Meeting the Housing Needs of the City of San Rafael:

An analysis of barriers to housing production related to the City of San Rafael's Affordable Housing Ordinance and entitlement processes

For the City of San Rafael, Community Development Department

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Dedication

Dedicated to Manel and Mia, who love and support me every day,

and to Anette, my North Star.

Disclaimer

This study has been prepared for the City of San Rafael's Community Development Department. The student author conducted this study in partial fulfillment of the requirements for the degree of Master of Public Policy at Mills College and in compliance with the requirements of the Committee for the Protection of Human Subjects. The judgments and conclusions are solely those of the author, and are not necessarily endorsed by the Mills College Public Policy Program, the sponsoring Client organization, or any other organization or agency.

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Terms and Acronyms

Affordable Housing – Affordable housing refers to housing that costs no more than 30% of a household's income (U.S. Department of Housing and Urban Development, 2019). In the U.S., subsidized affordable housing is primarily provided through housing vouchers such as Section 8, public housing, non-profit built and managed housing, and inclusionary housing (Wang, 2018). Naturally Occurring Affordable Housing (NOAH) is a term used for residential rental properties that are affordable to lower-income households without subsidy. It is the most common form of affordable housing in the United States National Low Income Housing Coalition, 2016).

AMI/Area Median Income – The midpoint of a geographic region's income distribution – half of households in a region earn more than the median and half earn less. AMI's are calculated yearly for each metropolitan area and non-metropolitan county by the U.S. Department of Housing and Urban Development (HUD) using American Community Survey data. The statistics are adjusted for household size and used to determine the eligibility of applicants for many federal and non-federal housing programs (U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 2019).

BMR/Below Market Rate Unit – A unit priced to be affordable to households that are moderate income or below (City of Emeryville, 2019). Affordability restrictions are usually recorded with the deed to the unit and last at least 30 years (Grounded Solutions Network, 2019a). However, restrictions lasting 55 years are common (Local Government Commission, 2018). Tenants or buyers must prove their income to qualify for a BMR.

By-right approval process – An approval process in which projects are approved after complying with specific standards, without discretionary review by a body such as a Planning Commission or City Council. Standards vary by locality (Parolek, 2017).

Entitlement Process– The approval process to obtain a building permit (O'Neill, Gualco-Nelson, & Biber, 2018).

HUD/U.S. Department of Housing and Urban Development – A federal, cabinet-level department which administers housing and community development assistance programs. The Department also works to ensure fair and equal housing opportunities (USAGov, 2019).

Inclusionary Housing – A type of policy that requires housing developers to contribute to the construction of affordable housing. Options often include building affordable units within in a market-rate project, building affordable units apart from a market-rate project, paying an -in lieu fee, or land donation (Jacobus, 2015).

Income-Restricted Housing Unit – Identical to a BMR, see above.

In-lieu Fee – A payment from a developer to a jurisdiction to satisfy an affordable housing requirement; an alternative to building affordable housing units. In-lieu fees are generally used to build affordable housing (Jacobus, 2015).

Proforma – a projected budget, including estimated revenues, costs and profits (Lemmon, 2013).

Prototype/housing development prototype – A model/design of a hypothetical housing development.

RHNA/Regional Housing Need Allocation – A state-mandated process in California that requires each jurisdiction to plan to accommodate specific numbers of new housing units varying by affordability level (Association of Bay Area Governments, 2019).

Executive Summary

This analysis identifies barriers to housing production related to the City of San Rafael's Affordable Housing Ordinance. It was commissioned by the City of San Rafael's Community Development Department. During research, several barriers to housing production were identified that related to the City's entitlement process for residential development. These are also included in the report.

The Housing Crisis

San Rafael, like the rest of the Bay Area, is in the midst of an acute housing crisis, with the City's median home value at $1.05 million. Over the past ten years, this median value rose by 53%, up from $677,000. Most renters in the City (56%) are excessively cost burdened by housing, defined as paying over 30% of gross income on housing costs. As in other Bay Area cities, increasing property values in San Rafael are pushing out low-income residents.

San Rafael's housing shortage occurs within the in the context of Marin County where, over the course of several decades, community members have successfully organized to curtail development and protect 84% of the land as open space and parks. Community resistance to new housing, especially affordable housing, is similarly well-organized and effective. For example, a May 2016 neighborhood meeting regarding a proposed 182-unit San Rafael development was attended by approximately 200 people in near unanimous opposition.

San Rafael's Affordable Housing Ordinance

First passed in 1986 and last updated in 2005, San Rafael's Affordable Housing Ordinance requires developers to dedicate a percentage of units in new housing projects as affordable to lower-income households. The requirement ranges from 10% to 20%, depending on the size of the housing development. With the loss of state redevelopment funding, and reductions in federal housing support, the Affordable

Housing Requirement is the City of San Rafael's primary tool to support affordable housing development.

This type of policy, known as inclusionary housing, has the potential to unintentionally limit housing development and raise housing prices if requirements are set too high. San Rafael's maximum inclusionary level is slightly higher than the most typical level in California, 15%. This analysis tests whether the policy is functioning to increase affordable housing production or whether it is restricting housing supply. Even when properly set, inclusionary levels need updating as housing market conditions change. It is possible that San Rafael's inclusionary requirement functioned well previously, but now has a restrictive effect when combined with factors such as record-high Bay Area construction costs and a softening housing market.

Benefits and Limitations of Inclusionary Housing

No Need for Government Subsidies

Local governments and taxpayers do not have to provide subsidies for inclusionary housing production. In contrast, housing developments which are 100% affordable need local, state, and federal funds to be built.

Economic Integration

The policies help ensure that affordable housing is built throughout a jurisdiction's geography, wherever market-rate housing is built. This reduces the concentration of poverty and racial segregation that frequently occurs when entire housing developments are occupied by low-income residents.

Limitations of Inclusionary Housing Ordinances

Do Not Produce All Affordable Housing Units Needed

Inclusionary housing units cannot fulfill *all* the affordable housing needs in a jurisdiction. Inclusionary housing should be understood as one valuable part of a larger affordable housing production strategy. An affordable housing strategy should also include subsidies for 100% affordable developments, which can produce higher

quantities of affordable units and serve residents at the lowest income levels more easily.

Have Potential to Restrict Housing Production When Not Designed Well

Poorly constructed inclusionary housing policies have the potential to restrict overall housing production by reducing the ability of a development to earn profit. Lower production can ultimately result in an increase in housing prices. High quality research on these effects is limited. However, the available mixed-quality research shows that, in some cases, inclusionary housing policies have resulted in small reductions in housing supply and small increases in housing prices.

Economic Feasibility Analysis

Methodology

To test the economic feasibility of San Rafael's current affordable housing requirement, five prototypes of hypothetical multifamily housing projects were created. Proformas (development budgets) were then generated for each prototype using current market rents, home sales prices and development cost data. The City of San Rafael's current 20% affordable housing requirement for developments with more than twenty units was applied to each prototype, which reduced the potential revenues and profits of the properties. Estimated profits for the prototypes were then compared with a required profitability threshold to determine if they were economically feasible. Prototypes that were not economically feasible under a 20% affordability requirement were then tested using a 19% level, then 18% etc., until estimated profits surpassed the profitability threshold and a feasible level was identified.

Economic Feasibility Analysis Conclusions

Proforma testing for three large apartment prototypes show that the City's highest inclusionary requirement of 20% is *not* a likely barrier to the construction of large *rental* projects. Developers of these projects can recoup revenues lost to affordable units through the addition of market-rate state density bonus units. When density bonus units were used in the model, the apartment protypes were economically

feasible. However, testing results showed that the 20% affordability requirement *is* a likely barrier to the construction of large multifamily *ownership* developments, because those projects will not typically use a state density bonus. Homebuyers in San Rafael are less likely to purchase units in densely built developments. Without a density bonus, revenues lost to affordable units will reduce the profits of large ownership developments to the point of economic infeasibility.

Interviews

Nine developers and one former City of San Rafael employee were interviewed anonymously regarding their experiences with San Rafael's Affordable Housing Ordinance. Of the developers interviewed, five worked at for-profit firms and four at nonprofit organizations. Recommendations provided by interviewees were scored based on six criteria related to increasing affordable housing production, economic and political feasibility, standard practices in the field of inclusionary housing, frequency of mention, and being suggested by interviewees from different types of organizations.

Key Findings from Interviews

1. Most for-profit developers believe the current inclusionary requirement is too high; nonprofit developers do not see it as a barrier.
2. Density bonuses are most useful for apartment developers, less useful for developers of ownership units.
3. Both for-profit and nonprofit developers desire an easier in-lieu fee option.
4. For-profit developers seek out specific plans when choosing where to develop.
5. Both for-profit and nonprofit developers see the entitlement process as difficult in San Rafael.
6. Community opposition to new housing is a barrier to both for-profit and nonprofit development.
7. The City Council can potentially reduce community opposition to new housing.

Recommendations

San Rafael's Affordable Housing Ordinance can be modified in many ways to reduce barriers to housing production and increase affordable housing development. Residential development entitlement processes can also be improved to achieve the same goals.

Recommendation 1: Provide developers with a by-right in-lieu fee option to fulfill the inclusionary housing requirement. Ensure that by-right in-lieu fees are set sufficiently high to make them meaningful, but sufficiently low to incentivize fee payment over onsite affordable housing construction. Change the fee structure over time depending on City needs.

Recommendation 2: Consider altering the inclusionary requirement depending on the type of development and its location; conduct further study. Consider reducing it for ownership units specifically.

Recommendation 3: City Council should take a strong, unified pro-housing stance to manage community opposition to new affordable and market-rate housing developments.

Recommendation 4: Formalize and expand the new entitlement process used for Northgate Walk and 703 3rd Street, in which decisions about height and density are made earlier. Provide all housing developers with a shortened, more predictable entitlement process.

Recommendation 5: Allow developers to fulfill the inclusionary requirement more creatively and efficiently. For example, allow building an increased number of smaller-sized affordable units rather fewer large-sized affordable units, and allow affordable units to be clustered in a development.

Recommendation 6: Create additional precise plans and/or specific plans for neighborhoods where housing development is desired. Incentivize 100% affordable

housing development in the current Downtown Precise Plan and all future precise plans/specific plans.

<u>Recommendation 7</u>: Set a schedule to review and revise the Inclusionary Housing Ordinance on a regular basis. As market conditions change, inclusionary ordinances should be updated to maximize affordable housing production.

