households in New Market-Rate Units and Estimate the Number of Jobs Associated with this Spending

New household spending within an economy supports jobs. As households spend money on retail goods, food, and health, personal, professional, and educational services, they support job growth in these and other sectors.

To estimate the effect of new household spending on employment generation, this analysis uses IMPLAN (“Impact analysis for Planning”), a widely-accepted and utilized software model. At the heart of the model is an input-output dollar flow table. For a specified region, the input-output table accounts for all dollar flows between different sectors of the economy. Using this information, IMPLAN models the way income injected into one sector is spent and re-spent in other sectors of the economy, generating waves of economic activity, or so-called “economic multiplier” effects. Appendix D contains a more detailed overview of IMPLAN.

The IMPLAN model is also able to estimate the number of *direct*, *indirect*, and *induced* jobs generated by a given economic “event.” Once the economic

events have been entered into the model, IMPLAN reports the following types of impacts:

- **Direct Impacts.** Direct impacts refer to the set of producer or consumer expenditures applied to the predictive model for impact analysis. It is the amount of spending available to flow through the local economy. IMPLAN then displays how the local economy will then respond to these initial changes. The direct impacts may equal the amount of spending input into the model, depending on a variety of factors.
- **Indirect Impacts.** The indirect impacts refer to the impact of local industries buying goods and services from other local industries. The cycle of spending works its way backward through the supply chain until all money leaks from the local economy, either through imports or by payments to income and taxes. For capital projects this would include payments for construction inputs such as wood, steel, office supplies, and any other non-labor payments that a construction firm would purchase in the building process. Since IMPLAN is only used in the housing analysis for this report to assess the impacts of new resident household expenditures, there are no indirect impacts to assess as there are no industry expenditures as inputs to the model.
- **Induced Impacts.** The induced impacts refer to an economy's response to an initial change (direct impact) that occurs through re-spending of income according to household spending patterns. When households earn income, they spend part of that income on goods and services, such as food and healthcare. IMPLAN models households' disposable income spending patterns and distributes them through the local economy.

For the purpose of this analysis, the economic "event" is the household spending by occupants of new residential units in Atherton. By IMPLAN definition these household expenditures are *direct* impacts, and the resulting spending generates *induced* impacts. For instance, the household expenditures generate jobs for cashiers and baggers at grocery stores patronized by the new households. The process initiated by household expenditures continues as these workers and the businesses they work for spend money in subsequent transactions, supporting employment at places other than the initial point of sale, such as wholesalers supplying retail stores, or truck drivers delivering goods to those stores. In turn, these businesses and workers spend money to generate additional activity in the local economy. These are all part of the *induced* impacts linked to the household expenditures.

For each of the residential unit types evaluated in this analysis, the IMPLAN analysis provides an estimate of the total number of jobs generated by the household expenditures made by residents in new market-rate housing. Because household spending tends to increase as household incomes increase, the IMPLAN analysis indicates that – of the four residential unit types analyzed – single-family units will generate the highest number of jobs per unit, followed by for-sale townhouses, rental townhouses, and multifamily rental apartment units, in that order. In addition to an estimate of the total number of jobs, the IMPLAN analysis also provides an estimate of the number of jobs in each industry sector that each unit type will generate. These estimates are shown in Step 4 (Table 8 through Table 11) below.

Step 4: Estimate New Worker Households by Household Income Level

Worker households³ often have more than one employed person, and therefore the incomes of individual workers do not provide sufficient information to estimate the distribution of household incomes among new workers. This analysis estimates workers' household incomes using the Public Microdata Sample (PUMS) data set, which consists of detailed data from the US Census American Community Survey that allow for cross-tabulations that are not available through published ACS data. For each of the industry sectors identified in the IMPLAN analysis described above, the PUMS data were used to estimate worker household incomes for workers associated with job growth attributable to new market-rate residential units.

Table 7 shows the distribution of workers in each major industry sector by household income level, based on PUMS data for workers employed in each industry sector that live in San Mateo County.

³ A worker household is defined as a household with one or more employed persons. They may be wage and salary workers, or self-employed/sole proprietors.

Table 7: Worker Household Income Level by Industry of Employment, San Mateo County

Industry	NAICS Code	Estimated Household Income as a Percent of AMI (a)						Total
		Acutely Low (15% AMI)	Extremely Low (30% AMI)	Very Low (50% AMI)	Low (80% AMI)	Moderate (120% AMI)	Above Moderate (>120% AMI)	
Private Sector								
Agriculture and Natural Resources	11, 21	9.0%	5.1%	10.6%	15.1%	40.8%	19.4%	100.0%
Construction	23	2.4%	7.9%	15.0%	20.2%	18.1%	36.3%	100.0%
Manufacturing	31-33	1.2%	3.6%	4.6%	13.5%	13.5%	63.6%	100.0%
Wholesale Trade	42	0.2%	5.8%	8.5%	15.1%	20.3%	50.1%	100.0%
Retail Trade	44-45	1.5%	5.5%	14.8%	22.3%	17.6%	38.2%	100.0%
Transportation, Warehousing, and Utilities	48-49, 22	1.1%	7.5%	14.3%	26.9%	15.3%	35.0%	100.0%
Information	51	0.4%	1.5%	3.1%	7.5%	7.2%	80.3%	100.0%
Finance, Insurance, and Real Estate	52-53	0.6%	2.3%	4.3%	12.1%	12.7%	68.1%	100.0%
Professional, Scientific, & Technical Services, & Mgmt of Companies	54-55	0.5%	1.4%	2.7%	8.4%	11.5%	75.5%	100.0%
Administrative and Support and Waste Management Services	56	4.6%	12.0%	22.0%	22.2%	13.8%	25.5%	100.0%
Educational Services	61	2.5%	3.5%	9.6%	15.3%	16.9%	52.2%	100.0%
Health Care and Social Assistance	62	0.8%	3.4%	8.5%	18.3%	16.2%	52.6%	100.0%
Leisure and Hospitality	71-72	3.6%	10.7%	14.3%	26.1%	16.7%	28.6%	100.0%
Other Services Except Public Administration	81	1.0%	8.3%	16.5%	24.7%	18.0%	31.5%	100.0%
Government								
		1.1%	3.4%	7.6%	15.1%	19.4%	53.4%	100.0%
Total		1.4%	4.7%	9.2%	16.6%	15.3%	52.7%	100.0%

Note:

(a) Based on a cross tabulation of Public Use Microdata Samples (PUMS) from the 2018-2022 American Community Survey. These incomes were compared to 2022 San Mateo County household income limits published by HCD to determine the percentage of households falling into each income category. The analysis controlled for household size, to address the varying income limits for each household size.

Sources: American Community Survey, 2018-2022 Public Use Microdata Sample; CA Dept. of Housing and Community Development (HCD), 2022; BAE, 2024.

Table 8, Table 9, Table 10, and Table 11 apply the household income distribution by industry, as shown in Table 7, to the number of jobs generated in each industry as a result of spending by households, as estimated in Step 3. Since the income of an individual household generates only a small amount of employment within each specific industry and household income level category, the tables show the number of jobs generated for every 100 units. The results are then divided by 100 in Step 6 below to show the estimated impact of a single household.

Housing need is based on the number of households rather than the number of jobs. As such, the analysis translates the number of jobs into households by dividing the number of jobs by the average number of workers per worker household for each income category, using PUMS data to identify the average number of workers per worker household by household income level.

The number of jobs that each residential product type generates corresponds to the household income required to afford each unit type. As shown in Table 8, multifamily rental apartment units in Atherton generate a need for approximately 18 housing units for local workers per 100 units, including approximately eight units affordable to extremely low-, very low-, and low-income households. As shown in Table 9, rental townhouse units in Atherton generate a need for approximately 24 housing units for local workers per 100 units, including approximately ten units affordable to extremely low-, very low-, and low-income households. As shown in Table 10, for-sale townhouse units in Atherton generate a need for approximately 39 housing units for local workers per 100 units, including approximately 17 units affordable to extremely low-, very low-, and low-income households. As shown in Table 11, single-family homes in Atherton generate a need for approximately 220 housing units for local workers per 100 units, including approximately 96 units affordable to extremely low-, very low-, and low-income households. These findings are summarized in Table 12.

Table 8: Jobs and Worker Household Generation by Income Level from New Multifamily Rental Apartment Units

Industry	NAICS Code	Total Jobs per 100 Units (a)	Estimated Jobs per 100 Units by Worker Household Income Level (b)					
			Up to 15% AMI	15% to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Over 120% AMI
Private Sector								
Agriculture and Natural Resources	11, 21	0.022	0.002	0.001	0.002	0.003	0.009	0.004
Construction	23	0.196	0.005	0.015	0.029	0.040	0.036	0.071
Manufacturing	31-33	0.047	0.001	0.002	0.002	0.006	0.006	0.030
Wholesale Trade	42	0.612	0.001	0.035	0.052	0.092	0.124	0.307
Retail Trade	44-45	4.429	0.069	0.245	0.654	0.988	0.780	1.694
Transportation, Warehousing, and Utilities	48-49, 22	1.134	0.012	0.085	0.162	0.305	0.174	0.397
Information	51	0.474	0.002	0.007	0.015	0.036	0.034	0.381
Finance, Insurance, and Real Estate	52-53	3.318	0.018	0.076	0.142	0.400	0.422	2.260
Professional, Scientific, & Technical Services, & Mgmt of Companies	54-55	0.924	0.005	0.013	0.025	0.077	0.106	0.697
Administrative and Support and Waste Management Services	56	0.999	0.046	0.120	0.219	0.222	0.137	0.255
Educational Services	61	2.158	0.054	0.075	0.208	0.329	0.366	1.126
Health Care and Social Assistance	62	6.875	0.058	0.237	0.587	1.261	1.113	3.618
Leisure and Hospitality	71-72	5.366	0.191	0.576	0.765	1.403	0.898	1.533
Other Services Except Public Administration	81	3.666	0.036	0.306	0.604	0.905	0.660	1.155
Government		0.093	0.001	0.003	0.007	0.014	0.018	0.050
Total Jobs		30.31	0.50	1.80	3.47	6.08	4.88	13.58
Workers per Households (c)		1.69	1.19	1.33	1.46	1.67	1.77	1.84
Number of Households		17.96	0.42	1.36	2.38	3.65	2.76	7.38

Notes:

- (a) Total Jobs is output of IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.
- (b) Estimated Jobs per 100 Units at each worker household income level is equal to Total Jobs per 100 Units in each industry, as shown in this table, multiplied by the share of workers in each industry at each income level, as shown in Table 7.
- (c) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2018-2022.

Sources: American Community Survey, 2018-2022, including the Public User Microdata Sample; CA Department of Housing and Community Development, 2022; IMPLAN; BAE, 2024.

