



## **MEMORANDUM**

To: Sara Lillevand, City Administrator

From: Ashleigh Kanat and Snow Zhu

Subject: Civic Center Housing Feasibility Analysis;  
EPS #221053

Date: August 1, 2022

Economic & Planning Systems, Inc. (EPS) has been retained by the City of Piedmont (City) to evaluate the feasibility of developing Low- and Moderate-income housing on one or both of two City-owned sites in the Civic Center. The analysis will inform a decision whether to include one or both of the site(s) in the Site Inventory of the 6<sup>th</sup> Cycle Housing Element update.

The two sites, 120 Vista Avenue (0.83 acres) and 801 Magnolia Avenue (0.31 acres), are shown in **Figure 1**. The two sites are currently improved with civic facilities, including City Hall and administrative offices, the police and fire stations, Veteran's Memorial Hall, and the Piedmont Center for the Arts. Each of these facilities are in need of substantial upgrade and modernization, if not full redevelopment. The City, thus, has the dual objectives of identifying sites to meet 6<sup>th</sup> Cycle RHNA and redeveloping its core civic facilities. In total, the two parcels are 1.14 acres.

### **Background and Context**

To meet requirements set forth by the 6<sup>th</sup> Regional Housing Needs Allocation cycle (2023-2031), the City must identify sites with capacity for 587 units, comprised of 163 Very Low-income units, 94 Low-income units, 92 Moderate-income units, and 238 Above Moderate-income units.

Based on EPS experience working with affordable housing developers and knowledge of site-selection criteria, EPS finds that at a high level, the City of Piedmont is an attractive location for affordable housing development. While Piedmont is not a jobs center and lacks major transit, the City of Piedmont's designation as a "Highest Resource" area according to the California Tax Credit Allocation Committee's 2022 Opportunity Map means

that Piedmont is considered an area that would support positive economic, educational, and health outcomes for lower-income families.<sup>1</sup> This designation will help an affordable housing project compete for State Housing and Community Development (HCD) funding and be more competitive for tax credit allocations.

Low-income housing tax credits (LIHTC) are available to affordable housing developers in the form of 4 percent tax credits and 9 percent tax credits. Tax credits have the effect of subsidizing development costs, and they can be very beneficial to a development pro forma. Award of tax credits occurs through a competitive process and depends on the specific development program, target income levels, current tax credit factors (established by the IRS), and other local circumstances, including local jurisdiction participation. If an affordable housing project were to move forward in the Civic Center and if 4 percent tax credits were awarded, it would be reasonable to assume the tax credits would reduce the overall cost per unit by at least \$200,000. However, because the conceptual program is so preliminary, tax credits are not factored into this analysis.

At the same time, affordable housing developers are often interested in building on City-owned and controlled parcels, which allow for more flexible zoning (e.g., height, setbacks, parking requirements) and allow the affordable housing developer and the City to negotiate directly around structuring a land payment and work towards a shared goal of providing affordable housing.

Preliminary yield estimates by City staff suggest that the parcel at 120 Vista Avenue could accommodate 40 Low-income units and the parcel at 801 Magnolia could accommodate 13 Moderate-income units. These yield estimates represent the baseline scenario evaluated in this analysis. However, recent conversations with a range of affordable housing developers indicate that affordable housing developers typically seek opportunities that allow for at least 60 to 75 units to create economies of scale, both in terms of construction and operations. That said, one developer indicated a minimum of 30 units would provide sufficient scale, while another developer indicated they are seeking sites that offer minimum capacity of 100 units, suggesting a broad range.

**Figure 1 120 Vista Avenue and 801 Magnolia Avenue**



<sup>1</sup> These maps are used by State agencies to inform policies that aim to increase access to high-resource areas for households, especially families with children. Specifically, the Opportunity Map is used to inform the allocation of Low Income Housing Tax Credits (LIHTC) to affordable housing developments.

