MEMORANDUM

To: Ben Berto, Town of Fairfax

From: Strategic Economics and Vernazza Wolfe Associates

Date: February 10, 2023

Project: Marin Inclusionary Study

Subject: Inclusionary Program and In-Lieu Fee Study for Fairfax

Purpose and Background

The County of Marin, Town of Fairfax, and five other jurisdictions within Marin County are collaborating on a regional effort to implement or update existing affordable housing policy tools, namely inclusionary zoning and commercial linkage fees. Some of the jurisdictions currently have inclusionary zoning and/or commercial linkage fee programs they intend to review and update as necessary, while others are establishing new programs. Together, the seven jurisdictions have retained Strategic Economics and Vernazza Wolfe Associates (the Consultant Team) to study and offer recommendations for both these policies.

This memo report provides an assessment of the existing inclusionary housing programs, summarizes best practices for setting inclusionary housing requirements, including on-site affordable units and fees in-lieu of providing affordable units on-site. The report provides an updated calculation of in-lieu fees for all the jurisdictions participating in this study. The maximum in-lieu fees were calculated for three different housing product types – single-family subdivisions, townhomes/condominiums, and rental apartments.

This report also includes an analysis of key policy considerations and recommendations to guide Fairfax's decision-makers on potential changes to the inclusionary housing requirements and associated in-lieu fees.

The memo is organized into the following sections:

I. Analysis of Existing Inclusionary Policies
II. Best Practices for Inclusionary Policies
III. Affordability Gap/In-lieu Fee Calculation
IV. Policy Considerations and Recommendations

I. Analysis of Existing Inclusionary Policies

Some of the communities in Marin County have a relatively long history with inclusionary zoning. Of the seven jurisdictions participating in this study, five already have inclusionary policies, some of which have existed in some form since the 1980s. Sausalito adopted its policy in 2019, while the communities of San Anselmo and Fairfax have not yet adopted a policy. Concurrent to the preparation of this memo, San Rafael adopted a significantly modified inclusionary policy; both the current policy and the newly adopted versions are shown in Figures 1 and 2.

Inclusionary programs typically have a specific onsite requirement to designate a portion of the project for affordable units (see Figure 1 for a comparison of onsite requirements for the seven jurisdictions) as well as alternative means of compliance with the policy, such as the payment of in-lieu fees or land dedication (Figure 2). Below are some key observations of the policy elements across the jurisdictions:

- **All jurisdictions apply an inclusionary requirement to both rental and for-sale projects.** Fairfax and San Anselmo do not have existing inclusionary housing ordinances.
- **The policies for rental projects tend to target lower income households (very low- and low-income households) while the policies for for-sale projects tend to target a combination of low- and moderate-income households.** Exceptions to this include Corte Madera and San Rafael, which have identical affordability targets for both rental and for-sale projects, and Unincorporated Marin County, which has unusually low-income targets: 60 percent of area median income (AMI) for for-sale and 50 percent of AMI for rental developments.
- **The percentage affordable requirement ranges from ten percent to 25 percent.** Some jurisdictions require smaller percentages for smaller projects: Larkspur has a lower requirement for projects less than twenty units in size, while both San Rafael's current and newly adopted policies include a modified requirement for larger projects. Sausalito requires a higher percentage (with deeper affordability) for projects in commercial districts.
- **The inclusionary policies generally have a relatively low unit threshold.** The unit thresholds (minimum number of units in a project for the policy to be applicable) range from 1 or more units in Corte Madera to 5 or more units in Larkspur. The relatively low unit thresholds reflect the smaller multifamily and subdivision developments characteristic of Marin.
- **San Rafael recently modified its policy by relaxing the onsite inclusionary requirement, adding flexibility, and shifting the targeted income groups slightly higher**.
- **The jurisdictions take a mix of approaches to alternative means of compliance, but, overall, the alternatives are structured to encourage developers to build units onsite.** Jurisdictions either disallow the payment of in-lieu fees in all circumstances (Sausalito), or disallow them in some circumstances (Corte Madera, Larkspur, San Rafael), or allow the payment of in-lieu fees on fractional units (Larkspur, Unincorporated Marin County). Land dedication or the provision of offsite units is generally allowed under special circumstances.

FIGURE 1: ONSITE INCLUSIONARY REQUIREMENTS BY JURISDICTION

	Percentage Affordable by Project Size	Minimum Size Threshold	Affordability Target	
			Rental	For-Sale
Corte Madera	All projects: 25%	1 unit	5% Very Low-Income; 10% Low-Income; 10% Moderate-Income	
Sausalito				
Commercial Districts	1-5 units: 1 unit; 6+ units: 20%	1 unit	Low-income	Moderate-income
Other Areas	15%	4 units	Moderate-income	
Larkspur	5-19 units: 15% 20+ units: 20%	5 units	50% Very Low-Income; 50% Low-Income	50% Low-Income; 50% Moderate-Income
Unincorporated Marin County	2+ units or lots: 20%	2 units or lots	Very Low-Income (50% AMI)	Low-Income (60% AMI)
San Rafael				
Current Policy	2-10 units: 10% 11-20 units: 15% 21+ units: 20%	2 units	50% Very Low-Income; 50% Low-Income	50% Low-Income; 50% Moderate-Income
New Policy (Approved by City Council 2/21/2021)				
Primary Requirement	2-15 units: 10% 16+ units: 5%	2 units	Low-Income	
Secondary Requirement (in addition to the primary requirement for 16+ unit projects)	16+ units: Additional 5% or 10%	16 units	5% additional set-aside: Low-Income; 10% additional set-aside: Moderate-Income	
Fairfax			No Policy	
San Anselmo			No Policy	

Source: Staff from Jurisdictions, 2020; Strategic Economics, 2021.

FIGURE 2: INCLUSIONARY REQUIREMENT ALTERNATIVE MEANS OF COMPLIANCE BY JURISDICTION

	Alternative Means of Compliance
Corte Madera	1-9 unit projects can pay in lieu fee. 10+ unit projects must incorporate units on-site.
Sausalito	
Commercial Districts	Applicants can propose land dedication or off-site units if on-site units are not possible, though there is no in-lieu fee option.
Other Areas	Applicants can propose land dedication or off-site units if on-site units are not possible, though there is no in-lieu fee option.
Larkspur	Land donation, transfer of inclusionary credits, second dwelling units; In-lieu fee available for 5-14 unit projects and for fractional units (Rental: $213,267, For-Sale: $338,126).
Unincorporated Marin County	2+ unit projects and subdivisions: In-lieu fee available for fractional units ($329,485 per unit).
San Rafael	
Former Policy	In-lieu fee for fractional units ($343,969 per unit).
New Policy (Approved by City Council 2/21/2021)	
Primary Requirement	None (must be on-site)
Secondary Requirement	In-lieu fee, off-site units located within 1/2 mile of project, or land donation.
Fairfax	No Policy
San Anselmo	No Policy

EFFECTIVENESS OF INCLUSIONARY POLICIES

The Consultant Team surveyed the five participating jurisdictions that currently have policies, including questions about the units produced by their policy, the means of production, and fee revenues collected. The Team also held meetings with market-rate developers, affordable housing providers, and other stakeholders (see Appendix A) to gain their perspective regarding the policies.

To summarize the results of the inclusionary policies, the Consultant Team summarized the number of units produced and the revenues generated from 2016 to 2020, shown in Figure 3. To provide more context on housing product, a summary of allocated and permitted units in the 2015-2023 Regional Housing Needs Assessment (RHNA) cycle is shown in Figure 4. The effectiveness of the inclusionary policies as a tool for affordable housing production is discussed below.

The jurisdictions in this study produced 58 affordable units through their inclusionary programs over a five-year period. In the last five years, the five jurisdictions with inclusionary policies produced a total of 41 affordable rental units, 17 affordable for-sale units, and approximately $4 million for affordable housing development. San Rafael constituted most of the activity, with all 41 rental units produced there, 13 for-sale units produced, and $3.6 million generated from a single development, the 81-unit Village at Loch Lomond Marina project.[1]

Inclusionary programs accounted for about 14 percent of affordable housing production in the seven participating jurisdictions. According to the RHNA progress report shown in Figure 4, the participating jurisdictions permitted a total 414 affordable units and 700 market-rate units from 2015 to 2020. This indicates that the majority of below-market rate housing development has been implemented through 100 percent affordable projects. The jurisdictions are on track to meet their market-rate (over 120% AMI) and low-income (80% AMI) housing allocations. However, they are less likely to meet the target for producing very-low income (50% AMI) and moderate-income (120%) units.

The inclusionary programs have not resulted in significant production of new affordable units in part because of the complexity of residential development in the county. Residential developers participating in this study cited many factors contributing to the complexity of housing development in Marin, including long and unpredictable approvals processes, opposition from some community members, lack of available sites, especially those that are zoned for multi-family housing, high land and construction costs, and inadequate or expensive infrastructure.

Inclusionary requirements can be a secondary factor impacting the viability of new development in Marin, mainly in instances where the requirement is poorly matched to market conditions. Market rate developers participating this study believed that new development projects can support inclusionary requirements for lower income households. However, some noted that the percentage requirement had been increased over time in many cities, without consideration of the relative market strengths of different locations in the county. For example, some jurisdictions have targeted very low-income households for for-sale projects, which requires a deeper subsidy than low- and moderate-income households.

The conversion of off-site units as an alternative means of compliance with the inclusionary requirement can fall short of the communities' goals for affordable housing. Allowing developers to convert existing units to deed-restricted affordable units can be problematic. First, unlike the

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[1] The $3.6 million generated from the Loch Lomond Marina project were not from in-lieu fees but rather a "buyout" of a portion of the BMR requirement.

construction of new units, the conversion of existing units fails to expand the overall supply of housing in the county, trading a market rate unit for one below market rate unit rather than expanding the overall supply. Second, converted units are often of lower quality than new units, and may come with hidden costs, such as additional maintenance costs.

In Marin County, the current inclusionary requirement appears to encourage developers to reduce the scale of projects to allow for the payment of in-lieu fees rather than providing on-site units. The County's policy targets very low-income households: 50 percent of Area Median Income for rental developments and 60 percent for for-sale. These income targets are lower than other jurisdictions in the Bay Area. Projects with two units or more must provide units onsite, with the payment of in-lieu fees allowed only on fractional units. According to County staff, some development projects have reduced the scale of their projects to enable the payment of in-lieu fees rather than providing units on-site.

The variation in inclusionary requirements from jurisdiction to jurisdiction can create confusion and unnecessary complexity for developers. Because each jurisdiction in Marin County has set its inclusionary requirements in an uncoordinated way, the finer details of the many different policies can be difficult for developers to navigate. A more standardized approach that is closely tied to market conditions, rather than jurisdictional boundaries, would help to rationalize the process for developers.

FIGURE 3: AFFORDABLE UNITS PRODUCED AND FEE REVENUES COLLECTED, BY JURISDICTION, 2016-2020.

Jurisdiction	Rental Units	For-sale Units	Fee Revenues
Corte Madera	0	3	$379,478
Fairfax [a]	n/a	n/a	n/a
Larkspur	0	0	0
Unincorporated Marin County	0	1 [d]	$213,603
San Anselmo [b]	n/a	n/a	n/a
San Rafael	41	13	$3,600,000 [e]
Sausalito [c]	0	0	0
Total	**41**	**17**	**$4,193,081**

[a] Fairfax does not currently have an inclusionary program.
[b] San Anselmo does not currently have an inclusionary program.
[c] Sausalito adopted an inclusionary program in 2019.
[d] Produced through a shared agreement with Mill Valley.
[e] Revenues collected from a buy-out of six Below Market Rate units.
Source: Reported by each jurisdiction, 2016-2020.