Part 1: Introduction

The purpose of this analysis is to identify barriers to housing production related to the City of San Rafael's Affordable Housing Ordinance, which requires residential developments to contribute to affordable housing production. The section of the ordinance requiring *non*residential developments to contribute to affordable housing production is not analyzed here. This report was commissioned by the City of San Rafael's Community Development Department. During research, barriers related to the entitlement process[1] for residential development were also identified, and these are included in the report as well.

The Housing Crisis

San Rafael, like the rest of the Bay Area, is in the midst of an acute housing crisis, with the City's[2] median home value at $1.05 million (Zillow Inc., 2019). Over the past ten years, this median value rose by 53%, up from $677,000. It is expected to reach $1.08 million in the next year, an increase of 2.8% (Zillow Inc., 2019). The majority of renters in the City (56%) are excessively cost burdened by housing, defined as paying over 30% of gross income on housing costs (U.S. Census Bureau, 2017; U.S. Department of Housing and Urban Development, 2019). As in other Bay Area cities, increasing property values in San Rafael are pushing out low-income residents. In 2018, two new owners of separate apartment complexes independently announced rent increases of 40% and 65%, affecting approximately 100 households (Carrera, Haffner, Gable, & Peattie, 2019; Brenner, 2018; Rodriguez, 2018). Amid protests, one landlord served tenants with no-cause eviction notices. Through negotiation, tenants in both complexes convinced the landlords to postpone rent increases and rescind the eviction notices; however, displacement of these residents appears imminent (Carrera et al., 2019; D. Levin, personal communication, May 2, 2019).

[1] The process of obtaining approvals for the right to development in a jurisdiction.
[2] "The City" is used to mean the City of San Rafael in this report.

New residents have flocked to the Bay Area as a result of its thriving economy, but combined with a lack of housing construction, the population increase has led to a supply/demand mismatch region-wide (Brinklow, 2017). Only 4 percent of San Rafael's current housing units have been created since 2000. (Jensen and Hening, 2018). The housing shortage has led to increased housing costs, displacement, homelessness, and long commutes for those who cannot afford to live near job centers. For example, 60%[3] of Marin workers must travel from outside the county to arrive at their jobs. In San Rafael, 87% [4]of workers live outside city limits (U.S. Census Bureau, 2015).

Opposition to new housing stems from factors including environmentalism, a desire to protect neighborhood character, and prejudice

San Rafael's housing shortage must be understood in the in the context of Marin County, where community members have successfully organized over time to curtail development and protect 84% of the land as open space and parks (Hickey, 2011). Though these efforts can largely be attributed to a left-leaning culture of environmentalism, they have resulted in less available land for housing. Community resistance to new housing, especially affordable housing, is also well-organized and effective (Dillon, 2018). For example, a May 2016 neighborhood meeting regarding a proposed 182-unit San Rafael development was attended by approximately 200 people in near unanimous opposition (City of San Rafael Community Development Department, 2018).

Residents regularly oppose new housing development out of fears that their neighborhoods will be destroyed by increased building heights, increased traffic, stress on community services and schools, and crime. Resistance to affordable housing in Marin also includes racist and classist rhetoric (Dillon, 2018). As the City of San Rafael addresses its affordable housing shortage, it must develop strategies to manage all these forms of public resistance. The City must also take into account that Marin County has the largest inequities between racial groups of any county in California

[3] 63,229 of the 100,663 people employed within Marin County live outside the county limits
[4] 30,646 of the 35,125 people employed within the City of San Rafael live outside the city limits

(Advancement Project California, 2017). Affordable housing policies must be designed to remedy this disparity.

Background on San Rafael's Affordable Housing Ordinance

First passed in 1986 and last updated in 2005, San Rafael's Affordable Housing Ordinance requires developers to dedicate a percentage of units in new housing projects as affordable to lower-income households (City of San Rafael Municipal Code 14.16.030; City of San Rafael, 2019a; P. Jensen, personal communication, January 11, 2019). The requirement for residential projects ranges from 10% to 20%, depending on the size of the development. With the loss of state redevelopment funding, and reductions in federal housing support, the Affordable Housing Requirement is the City of San Rafael's primary tool to support affordable housing development (City of San Rafael, 2015, p. 48).

This type of policy, known as inclusionary housing, has the potential to unintentionally limit housing development and raise prices if requirements are set too high (Schwartz, Ecola, Leuschner, & Kofner, 2012). San Rafael's maximum inclusionary level is slightly higher than the most typical level in California (15%), and at least one developer has complained that it is a barrier to development because it reduces revenues to an extent that it makes project infeasible (Mukhija, Das, Regus, & Tsay, 2015). This analysis is designed determine whether the policy is functioning to increase affordable housing production or whether it is restricting housing supply. Even when properly set, inclusionary levels need updating as housing market conditions change (Keyser Marston Associates, 2019; Reyes, 2018). It is possible that San Rafael's inclusionary requirement functioned well previously, but now has a restrictive effect when combined with factors such as record-high Bay Area construction costs and a softening housing market.

State Housing Production Targets

Like all California cities, San Rafael is required by the State of California to plan and zone for its housing needs (California Department of Housing and Community

Development, 2019). With the help of regional agencies, the State sets targets of new housing units that each local jurisdiction should aim to have constructed. The targets, known as the Regional Housing Needs Allocation (RHNA), are divided by income levels, ranging from "very-low" to "above-moderate income". **Table 1** below shows San Rafael's current RHNA targets and the number of housing construction permits issued to date in the City, representing progress toward meeting the goals.

Table 1

San Rafael's 2015-2023 Housing Targets and Progress as of Dec. 2018

Housing Unit Income Level	Housing Target (RHNA Allocation)	Total Permits Issued Jan. 2015 - Dec. 2018	Remaining Targets for 2015-2023 (Remaining RHNA)
Very Low	240	3	237
Low	148	46	102
Moderate	181	11	170
Above Moderate	438	149	289
Totals	**1007**	**209**	**798**

Note: San Rafael's 2015-2023 Housing Targets and Progress as of Dec. 2018 produced using data from the City of San Rafael's 2018 Housing Element Annual Progress Report provided by the City of San Rafael Community Development Department

San Rafael is behind on affordable housing targets; should be meeting ~33% of goals for the current target cycle

Because the City is approximately a third of the way through its 2015-2023 housing allocation cycle, it should have issued building permits for 33% of its unit targets. **Figure 1** below shows mixed progress: San Rafael is on track to meet targets for above moderate-income and low-income households, with 34% and 31% met respectively. However, it is far behind on permitting for moderate and very low-income level units, with only 6% and 1% of targets met respectively.

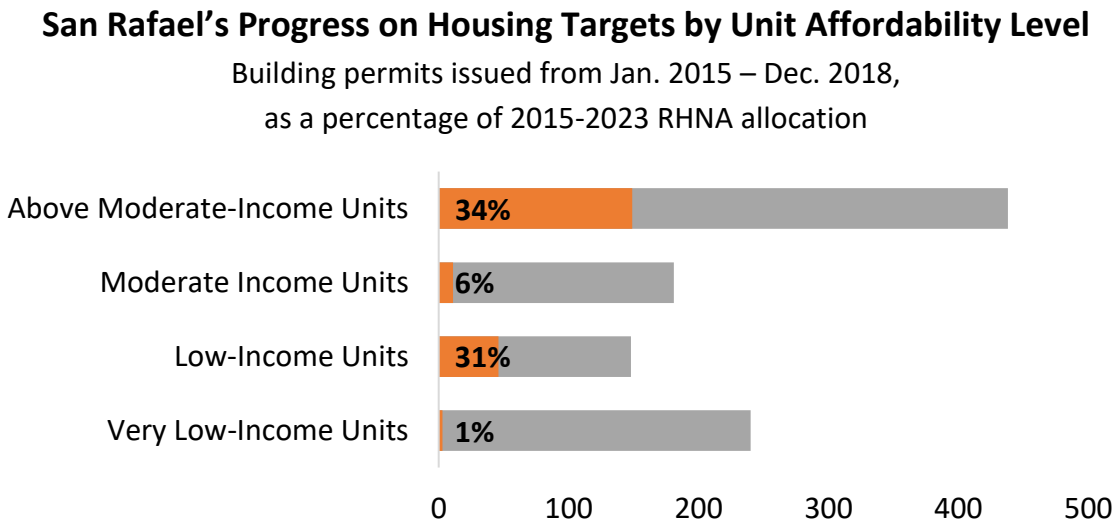

Figure 1: Produced using data from the City of San Rafael's 2018 Housing Element Annual Progress Report

The City of San Rafael is not alone; 97% of California jurisdictions are not meeting their RHNA targets (Aguilar-Canabal, 2018). The RHNA system has long suffered from dysfunction, including a lack of enforcement mechanisms, and what many see as an unfair allocation system that leaves higher-income communities off the hook for providing affordable housing. Recent changes in state law are finally addressing the system's shortcomings. SB 35 (Weiner), passed in 2017, requires cities to streamline the housing construction permitting process if they don't meet their housing needs. SB 828, also authored by State Senator Scott Weiner, passed in 2018, reforms RHNA's allocation methodology, though many housing advocates agree there are still improvements needed (Fowler and Chong, 2019; Wiener, 2018; Hansen, 2018). In January 2019, the State of California filed a first-of-its-kind lawsuit against the City of Huntington Beach for not planning for enough affordable housing (Kalinoski, 2019). These state actions, among many others that tighten the RHNA process, underscore the need for San Rafael to affirmatively address its affordable housing shortage and ensure that its inclusionary housing policy is functioning well.

Part 2: How Inclusionary Housing Policies Create Affordable Units

Inclusionary housing policies, sometimes referred to as "inclusionary zoning", require and/or incentivize developers to provide a percentage of new residential units

at an "affordable" price, reduced from the market-rate price (Sturtevant, 2016). These "below-market rate" (BMR) units are affordable to households with moderate, low, or very low incomes[5]. It is common for deeded affordability restrictions to stay in place for 55 years and lotteries are often used to decide who can live in the units (Local Government Commission, 2018; Schneider, 2018).