## Key Findings

- 1. The City's multiple objectives include redeveloping its civic facilities, which are approaching the end of their useful life, and finding suitable site(s) for affordable housing development. EPS's analysis concludes that while there is potential for both goals to be accomplished at 120 Vista Avenue and 801 Magnolia Avenue, a reconfiguration of parcel boundaries to optimize site planning may be required to achieve a parcel size of at least 0.5 acres for the residential development and leave sufficient space for the civic facilities.**

While the analysis concludes that it would be feasible to develop affordable housing on City-owned land in the civic center, EPS further concludes that it will require significant study to determine the optimal parcel configurations to adequately and thoughtfully accommodate the civic facilities and the affordable housing development as well as time to secure funding for the redevelopment of the civic facilities.

Given the arrangement and adjacencies of the two sites, EPS suggests the housing development and the redevelopment of the civic center facilities occur on separate parcels rather than a vertical mixed-use configuration (although there is precedent in other jurisdictions for vertical mixed-use redevelopment that combines civic and residential uses). This arrangement would be the preference of an affordable housing developer because it would reduce the complexity of the deal structure and would allow the two projects to proceed on their own development schedules. At the same time, it is anticipated that the cost of redeveloping the civic facilities will require substantial funding (e.g., bond financing) which will take some time to secure.

- 2. While EPS believes an adequately-sized parcel of at least 0.5 acres would be an attractive development opportunity for an affordable housing developer because of Piedmont's "highest resource" designation, the base case scenario of 40 Low-income units and 13 Moderate-income units would require a density of approximately 100 units per acre to achieve 53 units on a one-half acre site and likely would require regulatory and/or financial incentives to improve the feasibility of the project.**

A density of approximately 70 units per acre with a 50 percent density bonus on a 0.5-acre site would support the 53 units identified and could be accommodated in a three to four story building (not including parking). If the parcel can be configured to create a larger area (0.6 or 0.7 acres), the density could be lower, but the opportunity for an iconic civic center redevelopment might be constrained. If higher density is considered (or a larger parcel can be created), there may be opportunity to incorporate more housing affordable to Above-Moderate income households, which would help improve the economics of the project.

- 3. EPS evaluated the affordability gap associated with affordable housing at Low- and Moderate-income levels. The base case scenario of 40 Low-income units and 13 Moderate-income units results in a funding gap and will require additional funding sources (e.g., tax credits, state funding allocated for affordable housing)) and potential waivers from the City (e.g., relaxed regulatory requirements, contributions toward shared parking solutions, project vouchers, and/or below-market consideration for the land).**

The affordability gap is an industry-accepted concept that is calculated by taking the difference between the cost of constructing a unit of affordable housing and the supported value of that unit based on the rent the household can afford given their income level. Based on typical development costs, assuming Type V construction above podium parking, the cost of building one unit of affordable housing unit is approximately \$814,000 under current development conditions. A Low-income household as defined by HCD's income limits for Alameda County can afford rents that translate to a unit value of approximately \$458,000, resulting in a gap of approximately \$356,000. A Moderate-income household can afford rents that support a unit value of approximately \$761,000, essentially breaking even. A household qualifying as Above Moderate can afford rents that support a unit value of approximately \$1.0 million, resulting in a per unit surplus of approximately \$204,000.

As illustrated by the range of incomes and their associated affordability gaps, the greater the number of Low-income housing units in a development project, the *greater* the total funding gap. On the other hand, if Above-Moderate income units can be incorporated, the Above-Moderate income units can subsidize the lower-income units and *lower* the total funding gap. In other words, adding Above Moderate-income units helps improve the feasibility of the project and supports housing production generally.

**4. There are many different options and partnership structures that the City can consider for improving the feasibility of a potential affordable housing project on City-owned land, including reconfiguring the parcels to allow for a minimum of approximately 80 units, relaxing parking standards or accommodating parking as part of the civic facilities redevelopment, offering program voucher (i.e., rent guarantees) commitments,<sup>2</sup> securing State funding, and, potentially accepting less than market-rate consideration for the land.**

Based on the affordability gaps calculated by EPS and the City's preliminary program of 40 Low-income units and 13 Moderate-income units, there is a \$15 million funding gap. As is typical for affordable housing projects, the developer would likely seek out grants and other funding sources such as LIHTC to help close the funding gap. Even with LIHTC funding, Above Moderate-income units may need to be incorporated and/or regulatory waivers will be required along with additional funding sources. Regulatory waivers from the City could include contributions toward shared parking solutions, project vouchers, and/or below-market consideration for the land. Four scenarios are presented towards the end of the memorandum to illustrate how different policy and funding levers can affect project feasibility and to demonstrate that there is a path towards feasibility while acknowledging that it may take some time to identify a development partner and negotiate a deal (e.g., a Development Agreement<sup>3</sup>) that aligns with the Civic Center redevelopment plans.