Table 9: Jobs and Worker Household Generation by Income Level from New Rental Townhouse Units

Industry	NAICS Code	Total Jobs per 100 Units (a)	Estimated Jobs per 100 Units by Worker Household Income Level (b)						
			Up to 15% AMI	15% to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Over 120% AMI	
Private Sector									
Agriculture and Natural Resources	11, 21	0.029	0.003	0.001	0.003	0.004	0.012	0.006	
Construction	23	0.260	0.006	0.021	0.039	0.053	0.047	0.095	
Manufacturing	31-33	0.062	0.001	0.002	0.003	0.008	0.008	0.040	
Wholesale Trade	42	0.810	0.002	0.047	0.069	0.122	0.165	0.406	
Retail Trade	44-45	5.866	0.091	0.325	0.866	1.308	1.033	2.243	
Transportation, Warehousing, and Utilities	48-49, 22	1.503	0.016	0.112	0.214	0.404	0.230	0.526	
Information	51	0.628	0.003	0.009	0.019	0.047	0.045	0.504	
Finance, Insurance, and Real Estate	52-53	4.395	0.024	0.100	0.188	0.530	0.559	2.994	
Professional, Scientific, & Technical Services, & Mgmt of Companies	54-55	1.223	0.006	0.018	0.033	0.102	0.141	0.924	
Administrative and Support and Waste Management Services	56	1.323	0.060	0.159	0.291	0.294	0.182	0.337	
Educational Services	61	2.859	0.072	0.099	0.275	0.436	0.484	1.491	
Health Care and Social Assistance	62	9.106	0.077	0.314	0.778	1.670	1.474	4.792	
Leisure and Hospitality	71-72	7.108	0.253	0.762	1.014	1.858	1.190	2.030	
Other Services Except Public Administration	81	4.855	0.047	0.405	0.800	1.198	0.875	1.530	
Government			0.124	0.001	0.004	0.009	0.019	0.024	0.066
Total Jobs			40.15	0.66	2.38	4.60	8.05	6.47	17.98
Workers per Households (c)			1.69	1.19	1.33	1.46	1.67	1.77	1.84
Number of Households			23.78	0.56	1.80	3.16	4.84	3.66	9.78

Notes:

- (a) Total Jobs is output of IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.
- (b) Estimated Jobs per 100 Units at each worker household income level is equal to Total Jobs per 100 Units in each industry, as shown in this table, multiplied by the share of workers in each industry at each income level, as shown in Table 7.
- (c) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2018-2022.

Sources: American Community Survey, 2018-2022, including the Public User Microdata Sample; CA Department of Housing and Community Development, 2022; IMPLAN; BAE, 2024.

Table 10: Jobs and Worker Household Generation by Income Level from New For-Sale Townhouse Units

Industry	NAICS Code	Total Jobs per 100 Units (a)	Estimated Jobs per 100 Units by Worker Household Income Level (b)					
			Up to 15% AMI	15% to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Over 120% AMI
Private Sector								
Agriculture and Natural Resources	11, 21	0.048	0.004	0.002	0.005	0.007	0.020	0.009
Construction	23	0.431	0.011	0.034	0.065	0.087	0.078	0.157
Manufacturing	31-33	0.103	0.001	0.004	0.005	0.014	0.014	0.066
Wholesale Trade	42	1.343	0.003	0.078	0.114	0.203	0.273	0.673
Retail Trade	44-45	9.725	0.151	0.539	1.435	2.169	1.712	3.719
Transportation, Warehousing, and Utilities	48-49, 22	2.491	0.027	0.186	0.355	0.669	0.382	0.872
Information	51	1.041	0.004	0.016	0.032	0.078	0.075	0.836
Finance, Insurance, and Real Estate	52-53	7.286	0.041	0.166	0.311	0.879	0.927	4.963
Professional, Scientific, & Technical Services, & Mgmt of Companies	54-55	2.028	0.010	0.029	0.055	0.170	0.233	1.531
Administrative and Support and Waste Management Services	56	2.193	0.100	0.263	0.482	0.487	0.302	0.559
Educational Services	61	4.739	0.119	0.165	0.456	0.723	0.803	2.473
Health Care and Social Assistance	62	15.096	0.128	0.520	1.290	2.769	2.444	7.945
Leisure and Hospitality	71-72	11.784	0.419	1.264	1.681	3.081	1.973	3.366
Other Services Except Public Administration	81	8.049	0.078	0.672	1.326	1.986	1.450	2.537
Government		0.205	0.002	0.007	0.016	0.031	0.040	0.109
Total Jobs		66.56	1.10	3.95	7.63	13.35	10.73	29.82
Workers per Households (c)		1.69	1.19	1.33	1.46	1.67	1.77	1.84
Number of Households		39.43	0.92	2.98	5.23	8.02	6.07	16.21

Notes:

- (a) Total Jobs is output of IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.
- (b) Estimated Jobs per 100 Units at each worker household income level is equal to Total Jobs per 100 Units in each industry, as shown in this table, multiplied by the share of workers in each industry at each income level, as shown in Table 7.
- (c) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2018-2022.

Sources: American Community Survey, 2018-2022, including the Public User Microdata Sample; CA Department of Housing and Community Development, 2022; IMPLAN; BAE, 2024.

Table 11: Jobs and Worker Household Generation by Income Level from New Single-Family Residential Units

Industry	NAICS Code	Total Jobs per 100 Units (a)	Estimated Jobs per 100 Units by Worker Household Income Level (b)					
			Up to 15% AMI	15% to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Over 120% AMI
Private Sector								
Agriculture and Natural Resources	11, 21	0.270	0.024	0.014	0.029	0.041	0.110	0.052
Construction	23	2.406	0.059	0.190	0.360	0.487	0.437	0.874
Manufacturing	31-33	0.577	0.007	0.021	0.027	0.078	0.078	0.367
Wholesale Trade	42	7.494	0.016	0.433	0.634	1.131	1.524	3.755
Retail Trade	44-45	54.244	0.840	3.005	8.006	12.098	9.549	20.746
Transportation, Warehousing, and Utilities	48-49, 22	13.895	0.150	1.038	1.981	3.732	2.130	4.864
Information	51	5.808	0.025	0.088	0.180	0.436	0.417	4.663
Finance, Insurance, and Real Estate	52-53	40.641	0.226	0.929	1.734	4.900	5.169	27.683
Professional, Scientific, & Technical Services, & Mgmt of Companies	54-55	11.313	0.058	0.162	0.306	0.947	1.300	8.540
Administrative and Support and Waste Management Services	56	12.233	0.559	1.469	2.687	2.716	1.684	3.118
Educational Services	61	26.435	0.666	0.919	2.545	4.033	4.480	13.791
Health Care and Social Assistance	62	84.206	0.715	2.902	7.194	15.447	13.631	44.316
Leisure and Hospitality	71-72	65.728	2.338	7.050	9.375	17.186	11.004	18.776
Other Services Except Public Administration	81	44.897	0.436	3.748	7.394	11.080	8.088	14.151
Government		1.144	0.012	0.039	0.087	0.173	0.222	0.610
Total Jobs		371.29	6.13	22.01	42.54	74.48	59.82	166.31
Workers per Households (c)		1.69	1.19	1.33	1.46	1.67	1.77	1.84
Number of Households		219.94	5.15	16.61	29.19	44.73	33.86	90.39

Notes:

- (a) Total Jobs is output of IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.
- (b) Estimated Jobs per 100 Units at each worker household income level is equal to Total Jobs per 100 Units in each industry, as shown in this table, multiplied by the share of workers in each industry at each income level, as shown in Table 7.
- (c) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2018-2022.

Sources: American Community Survey, 2018-2022, including the Public User Microdata Sample; CA Department of Housing and Community Development, 2022; IMPLAN; BAE, 2024.

Table 12: Summary of Induced Housing Need per 100 Units by Residential Development Type by Income Category

Jobs	Total Jobs per 100 Units (a)	Estimated Jobs per 100 Units by Worker Household Income Level (b)							Total Up to 80% AMI
		Up to 15% AMI	15% to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Over 120% AMI		
Rental Apartments	30.31	0.50	1.80	3.47	6.08	4.88	13.58	11.85	
Rental Townhomes	40.15	0.66	2.38	4.60	8.05	6.47	17.98	15.70	
For-Sale Townhomes	66.56	1.10	3.95	7.63	13.35	10.73	29.82	26.02	
For-Sale Single-Family	371.29	6.13	22.01	42.54	74.48	59.82	166.31	145.16	

Households	Total HH per 100 Units (c)	Estimated Worker Households per 100 Units by Worker Household Income Level (c)							Total Up to 80% AMI
		Up to 15% AMI	15% to 30% AMI	30% to 50% AMI	50% to 80% AMI	80% to 120% AMI	Over 120% AMI		
Rental Apartments	17.96	0.42	1.36	2.38	3.65	2.76	7.38	7.81	
Rental Townhomes	23.78	0.56	1.80	3.16	4.84	3.66	9.78	10.35	
For-Sale Townhomes	39.43	0.92	2.98	5.23	8.02	6.07	16.21	17.15	
For-Sale Single-Family	219.94	5.15	16.61	29.19	44.73	33.86	90.39	95.68	

Notes:

(a) Total Jobs is output of IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.
 (b) Estimated Jobs per 100 Units at each worker household income level is equal to Total Jobs per 100 Units in each industry, as shown in this table, multiplied by the share of workers in each industry at each income level, as shown in Table 7.

(c) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2018-2022.

Sources: American Community Survey, 2018-2022, including the Public User Microdata Sample; CA Department of Housing and Community Development, 2022; IMPLAN; BAE, 2024.

Step 5: Calculate Financing Gap per Affordable Unit

The next step in the nexus analysis is to calculate the cost to house the extremely low-, very low-, and low-income households calculated in Step 3 by determining the per unit “financing gap” for an affordable unit. The nexus analysis defines the financing gap for an affordable unit as the difference between the cost to develop an affordable unit and the amount of permanent financing available to support the development of the unit.

Affordable Unit Development Cost. To estimate the average construction cost for an affordable unit, BAE reviewed cost estimates provided in applications for tax credit funding that were submitted in 2022 and 2023 for proposed affordable housing developments in San Mateo County. Cost information from applications submitted in 2022 was inflated to 2023 estimates based on the RS Means Historical Cost Index. Based on the information from these applications, BAE estimated that the average cost to construct an affordable housing unit in Atherton would be approximately \$915,000, as shown in Table 13 below.

Permanent Financing. To calculate the financing gap for an affordable unit, the nexus analysis assumes that an affordable housing developer is able to secure four percent LIHTC equity financing as well as a permanent loan based on the net operating income (NOI) from each unit.

This analysis assumes four percent LIHTC equity financing because this funding source is more readily available than nine percent LIHTC financing, for which there is considerable competition. However, it should be noted that four percent LIHTC financing is nonetheless limited and has become more competitive in recent years. As a result, four percent LIHTC financing is unlikely to be available at the levels that would be necessary to construct all affordable units needed to address housing needs attributable to new development in the Atherton area. In addition, inclusion of four percent tax credits as a funding source shifts some of the cost of providing affordable housing onto the public sector because the tax credits reduce the tax credit investors' tax liability. Including four percent LIHTC financing as a source of funding in the nexus model reduces the net affordability gap shown in Table 13, and therefore serves as a conservative assumption in estimating the cost associated with mitigating the housing needs generated by new non-residential development. As shown in Table 13, four percent LIHTC equity would provide an estimated \$367,510 per affordable unit, based on an average cost of approximately \$915,000 per unit and standard current four percent tax credit pricing assumptions.

The financing gap calculation does not include financing from other public funding sources because other sources are limited, typically require a highly

competitive application process, and require a public subsidy to fill the financing gap. These sources are not sufficient to fully address affordable housing needs that arise due to the impacts of future market-rate residential development projects in Atherton.

Table 13 also shows the estimated permanent loan amount per unit, based on the NOI from each unit (i.e., gross income net of vacancy and expenses) and typical financing terms. The rental rates used in this analysis are the 2023 rent limits for a two-bedroom unit for households at each income level, as set by the Tax Credit Allocation Committee (TCAC) for LIHTC projects, net of an estimated utility allowance. The use of the two-bedroom rent limit provides a conservative assumption because units in affordable housing developments tend to have a large share of studio and one-bedroom units, which have lower rental rates. Using the higher two-bedroom rental rate results in more assumed rental income from the affordable units, which results in a lower financing gap and a lower maximum fee amount. The vacancy, miscellaneous income, and operating expense assumptions shown in Table 13 are also based on information provided in 2022 and 2023 applications for LIHTC funding for projects in San Mateo County. Based on the NOI for units at each affordability level and standard financing assumptions, the supportable loan amount ranges from \$10,466 per unit for units serving extremely low-income households to \$295,646 per unit for units serving low-income households.