FIGURE 4. RHNA FIFTH CYCLE ALLOCATION AND PERMITTED UNITS BY AFFORDABILITY LEVEL ACROSS JURISDICTIONS, AS OF 2020

	Corte Madera	Fairfax	Larkspur	San Anselmo	San Rafael	Sausalito	Unincorporated Marin County	Total
Very Low Income (50% AMI)								
RHNA	22	16	40	33	240	26	55	432
Permitted Units	16	13	6	15	5	12	26	93
% Complete	73%	81%	15%	45%	2%	46%	47%	22%
Low Income (80% AMI)								
RHNA	13	11	20	17	148	14	32	255
Permitted Units	13	60	11	21	79	20	27	231
% Complete	100%	545%	55%	124%	53%	143%	84%	91%
Moderate Income (120% AMI)								
RHNA	13	11	21	19	181	16	37	298
Permitted Units	8	4	9	23	12	6	28	90
% Complete	62%	36%	43%	121%	7%	38%	76%	30%
Market-Rate (>120% AMI)								
RHNA	24	23	51	37	438	23	61	657
Permitted Units	179	10	90	39	201	7	174	700
% Complete	746%	43%	176%	105%	46%	30%	285%	107%
Permitted Units Summary								
Total Affordable Units (<120% AMI)	37	77	26	59	96	38	81	414
Total Market Rate Units (>120% AMI)	179	10	90	39	201	7	174	700
Affordable Units as Share of Total	17%	89%	22%	60%	32%	84%	32%	37%

Source: HCD, 2020; Strategic Economics, 2021.

II. Best Practices for Inclusionary Policies

This section provides a discussion of key policy issues for jurisdictions to consider as they introduce a new inclusionary program or modify an existing program, and provides recommendations based on best practices. To identify best practices, the Consultant Team reviewed reports from the UC Berkeley Terner Center for Housing Innovation, Grounded Solutions Network, and the Lincoln Institute of Land Policy. To guide the recommendations for best practices, the Consultant Team first designated market area zones. Following that, the policy elements discussed in this section include:

- Considering market factors when setting inclusionary requirements
- The income groups targeted in inclusionary requirements
- The minimum applicable development size
- Setting in-lieu fees as an alternative to on-site or off-site units, and
- Other alternative means of compliance.

MARKET CONDITIONS

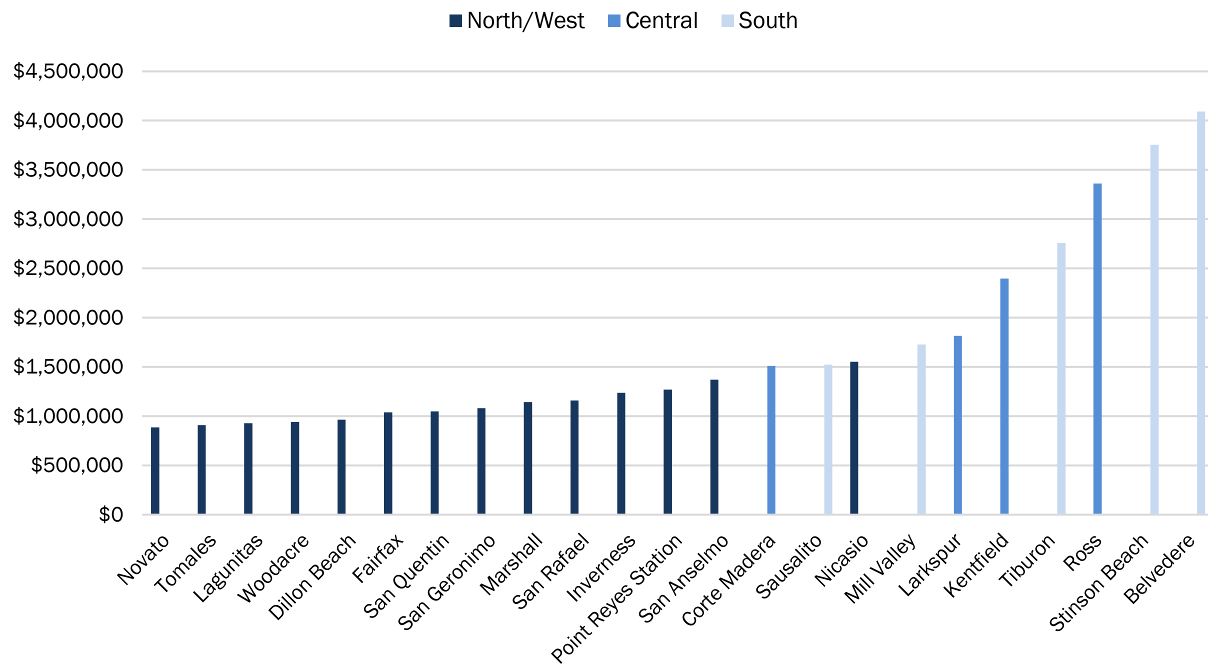
It is important to consider market conditions when setting an inclusionary housing requirement to ensure that the policy can be tailored to the unique context of each jurisdiction, and that the policy does not constrain the development of new housing. Jurisdictions that have stronger housing markets can establish higher inclusionary requirements than those with less established or weaker markets.

Based on Zillow home sale data and interviews with residential developers with experience working in Marin County (see Appendix A), the Consultant Team identified three market areas for for-sale housing across the participating jurisdictions in the County. Figures 5 and 6 show Zillow home value indices for both overall home sales and condominium sales.

As shown in Figure 5, home values are highest in South Marin, which offer the best access to San Francisco via the Golden Gate Bridge and ferries. Home values are slightly lower in Central Marin, and drop in North/ West Marin areas, which are comparatively less accessible.

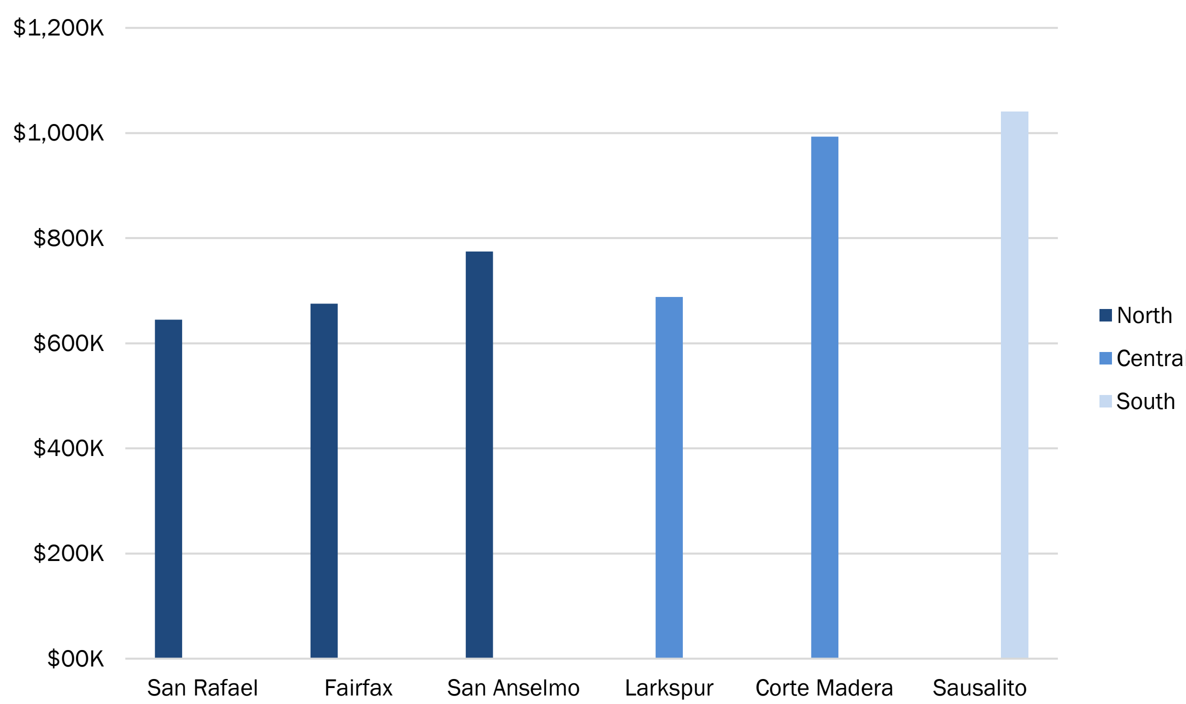
The market for rental housing is different from for-sale housing in Marin County. The rental housing market is strongest in the more urbanized areas that offer access to transportation infrastructure, jobs, and amenities. Most of the recent market-rate rental development activity has occurred in urban San Rafael. Tam Ridge is another significant rental project which was completed in Corte Madera in 2017.

FIGURE 5: ZILLOW HOME VALUE INDEX FOR MARIN COMMUNITIES



Source: Zillow, 2020; Strategic Economics, 2021.

FIGURE 6: ZILLOW HOME VALUE INDEX FOR CONDO/COOPS IN MARIN COMMUNITIES



Source: Zillow, 2020; Strategic Economics, 2021.

PERCENTAGE REQUIREMENTS

Figure 7 and Figure 8 illustrate the income targets and percentage requirements for the jurisdictions that currently have inclusionary programs. Figure 7 plots the current onsite requirements for rental units, with the percent set-aside on the x-axis and average Area Median Income[2] targeted by the policy on the y-axis. Figure 8 shows the same information for for-sale units. Policies that appear toward the lower right of the plots have a higher percentage requirement and deeper affordability, while those toward the upper left have a relatively lower percentage requirement and less affordability.

Five of the seven participating jurisdictions already have inclusionary policies in place requiring affordable units onsite. The percentage of units varies by jurisdiction, ranging from 10 percent (San Rafael) to 25 percent (Corte Madera). Most of the jurisdictions have similar percentage requirements for for-sale and rental development, but the income targeted is typically lower for rental than for for-sale housing.

The percentage of affordable housing required in a project should be set at an economically feasible level so that the inclusionary requirement does not create an impediment to housing development.[3] According to market-rate housing developers, the market context for inclusionary requirements is particularly important in Marin. Development projects in the southern and central portions of the county, such as Corte Madera, Larkspur, Sausalito and parts of Unincorporated Marin, can more feasibly accommodate a higher percentage of inclusionary and/or a deeper level of affordability, compared to communities located in northern and western portions of the county.

Setting a high inclusionary requirement could be prohibitive for new rental projects in Marin County. San Rafael recently relaxed its inclusionary requirement to encourage new development, despite being the most active rental market in the county. Because rental developments tend to serve a lower income market segment than for-sale developments, the inclusionary requirement for rentals is sometimes slightly lower than that for for-sale developments. Local jurisdictions can make up that gap by providing zoning incentives to reduce development costs for rental projects.