Inclusionary housing policies have become very popular, with at least 886 jurisdictions in 25 states using them (Thaden & Wang, 2017). However, most of the policies have been enacted in just three states: California, Massachusetts, and New Jersey, where state laws incentivize inclusionary development (Thaden & Wang, 2017). Over 170 of the ordinances have been passed in California alone, meaning 30% of jurisdictions in the state have one in place (Non-Profit Housing Association of Northern California, California Coalition for Rural Housing, San Diego Housing Federation & Sacramento Housing Alliance, 2007; League of California Cities, 2019). The first inclusionary ordinance in California was adopted by the City of Palo Alto in 1973. Inclusionary ordinances were passed at a rapid rate in the 2000s, as home values exploded (Non-Profit Housing Association of Northern California, 2007).

Typical Policy Configurations

Inclusionary housing policies often give developers a menu of options to contribute to affordable housing production (Jacobus, 2015). These options frequently include:

- Building onsite: building affordable units within a market-rate project
- Building off-site: building affordable units separate from a market-rate project
- Paying in-lieu fees, which a jurisdiction can then dedicate to affordable housing construction

[5] See **Appendix A** for information on how affordability levels and rents are determined.

- Donating land, which a city can later use as the site for a 100% affordable housing project.

Building offsite, paying in-lieu fees, or donating land can provide flexibility to developers when onsite production is economically infeasible (Jacobus, 2015). The options can also potentially produce more affordable housing than building onsite.

Building offsite units can produce savings and increase affordable unit production if land for the new site is cheaper and building standards are lower than a market-rate project (Savitch-Lew, 2016; Grounded Solutions, 2019b). The developer may also be able to access subsidies or tax advantages that wouldn't be available with market rate projects (Grounded Solutions, 2019b). To promote economic integration of offsite units, a jurisdiction may require them to be built near their corresponding market-rate projects, or equitably throughout neighborhoods of varying incomes (Local Government Commission, 2018).

Collecting in-lieu fees can help cities who want to invest in 100% affordable housing developments. 100% affordable developments are better than inclusionary policies at producing units for very low-income households, and they can also produce housing for specific populations like veterans, people with special needs, and the homeless. If in-lieu fees are set too low though, they may not be effective at producing any affordable housing (Grounded Solutions, 2019c).

Land donation can help cities that have difficulty finding appropriate sites for 100% affordable housing developments. Land may be donated to a city directly, or to a nonprofit housing developer (Local Government Commission, 2018).

Benefits of Inclusionary Housing

No Need for Government Subsidies

Inclusionary housing policies are popular in large part because they harness the power of private investment to produce affordable units (American Planning Association, 2007). Local governments and taxpayers do not have to provide subsidies for inclusionary housing production. In contrast, housing developments which are 100%

affordable (and usually built by nonprofit developers) usually need local, state, and federal funds to be built (Blumenthal, Handelman, & Tilsley, 2016). For local governments with limiting budgets, inclusionary housing requirements are a logical choice to increase affordable housing production.

Economic Integration

Inclusionary Housing policies were first developed in the 1970s as a response to the frequent placement of low-income housing developments in less desirable areas of cities (Schneider, 2018). The policies help ensure that affordable housing is built throughout a jurisdiction's geography, wherever market-rate housing is built. This reduces the concentration of poverty and racial segregation that frequently occurs when entire housing developments are occupied by low-income residents. Depending on design and implementation, inclusionary housing policies can be effective strategies for improving economic and racial integration (Jacobus, 2015; Kontokosta, 2014). A related benefit is that inclusionary units are often spread randomly throughout a project, which also helps protect low-income residents from stigma associated with affordable housing. Some housing advocates recommend equitably distributing inclusionary units throughout a development to promote economic integration; others recommend allowing clustering to promote cost savings and help ensure more projects are economically feasible (Local Government Commission, 2018; Public Interest Law Project & Western Center On Law & Poverty, 2002).

Limitations of Inclusionary Housing Ordinances

Do Not Produce All Affordable Housing Units Needed

Inclusionary housing units cannot fulfill *all* the affordable housing needs in a jurisdiction. For example, if a typical housing development had half of its units made affordable to lower-income households, (representing an income ratio proportionate to the surrounding a community with 50% of residents earning above the median income and 50% earning below it) the entire development would not generate enough profit to pay for its own construction (Urban Land Institute, 2019; Grounded Solutions Network,

2019d, Terner Center for Housing Innovation, 2019). Therefore, inclusionary housing should be understood as one valuable part of a larger affordable housing production strategy. An affordable housing strategy should also include subsidies for 100% affordable developments, which can more easily serve residents at the lowest income levels (Mintz-Roth, 2008).

Potential to Restrict Housing Production When Not Designed Well

If inclusionary housing requirements are set too high, housing developments may not generate enough profits to attract private investment or motivate land owners to sell property. Therefore, poorly constructed inclusionary housing policies have the potential to restrict overall housing production, which can ultimately result in an increase in housing prices (Schwartz, Ecola, Leuschner, & Kofner, 2012). High quality research on these effects is limited, but the available mixed-quality evidence shows that, in some cases, inclusionary housing policies have resulted in small reductions in housing supply and small increases in housing prices (Bento, Lowe, Knaap & Chakraborty, 2009; Schuetz, Meltzer, & Been, 2011; Mukhija, Regus, Slovin, Das, 2009).

Incentives

Incentives such as density bonuses, streamlined permitting, and fee waivers are often offered to developers to help offset the cost of providing inclusionary units (Calavita & Mallach, 2009). Density bonuses allow developers to increase the number of units that are allowed on a site, thereby increasing a project's potential revenue. This restores funds available to bid on land, which then increases the likelihood of project development. California's density bonus law also entitles developers to a number of concessions and incentives such as reductions in parking requirements, increased height limits, and reductions in setback, and minimum square footage requirements (California Government Code Section 65915-65918).

Inclusionary Requirements for Rentals Have Been Reauthorized in California

Local jurisdictions in California were banned from imposing inclusionary housing requirements on rental developments from 2009 to 2017 (Murray, 2017). This was due to a court case, known as the "Palmer Decision" (*Palmer/Sixth Street Properties, L.P., et al. v. City of Los Angeles*, 2009), in which the California Court of Appeals ruled that inclusionary requirements on rentals were a form of rent control, which is illegal for newly constructed units (Murray, 2017). Because it is common for inclusionary rentals to be made available to lower-income households and for inclusionary ownership units to be made available to moderate-income households, the Palmer decision disproportionally reduced unit production for the most economically vulnerable (Grounded Solutions, 2019e). In 2017, AB 1505, known as the "Palmer Fix" superseded the Palmer Decision and authorized jurisdictions to apply inclusionary requirements to rental projects.

Part 3: San Rafael's Affordable Housing Ordinance

Affordable Housing Inventory

The City currently has an inventory of 224 inclusionary units; 107 rentals and 117 owned units (City of San Rafael, 2018). Inclusionary units represent 15% of the City's 1,414 units of protected affordable housing stock. This proportion is small but significant. The vast majority of the City's protected affordable housing units are located in 100% affordable developments built and managed by nonprofit organizations. Despite comprising the majority of the City's affordable housing stock, no 100% affordable developments have been built in San Rafael since the 1997 construction of the Maria J. Freitas Senior Community (P. Jensen, personal communication, April 11, 2019). **Figure 2** shows the city's protected affordable housing stock by production method.

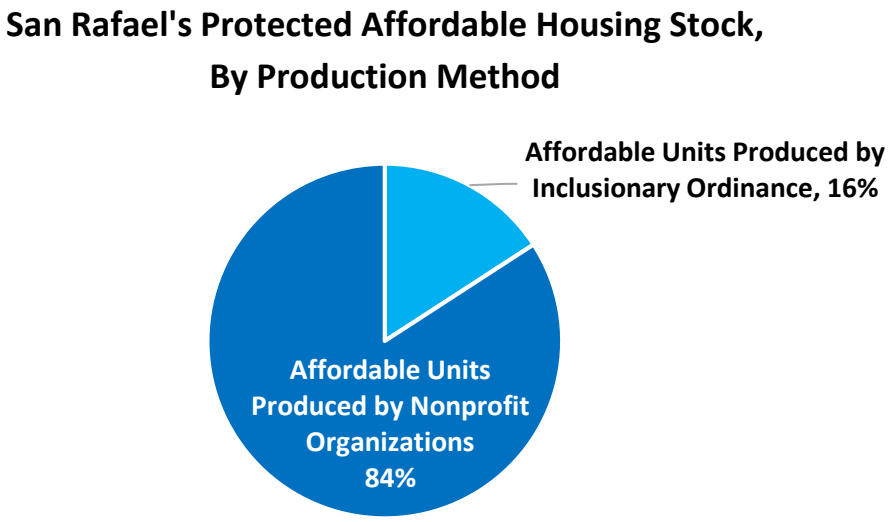

Figure 2: Produced using data from Marin County Affordable Housing Inventory (City of San Rafael, 2018a).

Though the number of inclusionary units appears low, this does not necessarily mean that the policy requirement is too high. Production of inclusionary units merely reflects overall housing production, which is affected by factors such as population growth, real estate cycles, interest rates, and community opposition to new housing.

Current Policy Design

San Rafael's policy is designed in three tiers; fewer inclusionary units are required of small developments and more units are required of large developments (City of San Rafael Municipal Code 14.16.030). The requirement is 20% when a residential development has more than 20 units. For example, if a project is composed of 25 units in total, five of them must be affordable. **Table 2** below shows inclusionary requirements based on development size.

Table 2

San Rafael's Inclusionary Requirements

Development Size	2-10 Units	11-20 Units	20+ Units
Units Required to be Affordable	10%	15%	20%

Note: Data from City of San Rafael San Rafael Affordable Housing Requirement, City of San Rafael Municipal Code 14.16.030

If the requirement results in a fractional unit of 0.5 or more, the number is rounded up, so a development is required to produce 7.6 affordable units must actually produce eight. Fractional units smaller than 0.5 are paid with an in-lieu fee, currently set at $343,969.47 for one affordable unit (City of San Rafael, 2019b). If a developer must produce 7.3 units, seven whole units will be produced, and the remaining 0.3 units are fulfilled with the fee.

Resident Income Levels

In rental developments, half the affordable units produced must be made available to very low-income households and half to low-income households. Affordability levels for ownership developments are higher; half must be affordable to low-income households and half to moderate-income households. Several types of developments are exempt from the inclusionary requirement, including single family homes and accessory dwelling units (sometimes called in-law units).