Net Financing Gap. The financing gap per affordable unit is equal to the total development cost less the tax credit equity and supportable loan amount. As shown, the financing gap per affordable unit ranges from \$251,798 for low-income units to \$536,978 for extremely low-income units. The financing gap has an inverse relationship to the income levels that each unit serves because units with higher income targeting generate more NOI and can therefore support higher debt service payments on a loan. The financing gap figures shown in Table 13 represent the amount of permanent financing subsidy that Atherton would need to provide to support the development of units at each income level, assuming that the Town's funds are leveraged with four percent tax credits and a permanent loan.

Table 13: Affordable Housing Financing Gaps, San Mateo County, 2024

	Income Group		
	Extremely Low	Very Low	Low
Household Income Limit (a)	\$50,350	\$83,900	\$134,200
Maximum Affordable Monthly Contract Rent per Unit (b)	\$1,021	\$1,858	\$3,113
Annual Gross Rent per Unit	\$12,252	\$22,296	\$37,356
Less 5% Vacancy	(\$613)	(\$1,115)	(\$1,868)
Miscellaneous Income per Unit (Annual) (c)	\$144	\$144	\$144
Less 5% Vacancy	(\$7)	(\$7)	(\$7)
Total Annual Revenue per Unit	\$11,776	\$21,318	\$35,625
Less Annual Operating Expenses per Unit (c)	\$10,901	\$10,901	\$10,901
Annual Net Operating Income per Unit	\$875	\$10,417	\$24,724
Annual Supportable Debt Service per Unit (d)	\$761	\$9,058	\$21,499
Total Development Costs per Affordable Unit (e)	\$914,954	\$914,954	\$914,954
Less: Permanent Loan Amount (f)	(\$10,466)	(\$124,565)	(\$295,646)
Less: Tax Credit Financing (4% LIHTC) (g)	<u>(\$367,510)</u>	<u>(\$367,510)</u>	<u>(\$367,510)</u>
Financing Gap per Affordable Unit (h)	\$536,978	\$422,879	\$251,798

Assumptions

Financing Terms

Debt Coverage Ratio	1.15
Interest Rate	6.10%
Amortization of Loan	30

Tax Credit Assumptions

Tax Credit Price	\$0.89
Eligible Basis %	86.8%
DDA Boost (i)	130%
Tax Credit Term (years)	10
4% Tax Credit Percentage	4.00%
Equity Partner Share	99.99%

Notes:

- (a) Based on a 3-person household, CA Department of Housing & Community Development, 2023.
- (b) Maximum affordable rents for 2-bedroom units per TCAC rent limits, net of 2-bedroom utility costs as shown in Table 1.
- (c) Data from funding applications for recent affordable housing projects in San Mateo County.
- (d) Net Operating Income divided by Debt Coverage Ratio.
- (e) Average of development costs shown in low-income housing tax credit applications submitted in 2022 and 2023 for projects in San Mateo County.
- (f) The financing gap calculations that are shown in this table incorporate credit financing to offset a portion of the cost of constructing an affordable unit, which reduces the estimated financing gaps. However, it should be noted that projects must compete for tax credit financing, with a limited amount of funding available from tax credit financing in each round. It is unlikely that enough tax credits would be available to fully address affordable housing needs in Atherton or in the broader region, and therefore full mitigation of housing needs would likely require affordable housing developments to be constructed without tax credit financing. Therefore, the financing gaps shown in this table likely represent an underestimate of the funding that would be needed to address the full need.
- (g) Based on financing terms assumptions.
- (h) Total Development Costs less Loan Amount and tax credit financing.
- (i) Atherton is designated as a small difficult to develop area (DDA), meaning that tax credit projects in that portion of the Town would receive a tax credit boost.

Sources: California Tax Credit Allocation Committee, 2022 and 2023; California Department of Housing and Community Development, 2023; Novogradac, 2023; BAE, 2024.

Step 6: Calculate the Nexus-Based Fee

The final step in calculating the nexus-based fee is to apply the financing gap per unit for each income level (from Step 5) to the total housing need by income level from new market-rate units (from Step 4). As shown in Table 14, the nexus-based fees for each of the four residential product types are as follows:

- Multifamily Rental Apartment Units: \$28,812 per unit
- Rental Townhouse Units: \$38,163 per unit
- For-Sale Townhouse Units: \$63,269 per unit
- Single-Family Units: \$352,906 per unit

Table 14 also provides the nexus-based fee per square foot for each residential product type, calculated by dividing the per-unit fee amount by typical unit sizes among new units of each type. The resulting nexus-based fees per square foot are as follows:

- Multifamily Rental Apartment Units: \$28.99 per net leasable square foot
- Rental Townhouse Units: \$25.79 per net leasable square foot
- For-Sale Townhouse Units: \$31.32 per net saleable square foot
- Single-Family Units: \$50.42 per net saleable square foot

Table 14: Nexus-Based Fee Rates for Market-Rate Residential Units

Affordability Level	Affordable Housing Need Per 100 Units (a)	Financing Gap (b)	Nexus-Based Fee Per 100 Units (c)	Nexus-Based Fee Per Unit (d)	Nexus-Based Fee Per Net SF (e)
Multifamily Rental Apartment Units					
Extremely Low Income (up to 30% AMI)	1.776	\$536,978	\$953,667	\$9,537	\$9.60
Very Low Income (31-50% AMI)	2.383	\$422,879	\$1,007,912	\$10,079	\$10.14
Low Income (51-80% AMI)	<u>3.652</u>	\$251,798	<u>\$919,616</u>	<u>\$9,196</u>	<u>\$9.25</u>
Total	7.812		\$2,881,194	\$28,812	\$28.99
Townhome Rental Units					
Extremely Low Income (up to 30% AMI)	2.352	\$536,978	\$1,263,174	\$12,632	\$8.53
Very Low Income (31-50% AMI)	3.157	\$422,879	\$1,335,024	\$13,350	\$9.02
Low Income (51-80% AMI)	<u>4.837</u>	\$251,798	<u>\$1,218,072</u>	<u>\$12,181</u>	<u>\$8.23</u>
Total	10.347		\$3,816,270	\$38,163	\$25.79
For-Sale Townhome Units					
Extremely Low Income (up to 30% AMI)	3.900	\$536,978	\$2,094,176	\$20,942	\$10.37
Very Low Income (31-50% AMI)	5.234	\$422,879	\$2,213,294	\$22,133	\$10.96
Low Income (51-80% AMI)	<u>8.020</u>	\$251,798	<u>\$2,019,403</u>	<u>\$20,194</u>	<u>\$10.00</u>
Total	17.154		\$6,326,874	\$63,269	\$31.32
Single-Family Residential Units					
Extremely Low Income (up to 30% AMI)	21.753	\$536,978	\$11,681,077	\$116,811	\$16.69
Very Low Income (31-50% AMI)	29.194	\$422,879	\$12,345,504	\$123,455	\$17.64
Low Income (51-80% AMI)	<u>44.734</u>	\$251,798	<u>\$11,264,000</u>	<u>\$112,640</u>	<u>\$16.09</u>
Total	95.681		\$35,290,581	\$352,906	\$50.42

Notes:

(a) See Table 8, Table 9, Table 10, and Table 11.

(b) See Table 13.

(c) Equal to the affordable housing need per 100 units at each income level multiplied by the financing gap at the corresponding income level.

(d) Equal to the nexus-based fee per 100 units divided by 100.

(e) Reflects the fee rate per net leasable/saleable square foot. Based on the following average unit sizes: Multifamily Rental Apartment Units (SF): 994 SF; Townhome Rental Units (SF): 1,480 SF; For-Sale Townhome Units (SF): 2,020 SF; Single-Family Residential Units: 7,000 SF.

Source: BAE, 2024.

In-Lieu Fee Financial Feasibility Analysis

This section analyzes the financial feasibility of an inclusionary housing in-lieu fee.

In-Lieu Fee Prototypes

The financial feasibility analysis involved creating an alternate version of the pro-forma for each of the residential prototypes summarized in Table 2 above, with the alternate versions having no inclusionary units. Because the alternate versions do not include affordable units, the projects would not be eligible for a density bonus under the State Density Bonus Law. Therefore, the prototypes were adjusted to remove any units attributable to a density bonus. Table 15 provides a summary of the development programs for the prototypes that were used to analyze the financial feasibility of an in-lieu fee. The table also shows the development program for each prototype in the inclusionary scenario to facilitate comparisons.

As shown, in the in-lieu fee scenario Prototype 1 would have a total of 30 units, consistent with the 20-dwelling unit/acre zoning for the site, rather than the 51 units that the site would support in the inclusionary scenario, which includes a density bonus. While Prototype 1 is a multifamily rental apartment prototype in the inclusionary scenario, this analysis assumes that the units on this site would consist of townhomes in the in-lieu fee scenario, which is consistent with the density of 20 dwelling units per acre that would be allowable in the in-lieu fee scenario with no density bonus. Consistent with the inclusionary scenario, this analysis evaluates Prototype 1 as a rental project in the in-lieu fee scenario.

Prototypes 2 and 3 are townhome developments in both the inclusionary scenario and the in-lieu fee scenario. However, both prototypes have fewer units in the in-lieu fee scenario due to the lack of a density bonus. Consistent with the inclusionary scenario, the in-lieu fee scenario for Prototype 2 would be a rental development while Prototype 3 would be a for-sale development.

Prototype 4 is a single-family home in both the inclusionary scenario and the in-lieu fee scenario. In the in-lieu fee scenario this prototype does not include a deed-restricted ADU.

Methodology

The analysis involved first testing each prototype under a scenario with no in-lieu fee to assess the feasibility of a development with inclusionary units relative to a development without inclusionary units, before accounting for the effect of any in-lieu fees. This provides a baseline analysis to compare the tradeoffs associated with providing inclusionary units versus paying an in-lieu fee. To the extent that a prototype is more feasible in the inclusionary scenario than in a non-inclusionary

scenario even with no in-lieu fees, developers will generally prefer to provide inclusionary units rather than pay an in-lieu fee regardless of the fee rate, making financial feasibility testing of potential specific in-lieu fee rates unnecessary. As discussed in more detail below, the analysis found that the prototypes were generally more feasible in the inclusionary scenario than in the non-inclusionary scenario, even before applying any in-lieu fees in the non-inclusionary scenario. As a result, no further testing of the financial feasibility of in-lieu fees is shown in this report.

Table 15: Summary of Residential Prototype Development Programs, Inclusionary and In-Lieu Fee Scenarios

	Prototype 1	Prototype 2	Prototype 3	Prototype 4
Tenure	Rental	Rental	For-Sale	For-Sale
Base Density (a)	20 du/acre	10 du/acre	10 du/acre	Single-Family
Site Size (acres)	1.5	1.0	1.0	1.0
Development Program, Inclusionary Scenario				
Development Typology	Multifamily Apts.	Townhouses	Townhouses	Single-Family
Total Units	51	17	14	2
Affordable Units	6	2	2	1
Average Unit Size (net sq. ft.)	999	1,476	1,900	7,000 SF single-family home & 1,000 SF ADU
Parking Spaces	64	34	28	3+
Development Program, In-Lieu Fee Scenario				
Development Typology	Townhouses	Townhouses	Townhouses	Single-Family
Total Units	30	10	10	1
Affordable Units	0	0	0	0
Average Unit Size (net sq. ft.)	1,480	1,480	2,020	7,000
Parking Spaces	60	20	20	2+

Note:

(a) Base density shown reflects assumed density for site before applying any density bonuses.

Source: BAE, 2024.