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<sup>2</sup> Project based vouchers are rent subsidies provided by cities and housing authorities that are tied to a specific unit, rather than the resident. For example, a resident of a unit benefiting from a project-based voucher pays a portion of their rent to the property owner. The city or housing agency running the project-based voucher program then pays the other portion of the rent to the property owner on behalf of the tenant. This type of program is attractive for affordable housing developers because it guarantees a portion of rent for the affordable housing project.

<sup>3</sup> As authorized by the City of Piedmont Municipal Code Chapter 17 Planning and Land Use, Division 17.74

## Affordable Housing Development Cost and Feasibility

To estimate the development cost of a “typical” affordable unit, a development prototype is defined. The prototype is intended to represent an efficient way to develop and provide affordable housing on the two sites of interest. The affordable units are assumed to be 900-sq.ft., 2-bedroom, multifamily apartments (on average), developed at a density of approximately 70 units per acre with a 50 percent density bonus. The development includes structured parking at a ratio of 1.5 parking spaces per unit.

### Affordable Income Definitions and Rents

Using this affordable housing prototype, the analysis estimates the funding gap that occurs from developing units for three-person households earning incomes at Low, Moderate, and Above Moderate levels. As shown in **Table 1**, HCD reports that the 2022 income limit for a three-person, Low-income household in Alameda County is \$98,650, and the limit for a three-person, Moderate-income household is \$154,200.

Assuming that a household is expected to spend no more than 30 percent of gross household income on rent and utilities, the maximum monthly affordable rental rates plus utilities are calculated by taking 30 percent of the identified annual income limit and dividing by 12 months.

**Table 1 Income Limits for Affordable Housing (3-Person Household)**

| Income Category           | Definition <sup>1</sup> | Income Limit | Monthly Rent Limit <sup>2</sup> |
|---------------------------|-------------------------|--------------|---------------------------------|
| <b>Low</b>                | > 50% and ≤ 80% AMI     | \$98,650     | \$2,466                         |
| <b>Median<sup>3</sup></b> | 100% AMI                | \$128,500    | n/a                             |
| <b>Moderate</b>           | > 80 and ≤ 120% AMI     | \$154,200    | \$3,855                         |
| <b>Above Moderate</b>     | > 120% AMI              | \$192,750    | \$4,819                         |

[1] As defined by California Department of Housing and Community Development 2022 Income Limits for Alameda County.

[2] The maximum affordable rents (including utilities) are estimated by taking 30% of the income limit of each income category.

[3] The Area Median Income for a 3-person household is provided as a reference only. Households earning the median income are included in the Moderate income category.

Source: CA HCD; Alameda County; Economic & Planning Systems, Inc.

### Development Costs

Affordable housing development costs typically include land costs, direct costs (e.g., labor and materials), indirect or “soft” costs (e.g., architecture/engineering, permits, and fees, etc.), and the developer fee. Operating costs, including property management and maintenance as well as common utilities, and property taxes for the Moderate-income units also must be incorporated into the analysis. Data from recent housing developments in the Bay Area has been used to estimate appropriate development cost assumptions such as direct construction costs and parking construction costs.

These assumptions are shown below in **Table 2** result in per unit development costs of \$814,000. It is important to note that development costs are in a state of rapid increases and may fluctuate depending on market conditions.