In-lieu Fees

Unlike many other jurisdictions, the City of San Rafael does not automatically give developers the option of paying in-lieu fees to fulfill inclusionary requirements, known as “feeing out.” The City employs a discretionary process to allow payment of in-lieu fees if developers can establish financial need or project infeasibility. As a result, the City collects these fees for residential projects primarily when a developer is required to produce a fraction of a unit. Residential development in-lieu fees are placed into a citywide housing in-lieu fee account, along with the fees collected from non-residential developments. The account funds are used to expand the supply of affordable housing for lower and moderate-income households through a variety of activities including new construction and the acquisition of existing housing (City of San Rafael, 2015).

The current residential in-lieu fee structure produces a relatively small amount of liquid funds available for investment in affordable housing projects. The city’s in-lieu fee account now holds $1.25 million; however, the majority of the funds were acquired

through non-residential development, not residential (P. Jensen, personal communication, April 4, 2019, P. Jensen, personal communication, April 22, 2019).

San Rafael's Inclusionary Housing Ordinance Triggers the State Density Bonus Law

By fulfilling San Rafael's Affordable housing requirement, developers automatically qualify for a California State density bonus. Large developments with 20% inclusionary units are entitled to a 35% increase in units. This means when a 100-unit project has 20 inclusionary units, as the City requires, the state allows the project to expand to 135 units. However, the number of affordable units remains at 20; the inclusionary rate can only be applied to the base project. The extra market-rate density bonus units do not require the purchase of more land, so the higher profits they produce replace the profits lost to the affordable units. At its discretion, the City of San Rafael also grants custom density bonuses, which exceed the state density bonus, if a developer provides more affordable housing than is normally required (City of San Rafael Municipal Code 14.16.030).

Inclusionary Ordinances in Comparable Cities

Inclusionary housing ordinances vary widely in form, so they are difficult to compare. **Table 3** below shows the maximum inclusionary levels currently required in cities comparable to San Rafael. Most cities use lower inclusionary requirements for smaller developments and higher requirements for larger developments; however, for this analysis, only the highest inclusionary rates are compared.

Table 3

Current Maximum Inclusionary Housing Requirements in Cities Comparable to San Rafael

City	Max. Ownership Development Requirement	Max. Rental Development Requirement	Population	Median Home Value March 31, 2019
San Rafael	20%	20%	59,180	$1,042,000
Novato	20%	20%	55,378	$844,000
Redwood City	15%	20%	84,368	$1,603,300
Napa	17%	Fee	79,722	$672,000
Petaluma	15%	15%	60,210	$695,300
Palo Alto	15% for project sites less than 5 acres **or** 20% for project sites 5 acres or more	15% for project sites less than 5 acres **or** 20% for project sites 5 acres or more	67,082	$3,027,900
San Mateo	15% dedicated to moderate-income **or** 10% dedicated to low-income	15% dedicated to low-income **or** 10% dedicated to very low-income	103,500	$1,393,300
Walnut Creek	10.0%	Fee	68,516	$874,600

Note: Inclusionary housing requirement data from: City of San Rafael Municipal Code 14.16.030; City of Novato Municipal Code 19.24; City of Redwood City Ordinance 1130-375; City of Napa Municipal Code 18.107.080; City of Petaluma Implementing Zoning Ordinance 3.040; City of Palo Alto Municipal Code 16.65; City of San Mateo Municipal Code 27.16.050; City of Walnut Creek Municipal Code §10-2.3.902. Population data from U.S. Census Bureau American Community Survey 5-Year Estimates. Median home value data from Zillow Inc.

Both Novato and San Rafael have relatively high maximum inclusionary rates of 20%. However, Redwood City, which is larger and has higher home values only reaches a 20% requirement for rental developments. Other nearby cities such as Napa and Petaluma, have lower, more typical requirements. Napa requires 17% for large ownership developments but charges a fee for large rental developments. In Napa, if rental developers prefer to build affordable units onsite, the requirement is only 12%.

Petaluma has a flat 15% rate for both ownership and rental projects. In the City of Palo Alto, where home values exceed $3 million, the inclusionary requirement depends on project site size. All developments on sites with less than five acres must dedicate 15% of units as affordable. The requirement increases to 20% for sites of five acres or more. Walnut Creek uses a more modest inclusionary rate of 10% for ownership developments, but requires a fee for rental projects.

Part 4: Economic Feasibility Analysis

Somewhat counterintuitively, determining whether an inclusionary policy is working well cannot be done by simply analyzing inclusionary unit production over time. Inclusionary housing production always corresponds to market-rate housing production, so analyzing production over time will merely reveal trends in the housing market and real estate cycles. These are affected by factors such as interest rates, population growth, construction and materials costs, and the degree to which a community embraces new housing. An inclusionary policy may be ideal for a specific jurisdiction's housing market during a certain time, but too high or too low at a later date, because of changing economics. As those conditions change, a policy should be reevaluated and updated to ensure its design encourages housing development and maximizes inclusionary unit production (Grounded Solutions, 2019e).

An economic feasibility analysis using current economic conditions (e.g., market rents, construction costs) is considered a best practice when determining appropriate inclusionary requirements (Grounded Solutions Network, Terner Center for Housing Innovation, & Lincoln Institute on Land Policy, 2018). Feasibility studies identify inclusionary levels that allow housing developments to generate enough profit to attract investment, which is necessary for housing construction. If investment is not attracted, no housing will be built. Feasibility studies analyze hypothetical housing projects (prototypes) likely to be built in a location by estimating potential revenues that would be generated and costs that would be incurred. Sensitivity analysis is then conducted by applying varying inclusionary levels (e.g., 10%, 25%) to the prototype budgets. Resulting

profit estimates are then compared to the standard profit thresholds needed for economic feasibility. This reveals whether housing development is likely to occur with a given inclusionary requirement. Housing development budgets, known as proformas, are the primary tools used to conduct this type of analysis. There is no standard methodology for feasibility studies because circumstances in every jurisdiction differ (Grounded Solutions Network et al., 2018). However, during a recent convening of major stakeholders in the field, participants agreed that proforma analysis is appropriate for this type of study (Grounded Solutions Network et al., 2018). Discounted cash flow models[6] are another appropriate methodology. Proforma analysis was employed for this report.

Analysis Limitations

At the same convening, experts agreed that feasibility studies are always approximations; they are "squishy" (Grounded Solutions Network et al., 2018). This is largely because the studies can only analyze a limited number of housing prototypes, which will not perfectly mirror actual projects that developers attempt on the market (Grounded Solutions Network et al., 2018). Economic feasibility of a development also depends on many variables unrelated to inclusionary requirements, including the cost of land, the number of units in the project, density, site location, and whether the project will be rented or sold. Feasibility may change based on any of these factors. Another issue to consider is that developments which are economically feasible now might not be feasible in the future, as market conditions change. However, developers decide whether to build a housing project based on current market conditions, not on potential future conditions which are impossible to predict. Using current market conditions in a feasibility analysis emulates their process.

Methodology

Housing Development Prototypes

[6] Discount cash flow models find the present value of expected future cash flows using a discount rate.

To test the economic feasibility of San Rafael's current affordable housing requirement, five prototypes of hypothetical multifamily housing projects were created. These prototypes are likely to be marketable in the City, with three designed as rental projects and two designed to be sold as ownership projects. Anonymously interviewed Bay Area developers (See Part 5: Developer and Stakeholder Interviews) identified three areas of the City as especially desirable for housing development. The five housing prototypes were designed to be built in these neighborhoods: Downtown, Terra Linda, and the Canal Area.

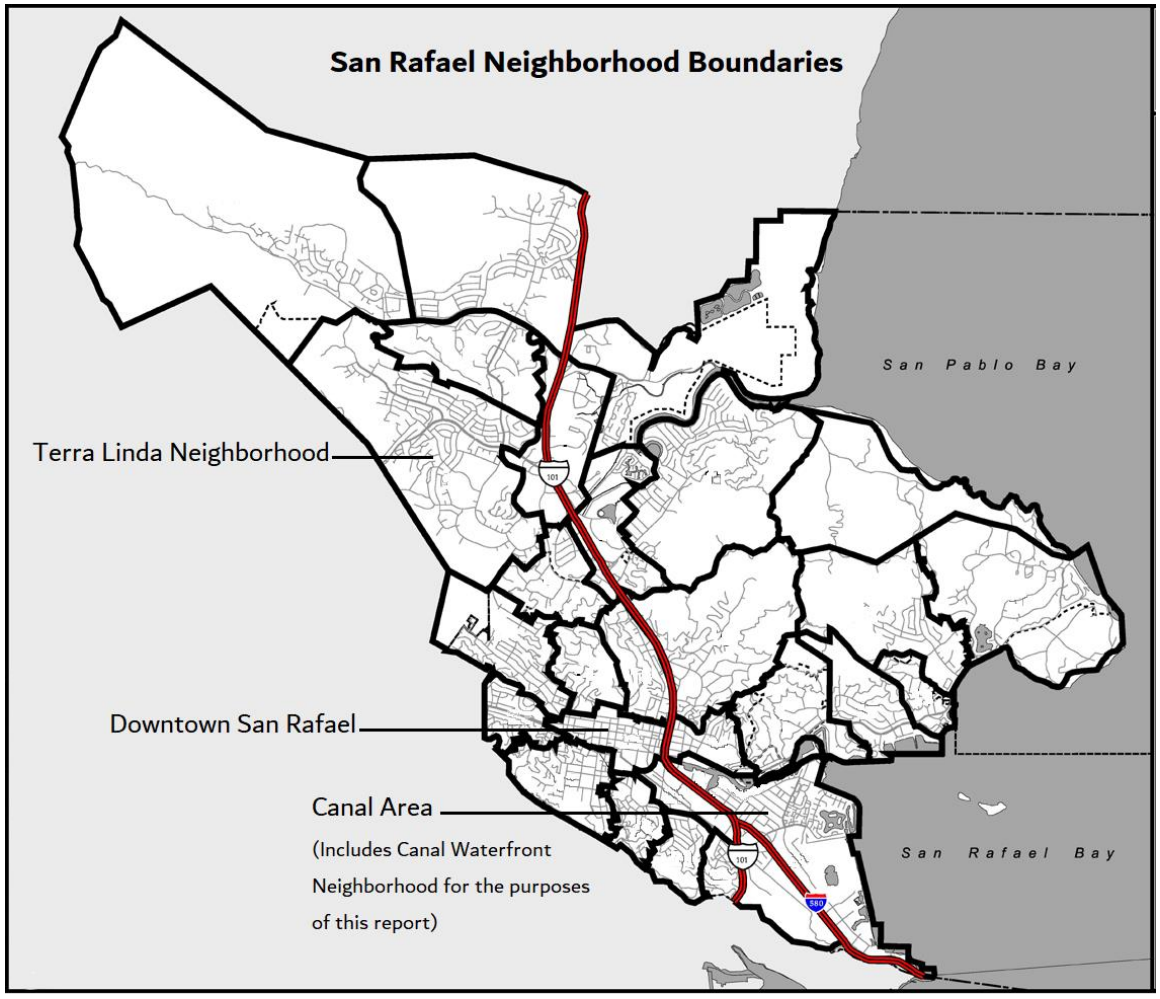

Figure 3: San Rafael Neighborhood Boundaries Map reproduced and modified from City of San Rafael General Plan 2020 Neighborhoods Element

Downtown

The Downtown area is composed of a shopping district, restaurants, and Mission San Rafael, as well as residential development.