Financial Feasibility Findings for No Inclusionary, No In-Lieu Fee Scenario

As shown in Table 16, the findings from the analysis of a scenario with no inclusionary units and no in-lieu fees are similar to the findings from the financial feasibility analysis of the inclusionary scenarios described above (see Table 4) with respect to which prototypes are currently feasible. Prototype 1 (rental units with base zoning of 20 du/acre) is feasible with no inclusionary units and no in-lieu fee. Prototype 2 (rental units with a base zoning of 10 du/acre) is not likely to be financially feasible in either the inclusionary scenario or a scenario with no inclusionary units and no in-lieu fee. Prototype 3 (for-sale townhomes with base zoning of 10 du/acre) is financially feasible in both the inclusionary scenario and a scenario with no inclusionary units and no in-lieu fee. Prototype 4 (single-family) is

feasible in both the inclusionary scenario and in a scenario with no inclusionary units and no in-lieu fee.

Table 16 also provides a comparison between the on-site inclusionary scenario and the scenario with no inclusionary units and no in-lieu fee to determine which would be preferable from a developer perspective. As shown, for all three multifamily prototypes (Prototypes 1 through 3), the inclusionary scenario supports a higher residual land value than the no inclusionary/no in-lieu fee scenario. This finding is attributable to the use of the density bonus in the inclusionary scenario for these prototypes, which offsets the cost of providing the affordable units and makes the project that is possible in the inclusionary scenario more attractive to a developer than the project with no inclusionary units and no density bonus, even with no in-lieu fee. This indicates that, if the Town of Atherton were to adopt in-lieu fees, in most cases developers of multifamily projects would be likely to choose to provide affordable inclusionary units within their projects rather than pay in-lieu fees.

For single-family homes, Table 16 shows that development is slightly more feasible with no deed-restricted ADU and no in-lieu fee compared to a scenario with a deed-restricted ADU. This indicates that, depending on the level of in-lieu fees adopted by the Town of Atherton, developers of single-family homes may prefer the in-lieu fee option. The point of indifference section of this report provides additional analysis of the potential economic tradeoffs associated with providing a deed-restricted ADU compared to paying an in-lieu fee.

Table 16: Financial Feasibility Summary, No Inclusionary/No In-Lieu Fee Scenario

	Prototype 1	Prototype 2	Prototype 3	Prototype 4
Tenure	Rental	Rental	For-Sale	For-Sale
Base Density (a)	20 du/acre	10 du/acre	10 du/acre	Single-Family
Site Size (acres)	1.5	1.0	1.0	1.0
Development Program				
Total Units	30	10	10	1
Affordable Units	0	0	0	0
Average Unit Size (net sq. ft.)	1,480	1,480	2,020	7,000
Parking Spaces	60	20	20	2+
In-Lieu Fee (per net sq. ft.)	\$0.00	\$0.00	\$0.00	\$0.00
Total Development Costs, Excluding Land and Developer Profit				
Total Development Cost (TDC)	\$27,947,950	\$9,793,485	\$13,156,374	\$5,953,725
TDC per Unit	\$931,598	\$979,348	\$1,315,637	\$5,953,725
TDC per Gross Building SF	\$629	\$662	\$651	\$851
Residual Land Value Analysis				
Capitalized Project Value (Rental)	\$41,740,800	\$13,913,600	N/A	N/A
Net Sales Revenue (for-sale)	N/A	N/A	\$25,045,400	\$13,240,500
Residual Land Value (RLV)	\$10,439,096	\$2,944,897	\$10,573,389	\$6,691,402
Residual Land Value per Acre	\$6,959,398	\$2,944,897	\$10,573,389	\$6,691,402
RLV Feasibility Threshold (per Acre)	\$5.0 - \$6.5 million	\$5.0 - \$6.5 million	\$5.0 - \$6.5 million	\$5.0 - \$6.5 million
Feasible under current conditions?	Yes	No	Yes	Yes
Comparison to Inclusionary Scenario with Density Bonus				
Residual Land Value per Acre				
Inclusionary Scenario (b)	\$7,895,721	\$3,487,312	\$10,902,874	\$6,528,448
No Inclusionary Scenario	\$6,959,398	\$2,944,897	\$10,573,389	\$6,691,402
Preferred Scenario for Developer	Inclusionary w/ Density Bonus	Inclusionary w/ Density Bonus	Inclusionary w/ Density Bonus	No Inclusionary

Note:

(a) Base density shown reflects assumed density for site before applying any density bonuses.

(b) See Table 4. Inclusionary Scenario assumes the use of a density bonus in accordance with the State Density Bonus Law.

Source: BAE, 2024.

Inclusionary Unit Construction Cost

Many jurisdictions base their inclusionary in-lieu fees on the cost to construct an affordable unit, often through a formula that applies on a project-by-project basis that is tied to the cost of construction. Conceptually, charging inclusionary housing in-lieu fees that are equal to the cost of constructing an affordable unit ensures that the revenue from an in-lieu fee is sufficient to support the construction of an affordable unit off site in cases where the affordable unit is not constructed on site as an inclusionary unit. To inform the Town's consideration of an inclusionary housing in-lieu fee, this subsection provides an analysis of the cost to construct inclusionary units in each of the four residential prototypes analyzed in this report.

The analysis of potential in-lieu fee rates based on construction costs in Atherton is shown in Table 17. For inclusionary rental units, the calculations shown in the table estimate the cost to construct an inclusionary unit based on the per-unit construction costs shown in the pro-formas for the rental developments. The calculations then subtract the amount of debt service that an affordable unit can support from the total construction cost to estimate the construction cost net of supportable debt. This approach recognizes that an affordable unit generates rental income to offset the cost of constructing the unit, albeit at a lower rate than needed to cover construction costs.

For inclusionary townhouse ownership units (Prototype 3), the calculations shown estimate the cost to construct an inclusionary unit based on the per-unit construction costs shown in the pro-forma for the prototype. The calculations then subtract the average restricted sale price for the inclusionary units from the total per-unit construction cost to estimate the construction cost net of sale proceeds. Similar to the approach used for the rental units, this approach recognizes that an inclusionary unit generates revenue from the sale of the unit to offset the cost of constructing the unit, though this revenue is not sufficient to cover construction costs. For the single-family prototype, the calculations in the table show the estimated net sales revenue attributable to the deed-restricted ADU, based on the difference between the net sales revenue for the single-family prototype with a deed-restricted ADU (the inclusionary scenario) and the net sales revenue for the single-family prototype with no ADU (the in-lieu fee scenario). The calculations then subtract the development cost associated with the ADU.

For all of the multifamily development prototypes, this analysis included the cost of land acquisition, estimated at \$6.5 million per acre.

As shown in Table 17 below, based on the construction cost approach calculations, the in-lieu fee amount based on the construction cost approach

ranges from \$91 to \$159 per net residential square foot for the rental prototypes. Using the construction cost approach, the in-lieu fee for the for-sale units is equal to \$125 per net square foot for the townhouse prototype and \$29 per net square foot for the single-family prototype.

Table 17: Construction Cost In-Lieu Fee Amount by Prototype

	Prototype 1	Prototype 2	Prototype 3	Prototype 4
Tenure	Rental	Rental	For-Sale	For-Sale
Base Density (a)	20 du/acre	10 du/acre	10 du/acre	Single-Family
Site Size (acres)	1.5	1.0	1.0	1.0
Development Program, In-Lieu Fee Scenario				
Total Units	30	10	10	1
Affordable Unit Obligation (b)	6	2	2	1
Average Unit Size (net sq. ft.)	1,480	1,480	2,020	7,000
Net Residential Square Footage	44,400	14,800	20,200	7,000
Construction Cost Approach				
Total Development Cost Per Inclusionary Unit, Incl. Land	\$772,319	\$1,303,455	\$1,584,930	\$834,381
Rental Prototypes				
Average Monthly Rent per Affordable Unit (c)	\$2,029	\$2,253	N/A	N/A
Monthly Net Operating Income per Affordable Unit	\$677	\$890	N/A	N/A
Supportable Debt per Affordable Unit	\$98,223	\$129,133	N/A	N/A
For-Sale Prototypes				
Avg. Net Sales Revenue per Affordable Unit (d)	N/A	N/A	\$323,373	\$630,500
Development Cost minus Sale Price per Aff. Unit	N/A	N/A	\$1,261,557	\$203,881
In-Lieu Fee Per Affordable Unit	\$674,095	\$1,174,322	\$1,261,557	\$203,881
Construction Cost In-Lieu Fee Amount				
Total In-Lieu Fee Amount	\$4,044,572	\$2,348,644	\$2,523,114	\$203,881
<i>Fee per Net Residential Sq. Ft.</i>	<i>\$91</i>	<i>\$159</i>	<i>\$125</i>	<i>\$29</i>

Notes:

- (a) Base density shown reflects assumed density for site before applying any density bonuses.
- (b) Affordable Unit Obligation refers to the number of inclusionary units that would be required based on the Town's proposed inclusionary requirements. In the in-lieu fee scenario, this obligation would be met through the payment of an in-lieu fee rather than providing units on site.
- (c) Average monthly rent per affordable unit based on rents shown in the pro-formas provided in Appendix C.
- (d) Average net sales revenue per affordable unit is based on net sales revenues shown in the pro-formas provided in Appendix C.

Source: BAE, 2024.

Point of Indifference Approach

One factor to consider when setting an in-lieu fee is the “point of indifference”, or the fee amount that is generally equivalent to the cost of providing inclusionary units in a project. Fees that are set higher than this amount will generally incentivize developers to provide affordable units instead of paying the in-lieu fee because providing the units will be more cost-effective. Conversely, fees that are

set lower than this amount will generally incentivize developers to pay the in-lieu fee instead of providing the affordable units.

The cost of an in-lieu fee and the cost to provide inclusionary units on site are not directly comparable, because an in-lieu fee affects total development costs, whereas providing inclusionary units on site affects either the project's operating income and the resulting project value (for rental developments) or sale proceeds (for ownership developments). In other words, payment of an in-lieu fee affects the cost side of the residual land value calculation, while providing inclusionary units on site affects the project value or sale proceeds side of the residual land value calculation.

Multifamily Prototype Methodology

For the rental developments (Prototypes 1 and 2), this analysis evaluated the point of indifference by calculating the cost of making a unit affordable to a lower-income household, with this "cost" defined as the reduction in capitalized project value that would result from charging an affordable rent rather than a market-rate rent on the unit. The calculations shown in Table 18 show the annual operating revenue that a project would forego by making a unit affordable, compared to renting the unit at market rate, and the resulting difference in the capitalized value of the project. The analysis uses the average net operating income per market-rate unit and per affordable unit in each prototype to calculate this difference.

For the for-sale townhome development (Prototype 3), this analysis evaluated the point of indifference by calculating the cost of making a unit affordable to a lower-income household, with this "cost" defined as the difference in the sale price between a market-rate unit and an affordable unit. The calculations shown in Table 18 show the average sale price for an affordable unit and the average sale price for a market-rate unit, and the resulting difference in sale proceeds.

This analysis does not account for the effect that density bonuses available through the State Density Bonus Law would have on overall project feasibility for projects that provide affordable units on site rather than paying an in-lieu fee. In the case of the multifamily prototypes evaluated in this report, the scenarios with inclusionary units were more feasible than the scenarios with no inclusionary units, even with no in-lieu fee, due to the additional density available for these prototypes under State Density Bonus Law (see Table 16 above). Because the inclusionary scenario with a density bonus is already more feasible than the non-inclusionary, non-density-bonus scenario, any in-lieu fee charged on multifamily projects would serve to make the inclusionary scenario with a density bonus even more attractive relative to the in-lieu fee scenario, with higher fees being

associated with a stronger incentive to provide units on site. After accounting for the impact of a density bonus, the point of indifference fee rate would be negative, meaning that a payment would need to be made to the developer to make the non-inclusionary scenario more attractive than the inclusionary scenario. As a result, the point of indifference analysis presented here does not account for the effect of a density bonus.