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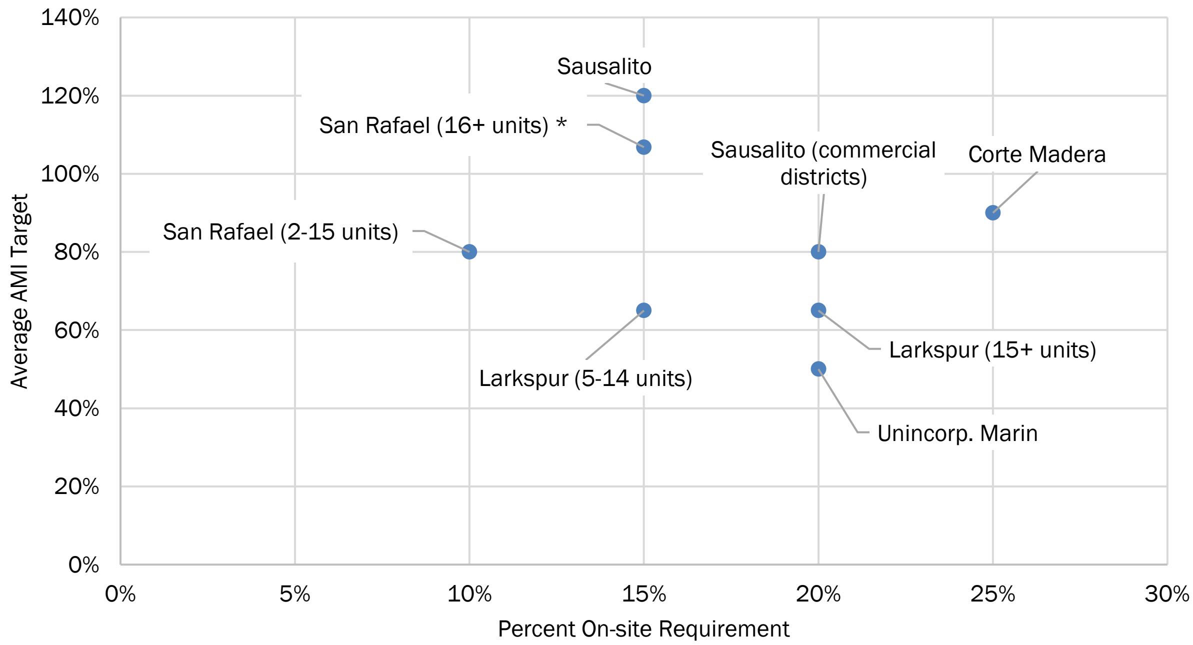
[2] For example, San Rafael requires at least 50 percent of its BMR units to be targeted to very low-income households (maximum income: 50 percent of AMI) and the remainder to be targeted to low-income households (maximum income: 80 percent of AMI). Therefore, the average AMI target for San Rafael is .50*.50 + .50*.80 = 65 percent of AMI.

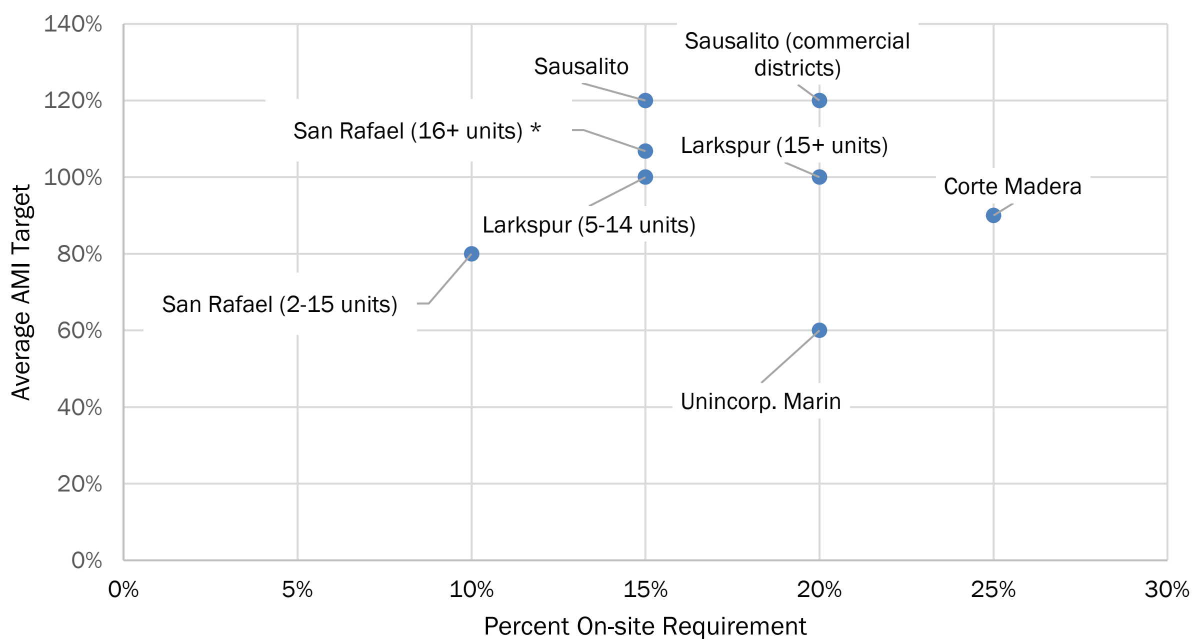
[3] AB1505, also known as the "Palmer Fix" permits California Department of Housing and Community Development (HCD) to review inclusionary zoning ordinances adopted or amended after September 15, 2017 if it requires more than 15% of the units to be affordable to lower income households and if the locality has failed to meet 75% of its share of the above moderate RHNA. HCD can request localities to provide an "economic feasibility study" to demonstrate that the higher inclusionary requirement will not impede development activity.

Figure 7: Average AMI Targets and Percent onsite Requirement for Rental Developments



* Assumes the developer selects the 10% / moderate-income option for the secondary requirement.
Source: Participating jurisdictions, 2020; Strategic Economics, 2021.

Figure 8: Average AMI Targets and Percent Set-Aside for For-sale Developments



* Assumes the developer selects the 10% / moderate-income option for the secondary requirement.
Source: Participating jurisdictions, 2020; Strategic Economics, 2021.

INCOME TARGETS

There is a wide range in the income targets for inclusionary programs among the participating jurisdictions, as shown in Figures 7 and 8. It is common practice for jurisdictions to target lower-income households for renter housing than for ownership housing. This is because it is generally easier for low- and moderate-income households to meet typical lending requirements.

Larkspur, Sausalito, and Unincorporated Marin County target lower-income households for rental units compared to for-sale units. San Rafael and Corte Madera target moderate-income for both rental and for-sale housing.

RENTAL

The income targets for rental units among the jurisdictions vary widely (Figure 7). Unincorporated Marin targets very low-income households, while Larkspur targets a mix of very low- and low-income households. The other jurisdictions have higher income targets overall, including targeting to some moderate-income households.

Currently, the most active rental market in Marin is San Rafael, which, of the jurisdictions in this study, produced the only affordable rental units in the last five years (Figure 3). These units were produced under the city's previous policy, which targeted low- and very low-income households. San Rafael has relaxed this requirement with its new ordinance, which is designed to further promote new development. Among other changes, the new ordinance eliminates targeting for very low-income households.

FOR-SALE

In comparison to rentals, the income targets for for-sale development are overall more uniform across jurisdictions. The targeted income groups tend to consist of a mix of low- and moderate-income households.

The exception to this pattern is Unincorporated Marin County, which requires a significantly deeper level of affordability (60 percent of AMI) on for-sale projects. This policy can pose a challenge in two ways. First, it can make the County uncompetitive for development with its neighbors. Further, the lower-then-average income targets in Marin County's policy was identified by developers as being a financial burden on projects such that many do not pencil. As mentioned in Section I, County staff reports that developers tend to reduce the size of their projects in order to build fewer onsite BMR units than otherwise would have been required, preferring to pay the in-lieu fee on fractional units to the greatest extent possible.

UNIT THRESHOLDS

One important element of an inclusionary policy is the minimum size of development (the threshold number of dwelling units) for which the policy will apply. Because smaller scale projects are often more complex and less efficient than larger projects, many inclusionary programs around the country have exemptions or lower requirements on small projects. According to Grounded Solutions Network, California jurisdictions typically set the minimum threshold for an inclusionary requirement at between two to five units.[4] This is consistent with the policies of the jurisdictions in this study, where the the minimum threshold ranges between one unit and five units.

Because a significant share of new development projects in Marin County's jurisdictions are quite small, it is it is important that all projects be required to provide affordable units. However, for smaller projects that have more challenging development feasibility, the percentage set-aside required could be lower, or the income group targeted could be set higher. In San Rafael projects with 5 to 15 units have a set-aside requirement of 10 percent, compared to 15 percent for larger projects. Similarly, Larkspur's ordinance requires 15 percent affordable units for projects with less than 15 units, compared to 20 percent for larger projects. San Francisco has a lower percentage requirement on projects between 10 to 24 units of 12 percent, compared to approximately 21 percent for larger projects.

SETTING IN-LIEU FEES

A jurisdiction's approach to setting in-lieu fees should consider a number of factors. The first consideration is to compare the in-lieu fee option with the provision of onsite units – which of these options does the jurisdiction wish to encourage? In many California communities, collecting in-lieu fees and leveraging funding from other sources can allow them to build 100 percent affordable housing projects for extremely-low, very-low, and low-income households. However, this approach requires administrative capacity on behalf of city and county staff, capacity from local affordable housing developers, and access to other funding sources. It can also take a significant amount of time to acquire sites and secure funding to build 100 percent affordable projects.

For many of the above reasons, most of the jurisdictions participating in this study would prefer to incentivize on-site production rather than off-site units. Inclusionary housing is an important tool to promote mixed-income housing and to help correct historical patterns of economic and racial segregation. Setting the in-lieu fee at the maximum level can encourage more developers to provide units onsite. When the in-lieu fee option is available, developers are more likely to pay the fee when constructing high value or luxury units, because the revenue sacrificed from building units onsite is higher. (The potential value of luxury units is high, which means the developer must forgo more revenue for each unit that is designated affordable.)

Another consideration for in-lieu fees is the basis of the fee. Is the fee charged on the basis of dwelling units or square feet of residential area? While communities in Marin generally charge on a per unit basis, charging on the fee on a per-square-foot basis can encourage the development of smaller units, like studios and one-bedrooms. As an example, San Francisco's affordable housing in-lieu fee is charged on a per-square-foot basis.

It is recommended that fees be implemented with a schedule for annual adjustments. As economic factors, such as construction costs, change over time, the affordability gap will also change. Fees should be adjusted based on a regularly published cost index.

Further considerations for setting in-lieu fees on the basis of the affordability gap analysis are examined in Section IV.

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[4] Jacobus, Rick. "Inclusionary Housing: Creating and Maintaining Equitable Communities," Lincoln Institute of Land Policy, 2015.

ALTERNATIVE MEANS OF COMPLIANCE

Because circumstances surrounding each project are different, it is important for an inclusionary program to provide alternative ways of meeting the inclusionary requirement other than with the provision of onsite units. Marin County has successfully used alternative means to produce new affordable units and raise revenue for housing; these alternative means include the provision of offsite units, land dedication, and partnerships with affordable housing developers. The option to construct units offsite is typically met with a higher percentage than what would be required onsite.

Market rate developers stress that flexibility in the inclusionary policy is a key determinant of the production of new housing. For some projects, the dedication of land to a jurisdiction or an affordable developer can result in the construction of a greater number of units for lower income households than the provision of on-site inclusionary units.

As mentioned in Section I, some developers may propose to fulfill an inclusionary requirement, not through the construction of new units offsite, but through the conversion of offsite market rate units to deed-restricted affordable units. However, this approach has some disadvantages. First, it does not result in net new housing units. Second, the off-site unit does not create a mixed-income development project. Finally, the conversion of units can sometimes result in affordable housing units that are of lower quality than new construction. If the off-site provision of units is offered as a means of compliance, it is important for the jurisdiction to ensure that the offsite units are of equivalent quality and within close proximity to the market-rate development project. Other best practices are to require that the value of the off-site contribution is equivalent or greater than the value of the in-lieu fees.

BEST PRACTICES FOR SMALL LOT SUBDIVISIONS

Recent state legislation (AB 1315 [2019-2020]) sets forth rules for small lot subdivisions to encourage affordable housing in areas zoned for multifamily development. The law allows developers to subdivide parcels into smaller lots for the construction of small, individual units with limited parking. For the purposes of applying an inclusionary policy, it is advisable to treat a small lot subdivision as if it were a new construction project of the same number of units.

As there may be a significant period of time between the subdivision and when new construction occurs, jurisdictions should clarify for developers the point in time when the inclusionary policy is applied and, for example, any applicable in-lieu fees are paid. Ordinarily, it is the developer entitling the construction of the residential units, and not the developer performing the land division, who will be responsible for fulfilling whatever inclusionary policy is in effect at that time and paying any applicable fees.