Terra Linda

The Terra Linda neighborhood is in North San Rafael, a ten-minute drive from Downtown. It is designed with open space areas surrounding mostly single-family homes. It is also the location of the Northgate Mall and San Rafael's Kaiser Permanente hospital. The district is considered a middle-class area of San Rafael (Persaud, 2012).

The Canal Area

The Canal Area, just east of Downtown and surrounding the Canal Waterfront, is a low-income, residential neighborhood, with primarily Latino residents. Because of its proximity to the waterfront and location inside wealthy Marin County, Canal Area residents are considered at high risk for displacement when market rate development occurs there (Mitchell, 2015).

Prototype Designs

Prototype composition and locations are outlined in **Figure 3** below.

Prototype 1: Downtown Apartment Building	
Lot Size	0.5 acres
# of Units	36
# of Stories	4
Parking	Covered parking within building

Prototype 2A: Terra Linda Apartment Building	
Lot Size	1 acre
# of Units	24
# of Stories	3
Parking	Surface parking outside building

Prototype 2B: Terra Linda Condominium Townhomes	
Lot Size	3 acres
# of Units	66
# of Stories	3
Parking	Garage parking within each unit

Prototype 3A: Canal Apartment Building	
Lot Size	1 acre
# of Units	30
# of Stories	4
Parking	Covered parking within building

Prototype 3B: Canal Condominium Townhomes	
Lot Size	3 acres
# of Units	66
# of Stories	3
Parking	Garage parking within each unit

Figure 4: Housing development prototype designs produced based on likely availably of lot sizes, usability of lot sizes, multifamily zoning regulations, current construction costs, and unit size marketability.

In the interest of maximizing housing production, only large projects which would significantly increase San Rafael's housing stock were designed for testing. Prototypes were designed to be at least large enough to trigger San Rafael's highest

affordable housing requirement of 20%. Heights and densities were chosen based on multifamily housing zoning regulations in each neighborhood, as well as construction costs, which increase substantially for buildings over three stories (jumping from ~$180 to ~$200 per square foot) and increase dramatically for buildings over five stories (to ~$340 per square foot) which require concrete and/or steel materials as opposed to only wood. Marketability of unit sizes was also a factor in choosing density. Site size was based on typical lot sizes in each neighborhood, combined with developer-provided information on lot sizes required for feasible multifamily projects. Unit mixes were determined in consultation with developers. See **Appendix B: Proformas** for zoning and lot size assumptions, as well as revenue and cost assumptions.

Density Bonus

Apartment prototypes were designed to include state density bonuses of 35%, which are triggered by San Rafael's highest affordable housing requirement, 20%. Ownership prototypes did not include density bonuses because the projects would be less marketable if constructed with more density.

Revenue and Cost Data

To estimate the revenues that each hypothetical development would generate, San Rafael market rents and home sale prices were collected from Craigslist, Trulia LLC, and Zillow Group Incorporated websites. Rent and sales price information for affordable units was provided by Marin Housing Authority, the agency which manages most inclusionary units in Marin County. Development and construction costs for each prototype were estimated using proformas shared confidentially by developers. Proformas for 2701 Shattuck Avenue, Berkeley were also used to generate cost estimates. These documents were accessed on the City of Berkeley's website. Development impact fees were estimated using the City of San Rafael's requirements published online (City of San Rafael, 2016). Final revenue and cost estimates were refined in consultation with several anonymously interviewed Bay Area developers. Cost and revenue estimates were used to create detailed proformas for each development

prototype. These costs and revenues were then used to determine profitability levels, first assuming the prototypes contained no affordable units. See **Appendix B** for detailed proformas.

Sensitivity Analysis

The current affordable housing requirement of 20% (required of developments with more than twenty units) was applied to each prototype, which reduced the potential revenue of the properties. Estimated profits for the prototypes were then compared with a required profitability threshold to determine if they were economically feasible. Prototypes that were not economically feasible with 20% of units being affordable were tested using a 19% level, then 18% etc., until estimated profits surpassed the profitability threshold.

Profitability Threshold

Prototypes that achieved at least a 20% return on cost (also commonly known as a return on investment or ROI) were considered feasible. This profitability threshold was used based on guidelines published by leading inclusionary housing policy stakeholders, as well as in consultation with anonymously interviewed developers (Grounded Solutions Network et al., 2018). Return on cost is calculated differently for rental and ownership developments. For ownership units, return on cost is calculated by dividing profit (unit sales revenues minus project costs) by the total cost to develop the project. For rental units, return on cost is calculated by 1) dividing the net operating income of a property (revenues minus operating costs), by a required capitalization rate (a measure of risk and rate of return for a prospective property) to determine the value of the project; 2) subtracting the total cost from the total value to find the estimated profit; 3) dividing the profit by the total development cost. Capitalization rates between 5% and 6% were used to determine return on cost, based on interviews with developers.

Data and Modeling Limitations

The data used in this analysis is imperfect and subject to fluctuations in the housing market, construction and materials costs, and interest rates, among other

factors. Data used was the best available to the author at no cost, at the time of research. With more resources, the data could be refined. Sites created for prototypes are hypothetical and based on likely availability and capacity for development, but they may not reflect actual sites currently available for development. Development prototypes were not sized to trigger a 10% or 15% affordability requirement in San Rafael. Therefore, this analysis cannot draw any conclusions about the effect of the requirements on small and medium sized housing developments.

Cost estimating methodologies vary widely among developers. For example, some developers estimate architectural costs as a percentage of hard costs, while others use a flat estimate. This variety in costing can result in different determinations of economic feasibility among seasoned professionals. Proforma modeling in this analysis integrates costing methods from several sources and does not necessarily reflect what any single developer might determine.

Analysis Results

Rental Units

Analysis showed that all three apartment protypes were economically feasible with a 20% inclusionary rate when state density bonuses were used. This indicates that revenues lost to the affordable units can be recovered through the additional of market-rate density bonus units. When rental prototypes were tested without density bonuses, only the Terra Linda project was economically feasible. This is likely because the project's three-story height resulted in lower construction costs than the other prototypes, which were four stories tall. Because most of the prototypes were economically feasible in most scenario tested, San Rafael's current inclusionary requirement is likely *not* a barrier to apartment construction in the City.

Sensitivity analysis showed that when no density bonus was used, the Terra Linda prototype was not viable with a requirement higher than 20%. When density bonuses were tested, sensitivity analysis showed that the Downtown and Terra Linda apartment prototypes remained economically feasible with inclusionary percentages

higher than the 20% level. The Downtown apartments remained feasible up to a 51% level of affordability and the Terra Linda apartments remained feasible up to a 48% level. The Canal apartments were not feasible beyond a 20% level. Rent level assumptions were the same for all three locations, but the Canal prototype had a lower allowable density than Downtown and higher construction costs than Terra Linda, which likely constrained its feasibility.

Ownership Units

The two condominium townhouse prototypes in the Canal and Terra Linda neighborhoods were not economically feasible at a 20% inclusionary level. The projects are unlikely be built under current market conditions, with the inclusionary requirement in its present form. The most logical reason is that the two projects are unlikely to take advantage of density bonuses, which could generate additional revenue to replace revenue lost to inclusionary units. According to interviewed developers, densely built ownership units are not considered less marketable in Marin County; buyers in the area demand larger units than renters. However, sensitivity analysis showed that when the inclusionary requirement was reduced to 18% or lower, both the canal and Terra Linda ownership prototypes became economically feasible.

Unit mix was a crucial factor in achieving feasibility. When the townhome prototypes included one-bedroom units, the developments became infeasible. One-bedroom units are expensive to build relative to the revenues they generate. Including them in a project makes it difficult to generate enough profit to build. This is important to note, considering San Rafael has an aging population that will likely desire more one-bedroom units in the future.

Note: The City of San Rafael actively promotes and incentivizes the development of Single Room Occupancy apartments (SROs) and second units (commonly known as in-law units or Accessory Dwelling Units) to address the housing needs of single individuals with low-incomes (City of San Rafael, 2015).

Conclusion for Economic Feasibility Analysis

Analysis of three large apartment prototypes show that the City's highest inclusionary requirement of 20% is *not* a likely barrier to the construction of large *rental* projects. Developers of these projects can recoup revenues lost to affordable units through the addition of density bonus units. However, testing results showed that the 20% requirement *is* a likely barrier to the construction large multifamily *ownership* developments, because those projects will not typically use a density bonus. Homebuyers in San Rafael are less likely to purchase units in densely built developments. Without a density bonus, revenues lost to affordable units will reduce large ownership development profits to the point of economic infeasibility.

Part 5: Developer Interviews

Methodology

A total of nine developers responded to inquiries and were interviewed, out of 18 who were contacted. To include the perspectives of other stakeholders, two housing policy advocacy organizations were contacted, however, they did not respond to requests for interviews. One developer suggested gathering input from a former City of San Rafael employee who had worked in an upper-level administrative role, deeply involved with development. This former employee granted an interview, providing some historical context for development in San Rafael.

Of the developers interviewed, five were from for-profit firms and four from nonprofit organizations. A total of six developers had built a project in the City, with two for-profits and one nonprofit never having done so. Developers who had not built in Marin County were interviewed to understand factors that prevent housing development in the area and to gather data on what would make San Rafael specifically a more desirable place for that development.