The resulting cost of providing affordable units approximates the “point of indifference,” or the inclusionary in-lieu fee payment that would have the same cost impacts as providing affordable units within each project in a scenario in which the developer chooses not to pursue a density bonus. In other words, if all else were equal, a residential project that pays the “point of indifference” fee rates shown in Table 18 would generally support the same residual land value as a project that provides the affordable units on site with no density bonus.

Single-Family Prototype Methodology

For the single-family prototype (Prototype 4), this analysis estimated the point of indifference based on the difference in the capitalized value of a market-rate ADU and the capitalized value of a deed-restricted ADU. If the proposed inclusionary housing requirements are adopted, a developer of a single-family home in Atherton would have the option to either pay an in-lieu fee or provide an ADU with a deed restriction requiring the ADU to be affordable to a low-income household. Developers that choose to pay an in-lieu fee rather than provide a deed-restricted affordable ADU would nonetheless have the option to provide an ADU that would not be subject to affordability restrictions. Therefore, the inclusionary and non-inclusionary scenarios for single-family home developments could differ only in terms of the affordability requirements for the ADU, with no difference in the physical structures on the property. As a result, this analysis estimates the point of indifference for the single-family prototype based on the difference in the value of an ADU, assuming that a single-family home would have a deed-restricted affordable ADU in the inclusionary scenario and an ADU rented at the market rate in the in-lieu fee scenario.

It should be noted that an ADU could have a range of impacts on single-family home sale prices, whether the ADU is deed restricted to remain affordable or not. The approach used in this analysis effectively assumes that a home buyer will offer a price for a home that incorporates the value of an ADU based on the rental income that the ADU will provide. However, in the case of a deed-restricted affordable ADU, it is likely that some homebuyers will ascribe a value to the ADU that is lower than the capitalized value of the unit because the deed restriction will require them to rent the unit, precluding its use for hosting guests, housing extended family, or other purposes. Furthermore, the deed restrictions for the unit

will require verifying tenant eligibility, which could prove burdensome for many households, and will require homeowners to function as landlords, which many homebuyers may not see as desirable. In the case of an ADU with no deed restriction, a homebuyer would have the flexibility to choose whether or not they want to rent the unit, and therefore may not ascribe a value to the ADU as a rental unit. A home buyer that does not plan to rent their ADU could ascribe a value to the ADU that is either higher or lower than the capitalized value of the ADU as a rental unit, depending on how much they value the ADU for other purposes. Therefore, while the point of indifference calculations for the single-family prototype represent an approximation of one potential scenario, the actual point of indifference for any individual property could vary significantly. As a result, it is possible that many developers would choose to pay the in-lieu fee even if rates are set higher than the amount shown in Table 18.

Findings

As shown in Table 18, the rental prototypes (Prototypes 1 and 2) yield a point of indifference in-lieu fee amount equal to approximately \$154 to \$156 per net residential square foot. The point of indifference fee amount for the for-sale townhome prototype (Prototype 3) is equal to approximately \$212 per net residential square foot. The point of indifference fee amount for the single-family prototype (Prototype 4) is equal to approximately \$69 per square foot.

It should be noted that the “point of indifference” fee rates identified in this analysis are sensitive to the relationship between the market-rate rent and the affordable rent for rental projects and the market-rate sale price and the affordable sale price for ownership projects, as well as other assumptions used in the financial modeling. Consequently, the fee rate that represents the point of indifference will vary between projects and over time based on variations in home prices and other factors. Nonetheless, the analysis presented in this subsection provides general insight on the in-lieu fees levels that are comparable in cost to providing inclusionary units in a project.

Table 18: Point of Indifference In-Lieu Fee Amount by Prototype

	Prototype 1	Prototype 2	Prototype 3	Prototype 4
Tenure	Rental	Rental	For-Sale	For-Sale
Base Density (a)	20 du/acre	10 du/acre	10 du/acre	Single-Family
Site Size (acres)	1.5	1.0	1.0	1.0
Development Program, In-Lieu Fee Scenario				
Total Units	30	10	10	1
Affordable Unit Obligation (b)	6	2	2	1
Average Unit Size (net sq. ft.)	1,480	1,480	2,020	7,000
Net Residential Square Footage	44,400	14,800	20,200	7,000
Point of Indifference In-Lieu Fee Amount				
Rental Prototypes				
Net Annual Operating Income per Affordable Unit	\$11,300	\$10,684	N/A	\$29,144
<u>Net Annual Operating Income per Market Rate Unit</u>	<u>\$62,611</u>	<u>\$62,611</u>	<u>N/A</u>	<u>\$50,850</u>
Difference in Net Operating Income	\$51,311	\$51,927	N/A	\$21,706
Capitalized Value of Difference in NOI per Unit	\$1,140,253	\$1,153,933	N/A	\$482,347
For Sale Prototypes				
Average Net Sale Price per Affordable Unit	N/A	N/A	\$359,461	N/A
<u>Average Net Sale Price per Market Rate Unit</u>	<u>N/A</u>	<u>N/A</u>	<u>\$2,504,540</u>	<u>N/A</u>
Difference in Sale Price	N/A	N/A	\$2,145,079	N/A
Total In-Lieu Fee Amount	\$6,841,520	\$2,307,867	\$4,290,157	\$482,347
<i>Per Net Project Sq. Ft.</i>	<i>\$154</i>	<i>\$156</i>	<i>\$212</i>	<i>\$69</i>

Notes:

(a) Base density shown reflects assumed density for site before applying and density bonuses.

(b) Affordable Unit Obligation refers to the number of inclusionary units that would be required based on the Town's proposed inclusionary requirements. In the in-lieu fee scenario, this obligation would be met through the payment of an in-lieu fee rather than providing units on site.

Source: BAE, 2024.

Summary of Findings from Inclusionary In-Lieu Fee Analysis

Table 19 provides a summary of the findings from the inclusionary housing in-lieu fee analysis that are presented in the preceding sections of this chapter. As shown, all three of the multifamily prototypes (Prototypes 1, 2, and 3) are more financially feasible in a scenario with inclusionary units and a density bonus than in a non-inclusionary scenario, even with no inclusionary housing in-lieu fee. The single-family prototype (Prototype 4) is slightly more feasible in a scenario with no inclusionary housing requirement and no in-lieu fee.

This chapter presents three potential approaches for calculating an in-lieu fee: 1) the nexus-based approach, 2) the construction cost approach, and 3) the point of indifference approach. For the three multifamily prototypes (Prototypes 1, 2, and 3), the nexus-based approach results in the lowest fee rates, ranging from \$26 to \$31 per net residential square foot. For Prototypes 1 and 3, the point of indifference approach results in the highest fee rates, at \$154 and \$212 per net residential square foot, respectively. For Prototype 2, the construction cost

approach and the point of indifference approach result in similar fee rates (\$159 and \$156 per net residential square foot, respectively). This means that, if the Town of Atherton chooses to adopt inclusionary housing in-lieu fees that are consistent with the nexus approach, the fee rates for multifamily projects would be lower than both the cost to construct an affordable unit and the point of indifference. Even so, fees that are consistent with the nexus analysis would generally incentivize developers to provide inclusionary units rather than pay an in-lieu fee because developers providing inclusionary units are likely to pursue a density bonus that will make the inclusionary scenario is more feasible than the in-lieu fee scenario regardless of the in-lieu fee rate.

For the single-family prototype (Prototype 4), the construction cost approach results in the lowest in-lieu fee rate (\$29 per square foot), followed by the nexus-based approach (\$50 per square foot) and the point of indifference approach (\$69 per square foot). It should be noted that in the case of the single-family prototype the point of indifference approach may understate the actual point of indifference for the reasons described in the previous subsection of this chapter. As a result, if the Town of Atherton chooses to adopt inclusionary housing in-lieu fees that are consistent with either the nexus-based approach or the construction cost approach, developers may generally choose to pay an in-lieu fee rather than providing a deed-restricted affordable ADU as an inclusionary unit.

Table 19: Summary of In-Lieu Fee Analysis Findings

	<u>Prototype 1</u>	<u>Prototype 2</u>	<u>Prototype 3</u>	<u>Prototype 4</u>
Tenure	Rental	Rental	For-Sale	For-Sale
Base Density (a)	20 du/acre	10 du/acre	10 du/acre	Single-Family
Site Size (acres)	1.5	1.0	1.0	1.0
In-Lieu Fee Findings				
Most Financially-Feasible Scenario (b)	Inclusionary w/ Density Bonus	Inclusionary w/ Density Bonus	Inclusionary w/ Density Bonus	No Inclusionary
Nexus-Based In-Lieu Fee	\$29	\$26	\$31	\$50
Construction Cost In-Lieu Fee Rate (per net sq. ft.)	\$91	\$159	\$125	\$29
Pt. of Indifference In-Lieu Fee Rate (per net sq. ft.)	\$154	\$156	\$212	\$69

Notes:

(a) Base density shown reflects assumed density for site before applying and density bonuses.

(b) Shows whether each prototype is more financially feasible with inclusionary units and a density bonus or with no inclusionary units, no density bonus, and no in-lieu fee.

Source: BAE, 2024.

POLICY OPTIONS AND RECOMMENDATIONS

The findings from the analysis, as described in the preceding chapters of this report, support the following recommendations.

Recommendation 1. Consider adoption of inclusionary housing requirements that are consistent with the requirements that the Town of Atherton has proposed

The Town of Atherton is currently considering an inclusionary housing program that would require the following:

- For multifamily rental developments, 20 percent of units affordable to very low-income households (i.e., up to 50 percent of AMI)
- For multifamily for-sale developments, 20 percent of units affordable to lower-income households (i.e., up to 80 percent of AMI)
- For single-family homes, provide an ADU with a deed restriction that requires the ADU to be affordable to low-income households (i.e., up to 80 percent of AMI) or pay an in-lieu fee.

The financial feasibility analysis provided in this report found that these inclusionary requirements are feasible for multifamily rental apartments, for-sale townhomes, and single-family homes (see Table 4). These findings indicate that the adoption of the inclusionary requirements that the Town is currently considering would not impede residential development in Atherton.

While the analysis found that the for-rent townhome prototype was not financially feasible, this prototype is not feasible even with no inclusionary requirements or in-lieu fee. In fact, this study demonstrates that the financial feasibility of the for-rent townhome prototype improves in an inclusionary housing scenario compared to a scenario in which the prototype would not include any affordable units and therefore would not be eligible for a density bonus under State law. Therefore, the adoption of inclusionary requirements would be unlikely to hinder the construction of for-rent townhomes in Atherton if market conditions were favorable to this product type within the regional market.

Recommendation 2: Adopt new inclusionary requirements concurrently with the adoption of upcoming zoning changes that will implement Housing Element programs

As noted in the Introduction chapter of this report, the Town of Atherton is planning to adopt changes to the Town's Zoning Ordinance to allow for the

development of multifamily housing on some sites. If the Town plans to adopt inclusionary requirements, the adoption of these requirements should occur concurrently with the adoption of changes to the Zoning Ordinance. This will ensure that potential developers of multifamily projects in Atherton will be aware of all requirements that will apply to potential multifamily development sites before moving forward and will allow developers to include the impact of inclusionary requirements in their initial financial modeling and in their offer to landowners to purchase development sites.

Recommendation 3: Consider the adoption of inclusionary housing in-lieu fees for projects that do not provide inclusionary units on site

Under AB 1505, local jurisdictions with inclusionary housing requirements for rental developments must offer at least one alternative to providing inclusionary units on site within rental developments, such as an in-lieu fee, rehabilitation of existing affordable units, a land donation, or building affordable units offsite. While an alternative is not required in the case of inclusionary requirements for ownership developments, many jurisdictions offer in-lieu fees or other alternatives to on-site inclusionary units for ownership developments.