III. Calculation of In-Lieu Fee

Inclusionary zoning requires that new developments provide affordable housing along with market-rate housing units, either on-site or off-site, or comply with alternative measures such as payment of fees "in-lieu" of providing affordable units. The in-lieu fee is calculated based on the housing affordability gap – the difference between what households at various income levels can pay for housing and the cost of developing market rate housing. If this is for-sale housing, then the gap is based on the difference between annual mortgage costs and affordable monthly housing payments, and for rental housing, it is the difference between market rate rents and affordable rents. Once the total gap is calculated, the actual fee that is adopted depends on financial feasibility of the costs of the fee on prototypical residential developments.

For the purposes of this study, the in-lieu fees were calculated for Marin County and participating jurisdictions for three development types:

- For-sale single-family subdivisions
- For-sale condominium townhomes
- Rental apartments

While the study presents the total affordability gap, the actual fee that is adopted in each jurisdiction depends on policy considerations, which are outlined in Section IV of this report.

METHODOLOGY

The affordability gap is defined as the difference between what very low-, low- and moderate-income households can afford to pay for housing and the cost of developing new housing. Because it measures this shortfall that must be made up by a developer offering Below Market Rate units, the affordability gap is useful for setting in-lieu fees as an alternative to producing units directly through the inclusionary program.

The following steps illustrate the methodology used for calculating the affordability gap:

1. Estimate affordable rents and housing prices for households in target groups;
2. Estimate development costs of building new housing units, based on current cost and market data;
3. Calculate the difference between what renters and homeowners can afford to pay for housing, and the cost of developing those rental and for-sale units

Because California Department of Housing and Community Development (HCD) and the U.S. Department of Housing and Urban Development (HUD) define the ability to pay for housing at the county level, the affordability gap is calculated on the same income categories for the entire county. The calculated in-lieu fees are valid for all of the jurisdictions participating in this study.

RESIDENTIAL PROTOTYPES

The Consultant Team established three housing prototypes that represent the types of development likely to occur in Marin County. The prototypes are informed by recently built and proposed development projects in Marin as well as conversations with developers with experience in Marin County. Example projects that represent the types of development likely to occur in Marin County are shown in Figures 9 and 10. All five projects are in either San Rafael or Corte Madera, which have attracted most of the recent development activity among the participating jurisdictions.

FIGURE 9. MARIN PROJECTS THAT INFORMED PROTOTYPES 1 AND 2 (FOR-SALE PROTOTYPES)

Project	The Strand	Enclave	350 Merrydale Rd.
Building Type	Detached single-family and townhomes	Townhomes	Townhomes, plus flats
Jurisdiction	San Rafael	Corte Madera	San Rafael
Status	Built in 2015	Built in 2019	Proposed
Units	34 detached, 42 townhomes	16 townhomes	41 townhomes, 4 flats
Site Size (acres)	8.5 (approximate)	1.3	2.28
Units Per Acre	9	12	20
Unit Size Sq. Ft. (Approximate)	Townhome: 1,650-1,900 Sq. Ft; Detached: 1,950-3,300 Sq. Ft.	2,020 Sq. Ft.	Townhome: 1,450-2,100 Sq. Ft.; Flat: 800 Sq. Ft.
Parking	2 car garage per unit plus visitor surface parking	2 car garage per unit plus visitor surface parking	2 car garage per townhome unit; 1 car garage per flat unit; Surface visitor parking.

Source: Costar, 2021; Various marketing materials for, and articles about projects; Interviews with developers; Strategic Economics, 2021.

FIGURE 10. MARIN PROJECTS THAT INFORMED PROTOTYPE 3 (RENTAL PROTOTYPE)

Project	Tam Ridge	703 Third St.
Building Type	Wood-frame apartment flats over podium, plus townhomes	Wood-frame apartment flats over podium, using density bonus, near SMART station
Jurisdiction	Corte Madera	San Rafael
Status	Built in 2017	Proposed
Units	154 flats, 25 townhomes	120 flats
Site Size (acres)	4.5	0.63
Unit Density	40	190
Unit Size Sq. Ft. Range (Approximate)	Flats: 750-1,100 Sq. Ft.; Townhome: 1,300 Sq. Ft.	450-900 Sq. Ft.
Parking	1.6 spaces per unit (tenant parking in podium garage plus visitor surface parking)	1 space per unit in podium (incorporates mechanical lifts)

Source: Costar, 2021; Various marketing materials for, and articles about projects; Interviews with developers; Strategic Economics, 2021.

The prototypes are generally based on developments built recently or proposed. Some communities in Marin typically see much smaller projects and are unlikely to see new projects of this scale. However, the per-unit cost of development is unlikely to be significantly different even for smaller and lower density projects, because the reductions in construction costs would be counterbalanced with the higher cost of land per unit.

The prototypes developed for the analysis are summarized below and further details are shown in Figure 11.

Prototype 1: Single-Family Subdivision

The single-family subdivision prototype has 14 detached for-sale units at a density of seven units per acre, making it typical for a "small-lot" subdivision. The units, which are two stories, are a mix of three and four-bedrooms and average 2,200 square feet.

Prototype 2: Condominium Townhome

The condominium townhome prototype includes 30 attached for-sale units at a density of 15 units per acre. Two-thirds of the units have three bedrooms while one-third have four bedrooms. The units are three stories with tuck-under garages on the ground level, and the average unit size is 1,800 square feet.

Prototype 3: Rental Apartments

The rental apartment prototype is a 100-unit apartment building. It has a density of 50 units per acre and is five stories. The building is a "Five-over-one" construction type, which means the first floor is a "Type I" concrete podium to accommodate parking, with four stories of "Type V" wood-frame construction for the residential area above. Typical of rental projects, the units in this prototype are a mix of studios, one-bedrooms, and two-bedrooms. The average unit size is 800 square feet.

FIGURE 11. SUMMARY OF PROTOTYPES

	Prototype 1: Single-Family Subdivision	Prototype 2: Condominium Townhome	Prototype 3: Rental Apartments
Tenure	For-Sale	For-Sale	Rental
Unit Mix	3, 4 bedrooms	3, 4 bedrooms	Studios, 1, 2 bedrooms
Construction Type	Wood-frame	Wood-frame	Type V over 1
Residential Stories	2	3	5
Number of Units	14	30	100
Parcel Size (Acres)	2	2	2
Parcel Size (Sq. Ft.)	87,120	87,120	87,120
Dwelling Units Per Acre	7	15	50
Unit Mix	7 3-Bedrooms; 7 4-Bedrooms	20 3-Bedrooms; 10 4-Bedrooms	10 Studios; 50 1-Bedrooms; 40 2-Bedrooms
Average Unit Size	2,200	1,800	800
Net Residential Sq. Ft.	30,800	54,000	80,000
Efficiency Ratio (a)	100%	100%	90%
Gross Residential Sq. Ft.	30,800	54,000	88,889
Parking Type	2-car garage plus surface	2-car garage plus surface	Podium
Parking Ratio (Per Unit) (b)	2.50	2.25	1.25
Total Parking Spaces	35	68	125
Garage Parking Sq. Ft. (c)	9,800	21,000	43,750
Floor-Area Ratio (Residential Only)	0.35	0.62	1.02
Floor-Area Ratio (Including Structured Parking)	0.47	0.86	1.52

Source: Strategic Economics, 2021.

Notes:
(a) Sq. Ft. associated with residential units divided by total interior square feet of building, (excludes space associated with parking).
(b) The urban design specifications of these three prototypes, such as their parking ratios, may vary from the building typologies suggested in Opticos' Objective Design and Development Standards study, currently in process. The parking ratios, as well as other metrics displayed here, are market-based, informed by conversation with residential developers familiar with Marin.
(c) Based on "350 sq. ft. per parking space" standard industry assumption, which incorporates circulation.

ESTIMATING AFFORDABLE RENTS AND HOUSING PRICES

Affordable rents and housing prices were identified based on resources from public agencies, such as HUD and HCD, which set income levels and maximum housing costs for federal and state-funded affordable housing programs. The Marin Housing Authority then provided the specific approach for calculating affordable sales prices, which currently vary across jurisdictions because of the different income levels that jurisdictions target as a part of their inclusionary programs.

The Consultant Team identified the affordability targets that would be tested in collaboration with the County of Marin, set at a level typical of existing inclusionary policies among participating jurisdictions. The affordable targets are shown below in Figure 12. Consistent with best practices from other inclusionary housing programs, the affordability gap for both rental and for-sale units was calculated for very low-, low-, and moderate-income households,.[5] In consultation with the client, the Consultant Team identified specific AMI levels to reflect the average incomes of households that these units would serve, with for-sale units typically targeting households with incomes that are slightly higher than rental units within the income categories. The income levels tested for the for-sale prototypes are generally higher than for the rental prototypes because for-sale affordable housing programs tend to serve households at the higher end of the income target ranges.

FIGURE 12. HOUSEHOLD INCOME TARGETS FOR AFFORDABLE UNITS BY TENURE

	For-sale Housing	Rental Housing
Very Low-income	50% AMI	50% AMI
Low-income	70% AMI	65% AMI
Moderate Income	110% AMI	90% AMI

Source: County of Marin; Strategic Economics, 2021.

Figure 13 below shows the maximum affordable monthly rents for rental housing. The household sizes shown are for one, two, and three persons per household, reflecting the typical occupancy of studio, one-bedroom, and two-bedroom units, respectively, in Prototype 3.

Based on HCD guidelines, the affordable rent is calculated as 30 percent of a household's gross monthly income, minus a deduction for utilities. The utility deduction includes costs that are usually passed onto the tenant, such as heating, water heating, cooking, and electricity. Natural gas is assumed for heating and water heating. (Water, sewer, and trash removal costs are typically covered by the property owner and excluded from the utility deduction.)

[5] Households that fall between 30-50% AMI are considered very low-income; households that fall within 50-80% AMI are considered Low-income; households that fall between 80-120% AMI are considered moderate income.

FIGURE 13. MAXIMUM AFFORDABLE RENT ASSUMPTIONS FOR VERY LOW, LOW, AND MODERATE INCOME HOUSEHOLDS

Very Low-income (50%)	Household Size		
	1	2	3
Maximum Annual Household Income	$50,075	$57,250	$64,400
Maximum Monthly Housing Cost (a)	$1,252	$1,431	$1,610
	Unit Type		
	Studio	1-BR	2-BR
Maximum Monthly Housing Cost (a)	$1,252	$1,431	$1,610
Utility Allowance (b)	$43	$52	$71
Maximum Rent	$1,209	$1,379	$1,539

Low-income (65%)	Household Size		
	1	2	3
Maximum Annual Household Income	$65,098	$74,425	$83,720
Maximum Monthly Housing Cost (a)	$1,627	$1,861	$2,093
	Unit Type		
	Studio	1-BR	2-BR
Maximum Monthly Housing Cost (b)	$1,627	$1,861	$2,093
Utility Allowance (c)	$43	$52	$71
Maximum Rent	$1,584	$1,809	$2,022

Moderate Income (90%)	Household Size		
	1	2	3
Maximum Annual Household Income	$90,135	$103,050	$115,920
Maximum Monthly Housing Cost (c)	$2,253	$2,576	$2,898
	Unit Type		
	Studio	1-BR	2-BR
Maximum Monthly Housing Cost (a)	$2,253	$2,576	$2,898
Utility Allowance (b)	$43	$52	$71
Maximum Rent	$2,210	$2,524	$2,827

Sources: Marin Housing Authority, 2020; U.S. Department of Housing and Urban Development, 2020; Strategic Economics, 2020.

Notes:

(a) 30 percent of maximum monthly household income.

(b) The maximum monthly cost for each unit type is associated with households that have one more person than bedroom. (Ex: Maximum costs for studios are associated with affordability for one-person households; One-bedroom costs are associated with 2-person households; Two-bedroom costs are associated with 3-person households).