All developers were promised anonymity to promote candor in their responses. Interviewees were asked about their experiences developing housing in the City of San Rafael (when applicable) and the desirability of San Rafael as a site of development.

They were also asked specifically about their experiences with the affordable housing ordinance, and for recommendations to improve it. Interview questions can be found in **Appendix C**.

Interview results were organized based on themes and patterns for each interviewee group. Recommendations provided by interviewees were then scored based on six criteria.

1. **Increases affordable housing production** to help the City of San Rafael meet its RHNA goals more rapidly
2. Suggested by **more than one *type* of interviewee** (for-profit developer, nonprofit developer, former city employee)
3. Suggested by **more than one interviewee**
4. **Supported by standard practices** in the field of inclusionary housing
5. **Economically feasible** in the City
6. **Politically feasible** in in the City

Recommendations received one point for each criterion they fulfilled, with the highest scoring recommendations being crafted into the final recommendations of this report.

Data Limitations

Because the sample size was very small (N=9), interview results may not reflect the general attitudes and opinions of most housing developers. To manage this limitation, one criterion used to analyze results was whether answers were repeated by more than one type of interviewee. Nonprofit developers, for-profit developers, and the former city employee interviewed all represent organizations with very different missions and motivations, therefore results that were similar between the groups are assumed to be less biased and more valuable.

Many types of stakeholders are not represented in the interviews, which limit the comprehensiveness of this analysis and may bias its results. Feedback from property

owners, renters, landlords, and housing advocacy organizations would increase an understanding of barriers to housing production in the City.

Data collection was also limited by the inability to audio record the interviews. After one interviewee expressed obvious discomfort with being asked for an audio recording, the decision was made to take notes during interviews by hand. This was meant to reduce the barriers that came with acquiring an interview, but it may also have resulted in some feedback details being left out of the analysis because they were not transcribed.

Key Findings from Interviews:

8. Most for-profit developers believe the current inclusionary requirement is too high; nonprofit developers do not see it as a barrier
9. Density bonuses are most useful for apartment developers, less useful for developers of ownership units
10. For-profit and nonprofit developers desire an easier in-lieu fee option
11. For-profit developers seek out specific plans
12. Both for-profit and nonprofit developers see the entitlement process as difficult in San Rafael
13. Community opposition to new housing is a barrier to both for-profit and nonprofit development
14. The City Council can potentially reduce community opposition to new housing

Interview Results: For-Profit Developers

Most for-profit developers believe the current inclusionary requirement is too high

With one exception, the for-profit developers interviewed responded that they believed San Rafael's inclusionary requirement was too high, making it difficult for projects in the city to be constructed. One developer said that the inclusionary rate doesn't matter for his business, because the reduced profit simply reduces the amount

that his firm can bid on land. But he acknowledged that if a landowner is expecting a higher bid, she or he may hold off on selling which would result in no housing being built, at least in the short term.

Another developer agreed with premise of reduced land values, explaining that the public erroneously sees inclusionary housing as a tax on developers, but the reduced profit does not come out of developers' pockets. Landowners are the stakeholders who ultimately see profit reductions through lower bids on their properties. If a developer or an investor cannot meet their profit threshold with a potential project, they will simply develop or invest elsewhere. Landowners have the option to try to find a higher bidder, but it is unlikely that will be possible. Residential developers generally bid similar amounts for a desired parcel because they face the same zoning restrictions, must fulfill the same inclusionary requirements, bear similar construction costs, and anticipate comparable revenues. Landowners will often hold off on selling to get a higher price, and no housing is built in the short term.

Several developers pointed out that if a property is zoned as mixed-use, allowing residential, commercial and light industrial uses, a high inclusionary requirement makes it more difficult to build housing. Landowners generally sell to the highest bidder for "highest and best use" (most profitable use). If commercial or industrial use of a property yields a higher profit than residential use, the residential developer cannot afford to bid enough to get the landowner to sell, and no housing will be built. For example, if landowners have the chance to sell to a hotel developer or a housing developer, they will choose the hotel developer because they will earn more money. Similarly, if landowners have the chance to sell for the development of high-end condos vs high-end apartments, they will choose the condos.

Density bonuses are most useful for apartment developers

Several apartment developers explained that state density bonuses resolve the problem of reduced revenues. Additional density bonus units are sold or rented at market-rate, which makes up for the revenue lost to inclusionary units. This means the developer can afford to bid a higher amount on land and the project is more likely to be

built. One apartment developer said he “loves the density bonus paradigm,” another said it can “take the sting out of the cost of affordable units”.

Ownership developers explained that density bonuses are less beneficial to them because densely built ownership projects are less marketable in Marin County, where larger units and more space are more desired. People are more willing to buy densely built condos in the urban core of San Francisco, for example. However, ownership developers do appreciate and utilize the concessions and incentives offered through density bonuses, which can reduce some costs and help compensate for the cost of affordable units.

Some for-profit developers claim they must raise market rents due to inclusionary requirements

Several developers said that inclusionary requirements force them to increase the cost of the other units in a project. They claim that they must increase the prices of market-rate units to compensate for the revenue reductions caused by providing affordable units. This argument about inclusionary housing has already been the subject of research and disproven (Grounded Solutions Network, 2018). Developers always charge the maximum price that a market will bear, whether a project has affordable units or not. One of the basic principles of supply and demand theory is that sellers will always set prices according to what potential buyers (and renters) are willing and able to pay. For example, the owner of an apartment building containing market rate units will set prices for those units at the maximum amount that potential renters can pay. If the owner must include affordable units in the building and wants to raise rents of the market-rate units to compensate for that, the market-rate renters will not be willing and/or able to afford the higher rents.

For-profit developers desire an in-lieu fee option

All the market-rate developers agreed that in-lieu fees should be allowed by default in San Rafael. One developer claimed that by providing just nine affordable rental units in a project, it would earn $7 million less in revenue compared to providing

all market-rate units, (the validity of this estimate could not be confirmed or denied). He said his firm would prefer to pay $4 million into a fund managed by the city, which could then be used to assist an affordable housing developer to build far more than nine units. This would provide the city control over the money paid and would create more affordable units than what are produced by the inclusionary ordinance. He added that the City owns enough street parking lots to build several affordable complexes.

For-profit developers seek out specific plans

Two developers mentioned that they actively seek development opportunities in cities with specific plans, and they recommended that City of San Rafael complete one for the area around the SMART Station Transit Center. A specific plan is comprised of special development standards for a well-defined geographic region in a city (City of Sacramento, 2019). They are typically created with extensive community and stakeholder engagement, thereby creating neighborhood buy-in for future projects. Often cities will fund expensive environmental and traffic studies for specific plan areas to prepare them for future development. Specific plans give developers a clear picture of what projects are desired in a location and reduce their costs.

One developer explained that specific plan areas provide more certainty, allow him to avoid public hearings, and move more quickly than typical development sites. He is now building a project in a specific plan area that had already gone through environmental review, and the development took only six months to be entitled. He has had similar projects which took three to four years for entitlements. He acknowledged that it is easier for a specific plan to be done cities bigger than San Rafael. Whether a specific plan is used or not, all the developers interviewed agreed that the clearer a City Council and Planning Commission are on what they want, the easier it is for a developer to construct a project.

Note: The City of San Rafael is in the process of creating a Downtown Precise Plan (very similar to a specific plan) with a grant provided by the Association of Bay Area Governments/Metropolitan Transportation Commission (ABAG/MTC) (City of San Rafael, 2018c). Downtown San Rafael includes the area around the SMART station. The Downtown Precise Plan will include environmental review and a traffic study, which will reduce costs for developers and provide them with more predictability (P. Jensen, personal communication, April 17, 2019).

For-profit developers see the entitlement process as difficult in San Rafael

Although the interviews were focused on understanding barriers related to San Rafael's affordable housing requirement, for-profit developers expressed a higher level of frustration when prompted to speak about barriers unrelated to the requirement. All the nonprofit developers who had worked in San Rafael identified the length of the City's entitlement process as a significant obstacle. One developer compared his 275-unit project in Oakland which took 1.5 years to entitle, with his project in San Rafael which, at less than half the size, is now exceeding a 3-year entitlement process, with no clear end in sight. He added that the Oakland project only had a 5% inclusionary requirement as opposed to San Rafael's 20% requirement for large projects. The developer stated that his firm would like to build more multifamily developments in San Rafael, but "it doesn't make sense to keep" trying while it feels so difficult to achieve. Another developer said he would do a project in San Rafael for the right deal, but he is a bit jaded and does not believe in promises of fast entitlements there anymore. A quicker, more efficient entitling process would make San Rafael more attractive.

> *"It's always a challenge to develop in San Rafael."*
>
> -For-profit Developer

Despite dissatisfaction with the City's entitlement process, all the for-profit developers with experience in San Rafael expressed that it is easier to work there than

in other Marin County cities. The City of Novato was named several times as being the most difficult jurisdiction in the county to develop housing. One developer explained that he sees San Rafael as better than other cities in Marin County, but not as appealing areas outside of Marin. He emphasized that developers need to feel wanted in order to take a risk and start a project in a city. For-profit developers stated the most desirable places for them to build are cities with predictable entitling processes, including Sunnyvale, Newark, Fremont, Hayward, Foster City, Hollister and Lathrop.

> *"Developers need to feel wanted [in order to take a risk and start a project in a city.]"*
>
> -For-profit Developer

Several developers explained that San Rafael's Design Review Board (DRB) is a hurdle that does not exist in most other cities of its size[7]. The Design Review Board process adds time and costs to projects by often requiring multiple design revisions. One developer explained that design review boards have more control than planning commissions because they make decisions earlier in the entitlement process.

Another for-profit developer complained that he passed through an initial Design Review Board hearing with city staff flagging no significant issues, only to learn later that a staff member intended to oppose elements of his project unrelated to design. He had expected to receive a heads-up about any potential issues at the beginning of the entitlement process, before starting to redesign the project. The developer explained that he has a positive working relationship with the Community Development Department leadership, but that he has had difficulty with some staff members. He described his experience developing in the City as "You guess, and we'll tell you whether you got it right."

[7] A notable exception is the City of Novato, which also has a Design Review Board.