With the exception of in-lieu fees, alternatives to providing inclusionary units on site may be particularly limited in Atherton. Even with the planned zoning changes, there will be only a limited number of sites in Atherton that will be zoned for multifamily use and potentially suitable for a land donation or the construction of affordable units offsite. Moreover, there are no existing affordable units in Atherton that are in need of rehabilitation. As a result, an in-lieu fee option may be the most straightforward and practical alternative to providing inclusionary units on site.

If the Town of Atherton adopts inclusionary housing in-lieu fees, some of the key factors to consider include the following:

Whether to allow developers to pay a fee by right or require discretionary approvals for an in-lieu fee payment. Allowing the in-lieu fee option by right makes the process more predictable for project applicants but could result in fewer on-site inclusionary units than the Town desires if fees are set too low to incentivize on-site production.

Whether to establish set fee rates or a process for determining the appropriate fee on a project-by-project basis. A set fee rate is easier to administer and makes the process more predictable for project applicants, while a fee that is determined on a project-by-project basis provides the Town with more discretion to determine the appropriate fee on a case-by-case basis.

If the Town adopts set in-lieu fee rates, the specific fee rates for adoption. Table 20 presents potential fee rates for consideration by the Atherton City Council. The table shows fee rates based on the nexus approach, the construction-cost approach, and the point of indifference approach. The table also includes a high-level summary of the conceptual basis for each approach to inform decision making. For all multifamily development types (multifamily rental apartments, rental townhomes, and for-sale townhomes), all fee rates shown are likely to incentivize developers to provide affordable inclusionary units on site within projects rather than pay an in-lieu fee. However, only fees set higher than the point of indifference fee rate would incentivize developers to provide inclusionary units in a scenario in which the developer would not pursue a density bonus.

For single-family homes, most project applicants are likely to choose to pay an in-lieu fee rather than provide a deed-restricted ADU if the City adopts the nexus-based fee rate or the construction cost fee rate. Project applicants may still elect to pay the in-lieu fee for single-family projects if the City adopts fees set at the point of indifference fee rate, though fees set at the point of indifference fee rate might encourage some project applicants to provide a deed-restricted ADU rather than pay an in-lieu fee.

Table 20: Potential Inclusionary Housing In-Lieu Fee rates

Approach	Fee Rate per Net Square Foot			
	Multifamily Rental Apartments	Rental Townhomes	For-Sale Townhomes	Single-Family Homes
Nexus-Based Fee Based on the relationship between new development and the need for affordable housing funds.	\$29	\$26	\$31	\$50
Construction Cost Fee Based on the cost to construct an affordable unit offsite.	\$91	\$159	\$125	\$29
Point of Indifference Approximates the developer's cost to provide inclusionary units in a scenario where the developer would not pursue a density bonus for inclusionary units	\$154	\$156	\$212	\$69

Note: Fee rates shown in **bold** are likely to incentivize on-site production of affordable units rather than payment of an in-lieu fee, at least in some cases.

Recommendation 4: To the extent that Atherton decision makers prefer that new single-family homes provide deed-restricted ADUs rather than pay an in-lieu fee, consider policies to make the deed-restricted ADU option more attractive to project applicants

Developers may be hesitant to provide deed-restricted affordable ADUs as part of single-family development projects because these units could reduce the pool of potential buyers and introduce additional uncertainty related to pricing. While some homebuyers may be attracted to a home with an ADU that can provide additional income, deed restrictions on ADUs would require homebuyers to commit to being landlords and to ensuring that tenants in ADUs are income-qualified to rent the units, which many homebuyers may find unappealing. As a result, developers may require additional incentives to provide a deed-restricted ADU as part of a single-family project.

One possible incentive could allow developers to build one non-deed-restricted ADU in exchange for building a deed-restricted ADU, irrespective of other zoning restrictions on the site. This would mean that developers would not have to forego the opportunity to build a non-deed-restricted ADU in order to provide a deed-restricted ADU. Combined with an in-lieu fee in cases where no deed-restricted ADU is built, this approach could shift the economic tradeoffs to favor construction of deed-restricted ADUs, at least in some cases.

APPENDIX A: AB 602 ANALYSIS

The provisions of Assembly Bill 602 (AB 602) came into effect in January 2022, enacting new requirements for impact fees and impact fee nexus studies. This report provides an analysis of inclusionary housing in-lieu fees, which are not impact fees and therefore are not subject to the AB 602 requirements. However, the Town of Atherton may wish to consider the provisions of AB 602 on a voluntary basis to inform policy decisions. Key provisions of AB 602 include:

1. **Level of Service.** AB 602 requires that impact fee nexus studies “identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new level of service is appropriate.” (See Government Code Section 66016.5(a)(2).)
2. **Prior Nexus Study Assumptions and Fees Collected.** Pursuant to AB 602, Government Code Section 66016.5(a)(4) provides that “if a nexus study supports the increase of an existing fee, the local agency shall review the assumptions of the nexus study supporting the original fee and evaluate the amount of fees collected under the original fee.”
3. **Capital Improvement Plan.** Under AB 602, Government Code Section 66016.5(6) states that “large jurisdictions shall adopt a capital improvement plan as a part of the nexus study.” For the purposes of this provision, Atherton is classified as a large jurisdiction.⁴
4. **Residential Fees Proportional to Square Footage.** AB 602 stipulates that “if [a nexus] study is adopted after July 1, 2022, [it must] either calculate a fee levied or imposed on a housing development project proportionately to the square footage of the proposed units or make specified findings explaining why square footage is not an appropriate metric to calculate the fees.”
5. **30-Day Noticing.** Under AB 602, “All studies shall be adopted at a public hearing with at least 30 days’ notice, and the local agency shall notify any member of the public that requests notice of intent to begin an impact fee nexus study of the date of the hearing.”
6. **Updates Every Eight Years.** AB 602 stipulates that nexus studies “shall be updated at least every eight years, from the period beginning on January 1, 2022.”

⁴ AB 602 uses the definition of a “large jurisdiction” that is contained in Section 53559.1 of the California Health and Safety Code. This section defines a large jurisdiction as a county with a population of 250,000 or more as of January 1, 2019 or any city within that county.

This appendix provides discussion and analysis related to the inclusionary housing in-lieu fee analysis based on the provisions of AB 602 described above. The subsections below are numbered to correspond to the six provisions described above. Because inclusionary housing in-lieu fees are generally not considered to be impact fees that would require an analysis under AB 602, this analysis is provided for informational purposes only.

1. Level of Service

An inclusionary housing in-lieu fee would generate funding for the construction of new publicly-assisted affordable housing units to serve new workers attributable to the growth in household spending associated with the construction of new homes in Atherton. Therefore, in the context of an inclusionary housing in-lieu fee, the level of service can be defined in terms of the number of publicly-assisted affordable housing units in Atherton as a share of the overall housing stock.

Existing Level of Service. The Town of Atherton does not currently have any publicly-assisted affordable housing units. This means that the current level of service, measured in terms of publicly-assisted affordable housing units as a share of the overall housing stock, is zero percent.

Proposed New Level of Service. The level of service that inclusionary housing in-lieu fees would support in Atherton will depend on the fee rates adopted by the Town of Atherton as well as the share of new developments that pay an in-lieu fee rather than provide inclusionary units. Because there are currently no publicly-assisted affordable housing units in Atherton, any increase would constitute an increase in the level of service.

Appropriateness of New Level of Service. A higher level of service would be appropriate in part because the current level of service is insufficient to provide affordable housing for the workers attributable to household spending by Atherton residents. There is a persistent shortage of available affordable housing units throughout the region and affordable housing developments consistently have long waiting lists for any available units. Supporting a higher level of service using inclusionary housing in-lieu fees could help to prevent new market-rate residential development in Atherton from continuing to replicate the same gaps in affordable housing delivery that exist under the current level of service.

Furthermore, the higher level of service is appropriate based on the Town of Atherton's Regional Housing Needs Allocation (RHNA). The RHNA is the number of housing units that the Town is required to plan to accommodate during each eight-year Housing Element cycle. Prior to the start of each Housing Element

cycle, the State determines the total RHNA for each region in California. Each region then goes through a process to distribute the RHNA among each of the cities and counties in the region. Under California law, each city and county in California is required to prepare a Housing Element every eight years and must demonstrate through the Housing Element that the jurisdiction has the ability to accommodate its RHNA during the eight-year Housing Element period. The RHNA for each city and county includes an allocation of units that will be affordable to low-income and moderate-income households, and the Housing Element must demonstrate that the jurisdiction has the ability to accommodate units at each affordability level.

For the 6th Housing Element Update Cycle (2023-2031), the Town of Atherton has a RHNA obligation totaling 348 units, including 148 units for lower-income households. Atherton's January 2023 Housing Element for the 2023-2031 Housing Element period reports that the Town permitted 115 ADUs during the 5th Housing Element cycle, with 94 of these estimated to be affordable to very low- or low-income households and the remainder estimated to be affordable to moderate-income households. There were no other affordable units built in Atherton during this period. This suggests that Atherton will need to issue building permits for more affordable housing units during the 6th Housing Element Cycle to address the Town's RHNA. These figures demonstrate a need for the Town of Atherton to enhance the level of service provided by the Town's affordable housing inventory relative to existing conditions.

2. Prior Nexus Study Assumptions and Fees Collected

The Town of Atherton does not have an existing inclusionary housing in-lieu fee. As a result, the provision of AB 602 that relates to reviewing the assumptions of a prior nexus study if a study supports an increase to an existing fee does not apply. The provision of AB 602 that relates to evaluating the amount of fees collected under an existing fee also does not apply.

3. Capital Improvement Plan

Under AB 602, Government Code Section 66016.5(6) states that "large jurisdictions shall adopt a capital improvement plan as a part of the nexus study." For the purposes of this provision, Atherton is classified as a large jurisdiction. Government Code Section 66002 further states that "any local agency which levies a fee subject to [the California Mitigation Fee Act] may adopt a capital improvement plan, which shall indicate the approximate location, size, time of availability, and estimates of cost for all facilities or improvements to be financed with the fees." Although inclusionary housing in-lieu fees are not impact fees subject to the California Mitigation Fee Act, this subsection provides analysis of an inclusionary

housing in-lieu fee in relation to these sections of the Government Code for informational purposes.

A jurisdiction's capital improvement plan identifies infrastructure improvements and public facilities projects that the jurisdiction intends to implement, though some portions of the capital improvement plan may be unfunded and would be implemented only if funding becomes available in the future. Affordable housing developments are not typically included in a jurisdiction's capital improvement plan, in part because local jurisdictions do not typically have a direct role in constructing affordable housing. Instead, local jurisdictions with access to affordable housing funds typically provide these funds to affordable housing developers or operators. These affordable housing developers or operators then use the funds to construct new affordable housing units, acquire existing housing units for the purpose of creating or maintaining affordable housing, or rehabilitate existing affordable units.

Although affordable housing developments are not included in a formal capital improvement plan, the Town of Atherton's 2023-2031 Housing Element Update provides a plan to accommodate the City's RHNA, including all lower-income units in the City's RHNA, over the eight-year Housing Element period. These units would be located within Atherton Town limits and will likely be geographically distributed a manner that generally corresponds to the sites that the Housing Element identifies as potential sites for accommodating housing affordable to lower-income households. Projects with affordable units will vary in size based on the specific opportunities for affordable housing development that could occur during the planning period and may range from single ADU units to developments with up to 25 units, with potential for larger developments on select housing opportunity sites.