(c) Utilities for rentals include an allowance for cooking (natural gas), heating (natural gas), water heating (natural gas), and "other electric" utility usage. Assumes water, sewer, and trash charges are included in the rent.

Figures 14 and 15 shows the calculations of affordable sales prices for for-sale housing. The calculations are based on the following assumptions:

- Based on the anticipated households that would occupy the 3- and 4-bedroom units in the two for-sale prototypes (prototypes 1 and 2), it is assumed that, on average, 6-person households would occupy 4-bedroom units, while an even mix of 4- and 5-person households would occupy 3-bedroom units.

- Based on the Marin Housing Authority's approach for calculating affordable sales prices, homeowners were assumed to pay no more than 33 percent of their gross monthly income on housing costs.
- The maximum affordable sales price is determined by the total monthly mortgage payment that a homeowner could afford, which incorporates standard assumptions related to the mortgage terms and other monthly housing costs associated with homeownership.
  - The mortgage is assumed to be 30-year fixed rate, with an interest rate of 3.8 percent, which is a typical rate at the time of research (December 2020). The owner is assumed to put down a 5 percent down payment, which is standard for conventional and CalFHA loans.
  - Other monthly housing costs include homeowners' association dues, property taxes, homeowners' insurance, interior property insurance, and premiums for private mortgage insurance required on home purchases with a down payment of less than 20 percent. Note there is no utility deduction, in accordance with MHA's approach.
- Other monthly housing costs overall are assumed to be slightly greater for condominium housing types than for single-family detached housing types, which is driven by different assumptions on monthly homeowner's association costs. The homeowner's association costs are expected to be higher on a per-unit basis for condominium units than for detached single-family units, which decreases the household budget available for a mortgage. (On the other hand, detached single-family homeowners are responsible for more costs that are not included in Figure 14.)

FIGURE 14. MAXIMUM AFFORDABLE SALES PRICES FOR SINGLE-FAMILY DETACHED SUBDIVISION (PROTOTYPE 1)

Household Size (Persons per HH)	4.5	6
Very Low Income (50% AMI)		
Annual Household Income at 50% AMI	$74,413	$83,000
Maximum Monthly Housing Cost (a)	$2,046	$2,283
Monthly Deductions (b)	$1,074	$1,218
HOA Dues (c)	$500	$600
Property Taxes and Insurance (d)	$574	$618
Monthly Income Available for Mortgage Payment (e)	$973	$1,064
Maximum Mortgage Amount (f)	$208,728	$228,378
Maximum Affordable Sales Price (g)	$219,714	$240,398
Low Income (70%)		
Annual Household Income at 70% AMI	$104,178	$116,200
Maximum Monthly Housing Cost (a)	$2,865	$3,196
Monthly Deductions (b)	$1,342	$1,518
HOA Dues (c)	$500	$600
Property Taxes and Insurance (d)	$842	$918
Monthly Income Available for Mortgage Payment (e)	$1,523	$1,678
Maximum Mortgage Amount (f)	$326,872	$360,209
Maximum Affordable Sales Price (g)	$344,076	$379,167
Moderate Income (110%)		
Annual Household Income at 110% AMI	$163,708	$182,600
Maximum Monthly Housing Cost (a)	$4,502	$5,022
Monthly Deductions (b)	$1,892	$2,131
HOA Dues (c)	$500	$600
Property Taxes and Insurance (d)	$1,392	$1,531
Monthly Income Available for Mortgage Payment (e)	$2,610	$2,891
Maximum Mortgage Amount (f)	$560,102	$620,390
Maximum Affordable Sales Price (g)	$589,581	$653,042

Source: Strategic Economics, 2021.

Notes:

(a) 33 percent of maximum monthly household income.

(b) Unlike for rentals, monthly deductions for for-sale units do not include utility costs.

(c) Homeowners Association dues are assuming to average $0.25 per square foot.

(d) Assumes annual effective property tax rate of 1.50% percent of sales price, after exemptions; annual private mortgage insurance premium rate of 0.85 percent of mortgage amount.

(e) Maximum monthly housing cost minus deductions.

(f) Assumes 3.8 percent interest rate and 30-year loan term. Interest rate is based on correspondence with Marin Housing Authority.

(g) Assumes 5 percent down payment (95 percent loan-to-value ratio).

FIGURE 15. MAXIMUM AFFORDABLE SALES PRICES FOR CONDOMINIUM TOWNHOME (PROTOTYPE 2)

Household Size (Persons per HH)	4.5	6
Very Low Income (50% AMI)		
Annual Household Income at 50% AMI	$74,413	$83,000
Maximum Monthly Housing Cost (a)	$2,046	$2,283
Monthly Deductions (b)		
HOA Dues (c)	$613	$665
Property Taxes and Insurance (d)	$537	$597
Monthly Income Available for Mortgage Payment (e)	$897	$1,020
Maximum Mortgage Amount (f)	$192,493	$218,997
Maximum Affordable Sales Price (g)	$202,624	$230,523
Low Income (70%)		
Annual Household Income at 70% AMI	$104,178	$116,200
Maximum Monthly Housing Cost (a)	$2,865	$3,196
Monthly Deductions (b)	$1,418	$1,561
HOA Dues (c)	$613	$665
Property Taxes and Insurance (d)	$805	$896
Monthly Income Available for Mortgage Payment (e)	$1,447	$1,635
Maximum Mortgage Amount (f)	$310,637	$350,829
Maximum Affordable Sales Price (g)	$326,986	$369,293
Moderate Income (110%)		
Annual Household Income at 110% AMI	$163,708	$182,600
Maximum Monthly Housing Cost (a)	$4,502	$5,022
Monthly Deductions (b)	$1,967	$2,175
HOA Dues (c)	$613	$665
Property Taxes and Insurance (d)	$1,355	$1,510
Monthly Income Available for Mortgage Payment (e)	$2,535	$2,847
Maximum Mortgage Amount (f)	$543,953	$611,059
Maximum Affordable Sales Price (g)	$572,582	$643,220

Source: Strategic Economics, 2020.

Notes:

(a) 33 percent of maximum monthly household income.

(b) Unlike for rentals, monthly deductions for for-sale units do not include utility costs.

(c) Homeowners Association dues are assuming to average $0.35 per square foot.

(d) Assumes annual effective property tax rate of 1.50% percent of sales price, after exemptions; annual private mortgage insurance premium rate of 0.85 percent of mortgage amount.

(e) Maximum monthly housing cost minus deductions.

(f) Assumes 3.8 percent interest rate and 30-year loan term. Interest rate is based on correspondence with Marin Housing Authority.

(g) Assumes 5 percent down payment (95 percent loan-to-value ratio).

MAXIMUM AFFORDABLE RENTS AND SALES PRICES

Figures 16 and 17 provide summaries for the maximum affordable rents and sales prices respectively for the various prototypes that were tested.

FIGURE 16. SUMMARY OF MAXIMUM AFFORDABLE RENTS

Income Level	Studio	1-BR	2-BR
Very Low-income (50%)	$1,209	$1,379	$1,539
Low-income (65%)	$1,584	$1,809	$2,022
Moderate Income (90%)	$2,210	$2,524	$2,827

Source: Strategic Economics, 2021.

FIGURE 17. SUMMARY OF MAXIMUM AFFORDABLE SALES PRICES

	Single-Family Subdivision		Condominium Townhome	
	3-BR	4-BR	3-BR	4-BR
Very Low Income (50% AMI)	$219,714	$240,398	$202,624	$230,523
Low Income (70%)	$344,076	$379,167	$326,986	$369,293
Moderate Income (110%)	$589,581	$653,042	$572,582	$643,220

Source: Strategic Economics, 2021.

ESTIMATING DEVELOPMENT COSTS

The second step in the affordability gap analysis is to estimate development costs for the three prototypes. Development costs include land costs, direct or “hard” construction costs, indirect or “soft” costs, as well as financing costs, a developer fee, and a contingency for overruns.

Because multi-unit residential projects are relatively rare in Marin, the Consultant Team collected available data on the few recent comparable development projects and land sales and supplemented the data with feedback from local developers (see Appendix A), other available studies of costs in the Bay Area, and past experience with pro forma studies.

The development cost assumptions are shown below in Figure 18, and a chart that summarizes the breakdown of overall development costs for the prototypes is shown in Figure 19.

The development costs for for-sale housing are based on interviews with developers and homebuilders experienced with single-family and townhome development projects in Marin. This analysis estimated that total development costs for the single-family subdivision were $355 per net residential square foot while the costs for the condominium townhome were $373 per net residential square foot.

Because there are limited examples of recent multifamily development in Marin, the Consultant Team relied on a variety of sources to identify the multifamily cost assumptions. They are partly based on a pro forma for a proposed Type V development in Marin, as well as an interview with a multifamily developer. The team also relied on cost data and recently completed feasibility studies for similar rental apartment developments in the Bay Area. The analysis estimated that the total development cost for Prototype 3 was $705 per net square foot.

The remainder of this section explains the costs assumptions in more detail.

FIGURE 18. SUMMARY OF DEVELOPMENT COST ASSUMPTIONS

	Single Family Subdivision	Condominium Townhome	Rental Apartments
Land Cost (a)			
Per Land Sq. Ft.	$56	$69	$86
Per Unit	$350,000	$200,000	$75,000
Hard Costs			
Site Costs per Land Sq. Ft. (b)	$15	$35	$35
Construction Costs per Sq. Ft. of Residential Area	$110	$150	$350
Parking Cost per Space (c)	n/a	n/a	$32,500
Other Costs (Displayed as % of Hard Cost)			
Soft Costs (d)	12%	12%	12%
Contingency	5%	5%	5%
Developer Overhead	4%	4%	4%
Financing Costs			
Amount Financed (% of Hard and Soft Costs)	65%	65%	70%
Construction Loan Fee	1.5%	1.5%	1.5%
Term (Months)	18	18	24
Construction Interest Rate	4.5%	4.5%	5.0%

Source: Developer Interviews, 2021; Project Pro Formas, 2021; Strategic Economics, 2021.
Notes:
(a) Entitled land
(b) Assumes relatively flat site

(c) Parking costs for for-sale prototypes are incorporated into the construction cost. Cost for rental prototype refers to one level of podium
(d) Includes architectural, engineering, and consulting fees, as well as taxes, legal, insurance, accounting, and other costs.

FIGURE 19. TOTAL DEVELOPMENT COSTS BY PROTOTYPE

Cost Category	Single Family Subdivision	Condominium Townhome	Rental Apartments
Total Project			
Land Cost	$4,900,000	$6,000,000	$7,500,000
Hard Costs	$4,694,800	$11,149,200	$38,222,811
Soft Costs	$1,344,396	$3,001,696	$10,660,521
Development Costs	**$10,939,196**	**$20,150,896**	**$56,383,332**
Per Unit			
Land Cost	$350,000	$200,000	$75,000
Hard Costs	$335,343	$371,640	$382,228
Soft Costs	$96,028	$100,057	$106,605
Development Costs	**$781,371**	**$671,697**	**$563,833**
Per Net Residential Sq. Ft.			
Land Cost	$159	$111	$94
Hard Cost	$152	$206	$478
Soft Costs	$44	$56	$133
Development Costs	**$355**	**$373**	**$705**

Source: Strategic Economics, 2021.

The following subsections provide further details on how the cost assumptions were identified.

Land Cost

Land costs typically vary widely, depending on factors such as location, zoning, and the amount of site work required to prepare the land for development. Because the price of land is so strongly tied to what can be built upon it, land costs are characterized in this study as the cost per dwelling unit of development. Recent comparable sales that informed land cost for the three prototypes are shown below in Figures 20-22.