Community opposition to new housing is a barrier to development

> *"Our housing woes are a self-inflicted problem. Cities just need to say yes... Communities can't freeze themselves in amber, they are changing organisms… State level intervention is necessary to acknowledge the consequences of anti-development stances."*
>
> -For-profit Developer

One developer, who had never worked in San Rafael, stated emphatically that he steers clear of the entire county of Marin. He emphasized that that "Marin is to housing what Birmingham was to civil rights," adding that that "Marin is the deep South" in its opposition to housing. He contended that the *policies* of cities in Marin County merely reflect anti-growth sentiment among *residents* and remarked that "the battle is disproportionate to the rewards" and it is "not worth the aggravation." It is significant to note that this developer was based outside the county.

Most for-profit developers mentioned community opposition to their projects in side comments during interviews, as a frustrating fact of development (for example, "and of course people will come out to complain about the project"). However, for-profit developers generally focused on the entitlement process when asked directly what was hardest for them in San Rafael. There are many potential explanations for this. Many of the for-profit developers interviewed are based in Marin County and live there as well, so it is possible that they accept public resistance to new housing as a fact of life, a part of doing business, a part of the background that can't be changed. They may view City processes as tangible, with more potential to be altered. The convenience of working close to their offices could also potentially make them more willing to work in an area known for its resistance to new housing. Another possibility is that for-profit developers interact more with City staff than they interact with the residents protesting

their projects, so the challenges associated with City processes may be more salient to them.

Other recommendations made by for-profit developers:

1. Two developers recommend allowing the use of smaller configurations of affordable units. If they are smaller, more of them can be built in a project.

2. One developer recommended upzoning[8] more locations in the City.

3. Require less parking. One developer doesn't build housing that has parking anymore; he believes in building space for people, not cars.

4. One developer recommended that development fees be tied to unit square footage or bedroom count. He explained that when fees are based on unit count (as many are now) the fees for large and small units are the same, even though smaller units bring in less revenue. Therefore, basing fees on unit count is a disincentive to building small units.

Interviews Results: Nonprofit Developers

The current inclusionary rate is not a barrier to nonprofit housing projects

None of the nonprofit housing developers reported difficulty in meeting the City's inclusionary housing requirements. Typically, 100% of units in nonprofit developments are affordable, so the requirement is easily fulfilled. The nonprofit developers were also in agreement that the City's current inclusionary percentages are not barriers to their projects because of the nature of their business model. They do not rely on an assumption of large profits for investors. Rather, nonprofits work to fill an *assumed gap* between the cost of building and the revenue affordable housing generates. It is common for nonprofits to use over twenty sources of financing to fill this gap (Blumenthal, et al., 2016). They depend in great part on government programs

[8] Change zoning to allow for higher density and more intensive use

such as tax credits, bonds, loans, and grants, as well as traditional loans. The focus of nonprofit housing developers is to acquire subsidies, not to earn a traditional profit for investors; therefore, inclusionary housing requirements are irrelevant to most of their projects. Providing affordable housing is the sole purpose of their existence, not something that dissuades investment in their work.

Nonprofit developers desire more in-lieu fees

Though inclusionary requirements are not an issue for *most* nonprofit developments, a portion of their work is done by partnering with for-profit developers meeting inclusionary requirements through the construction of *offsite* units. In these partnerships, the for-profit developer will typically provide funding and/or donate a piece of land, while the nonprofit developer will acquire additional financing and manage the project. Units built this way end up being more deeply affordable than units built onsite within a market -rate development, and the affordability is designed to last longer.

One nonprofit developer remembered beginning a partnership like this in San Rafael, only to learn that the City did not allow the payment of in-lieu fees as an option to fulfill the requirement. She recommended that the City allow in-lieu fees and land donation by-right, rather than through a discretionary process, because it would allow for these types of creative, beneficial partnerships to occur more easily there. She added that allowing for-profit developers to "fee out" gives them one less variable to manage when financing their projects. It reduces risk, thereby reducing the cost of capital, and increasing the likelihood that housing can be built.

The same developer explained that when a city collects fees for the requirements, it then has more agency, because it can choose where affordable developments will go. Without collecting funds, affordable housing gets built where market-rate developers want to build. This can produce some economic integration, but it can also stand in the way of a city acquiring specific sites that are well-suited for 100% affordable developments. The state now applies more pressure on cities to get units at

lower income levels developed, and this is most easily accomplished by nonprofit developers, rather than through onsite development.

In-lieu fees help nonprofit developer to leverage other funding sources

Two nonprofit developers strongly believed that the City of San Rafael should change the inclusionary ordinance to allow the option of paying in-lieu fees because amassing local housing funds is necessary to leverage state and federal housing funds. One emphasized that housing policy at the state level is changing rapidly, making it important for local governments to follow new developments and adjust their policies to best position themselves. For example, Proposition 1: The Veterans and Affordable Housing Bond Act, which passed in November of 2018, directs $300 million in new funding to the state's Local Housing Trust Fund Matching Grant Program. Local funds must be available to acquire the match. Nonprofit developers must also compete for Federal Low-Income Housing Tax Credits. With local funds dedicated to affordable housing, projects are more economically feasible and therefore more competitive.

A third nonprofit developer agreed that allowing more in-lieu fees could be potentially be helpful to her organization's ability to develop in San Rafael. However, she emphasized that fees must be adequately high, to ensure they contribute meaningfully to affordable housing construction.

The fourth nonprofit developer did not have a strong opinion on whether in-lieu fees should be a default option in the policy, but she agreed that any funds the City can generate for her projects are welcomed. Unlike the other nonprofit developers, her agency only serves the poorest, most vulnerable populations. Because of this it can't use the federal tax credit financing system which requires serving people with a wide range of incomes. Her agency uses no loans and must raise all its funding upfront from governments, foundations, corporations, and private donations. She commented that many cities need her agency's services, because of state requirements to provide extremely low-income housing.

When asked about the concern that in-lieu fees sometimes remain unused for long periods of time, a developer remarked that the money would be utilized more quickly if it took less time to get approvals in San Rafael.

NIMBYism is a major barrier to nonprofit affordable housing development

All the nonprofit developers with experience working in San Rafael stated that building in the City was extremely difficult because of community opposition to their projects, frequently referred to as NIMBYism (Not In My Back Yard-ism). One stated that this resistance is the biggest barrier to affordable housing development in the city; the second largest being funding. One developer said that her agency had once given up on working in San Rafael for a period of time because of NIMBYism. Another described community opposition she had seen in San Rafael as a mob. She remembered working on an affordable two-unit project for which took an entire year to get approved because of neighbor resistance; one neighbor opposing the project was a lawyer.

Another developer explained that city residents organized a vigil to protect a building the would be torn down to make room for her agency's 100% affordable transit-oriented development. She remembered one resident who attended the vigil, claiming to support the project, but not its location. The woman said, "If I could wave my magic wand I'd find another site for you." However, the same resident protested again (with many others) when the developer proposed a new location.

The entitlement process can also be a barrier for nonprofit developers

One developer said the development approval process takes longer in San Rafael than in other cities, though it is comparable to other parts of Marin County. She believes the central problem for market-rate housing construction in San Rafael is the unpredictability of developing there, not the 20% inclusionary requirement. Like the for-profit developers interviewed, she said the Design Review Board's system is problematic. There is a high cost to design a project for review by the DRB, which is the first step in the entitlement process. However, projects may be denied during later stages of entitlement, meaning the significant funds invested in design may be

completely lost. The nonprofit developer explained that it is risky for her agency to spend money for an answer in San Rafael when there is strong chance the answer will be no. The challenge is especially difficult for nonprofit developers who must go through the entitlement process using their owns funds in order to get state funding for the construction of a project. She recommended the City make decisions about allowable density and height before design review because this is common in other cities. She also recommended allowing developers to develop by-right, eliminating all discretionary processes.

> *"Just decide where the housing can be built and let them build."*
>
> -Nonprofit Housing Developer

Note: The City of San Rafael's Community Development Department recently altered the entitlement processes for two housing developments, moving Planning Commission study sessions (addressing density, height, environmental impact, traffic, etc.) to the beginning of the process and moving design review closer to the end of the process (City of San Rafael Community Development Department, 2018; San Rafael Community Development Department, 2019). These housing developments are very large; Northgate Walk contains 136 proposed units, and 703 3rd Street contains 120 proposed units.

The City Council can reduce community opposition to new housing

One nonprofit developer saw the City Council as having a very important role in handling community opposition. She had seen situations when all councilmembers were in favor of an affordable housing development, which had helped to quell community opposition. She said the Council should stay unified and support all types of housing, at all income levels, to address the crisis, and mitigate community resistance.

Other Recommendations from Nonprofit Developers

1. Streamline processes and waive fees for nonprofit development. One developer mentioned that the city has waived fees in the past for her agency. She commented that she has had a great experience working with the current Community Development Director, and that he has "bent over backwards" to help her projects.

2. Two nonprofit developers believe the inclusionary requirements should be as high as possible. They believe the units provide housing for low-income people and prevent homelessness.

3. One nonprofit developer said she though the current requirement appears to be a little higher than other jurisdictions. She recommended that the City of San Rafael hire economic experts to conduct a full analysis and determine the best inclusionary rate. She recommended the organization, Grounded Solutions Network, to potentially do this analysis.

4. One nonprofit developer said that requiring developers to disperse inclusionary units equitably through market-rate projects makes developments more difficult to build and sometimes infeasible. She and her organization recommend allowing developers to cluster inclusionary units when needed.

Interview Results: Former Employee of the City of San Rafael

Former city administrative employee believes the inclusionary requirement is not a barrier to housing development

The former City administrative employee interviewed thinks that San Rafael's inclusionary rate is not necessarily too high. He believes that for-profit developers are able to build most costs into their projects as long as they have a reasonably compact entitlement process. In his opinion, the main challenges for housing development in the City are 1) finding appropriate sites, 2) getting political approval, and 3) gaining community approval. He feels strongly that the City Council and Planning Commission needs to take a stronger and pro-housing development stance, counter local NIMBYism, and shorten the time it takes for projects to be approved. He strongly suggests reducing the City's parking requirements. He added that during his decades of work as an administrator for various cities, he has seen successful mixed-income housing developments where the lower-income units were designed to be smaller than the market-rate units, and were clustered within buildings rather than being dispersed.