Information provided in recent applications for tax credit financing for new affordable housing developments in San Mateo County indicates that the cost to build a publicly-assisted affordable housing unit currently averages an estimated \$915,000 per unit. Funds from inclusionary housing in-lieu fees could help to finance a portion of the cost to construct these units but are not anticipated to be sufficient to fund the construction of all of the lower-income units in the Town's RHNA. The total cost that will be financed through the fees will depend on the amount of revenue generated by inclusionary housing in-lieu fees during the Housing Element cycle. In addition to inclusionary housing in-lieu fees, construction of these units will be financed by other public and private funding sources, including but not limited to low-income housing tax credits. A portion of the RHNA will also be met through other local housing programs, including the Town's inclusionary ordinance.

4. Residential Fees Proportional to Square Footage

The analysis provided in this report includes calculations of potential inclusionary housing in-lieu fees on a per-square-foot basis, thereby enabling the Town to assess any inclusionary housing in-lieu fees in a manner that is proportional to the square footage of proposed units.

5. 30-day Noticing

If the Town of Atherton chooses to comply with the 30-day noticing requirement of AB 602, the Town should adopt any inclusionary housing in-lieu fees at a public hearing with at least 30 days' notice and notify any member of the public that requests notice of the date of the hearing.

6. Updates Every Eight Years

If the Town of Atherton chooses to comply with the eight-year update requirement of AB 602, the Town should update its inclusionary housing in-lieu fees within eight years or less from adoption.

APPENDIX B: CALIFORNIA STATE DENSITY BONUS DENSITY ALLOWANCES

The Density Bonus law provides density bonuses on a sliding scale to projects that provide affordable units. The State Density Bonus law also provides for parking reductions and various development incentives and concessions for projects that meet designated affordability thresholds.

The passage of AB 1287, which went into effect on January 1, 2024, added an option for projects to receive a larger density bonus than was previously available in exchange for additional affordable units. AB 1287 essentially created a second level of density bonuses with associated affordability requirements. In order to be eligible for the second level of bonuses, a project must first provide enough affordable units to be eligible for a 50-percent density bonus based on first level of density bonuses, or the standards that were in effect prior to the passage of AB 1287. This means that a project must provide 15 percent very low-income units, 24-percent low-income units, or 44-percent moderate-income units (with moderate-income units required to be for-sale units) to be eligible for the second level of density bonuses that were made available by AB 1287. For the first level of density bonuses, Table B-1 shows the proportion of affordable units that are required for each tier of density bonus based on whether a project is a rental or ownership project and the affordability level of the affordable units.

If a project has provided enough affordable units to be eligible for a 50-percent density bonus under level one, the project can provide additional affordable units to be eligible for an additional density bonus based on density bonuses that are available in level two. These additional affordable units can be either very low-income units or moderate-income units. Unlike moderate income units that are used to satisfy affordability requirements under level one, moderate-income units that are used to satisfy affordability requirements under level two can be either rental units or for-sale units. Table B-2 shows the proportion of affordable units that are required for each tier of density bonus under level two (i.e., the additional bonuses put in place by AB 1287).

Table B-1: California State Density Bonus Level 1

Affordable Unit Percentage (a)	Density Bonus if Units are Affordable to...		
	Very Low Income Households	Low Income Households	Moderate Income Households (b)
5%	20%	N/A	N/A
6%	22.50%	N/A	N/A
7%	25%	N/A	N/A
8%	27.50%	N/A	N/A
9%	30%	N/A	N/A
10%	32.50%	20%	5%
11%	35%	21.50%	6%
12%	38.75%	23%	7%
13%	42.50%	24.50%	8%
14%	46.25%	26%	9%
15%	50%	27.50%	10%
16%	50%	29%	11%
17%	50%	30.50%	12%
18%	50%	32%	13%
19%	50%	33.50%	14%
20%	50%	35%	15%
21%	50%	38.75%	16%
22%	50%	42.50%	17%
23%	50%	46.25%	18%
24%	50%	50%	19%
25%	50%	50%	20%
26%	50%	50%	21%
27%	50%	50%	22%
28%	50%	50%	23%
29%	50%	50%	24%
30%	50%	50%	25%
31%	50%	50%	26%
32%	50%	50%	27%
33%	50%	50%	28%
34%	50%	50%	29%
35%	50%	50%	30%
36%	50%	50%	31%
37%	50%	50%	32%
38%	50%	50%	33%
39%	50%	50%	34%
40%	50%	50%	35%
41%	50%	50%	38.75%
42%	50%	50%	42.50%
43%	50%	50%	46.25%
44%	50%	50%	50%
100% (c)	80%	80%	80%

Notes:

(a) Density bonuses percentages are based on the percent of units at the base density (i.e., not including density bonus units).

(b) Density bonuses based on moderate-income affordability are available to for-sale projects only.

(c) 100 percent affordable developments can meet the affordability requirement with units affordable at a mix of income levels, with a maximum of 20 percent moderate-income units.

Table B-2: California State Density Bonus Level 2 (per AB 1287)

Affordable Unit Percentage (a)	Density Bonus if Units are Affordable to...	
	Very Low Income Households	Moderate Income Households (b)
5%	20.00%	20.00%
6%	23.75%	22.50%
7%	27.50%	25.00%
8%	31.25%	27.50%
9%	35.00%	30.00%
10%	38.75%	32.50%
11%	38.75%	35.00%
12%	38.75%	38.75%
13%	38.75%	42.50%
14%	38.75%	46.25%
15%	38.75%	50.00%

Notes:

Density bonuses shown in this table can only be used if the project is also providing enough affordable units to be eligible for a 50 percent density bonus based on the bonuses shown in Table B-1.

(a) Density bonuses percentages are based on the percent of units at the base density (i.e., not including density bonus units).

(b) Density bonuses based on moderate-income affordability are available to either rental or for-sale projects.

APPENDIX C: RESIDENTIAL PRO FORMAS

This appendix provides the detailed pro-formas for residential developments that were used for the inclusionary feasibility and inclusionary in-lieu analysis provided in this report. This appendix also includes a description of the key assumptions used in the residential pro-formas.

Key Assumptions

BAE developed the various modeling inputs and assumptions needed for the financial feasibility analysis based on interviews with residential developers who are active in the local area, data from industry publications and databases, experience with recent development projects in the local area, and other research. Developers vary somewhat in the categorization of various project costs, and therefore may show different cost figures for individual cost items even for projects with similar overall development costs. Any variation in the specific cost items described below would not affect the findings of this analysis provided that the total development costs for the prototype projects are consistent with total development costs for similar projects.

Hard Costs: Hard costs are the costs associated with the physical construction of a building, including all construction materials and labor. This analysis uses a hard cost assumption of \$400 per leasable square foot of residential space for multifamily rental apartment units, \$450 per square foot for rental townhome units, \$475 per square foot for for-sale townhome units, and \$600 per square foot for single-family homes.

Parking Costs: This analysis uses an estimated cost of \$5,000 per surface parking space. The cost for parking in garages attached to townhouse units and single-family homes is included in the construction costs for these unit types. The cost of any additional parking on single-family lots is included in the site prep costs for single-family lots.

Soft Costs: This analysis assumes that soft costs are equal to 20 percent of hard costs for multifamily (i.e., apartment and townhome) unit types and 15 percent of hard costs for single-family homes. The slightly higher soft costs for multifamily developments as compared to single-family homes reflects the added complexity associated with the design and engineering for multifamily projects as well as the potential for added entitlement costs. This soft cost estimate includes engineering, architecture, financing, and CEQA costs, as well as Town cost-recovery fees for planning, permitting, and entitlements, but does not include impact fees. Impact fees are included as a separate line item, discussed below.

Impact Fees: BAE calculated impact fees for each prototype based on current school district impact fees. The Town of Atherton does not assess any impact fees.

Market-Rate Residential Rents: This analysis assumes that rental rates for market-rate units in the multifamily rental apartment prototype will range from \$4,125 per month for a one-bedroom unit to \$7,228 per month for a three-bedroom unit. These rental rates are based on data from Costar on current multifamily rental rates for new developments in Menlo Park, Palo Alto, and Redwood City. The analysis assumes that rental rates for townhomes will average \$5,980 per month for a two-bedroom unit and \$7,360 per month for a three-bedroom unit. Due to a lack of build-to-rent townhomes in the Atherton area, these rent assumptions are based on asking rents among townhomes in Menlo Park, Palo Alto, and Redwood City that are rented out by individual property owners, as advertised on Zillow.

Affordable Residential Rents: The affordable rental rates used in this analysis are based on allowable rents for each unit size and income level as determined by the US Department of Housing and Urban Development for projects receiving low-income housing tax credits in San Mateo County.

Market-Rate Residential Sale Prices: This analysis assumes that average sale prices for market-rate townhouse units will range from \$2.16 million for two-bedroom units to \$2.75 million for four-bedroom units. These assumptions are based on an analysis of data from Redfin on sale prices among recently-sold, recently constructed townhouses in the Atherton area. Based on analysis of data from Redfin on sale prices among recently sold, recently constructed single-family homes in Atherton, the analysis assumes that the typical sale price for a single-family home without a deed-restricted ADU is equal to \$13.65 million. For the sale price for the single-family home with a deed-restricted ADU, the analysis uses a sale price of \$14.30 million. The difference in sale price for the two single-family prototypes is based on the capitalized value of the rental income from the ADU, using a rental rate equal to 80 percent of the area median income.

Affordable Residential Sale Prices: The affordable sale prices used in this analysis are based on the sale prices that would be affordable to households at the designated income levels, accounting for the costs of mortgage principal and interest, home insurance, property tax, and homeowners' association fees.

Residential Rental Operating Expenses: This analysis uses an estimate of \$15,000 per unit per year for all residential rental units.

Developer Fee: To cover staff overhead and other internal project costs, developers of rental projects include a one-time developer fee, which is estimated as a percentage of both hard and soft costs. Based on interviews with local developers, the fee typically amounts to roughly four percent of hard and soft costs.

Capitalization Rate: The capitalization rate (cap rate) is defined as the net operating income that a property generates divided by the estimated value of the property. Cap rates are a common metric used to estimate the value of a rental property based on its net operating income, and vary by property type, location, and other property-specific characteristics. This analysis uses a 4.5 percent cap rate to value the rental properties. This capitalization rate is based on information obtained through interviews with developers that are familiar with the local market.

Table C-4: For-Sale Single-Family Home Prototype Pro-Forma, Inclusionary Scenario (with Deed-Restricted ADU)

Development Program Assumptions			Development Cost Analysis	
Site Size - acres / square feet	1	43,560	Site Preparation	\$871,200
Total Units		2		
Primary Home - sq. ft. / #	7,000	1	Vertical Construction	
Deed-Restricted ADU - sq. ft. / #	1,000	1	Hard Cost	\$4,800,000
Total SF		8,000	Soft Costs	\$720,000
			School Impact Fees	\$38,320
			Inclusionary Housing In-Lieu Fee	\$0
			Subtotal	\$5,558,320
Cost Assumptions				
Construction			Construction Financing	
Site Prep Costs (per site. sq.ft)		\$20	Const. Loan Fees	\$41,792
Hard Cost per net residential sf		\$600	Const. Loan Interest	\$203,735
Soft Costs (% of hard costs)		15%		
School Impact Fees (per sq. ft.)		\$4.79	Total Dev. Cost (excl. Land)	\$6,675,047
Inclusionary Housing In-Lieu Fee (per SF)		\$0.00	Per Gross SF	\$834
Sale Price		\$14,300,000		
			Feasibility Analysis	
Construction Financing				<u>Total Project</u>
Loan-to-Cost Ratio		65%	Project Revenue	
Loan Fees		1.0%	Sales Revenue	\$14,300,000
Drawdown Factor		65%	Less Marketing Costs	(\$429,000)
Interest rate		7.5%	Net Sales Revenue	\$13,871,000
Loan Term (months)		12		
			Less Total Development Costs	(\$6,675,047)
Marketing Costs (as % of sale price)		3.0%	Less Developer Profit	(\$667,505)
Developer Profit (as % of total project costs)		10.0%	Residual Land Value (RLV)	\$6,528,448
			RLV per Site sf	\$150

Source: BAE, 2024.