**Table 2 Per Unit Construction Cost Estimate for an Affordable Housing Development**

| Item                                                        | Assumption/ Cost |
|-------------------------------------------------------------|------------------|
| <b>Development Program Assumptions<sup>1</sup></b>          |                  |
| Gross Unit Size                                             | 950              |
| Net Unit Size (at 90% efficiency)                           | 855              |
| Number of Bedrooms                                          | 2                |
| Occupants per 2-bedroom Unit <sup>2</sup>                   | 3                |
| Parking Spaces/Unit <sup>3</sup>                            | 1.5              |
| <b>Development Cost Assumptions</b>                         |                  |
| Land Cost per Acre <sup>4</sup>                             | \$5,000,000      |
| Land Cost per Unit                                          | \$94,340         |
| <b>Direct Costs</b>                                         |                  |
| Site Preparation (per Sq.Ft. of Land)                       | \$50             |
| Direct Construction Costs per Gross Sq.Ft. <sup>5</sup>     | \$400            |
| Direct Construction Costs per Unit                          | \$380,000        |
| Parking Construction Costs per Space                        | \$50,000         |
| Parking Construction Costs per Unit                         | \$75,000         |
| Subtotal, Direct Costs per Unit                             | \$496,094        |
| Indirect Costs as a % of Direct Costs <sup>6</sup>          | 25%              |
| Indirect Costs/Unit                                         | \$124,024        |
| Developer Fee<br>(as % of Land, Direct, and Indirect Costs) | 14%              |
| Return Amount                                               | \$100,024        |
| <b>Total Cost per Unit (rounded)<sup>7</sup></b>            | <b>\$814,000</b> |

[1] This medium-density prototype is likely a 3 to 5-story multifamily building. Examples available here: <https://beta.menlopark.org/files/sharedassets/public/community-development/documents/projects/housing-element-update/sample-developments-of-100-dwelling-units-per-acre.pdf>

[2] Assumes number of occupants is equal to 1 person per studio and 1.5 person per bedroom for larger units, following CA TCAC occupancy guidelines.

[3] 1.5 spaces required per multifamily dwelling unit above 700 sq.ft. (Piedmont Municipal Code 17.30.020)

[4] Land costs vary widely, ranging from \$2.5 million per acre in the Bay Area for larger parcels to \$20 million per acre for entitled residential land. Consideration for the land will depend on market conditions at the time of development.

[5] Includes vertical construction (labor and materials), overhead and General Contractor builder fees. The cost estimate reflects wood-frame construction. Parking is excluded and calculated separately.

[6] Includes costs for architecture and engineering; entitlement and fees; project management; appraisal and market study; marketing, commissions, and general administration; financing and charges; insurance; and contingency.

[7] Estimate does not reflect LIHTC financing, which can reduce costs by \$200,000 or more per unit.

Sources: Economic & Planning Systems, Inc.

## Gap Analysis

Based on the preceding assumptions, **Table 3** calculates the value potential of the 53 units. The higher the rent a household can afford, the higher the value to the developer and when compared against development costs, the lower the funding gap.

The analysis assumes that multifamily apartment operators incur annual operating costs of \$9,000 per Low-income unit and \$12,000 per Moderate and Above Moderate-income unit, which includes the cost of utilities. The capitalization rate is used to determine the current value of a property based on estimated future operating income and is typically a measure of estimated operating risk.

**Table 3** also shows the estimated gaps, or subsidies required, for construction of affordable rental units for 3-person Low and Moderate households. The calculation for Above Moderate households is also provided as a comparison.

Lastly, **Table 3** takes into account the number of units by income category to determine the total funding gap of the overall project. Multiplying the number of units in each income category by the estimated gaps results in the total funding gap of the proposed 53-unit prototype to be feasible. Assuming 40 Low-income units and 13 Moderate-income units (with no Above-Moderate units) results in a total funding gap of \$14.9 million.