- There is only one relevant recent sale for an entitled single-family subdivision. The site is in Mill Valley, which tends to have high land costs compared to the Marin average.
- A range of $180,000 per unit to approximately $300,000 per unit was identified for the condominium townhome prototype based on two recent sales, which reflect the high end (Mill Valley) and the low end (Novato) of the Marin County market.
- For the rental apartment prototype, two sales for sites entitled for multifamily development had land costs of $75,000 per unit, a number that was corroborated by a developer with experienced in multifamily development in Marin.

Based on these comparable examples and feedback from developers, the land cost assumptions were set at $350,000 per unit for Prototype 1, $200,000 per unit for Prototype 2, and $75,000 per unit for Prototype 3.

Figure 20. Recent Land Sale for Site Zoned for Single-Family Subdivision

Site Address	548 Miller Ave., Mill Valley
Description	Single-family subdivision (13 fee simple lots, three of which include ADUs)
Site Acres	1.58
Site Sq. Ft.	68,825
Units Per Acre	10
Sale Date	September 2019
Sale Price	$8,500,000
Price Per Unit	$531,250

Source: Costar, 2021; Strategic Economics, 2021.

FIGURE 21. RECENT LAND SALES FOR CONDOMINIUM TOWNHOMES

Site Address	500 Miller Ave., Mill Valley	7533-7537 Redwood Blvd., Novato
Description	Nine condominium townhomes with underground parking and corner retail space	50 condominium townhomes (Atherton Place)
Site Acres	1.2	3.7
Site Sq. Ft.	52,272	161,172
Units Per Acre	7.5	13.5
Sale Date	June 2017	July 2018
Sale Price	$2,900,000	$9,000,000
Price Per Unit	$322,222	$180,000

Source: Costar, 2021; Strategic Economics, 2021.

FIGURE 22. RECENT LAND SALES FOR MULTIFAMILY HOUSING

Site Address	703 Third St., San Rafael (a)	1203-1211 Lincoln Ave., San Rafael (b)
Description	Proposed apartment project with 61 units and underground, automated parking and incorporating density bonus	36 condominium flats Type V over I construction
Site Acres	0.63	0.74
Site Sq. Ft.	27,395	32,234
Units Per Acre	97	49
Sale Date	August 2014	March 2017
Sale Price	$4,650,000	$2,700,000
Price Per Unit	$76,230	$75,000

Source: Costar, 2021; Developer Pro Formas, 2021; Strategic Economics, 2021.

Notes:

(a) Reflects the site's "base case scenario" which is more comparable to Prototype 3

(b) Site is now associated with pipeline assisted living proposal but at time of sale, it had been planned for condominiums

HARD COSTS

Hard costs refer to both horizontal site costs and vertical construction costs, including the residential area construction and parking construction.

According to developers active in Marin County, construction costs for the county are higher than other locations in the Bay Area because it is less accessible to construction workers. Subcontractors often charge a premium that is equivalent to prevailing wage. The construction cost estimates for residential buildings incorporate these cost factors specific to Marin County.

The construction costs also include horizontal/site costs that include demolition, grading, utility connection installation, paving, and landscaping. For the purposes of this analysis, it is assumed that the hypothetical sites are relatively flat, with horizontal costs of $15 per land square foot for the single-family subdivision, and $35 per land square foot for the condominium townhomes and apartments.

The construction costs for the single-family subdivision and the condominium townhome, which are based on feedback from Marin developers and homebuilders, are $110 and $150 per gross residential square foot respectively. Note that the cost of garage parking is incorporated into the residential hard cost, while the cost of any surface parking is incorporated into the site cost for these prototypes.

For the rental prototype, the construction cost of the residential area is estimated to be $350 per gross residential square foot. Because there are very few examples of recent and under construction apartments over podium in Marin, the Consultant Team also reviewed pro formas for planned affordable and market-rate projects in San Rafael and other Bay Area cities to estimate costs.

Based on this broad review of costs, the Consultant Team estimated that residential construction costs for Prototype 3 were approximately $350 per gross residential square foot, which translates to per unit costs of $564,000. A review of financial data from affordable housing projects in the San Francisco Bay Area supported these cost estimates, which show that affordable housing per unit costs are in the range of $530,000 to $678,000.

SOFT COSTS

Soft costs refer to necessary costs of development that are not directly related to the physical construction of the building. They include architecture, engineering costs and other professional services fees, as well as other costs associated with doing business, such as insurance and taxes. Finally, soft costs include city permits and fees, and other miscellaneous costs. It is estimated that soft costs are 12 percent of hard costs for all three prototypes, a standard assumption that was confirmed by developer interviewees. The developer's contingency and overhead, also account for an additional five and four percent of hard costs, respectively.[6]

FINANCING COSTS

Financing assumptions are consistent for both for-sale prototypes because the two hypothetical projects would have similar loan terms and construction timelines. Based on input from developers that specialize in owner-occupied single-family and townhome developments, 65 percent of the project cost would be financed with debt, with a typical interest rate of approximately 4.5 percent. The development period for the for-sale prototypes is assumed to be 18 months.

The rental apartment prototype incorporates a slightly higher interest rate at 5 percent, to account for a higher level of risk, with a 24-month development period. The amount financed is also tends to be slightly higher at 70 percent of project cost, according to a multifamily developer.

All three prototypes incorporate a 1.5 percent construction loan fee, which is a standard industry assumption.

[6] Developer profit is not included in the consideration of costs.

AFFORDABILITY GAP

The final step is to calculate the housing affordability gap, which is the difference between what very low-, low-, and moderate-income households can afford to pay and the cost of developing those units. The gap helps determine the in-lieu fee amount that would be required to cover the cost associated with developing affordable housing units.

FOR-SALE HOUSING

Figures 23 and 24 shows the affordability gap calculation for the for-sale housing prototypes. For each unit type, the gap is calculated as the difference between the per-unit cost of development and the affordable sales price for each income level. The average housing affordability gap is weighted based on the unit mix in the prototypes.

FIGURE 23. AFFORDABILITY GAP FOR SINGLE-FAMILY SUBDIVISION

Income Level and Unit Type	Unit Size (Sq. Ft.)	Affordable Sales Price (a)	Development Costs (b)	Affordability Gap (c)
Very Low Income (50%)				
3 Bedroom	2,000	$219,714	$710,337	$490,623
4 Bedroom	2,400	$240,398	$852,405	$612,007
Weighted Average		**$230,056**	**$781,371**	**$551,315**
Low Income (70%)				
3 Bedroom	2,000	$344,076	$710,337	$366,261
4 Bedroom	2,400	$379,167	$852,405	$473,237
Weighted Average		**$361,622**	**$781,371**	**$419,749**
Moderate Income (110%)				
3 Bedroom	2,000	$589,581	$710,337	$120,757
4 Bedroom	2,400	$653,042	$852,405	$199,363
Weighted Average		**$621,311**	**$781,371**	**$160,060**

Source: Strategic Economics, 2021.
Notes:
(a) See calculation in Figure 14, above.
(b) Assumes $349 per SF for development costs
(c) Calculated as the difference between affordable sales price and development cost
(d) Includes 50% three-bedrooms and 50% four-bedrooms.

FIGURE 24. AFFORDABILITY GAP FOR CONDOMINIUM TOWNHOME

Income Level and Unit Type	Unit Size (Sq. Ft.)	Affordable Sales Price (a)	Development Costs (b)	Affordability Gap (c)
Very Low Income (50%)				
3 Bedroom	1,750	$202,624	$653,038	$450,414
4 Bedroom	1,900	$230,523	$709,013	$478,490
Weighted Average		**$211,924**	**$671,697**	**$459,773**
Low Income (70%)				
3 Bedroom	1,750	$326,986	$653,038	$326,052
4 Bedroom	1,900	$369,293	$709,013	$339,720
Weighted Average		**$341,089**	**$671,697**	**$330,608**
Moderate Income (110%)				
3 Bedroom	1,750	$572,582	$653,038	$80,456
4 Bedroom	1,900	$643,220	$709,013	$65,793
Weighted Average		**$596,128**	**$671,697**	**$75,568**

Source: Strategic Economics, 2021.

Notes

(a) See calculation in Figure 15, above.

(b) Assumes $393 per square foot for development costs

(c) Calculated as the difference between affordable sales price and development cost
(d)Includes two-thirds three-bedrooms and one-third four-bedrooms.

RENTAL HOUSING

Figure 25 shows the affordability gap calculation for the rental prototype. For each rental unit type and income level, the gap is defined as the difference between the per-unit cost of development and the supportable debt per unit. The supportable debt is calculated based on the net operating income generated from the monthly rent from the affordable unit and incorporates assumptions about operating expenses (including property taxes, insurance, maintenance, etc.), reserves, and vacancy. It also incorporates financing assumptions related to the permanent loan on the property. Assumptions on operating costs are informed by data on Victory Village, which is a recent affordable housing development built in Marin. The average housing affordability gap is also weighted based on the unit mix of the prototype.

FIGURE 25. HOUSING AFFORDABILITY GAP FOR RENTAL APARTMENTS

Income Level and Unit Type	Unit Size (Sq. Ft.)	Maximum Monthly Rent (a)	Annual Income	Net Operating Income (b)	Available for Debt Service (c)	Supportable Debt (d)	Development Costs (e)	Affordability Gap (f)
Very Low-income (50%)								
Studio	650	$1,209	$14,507	$2,781	$2,418	$39,393	$458,250	$418,857
1 Bedroom	750	$1,379	$16,551	$4,723	$4,107	$66,904	$528,750	$461,846
2 Bedroom	900	$1,539	$18,468	$6,545	$5,691	$92,699	$634,500	$541,801
Weighted Average (g)						**$74,471**	**$564,000**	**$489,529**
Low-income (65%)								
Studio	650	$1,584	$19,013	$7,063	$6,141	$100,036	$458,250	$358,214
1 Bedroom	750	$1,809	$21,704	$9,618	$8,364	$136,236	$528,750	$392,514
2 Bedroom	900	$2,022	$24,264	$12,051	$10,479	$170,691	$634,500	$463,809
Weighted Average (g)						**$146,398**	**$564,000**	**$417,602**
Moderate Income (90%)								
Studio	650	$2,210	$26,525	$14,198	$12,346	$153,206	$458,250	$305,044
1 Bedroom	750	$2,524	$30,291	$17,776	$15,458	$191,816	$528,750	$336,934
2 Bedroom	900	$2,827	$33,924	$21,228	$18,459	$229,058	$634,500	$405,442
Weighted Average (g)						**$202,852**	**$564,000**	**$361,148**

Notes:

(a) Affordable rent levels based on 2020 income limits
(b) Amount available for debt. Assumes 5% vacancy and collection loss and $11,000 per unit for operating expenses and reserves, based on operating pro formas for recent affordable projects in Marin County.

(c) Assumes 1.15 Debt Coverage Ratio.

(d) Assumes 4.5% permanent financing interest rate and 30 year loan.

(e) Assumes development cost of $705 per net square foot on rental units.
(f) Calculated as the difference between development costs and supportable debt.
(g) Incorporates 10% studios, 50% one-bedrooms, and 40% two-bedrooms.

SUMMARY OF MAXIMUM IN-LIEU FEE BY HOUSING TYPE

A summary of the affordability gaps by tenure and income level is displayed in Figure 26. The affordability gap is the basis for setting the maximum in-lieu fee. As shown, the maximum in-lieu fee per required affordable unit (rounded) is approximately $377,000 for single-family subdivisions, $289,000 for condominium townhomes, and $423,000 for rental apartments.

The maximum in-lieu fee is highest for rental apartments because the average targeted income is lower (68 percent of AMI, compared to 78 percent AMI for for-sale housing), resulting in a wider affordability gap.

The calculated in-lieu fee is lower for condominium townhomes than single-family subdivisions because the construction cost for townhomes is slightly lower, while the targeted income groups remain the same.

It is important to note that the County of Marin can choose to adopt lower fees than the maximum calculated in-lieu fees shown in Figure 26.