Table C-6: Rental Townhome Pro-Forma, 10 du/acre Base Density, No Inclusionary/No In-Lieu Fee Scenario

Development Program Assumptions				Cost Assumptions				Development Cost Analysis			
Site Size - acres / square feet	1	43,560		Construction				Site Preparation	Affordable	Market Rate	Total Project
Total Units		10		Site Prep Costs (per site. sq.ft)	\$20				\$0	\$871,200	\$871,200
Affordable (% - count)	0%	0		Hard Cost per net residential sf	\$450						
Market Rate (% - count)	100%	10		Soft Costs (% of hard costs)	20%			Vertical Construction			
Leasable sq.ft.		14,800		School Impact Fees (per sq. ft.)	\$4.79			Hard Cost	\$0	\$6,660,000	\$6,660,000
Circulation %	0%			Inclusionary Housing In-Lieu Fee (per SF)	\$0.00			Soft Costs	\$0	\$1,332,000	\$1,332,000
Gross SF		14,800						School Impact Fees	\$0	\$70,892	\$70,892
Total Parking Spaces		20		Rental Revenue				Inclusionary Housing In-Lieu Fee	\$0	\$0	\$0
Parking spaces per du		2.00						Subtotal	\$0	\$8,062,892	\$8,062,892
Base Density Units				Monthly Rent by AMI Level							
		Units by AMI Level			All						
<u>Unit Mix</u>	<u>Sq. Ft.</u>	<u>50%</u>	<u>80%</u>	<u>MR</u>	<u>Units</u>			Construction Financing			
2-BR	1,300	0	0	4	4			Const. Loan Fees	\$0	\$58,072	\$58,072
3-BR	1,600	0	0	6	6			Const. Loan Interest	\$0	\$424,649	\$424,649
All Units		0	0	10	10			Developer Fee	\$0	\$376,672	\$376,672
<u>Summary</u>	<u>Affordable</u>	<u>Market-Rate</u>	<u>Total</u>					Total Dev. Cost (excl. Land)	\$0	\$9,793,485	\$9,793,485
Number of Units (# / %)	0 0%	10 100%	10					Per Unit	N/A	\$979,348	\$979,348
Leasable Sq. Ft.	0	14,800	14,800					Per Net SF	N/A	\$662	\$662
Gross Sq. Ft.	0	14,800	14,800					Per Gross SF	N/A	\$662	\$662
Parking Spaces	0	20	20					Feasibility Analysis			
Density Bonus Units											
<u>Unit Mix</u>		<u>Market-Rate</u>							Affordable	Market Rate	Total Project
2-BR		0									
3-BR		0						Project Income			
All Units		0						Gross Scheduled Rents	\$0	\$816,960	\$816,960
Density Bonus %		0.0%						Less Vacancy	\$0	(\$40,848)	(\$40,848)
Sq. Ft. (leasable/gross)	0	0						Less Operating Expenses	\$0	(\$150,000)	(\$150,000)
Parking Spaces		0						Net Operating Income	\$0	\$626,112	\$626,112
								Capitalized Project Value	\$0	\$13,913,600	\$13,913,600
								Less Total Development Costs	\$0	(\$9,793,485)	(\$9,793,485)
								Less Developer Profit	\$0	(\$1,175,218)	(\$1,175,218)
								Residual Land Value (RLV)	\$0	\$2,944,897	\$2,944,897
								RLV per Unit	N/A	\$294,490	\$294,490
								RLV per Site sf	N/A	\$68	\$68

Source: BAE, 2024.

Table C-8: For-Sale Single-Family Home Prototype Pro-Forma, No Inclusionary/No In-Lieu Fee Scenario

Development Program Assumptions			Development Cost Analysis	
Site Size - acres / square feet	1	43,560	Site Preparation	\$871,200
Total Units		1		
Total SF		7,000	Vertical Construction	
Cost Assumptions			Hard Cost	\$4,200,000
Construction			Soft Costs	\$630,000
Site Prep Costs (per site. sq.ft)	\$20		School Impact Fees	\$33,530
Hard Cost per net residential sf	\$600		Inclusionary Housing In-Lieu Fee	\$0
Soft Costs (% of hard costs)	15%		Subtotal	\$4,863,530
School Impact Fees (per sq. ft.)	\$4.79		Construction Financing	
Inclusionary Housing In-Lieu Fee (per SF)	\$0.00		Const. Loan Fees	\$37,276
			Const. Loan Interest	\$181,719
Sale Price	\$13,650,000		Total Dev. Cost (excl. Land)	\$5,953,725
			<i>Per Gross SF</i>	<i>\$851</i>
Construction Financing			Feasibility Analysis	
Loan-to-Cost Ratio	65%			<u>Total Project</u>
Loan Fees	1.0%		Project Revenue	
Drawdown Factor	65%		Sales Revenue	\$13,650,000
Interest rate	7.5%		<u>Less Marketing Costs</u>	<u>(\$409,500)</u>
Loan Term (months)	12		Net Sales Revenue	\$13,240,500
Marketing Costs (as % of sale price)	3.0%		Less Total Development Costs	<u>(\$5,953,725)</u>
Developer Profit (as % of total project costs)	10.0%		Less Developer Profit	<u>(\$595,373)</u>
			Residual Land Value (RLV)	\$6,691,402
			<i>RLV per Site sf</i>	<i>\$154</i>

Source: BAE, 2024.

APPENDIX D: OVERVIEW OF IMPLAN

This appendix provides additional clarification of the workings of the IMPLAN input-output model. It provides a step-by-step account of how IMPLAN estimates economic impacts. This section begins with an overview of the data that IMPLAN uses internally and moves forward through the process of how the model estimates the impacts of new commercial and housing projects.

What is IMPLAN?

IMPLAN is an input-output model that estimates the total economic implications of new economic activity within a specified geography. The model uses national industry data and county-level economic data to generate a series of multipliers, which in turn estimate the total economic implications of economic activity.

At the heart of the model is a national input-output dollar flow table called the Social Accounting Matrix (SAM). Unlike other static input-output models, which just measure the purchasing relationships between industry and household sectors, SAM also measures the economic relationships between government, industry, and household sectors, allowing IMPLAN to model transfer payments such as unemployment insurance. Thus, for the specified region, the input-output table accounts for all the dollar flows between the different sectors within the economy.

National Industry Data. The model uses national production functions for 546 sectors to determine how an industry spends its operating receipts to produce its commodities. The model also uses a national matrix to determine the *byproducts*⁵ that each industry generates. To analyze the impacts of household spending, the model treats households as an “industry” to determining their expenditure patterns. IMPLAN couples the national production functions with a variety of county-level economic data to determine the impacts for our example.

County-Level Economic Data. In order to estimate the county-level impacts, IMPLAN combines national industry production functions with county-level economic data. IMPLAN collects data from a variety of economic data sources to generate average output, employment, and productivity for each of the industries in a given county. It also collects data on average prices for all of the goods sold in the local economy. In this analysis, IMPLAN uses economic data for San Mateo County. IMPLAN gathers data on the types and amount of output that each industry generates within the County. In addition, the IMPLAN model uses county-level data on the prices of goods and

⁵ The byproducts refer to any secondary commodities that the industry creates.

household expenditures to determine the consumption functions of regional households and local government, taking into account the availability of each commodity within the specified geography.

Multipliers. IMPLAN combines these data to generate a series of SAM-type multipliers for the local economy. The multiplier measures the amount of total economic activity that results from an industry (or household) spending an additional dollar in the local economy. Based on these multipliers, IMPLAN generates a series of tables to show the economic event's *direct*, *indirect*, and *induced* impacts to gross receipts, or output, within each of the model's 546 sectors. These outputs have been described above, and also are described here:

- **Direct Impacts.** Direct impacts refer to the dollar value of economic activity available to circulate through the economy and the jobs associated with that economic activity. In the case of new residential development, the direct impacts are equal to the new households' discretionary spending. The direct impacts do not include household savings and payments to federal, state, and local taxes, as these payments do not circulate through the economy.

It should be noted that impacts from retail expenditures differ significantly between the total economic value of retail and the amount available to circulate through the local economy. The nature of retail expenditures accounts for this difference. The model assumes that only the retail markup impacts the local economy, particularly for industries heavily populated with national firms such as gas stations and grocery stores. Since local stores buy goods from wholesalers and manufacturers outside of the area, and corporate profits also leave the local economy, only the retail markup will be available for distribution within the local economy. To the extent that retailers' headquarters are located within the county or region, the model allocates their portions of the impacts to the local economy.

- **Indirect Impacts.** The indirect impacts refer to the impact of local industries buying goods and services from other local industries, and to the jobs supported by those purchases. The cycle of spending works its way backward through the supply chain until all money leaks from the local economy, either through imports or by payments to income and taxes. For capital projects this would include payments for construction inputs such as wood, steel, office supplies, and any other non-labor payments that a construction firm would purchase in the building process.
- **Induced Impacts.** The induced impacts refer to the dollar and employment impacts of household spending by the employees generated by the direct and

indirect impacts. In other words, induced impacts result from the household spending of employees of business establishments that the new households patronize (direct) and their suppliers (indirect). The model accounts for local commute patterns in the geography. For example, if 20 percent of construction workers who work in the region live outside of the region, the model will allocate 80 percent of labor's disposable income into the model to generate induced impact estimates. The model excludes payments to federal and state taxes and savings based on the geography's average local tax and savings rates. Thus, only the disposable incomes from local workers are included in the model.

Specifying the "Event" and Running the Model

Once the model is built for the specified geographies, it is time to specify the "event" that the model will analyze and run the model.

Specifying the "Event." The "event" refers to the total economic value of industry output that the analyst is considering. For example, in the case of the ongoing economic impacts of a new institutional development such as a school, the "event" would be the operations of a school, including the resulting new jobs and the worker compensation.

Running the Model. Once the event is specified, IMPLAN runs the event through the model to generate the results. By default, IMPLAN applies the local data on average output per worker and compensation per worker to determine the direct impacts. The model then applies the value of the event to the national production functions and runs a number of iterations of this value through the production functions for the local economy to determine the indirect and induced impacts. For each iteration, the model removes expenditures to government, savings, and for goods bought outside of the local economy so that the results only include those dollars that impact the local economy.

Summarizing the Impacts

Once the model is run, IMPLAN generates a series of output tables to show the direct, indirect, and induced impacts within each of the model's 546 sectors. IMPLAN generates these tables for three types of impacts: employment, output, and value added. The IMPLAN analysis of this study is focused on the employment impacts.

- *Employment* shows the number of employees needed to support the economic activity in the local economy. It should be noted that for annual impacts of ongoing operations, the employment figure shown represents the amount of employment needed to support that activity for a year. Furthermore, IMPLAN reports the number of jobs based on average output per employee for a given industry within the geography. This is not necessarily the same as the number of full-time positions.

- *Output* refers to the total economic value of the project in the local economy.
- *Value Added* shows the total income that the event generates in the local economy. This income includes:
 - *Employee Compensation* – total payroll costs, including benefits
 - *Proprietary Income* – payments received by self-employed individuals as income
 - *Other Property Type Income* – payments for rents, royalties, and dividends
 - *Indirect Business Taxes* – excise taxes, property taxes, fees, and sales taxes paid by businesses. These taxes occur during the normal operation of businesses, but do not include taxes on profits or income.