**Table 3 Gap Analysis for 53-Unit Affordable Housing Project**

| Item                                                 | Low Income          | Moderate Income  | Above Moderate     | Total               |
|------------------------------------------------------|---------------------|------------------|--------------------|---------------------|
| <b>Total Cost/Unit (rounded)</b>                     | <b>\$814,000</b>    | <b>\$814,000</b> | <b>\$814,000</b>   |                     |
| <b>Maximum Supported Value</b>                       |                     |                  |                    |                     |
| Maximum Affordable Rental Rates <sup>1</sup>         | \$29,595            | \$46,260         | \$57,825           |                     |
| (less) Operating Expenses per Unit/Year <sup>2</sup> | (\$9,000)           | (\$12,000)       | (\$12,000)         |                     |
| Net Operating Income                                 | \$20,595            | \$34,260         | \$45,825           |                     |
| Capitalization Rate <sup>3</sup>                     | 4.5%                | 4.5%             | 4.5%               |                     |
| Total Supportable Unit Value <sup>4</sup>            | \$457,667           | \$761,333        | \$1,018,333        |                     |
| <b>Affordability Gap per Unit</b>                    | <b>\$356,333</b>    | <b>\$52,667</b>  | <b>(\$204,333)</b> |                     |
| <b>Number of Units</b>                               | <b>40</b>           | <b>13</b>        | <b>0</b>           |                     |
| <b>Funding Gap</b>                                   | <b>\$14,253,333</b> | <b>\$684,667</b> | <b>\$0</b>         | <b>\$14,938,000</b> |

[1] The maximum annual rental rates for the affordable units are calculated by taking 30% of the income limit of each income category and include utilities.

[2] Operating expenses based on conversations with local rental property managers. Expenses are inclusive of utility costs.

[3] The capitalization rate is used to determine the current value of a property based on estimated future operating income, and is typically a measure of estimated operating risk.

[4] The total supportable unit value is determined by dividing the net operating income by the capitalization rate.

Sources: CA HCD 2022 Income Limits for Alameda County; Housing Authority of Alameda County; Economic & Planning Systems, Inc.

## Options to Improve Feasibility

The following scenarios are provided to illustrate how different policy and funding levers can affect project feasibility and to demonstrate that there is a path towards feasibility while acknowledging that it may take some time to identify a development partner and negotiate a deal that aligns with the civic center redevelopment plans.

### Scenario 1: Base Scenario Plus Above-Moderate Income Units

Scenario 1 assumes 40 Low-income units, 13 Moderate-income units, and solves for the number of Above-Moderate income units required to eliminate the funding gap. It would take nearly 50 Above-Moderate units to eliminate the funding gap but would allow the developer to pay market-rate consideration for the land (assuming an upfront, capitalized ground lease) and provide the required parking on site. This would result in a development of approximately 100 units and would require a larger parcel than what is available in the Civic Center if civic facilities are to be redeveloped onsite. In this scenario, the land costs are spread across more units, thus reducing the per unit development cost in addition to introducing units that can subsidize the lower-income units.

| Item                                                 | Low Income          | Moderate Income  | Above Moderate        | Total             |
|------------------------------------------------------|---------------------|------------------|-----------------------|-------------------|
| <b>Total Cost/Unit (rounded)</b>                     | <b>\$763,000</b>    | <b>\$763,000</b> | <b>\$763,000</b>      |                   |
| <b>Maximum Supported Value</b>                       |                     |                  |                       |                   |
| Maximum Affordable Rental Rates <sup>1</sup>         | \$29,595            | \$46,260         | \$57,825              |                   |
| (less) Operating Expenses per Unit/Year <sup>2</sup> | (\$9,000)           | (\$12,000)       | (\$12,000)            |                   |
| Net Operating Income                                 | \$20,595            | \$34,260         | \$45,825              |                   |
| Capitalization Rate <sup>3</sup>                     | 4.5%                | 4.5%             | 4.5%                  |                   |
| Total Supportable Unit Value <sup>4</sup>            | \$457,667           | \$761,333        | \$1,018,333           |                   |
| <b>Affordability Gap per Unit</b>                    | <b>\$305,333</b>    | <b>\$1,667</b>   | <b>(\$255,333)</b>    |                   |
| <b>Number of Units</b>                               | <b>40</b>           | <b>13</b>        | <b>48</b>             |                   |
| <b>Funding Gap</b>                                   | <b>\$12,213,333</b> | <b>\$21,667</b>  | <b>(\$12,256,000)</b> | <b>(\$21,000)</b> |

[1] The maximum annual rental rates for the affordable units are calculated by taking 30% of the income limit of each income category and include utilities.

[2] Operating expenses based on conversations with local rental property managers. Expenses are inclusive of utility costs.