FIGURE 26. SUMMARY OF MAXIMUM IN-LIEU FEES

Income Level	For-sale Gap: Single-Family Subdivision	For-sale Gap: Condominium Townhome	Rental Gap
Very Low-income (50% AMI)	$551,315	$459,773	$489,529
Low-income (65% AMI Rental/ 70% Owner)	$419,749	$330,608	$417,602
Moderate Income (90% AMI Rental)/ 110% AMI Owner)	$160,060	$75,568	$361,148
Average Affordability Gap/ Maximum In-Lieu Fee	**$377,042**	**$ 288,650**	**$422,760**

Source: Strategic Economics, 2021.

IV. Policy Considerations and Recommendations

This section summarizes key policy issues for the County of Marin to consider when updating its inclusionary housing ordinance and in-lieu fee. The following questions are addressed:

- How do the calculated in-lieu fees compare with the County's existing fees?
- How do the calculated fees compare with in-lieu fees in other jurisdictions?
- How much do the calculated in-lieu fees raise development costs in Marin County and impact financial feasibility?
- How do the calculated fees compare with existing municipal fees, such as building permit and other impact fees?

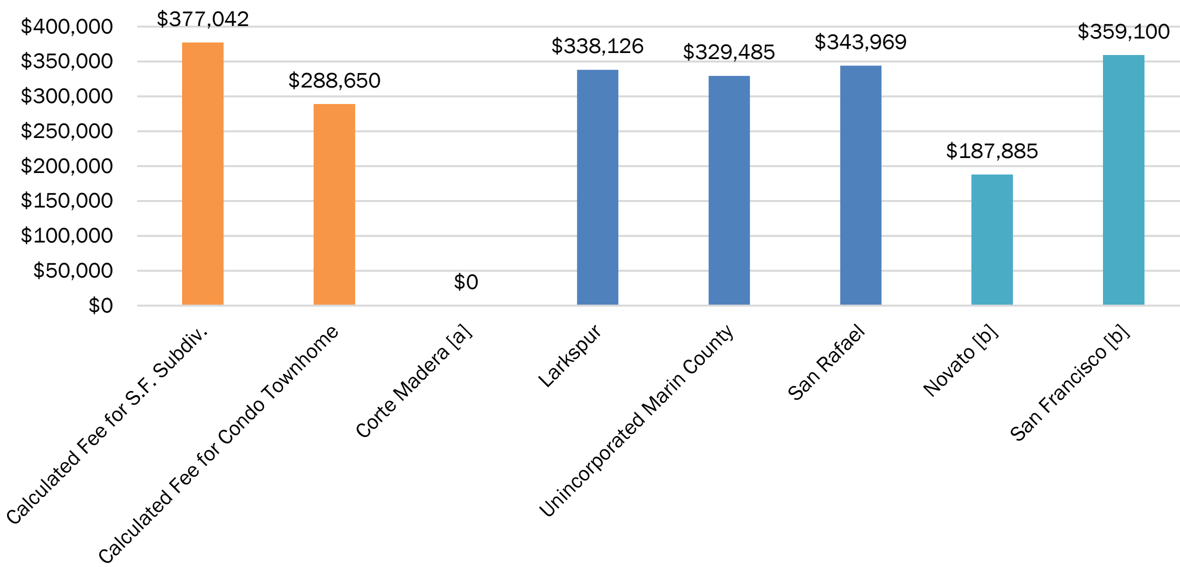
Each of these questions is addressed in the sections below, followed by a set of recommendations.

COMPARISON OF IN-LIEU FEES IN MARIN COUNTY AND NEIGHBORING JURISDICTIONS

The newly calculated in-lieu fees from the previous section are shown along with the existing in-lieu fees for for-sale housing for the participating jurisdictions and other nearby jurisdictions for comparison in Figure 27. As shown, the newly calculated maximum in-lieu fee for single-family subdivisions is higher than the existing fee in all the other jurisdictions. However, the calculated fee for for-sale townhomes is lower than the County's existing fee but higher than the current in-lieu fee for for-sale housing in Novato.

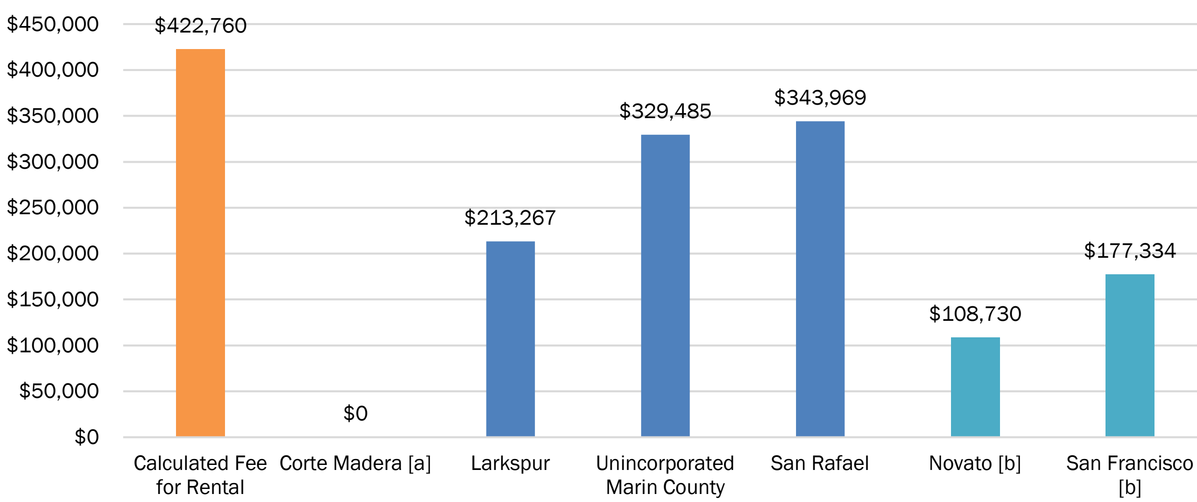
The same information is shown for rental housing in Figure 28. As shown, the calculated maximum in-lieu fee for rental projects is higher than the existing fees in Marin County and all the neighboring cities. Larkspur, Novato, and San Francisco charge lower in-lieu fees for rental projects, even though the affordability gap may be higher than for-sale housing.

FIGURE 27: COMPARISON OF CALCULATED IN-LIEU FEES WITH EXISTING IN-LIEU FEES, FOR-SALE DEVELOPMENTS



[a] Corte Madera has an in-lieu fee that is calculated based on construction costs and area median incomes. Because the assumptions in the calculation have not been updated for several years, the fee currently evaluates to zero.
[b] In-lieu fees for San Francisco and Novato vary by the number of units in the project. Both fee amounts assume the 30-unit condo townhome prototype.
Sources: Available documents from jurisdictions, 2020; Strategic Economics, 2021.

FIGURE 28: COMPARISON OF CALCULATED IN-LIEU FEES WITH EXISTING IN-LIEU FEES, RENTAL DEVELOPMENTS



[a] Corte Madera has an in-lieu fee that is calculated based on construction costs and area median incomes. Because the assumptions in the calculation have not been updated for several years, the fee currently evaluates to zero.
[b] In-lieu fees for San Francisco and Novato vary by the number of units in the project. Both fee amounts assume the 100-unit rental apartment prototype.
Sources: Available documents from jurisdictions, 2020; Strategic Economics, 2021.in-Lieu Fee in Relation to Development costs

Using the development cost estimates from the previous section, the Consultant Team calculated the increase in costs that would be experienced when charging the fee in-lieu of an onsite requirement at a level of 10 percent, 15 percent, 20 percent, and 25 percent. As shown in Figure 29, the cost of the fee for would range from five to 12 percent for the single-family subdivision prototype, four to 11 percent for the condo townhome prototype, and seven to 19 percent for the apartment prototype.

FIGURE 29: IMPACT OF IN-LIEU FEE ON TOTAL DEVELOPMENT COSTS BY PROTOTYPE

	Single Family Subdivision	Condo Townhome	Rental Apartment
Total Development Costs per Unit	$781,371	$671,697	$563,833
In lieu Fees per Affordable Unit	$289,905	$203,088	$422,760
Increase in Total Development Costs			
@ 10% Onsite Requirement	5%	4%	7%
@ 15% Onsite Requirement	7%	6%	11%
@ 20% Onsite Requirement	10%	9%	15%
@ 25% Onsite Requirement	12%	11%	19%

Source: Strategic Economics, 2021.

The calculated in-lieu fee for the apartment prototype has the largest impact on development costs, due to the much higher affordability gap for apartments. Although rental apartments are the least expensive of the three prototypes to build per unit, the smaller households expected to occupy these units, which translates to lower tenant incomes, and the high operating costs of apartments mean that the affordability gap for rentals is higher in this case. This analysis suggests that for-sale developments will be able to accommodate a substantially higher percentage onsite requirement than will rental projects.

BURDEN OF IN-LIEU COMBINED WITH OTHER MUNICIPAL FEES

The Consultant Team reviewed the total burden of the calculated in-lieu fees in the context of other municipal fees charged by the cities, including fees such as building permits as well as any impact fees each jurisdiction might have in place.[7] A table of these costs for each jurisdiction is given in Figure 30 below, including the total fees that would be paid on each prototype in-lieu of hypothetical inclusionary requirements ranging from ten to 25 percent.

Because each jurisdiction has its own schedule of fees for new development, the cost of development in each community varies. For example, municipal fees for the prototypes in Fairfax are currently estimated at between one and two percent of development costs. Enacting maximum in-lieu fees with a 15 percent inclusionary requirement would raise municipal fees to between seven and 13 percent. The Town of Fairfax will need to take into account the impact to total development costs when setting an in-lieu fee and/or inclusionary percentage.

[7] Connection fees charged by a local sanitary sewer and water district were also estimated; they would be expected to represent an additional three to four percent of development costs above what is shown in the Figure 30.

FIGURE 30: IN-LIEU FEES AND OTHER MUNICIPAL FEES* BY JURISDICTION

Current level of onsite requirement for each jurisdiction in bold.

	Per Unit			As % of Development Costs		
	S.F. Subdiv.	Condo	Apt.	S.F. Subdiv.	Condo	Apt.
Corte Madera						
Municipal Fees	$35,776	$27,116	$23,339	5%	4%	4%
Tot. Fees @10% Rqmt.	$64,767	$47,424	$65,615	8%	7%	12%
Tot. Fees @15% Rqmt.	$79,262	$57,579	$86,753	10%	9%	15%
Tot. Fees @20% Rqmt.	$93,757	$67,733	$107,891	12%	10%	19%
Tot. Fees @25% Rqmt.	**$108,253**	**$77,888**	**$129,029**	**14%**	**12%**	**23%**
Fairfax						
Municipal Fees	$13,231	$11,258	$8,104	2%	2%	1%
Tot. Fees @10% Rqmt.	$42,221	$31,567	$50,380	5%	5%	9%
Tot. Fees @15% Rqmt.	$56,717	$41,722	$71,518	7%	6%	13%
Tot. Fees @20% Rqmt.	$71,212	$51,876	$92,656	9%	8%	16%
Tot. Fees @25% Rqmt.	$85,707	$62,030	$113,794	11%	9%	20%
Larkspur						
Municipal Fees	$39,839	$25,951	$19,449	5%	4%	3%
Tot. Fees @10% Rqmt.	$68,830	$46,260	$61,725	9%	7%	11%
Tot. Fees @15% Rqmt.	**$83,325**	**$56,414**	**$82,863**	**11%**	**8%**	**15%**
Tot. Fees @20% Rqmt.	**$97,820**	**$66,569**	**$104,001**	**13%**	**10%**	**18%**
Tot. Fees @25% Rqmt.	$112,316	$76,723	$125,139	14%	11%	22%
Unincorporated Marin County						
County Fees	$25,397	$23,656	$5,470	3%	4%	1%
Tot. Fees @10% Rqmt.	$63,101	$52,521	$47,746	8%	8%	8%
Tot. Fees @15% Rqmt.	$81,953	$66,954	$68,884	10%	10%	12%
Tot. Fees @20% Rqmt.	**$100,806**	**$81,386**	**$90,022**	**15%**	**12%**	**18%**
Tot. Fees @25% Rqmt.	$119,658	$95,819	$111,160	17%	15%	22%
San Anselmo						
Municipal Fees	$12,821	$13,837	$14,034	2%	2%	2%
Tot. Fees @10% Rqmt.	$41,811	$34,146	$56,310	5%	5%	10%
Tot. Fees @15% Rqmt.	$56,306	$44,300	$77,448	7%	7%	14%
Tot. Fees @20% Rqmt.	$70,802	$54,455	$98,586	9%	8%	17%
Tot. Fees @25% Rqmt.	$85,297	$64,609	$119,724	11%	10%	21%
San Rafael						
Municipal Fees	$27,044	$23,545	$15,113	3%	4%	3%
Tot. Fees @10% Rqmt.	**$56,034**	**$43,854**	**$57,389**	**7%**	**7%**	**10%**
Tot. Fees @15% Rqmt.	**$70,530**	**$54,009**	**$78,527**	**9%**	**8%**	**14%**
Tot. Fees @20% Rqmt.	$85,025	$64,163	$99,665	11%	10%	18%
Tot. Fees @25% Rqmt.	$99,520	$74,317	$120,803	13%	11%	21%