[3] The capitalization rate is used to determine the current value of a property based on estimated future operating income, and is typically a measure of estimated operating risk.

[4] The total supportable unit value is determined by dividing the net operating income by the capitalization rate.

Sources: CA HCD 2022 Income Limits for Alameda County; Housing Authority of Alameda County; Economic & Planning Systems, Inc.

## Scenario 2: Base Scenario and No-Cost Ground Lease

Scenario 2 assumes 40 Low-income units, 13 Moderate-income units, and assumes the City provides the land through a low or no-cost long-term ground lease. While still showing a feasibility gap, the funding gap likely could be addressed by the developer through tax credit financing and State funds.

| Item                                                 | Low Income         | Moderate Income    | Above Moderate     | Total              |
|------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Total Cost/Unit (rounded)</b>                     | <b>\$707,000</b>   | <b>\$707,000</b>   | <b>\$707,000</b>   |                    |
| <b>Maximum Supported Value</b>                       |                    |                    |                    |                    |
| Maximum Affordable Rental Rates <sup>1</sup>         | \$29,595           | \$46,260           | \$57,825           |                    |
| (less) Operating Expenses per Unit/Year <sup>2</sup> | (\$9,000)          | (\$12,000)         | (\$12,000)         |                    |
| Net Operating Income                                 | \$20,595           | \$34,260           | \$45,825           |                    |
| Capitalization Rate <sup>3</sup>                     | 4.5%               | 4.5%               | 4.5%               |                    |
| Total Supportable Unit Value <sup>4</sup>            | \$457,667          | \$761,333          | \$1,018,333        |                    |
| <b>Affordability Gap per Unit</b>                    | <b>\$249,333</b>   | <b>(\$54,333)</b>  | <b>(\$311,333)</b> |                    |
| <b>Number of Units</b>                               | <b>40</b>          | <b>13</b>          | <b>0</b>           |                    |
| <b>Funding Gap</b>                                   | <b>\$9,973,333</b> | <b>(\$706,333)</b> | <b>\$0</b>         | <b>\$9,267,000</b> |

[1] The maximum annual rental rates for the affordable units are calculated by taking 30% of the income limit of each income category and include utilities.

[2] Operating expenses based on conversations with local rental property managers. Expenses are inclusive of utility costs.

[3] The capitalization rate is used to determine the current value of a property based on estimated future operating income, and is typically a measure of estimated operating risk.

[4] The total supportable unit value is determined by dividing the net operating income by the capitalization rate.

Sources: CA HCD 2022 Income Limits for Alameda County; Housing Authority of Alameda County; Economic & Planning Systems, Inc.

### Scenario 3: Base Scenario and Shared Parking

Scenario 3 assumes 40 Low-income units, 13 Moderate-income units, and eliminates the onsite parking requirement assuming shared parking as part of the redevelopment of the civic facilities. The elimination of parking costs results in more than \$100,000 per unit of development costs savings. While still showing a feasibility gap, the funding gap likely could be addressed through tax credit financing and State funds allocated for affordable housing. Eliminating the parking requirement has a very similar effect on feasibility to offering the land through a low or no-cost ground lease, but preserves the possibility that the developer could provide an upfront payment for the land (a capitalized ground lease payment), thus contributing to the Civic Center redevelopment.

| Item                                                 | Low Income          | Moderate Income    | Above Moderate     | Total              |
|------------------------------------------------------|---------------------|--------------------|--------------------|--------------------|
| <b>Total Cost/Unit (rounded)</b>                     | <b>\$708,000</b>    | <b>\$708,000</b>   | <b>\$708,000</b>   |                    |
| <b>Maximum Supported Value</b>                       |                     |                    |                    |                    |
| Maximum Affordable Rental Rates <sup>1</sup>         | \$29,595            | \$46,260           | \$57,825           |                    |
| (less) Operating Expenses per Unit/Year <sup>2</sup> | (\$9,000)           | (\$12,000)         | (\$12,000)         |                    |
| Net Operating Income                                 | \$20,595            | \$34,260           | \$45,825           |                    |
| Capitalization Rate <sup>3</sup>                     | 4.5%                | 4.5%               | 4.5%               |                    |
| Total Supportable Unit Value <sup>4</sup>            | \$457,667           | \$761,333          | \$1,018,333        |                    |
| <b>Affordability Gap per Unit</b>                    | <b>\$250,333</b>    | <b>(\$53,333)</b>  | <b>(\$310,333)</b> |                    |
| <b>Number of Units</b>                               | <b>40</b>           | <b>13</b>          | <b>0</b>           |                    |
| <b>Funding Gap</b>                                   | <b>\$10,013,333</b> | <b>(\$693,333)</b> | <b>\$0</b>         | <b>\$9,320,000</b> |

[1] The maximum annual rental rates for the affordable units are calculated by taking 30% of the income limit of each income category and include utilities.

[2] Operating expenses based on conversations with local rental property managers. Expenses are inclusive of utility costs.

[3] The capitalization rate is used to determine the current value of a property based on estimated future operating income, and is typically a measure of estimated operating risk.

[4] The total supportable unit value is determined by dividing the net operating income by the capitalization rate.

Sources: CA HCD 2022 Income Limits for Alameda County; Housing Authority of Alameda County; Economic & Planning Systems, Inc.

#### Scenario 4: Base Scenario, Reduced Parking, and No-Cost Ground Lease

Scenario 4 assumes 40 Low-income units, 13 Moderate-income units, and assumes the City reduces the parking requirement to 1 space per unit and provides the land through a low or no-cost long-term ground lease. As with Scenario 3, this scenario shows a feasibility gap, but one that could be addressed through tax credit financing and State funds.

| Item                                                 | Low Income         | Moderate Income      | Above Moderate     | Total              |
|------------------------------------------------------|--------------------|----------------------|--------------------|--------------------|
| <b>Total Cost/Unit (rounded)</b>                     | <b>\$671,000</b>   | <b>\$671,000</b>     | <b>\$671,000</b>   |                    |
| <b>Maximum Supported Value</b>                       |                    |                      |                    |                    |
| Maximum Affordable Rental Rates <sup>1</sup>         | \$29,595           | \$46,260             | \$57,825           |                    |
| (less) Operating Expenses per Unit/Year <sup>2</sup> | (\$9,000)          | (\$12,000)           | (\$12,000)         |                    |
| Net Operating Income                                 | \$20,595           | \$34,260             | \$45,825           |                    |
| Capitalization Rate <sup>3</sup>                     | 4.5%               | 4.5%                 | 4.5%               |                    |
| Total Supportable Unit Value <sup>4</sup>            | \$457,667          | \$761,333            | \$1,018,333        |                    |
| <b>Affordability Gap per Unit</b>                    | <b>\$213,333</b>   | <b>(\$90,333)</b>    | <b>(\$347,333)</b> |                    |
| <b>Number of Units</b>                               | <b>40</b>          | <b>13</b>            | <b>0</b>           |                    |
| <b>Funding Gap</b>                                   | <b>\$8,533,333</b> | <b>(\$1,174,333)</b> | <b>\$0</b>         | <b>\$7,359,000</b> |

[1] The maximum annual rental rates for the affordable units are calculated by taking 30% of the income limit of each income category and include utilities.

[2] Operating expenses based on conversations with local rental property managers. Expenses are inclusive of utility costs.

[3] The capitalization rate is used to determine the current value of a property based on estimated future operating income, and is typically a measure of estimated operating risk.

[4] The total supportable unit value is determined by dividing the net operating income by the capitalization rate.

Sources: CA HCD 2022 Income Limits for Alameda County; Housing Authority of Alameda County; Economic & Planning Systems, Inc.

Based on these scenarios, if the affordable housing developer were to apply for tax credits and other outside funding and receive \$15.0 million, the developer would be in a position to make a market-rate land payment as well as build parking for a 53-unit project. It is more likely that the City may need to contribute to the feasibility of the project. For example, if the City eliminates the parking requirement or offers the land through a low or no-cost long-term ground lease, the developer may be able to use tax credit financing to close the gap. Other strategies may include reduction (but not elimination) of parking requirements, and/or offering project-based vouchers to help make the project feasible. The combination of funding sources and incentives that make an affordable housing project feasible will vary on a case-by-case basis.