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Sausalito						
Municipal Fees	$7,448	$7,694	$9,987	1%	1%	2%
Tot. Fees @10% Rqmt.	$36,438	$28,003	$52,263	5%	4%	9%
Tot. Fees @15% Rqmt.	**$50,934**	**$38,157**	**$73,401**	**7%**	**6%**	**13%**
Tot. Fees @20% Rqmt.	**$65,429**	**$48,311**	**$94,539**	**8%**	**7%**	**17%**
Tot. Fees @25% Rqmt.	$79,924	$58,466	$115,677	10%	9%	21%

* Municipal fees include all applicable permits and impact fees charged by the jurisdiction. Water and sanitary sewer connection fees are not included. Based on estimates from Marin Municipal Water District and Ross Valley Sanitary District, water and sewer fees represent and additional four percent to development costs of the single family subdivision and three percent to condo townhomes and apartments.

Source: Strategic Economics, 2021.

CONVERSION TO PER SQUARE FOOT FEE

Jurisdictions can opt to implement the in-lieu fee as a per square foot fee, rather than a per unit fee, in order to incentivize development projects with smaller units. This may be useful for jurisdictions that primarily see developments with large, luxury units. The per square foot fees are calculated by dividing the per-unit in lieu fee by the weighted average unit square feet for each prototype. This calculation is shown below in Figure 31.

FIGURE 31. EQUIVALENT IN LIEU FEES PER UNIT SQUARE FOOT FOR PROTOTYPES

	Multifamily Rental	Condominium Townhome	Single Family Subdivision
Weighted Average Unit Sq. Ft.	800	1800	2,200
Affordability Gap per Unit			
Very Low Income (50% AMI Rental and Owner)	$489,529	$459,773	$551,315
Low Income (65% AMI Rental/ 70% AMI Owner)	$417,602	$330,608	$419,749
Moderate Income (90% AMI Rental)/ 110% AMI Owner)	$361,148	$75,568	$160,060
Affordability Gap per Sq. Ft.			
Very Low Income (50% AMI)	$612	$255	$251
Low Income (65% AMI Rental/ 70% AMI Owner)	$522	$184	$191
Moderate Income (90% AMI Rental)/ 110% AMI Owner)	$451	$42	$73

Source: Strategic Economics, 2021.

COMPARISON OF INCLUSIONARY REQUIREMENTS IN SELECTED BAY AREA CITIES

Figure 32 summarizes the inclusionary requirements for selected Bay Area cities outside of Marin County for the purposes of comparison. As shown, the cities all have inclusionary requirements on for-sale development projects ranging from a minimum of 5 percent in Oakland to 22 percent in San Francisco. The income targets for for-sale housing are typically low-income and moderate-income households.

For rental housing, the percentage requirement ranges from 5 percent in Oakland to 20 percent in San Francisco. Most of the jurisdictions require some proportion of very low-income units, along with low-income and moderate-income units.

San Francisco, San Jose, and Cupertino have lower requirements for small projects.

FIGURE 32. INCLUSIONARY POLICIES FOR SELECT BAY AREA JURISDICTIONS

Jurisdiction	For-Sale Housing	Rental Housing	Fee Option	Year Adopted/Updated
Berkeley	20% affordable at or below 80% AMI.	20% must be affordable (10% at 80% AMI and 10% at 50% AMI).	For sale: In-lieu fee option (62.5% of difference between affordable and market price). Rental: Affordable housing impact fee $39,716 per market-rate unit.	2020
Oakland	5% at 50% AMI or 10% at 80% AMI or 10% at 120% AMI.	5% at 50% AMI or 10% at 80% AMI or 10% at 120% AMI.	Fee permitted.	2016
San Francisco	Projects with 25+ units: 22% must be affordable to 80%-110% AMI. Projects with 10-24 units: 13% must be affordable.	Projects with 25+ units: 20% must be affordable to 55%-110% AMI. Projects with 10-24 units: 13% must be affordable to 55% AMI.	Fee permitted but with a higher percentage requirement than building on-site. Smaller projects pay a lower fee.	2017
San Jose	Projects with 20+ units must meet 15% affordable set-aside at or below 120% AMI. Smaller projects have lower percentage requirements.	5% at 100% AMI, 5% at 60% AMI, and 5% at 50% AMI, or 10% at 30% AMI. Smaller projects have lower percentage requirements.	Fee permitted.	2021
Santa Cruz	20% must be affordable to households at or 80% - 100% AMI.	20% must be affordable to households at or below 80% AMI.	On-site units encouraged.	2019
Palo Alto	15% must be affordable to households at 120% AMI or below.	No on-site requirement for rental.	For sale: Fee permitted but developer must demonstrate infeasibility of on-site units. Rental: Affordable housing impact fee charged.	2012
Cupertino	15% must be affordable to 120% or 100% AMI.	15% must be affordable to 120% or 80% AMI.	Projects with 1-6 units may provide a unit or pay a fee. For projects with 7 or more units, requires City Council approval.	2012

Source: Urban Displacement Project, 2021; City of Berkeley, 2021; Strategic Economics, 2021.

Recommendations

A number of considerations inform the decision to update the inclusionary requirements and the in-lieu fees, including market and feasibility factors, comparative policies in other jurisdictions, and the pros and cons of alternative means of compliance. Below is a summary of recommendations tailored for the Town of Fairfax:

Establish inclusionary percentage requirement of 20 percent for for-sale and rental development projects. The Consultant Team recommends that the Town of Fairfax establish an inclusionary requirement of 20 percent for for-sale and rental development projects, including single-family subdivisions, townhomes, and rental apartments. This percentage requirement is consistent with many other jurisdictions in the Bay Area. Once the policy has been in effect and the market has responded, the Town may wish to review the policy to determine whether a higher inclusionary requirement can be supported.

Establish income targets that are consistent with other Marin County jurisdictions. The Consultant Team recommends that the inclusionary policy include a mix of very low-, low- and moderate-income households for both for-sale and rental projects.

Establish flexible requirements for housing projects containing six or fewer units. According to the site analysis conducted by Opticos for the Objective Development Design Standards project, a large share of potential housing sites countywide are infill lots that could only accommodate small projects. These types of projects are more challenging to build than larger projects. To ensure they are financially feasible, the Consultant Team recommends that the Town of Fairfax establish more flexible requirements for these types of projects, which could include:

- Allowing for a higher average income target, with a higher proportion of moderate-income units.
- Providing more flexibility on providing a combination of on-site units and payment of in-lieu fees.
- Allowing for the provision of an accessory dwelling unit (ADU), with provisions to ensure that it is made available to renter households.

For ownership housing, designate a separate fee for single-family versus townhome condominium developments, and set the fee amount at the maximum level for each. This study establishes a maximum in-lieu fee of $377,042 for single-family subdivisions and a fee of $288,650 for condominium townhomes. Establishing a lower fee on townhome condominiums relative to single-family subdivisions recognizes that higher density ownership housing can be relatively more challenging to build.

For rental housing, establish an in-lieu fee amount below the maximum level to avoid inhibiting development. The maximum calculated fees of $422,760 are considerably higher than the fees in Marin County's jurisdictions. A high fee would be a significant cost burden on rental projects, which do not command the same values as for-sale housing in Fairfax. For this reason, the Consultant Team recommends that Fairfax consider implementing a lower fee than the maximum calculated in-lieu fee on rental development.

Allow for payment of fees and land dedication as alternative means of compliance. Many jurisdictions allow for developers to comply with the inclusionary policy by dedicating land for off-site units or acquiring and converting existing housing units to deed-restricted housing. However, conversion can result in the provision of units that are not comparable in quality or location to the market-rate development projects. Furthermore, it does not add to the overall supply of housing and burdens the jurisdiction with the cost of monitoring and compliance. The Consultant Team recommends that the Town of Fairfax develop a policy that prioritizes on-site units, allowing for the payment of in-lieu fees or land dedication as the preferred alternatives. It is recommended that the off-site conversion option is permitted only if the converted units are of a similar quality and located within close proximity to the principal project.

Require for-sale development projects with on-site units to submit a plan for the ongoing maintenance of below-market rate units. According to Marin Housing, some for-sale condominium and townhome projects have not been able to adequately fund the maintenance and repair of below-market rate units. The Consultant Team recommends that the Town of Fairfax require developers to provide a realistic plan for collecting sufficient reserves for the repair and maintenance of below-market rate units without compromising the affordability of those units.

Explore options for a countywide administration program for inclusionary units. Establishing and administering an inclusionary program requires staff to manage negotiations with developers to provide affordable units (on-site or off-site) in accordance with local requirements, monitor the resales/leasing of below-market rate units to qualified households, and ongoing administration. Because there is often limited staffing capacity in-house, the Consultant Team recommends that the participating jurisdictions investigate the potential to partner with a non-profit to provide these services. Some cities charge property owners a small administrative fee to help offset the costs of monitoring and compliance.

Appendix A

The Consultant Team spoke with a range of stakeholders for this report, including market-rate housing developers, affordable housing developers, affordable housing advocates, Marin housing authority staff, and local community land trusts. Stakeholders that participated in either one-on-one interviews with the Consultant Team, or in developer forums, both of which helped inform this report, are listed below in Figure 33.

FIGURE 33. LIST OF STAKEHOLDERS INTERVIEWED FOR STUDY

Name	Organization/ Affiliation
Judith Bloomberg	Marin Organizing Committee
Arianne Dar	Bolinas Community Land Trust
Todd David	Housing Action Committee
Justin Derby	Meritage Homes
Bruce Dorfman	Thompson Dorfman
Aaron Eckhouse	California YIMBY
Michael Hooper	Campus Property Group
Larry Kennings	Marin Environmental Housing Collaborative
Stacey Laumann	Community Land Trust of West Marin
Marianne Lim	EAH Housing
Stephanie Lovette	Marin Housing Authority
Linda Mandolini	Eden Housing
Tom Monahan	Monahan Parker Development
Wick Polite	Seagate Properties
Kiki La Porta	Coalition for a Livable Marin
Phil Richardson	Individual developer
Suzanne Sadowsky	San Geronimo Valley Affordable Housing Association
Carmen Soruco	Marin Housing Authority
Mary Kay Sweeney	Homeward Bound
Joanne Webster	Housing Crisis Action Group, San Rafael Chamber of Commerce

Source: Strategic Economics, 2021.