> *"Council must have the will to stand up to wailing residents and allow more density and height. They must be willing to step out and take some slings and arrows"*
>
> -Former City of San Rafael Administrative Employee

City Vision

He recommends that the City undertake a "visioning process", to engage local residents and solicit suggestions for additional land uses. After getting community input, he believes the City Council should give strong indications to developers that projects

> *"Council must signal to developers that they will be approved. They need a method of getting to yes."*
>
> -Former City of San Rafael Administrative Employee

envisioned by the community would be approved.

He believes a visioning process is a better choice for San Rafael than a specific plan because it is more flexible with its goals and cheaper to undertake; it does not require environmental review to be completed. He noted that developers need room to be creative so it's important not to make a city's vision too strict.

Part 6: Recommendations

Criteria

The recommendations in this report were generated based on the results of the economic feasibility analysis, developer/city employee interviews, and academic literature review. As noted in Part 5: Developer and Stakeholder Interviews, recommendations provided by interviewees were scored based on six criteria: 1) **Maximizes affordable housing production** to help the City of San Rafael meet its RHNA goals more rapidly, 2) Suggested by **more than one *type* of interviewee** (for-profit developer, nonprofit developer, former city employee), 3) Suggested by **more than one interviewee,** 4) **Supported by standard practices** in the field of inclusionary housing, 5) **Economically feasible** in the City, 6) **Politically feasible** in in the City of San Rafael. Recommendations received one point for each criterion fulfilled. A score of four or higher resulted in a strong recommendation, while a score of three or lower resulted in a recommendation being offered for the consideration of the Community Development Department. An alternatives criteria matrix with scoring can be found in **Appendix D: Alternatives Criteria Matrix**. Whenever possible, final recommendations were modified to integrate components that would improve racial equity in the City.

Recommendations

<u>Recommendation 1:</u> Provide developers with a by-right in-lieu fee option to fulfill the inclusionary housing requirement.

Both nonprofit and for-profit developers agreed that creating an easier in-lieu fee option would be helpful for them. For-profit developers hope for the fee to be low,

nonprofit developers hope for it to be high; but all of them thought a by-right in-lieu option would be an improvement. Even if the fees are set somewhat high, they provide for-profit developers with a *known* cost to replace the riskier, subject-to-change cost of onsite inclusionary unit construction, thereby making development more predictable. If in-lieu fees are slightly lower than the cost of constructing affordable units, they can further incentivize market-rate development.

As long as in-lieu fees are set high enough, nonprofit developers benefit because they can then leverage additional housing funds from state and federal governments. Nonprofit-led projects would result in the construction of more deeply affordable units than what the onsite inclusionary requirement can produce. Therefore, a by-right in-lieu fee option would help the City of San Rafael reach its unmet low-income housing goals more quickly than the existing onsite construction requirement. Since a 100% affordable housing development has not been built in San Rafael for over 20 years, and the City has reached only 1% of its low-income RHNA housing targets, the City should choose an in-lieu fee strategy to facilitate nonprofit driven development.

By-right in-lieu fees must be set at appropriate levels to incentivize the types of housing construction that allow the City to reach its goals. If set too low, funds collected won't be meaningful. If set too high, developers will always choose to build affordable units onsite, but this scenario could also result in less building overall. The City should aim for levels that are low enough to encourage market-rate construction and high enough to facilitate the acquisition of substantial funds. Further financial analysis should be conducted to understand if by-right in-lieu fees should be permitted under all circumstances or only under limited ones (e.g. for projects under 20 units).

Even though in-lieu fees may reduce economic inclusion at the individual building level, maximizing affordable unit production is the best strategy to prevent lower-income residents from being completely displaced from the City. Research suggests that San Rafael's lowest-income residents are disproportionally people of color, so maximizing affordable housing production can also potentially reduce racial disparities, or at least prevent them from getting worse (Crispell, 2015). To maximize economic and

racial integration, the City Council, Planning Commission and Community Development Department must work ensure 100% affordable developments are incorporated into all neighborhoods equitable and not clustered in low-income areas. The City should create structure for these efforts by including racial and economic integration metrics in written policies concerning the placement of 100% affordable housing developments.

Next Steps for Implementation:

Hire an economic consultant to determine the proper scenarios to allow in-lieu fees by-right, and the fee amount that would incentivize the City's most desired type of affordable housing construction. This could be combined with an update to the City's in-lieu fee nexus study, which was last completed 15 years ago.

Update the municipal code to include racial and economic integration goals in the process of identifying sites for 100% affordable housing developments. Update any relevant Community Development Department policies to do the same.

<u>Recommendation 2</u>: Consider altering the inclusionary requirement depending on the type of development and its location; conduct further study.

Because economic feasibility analysis results showed that some large multifamily ownership developments appear infeasible under the current maximum 20% inclusionary requirement, Council should consider reducing it for ownership units specifically. Because some large multifamily rental developments in certain neighborhoods appear economically feasible with an inclusionary level higher than 20%, the City should explore the possibility of increasing the requirement for rentals in specific neighborhoods. A professional consultant should conduct further analysis of the City's inclusionary rate using more refined economic data. This new analysis may be combined with a new analysis of the in-lieu fee structure. Future inclusionary requirement analysis should include smaller prototype sizes that would trigger the City's 15% and 10% inclusionary housing requirements. A broader analysis scope would provide a more comprehensive understanding of what inclusionary levels are appropriate for the City.

Next Steps for Implementation:

Hire an economic consultant to conduct further study of the City's Affordable Housing Requirement and determine appropriate inclusionary levels based on type of development (rental vs ownership), development size, and neighborhood location. May be combined with **Next Steps for Implementation** from **Recommendation 1**.

Recommendation 3: City Council should take a strong, unified pro-housing stance to manage community opposition to new affordable and market-rate housing developments.

A non-profit developer and a former city administrative employee both reported seeing housing development successes after elected officials stood up for housing and took on resistant city residents. Council members should commit to defending housing production, even when under pressure. Council members should seek out opportunities to strengthen their housing advocacy skills and cultivate unity around the need for housing production, especially at lower income levels. Council should identify champions of housing development, both inside and outside the community, who can assist them with messaging and who can also speak at community meetings. Potential champions/partners in this work include: affordable housing developers, affordable housing advocacy organizations, business owners who struggle to keep employees because of the lack of housing in the City, teachers' unions, nurses' unions, building trade unions, and pastors.

Next Steps for implementation:

Identify housing champions; request help with messaging and community meeting turnout.

Recommendation 4: Formalize and expand the new entitlement process used for Northgate Walk and 703 3rd Street. Provide all housing developers with a shortened, more predictable entitlement process.

The entitlement process used for these large developments will help both for-profit and nonprofit developers increase affordable housing production in the City. All

the interviewees emphasized that the City should be clearer about what types of projects it will approve. The City should also:

a. Create planning protocols that require staff to communicate to developers what offsite infrastructure is required (e.g. traffic signals and sewer) and what development fees that will be charged for housing projects, as early as possible.

b. Waive fees for 100% affordable housing developments.

The City should consider:

- Allow development by-right for highly desired projects (e.g., 100% affordable developments).

Next Steps for Implementation:

Update the Planning Code to include the above recommendations.

<u>Recommendation 5</u>: Allow developers to fulfill the inclusionary requirement more creatively and efficiently.

All interviewees recommended adding flexibility of some kind to the inclusionary requirement to enable production of more affordable housing. The City should allow and encourage developers to use the options below to fulfill the inclusionary requirement in cases where these options would produce higher numbers of affordable units than onsite production:

a. Reduce parking requirements based on affordable housing production

b. Allow developers to build an increased number of smaller-sized affordable units rather fewer large-sized affordable units

c. Allow affordable units to be clustered in a development

d. Allow land donation by-right if it fulfills City needs. The City may consider accepting land near public transportation, for example, or land in areas of the City that are less economically integrated.

Next Steps for Implementation:

Draft an update to the Affordable Housing Ordinance to include this recommendation.

<u>Recommendation 6</u>: Create additional precise plans and/or specific plans for neighborhoods where housing development is desired. Incentivize 100% affordable housing development in the current Downtown Precise Plan and all future precise plans/specific plans. Since the City is going beyond a visioning process and reducing development costs with the Downtown Precise Plan, it should continue this work in other neighborhoods. The City should consider neighborhoods such as Canal and Terra Linda for precise plans, since they are areas that developers have already identified as desirable. However, the City should also consider neighborhoods in need of more racial and economic integration for precise plans. The City should streamline and incentivize 100% affordable housing development more aggressively than market rate development in all precise plans to best meet current affordable housing needs. Most low and moderate-income City residents cannot be absorbed into new market rate housing with inclusionary units. The city should strive to continue meeting its above moderate housing targets, but strive even harder to meet moderate, low, and very low-income unit targets.

Next Steps for Implementation:

- Identify neighborhoods for new precise plans. Seek out funding from ABAG/MTC and other sources.

- Ensure the Downtown Precise Plan strongly encourages 100% affordable housing development. Offer additional help to the consultants working on the plan, if needed.

<u>Recommendation 7</u>: Set a schedule to review and revise the Inclusionary Housing Ordinance on a regular basis. Inclusionary housing ordinances work best when a housing market is strong. As market conditions change, inclusionary ordinances should be updated to maximize affordable housing production.

Next Steps for Implementation:

Update the inclusionary Housing Ordinance to include a revision process every five years.

<u>Other Areas for Consideration:</u>

1. Relax commercial requirements and allow more housing-only development to be constructed
2. Upzone areas ripe for housing development in the City. Increase zoning for multifamily housing construction.
3. Tie development fees to unit square footage or bedroom count. As one developer explained, when fees are based on unit count (as they are now) the fees for large and small units are the same, even though smaller units bring in less revenue. Therefore, basing fees on unit count is a disincentive to building the small units which the City of San Rafael needs.

Conclusion

San Rafael's Affordable Housing Ordinance can be modified in many ways to reduce barriers to housing production and increase affordable housing development. Modifications recommended in this report include allowing developers to fulfill the affordable housing requirement by paying in-lieu fees more easily, conducting more study and potentially altering the requirement based on development type and location; and allowing developers to provide affordable housing more creatively and efficiently. It is recommended that the City regularly update the Affordable Housing Ordinance to maximum housing production as market conditions change.

The City can also remove barriers to housing production that are unrelated to the Affordable Housing Ordinance. The City Council is recommended to take a strong, unified pro-housing stance to manage community opposition to all kinds of housing development. In addition, the City should consider expanding the new entitlement process, used for Northgate Walk and 703 3rd Street, to all housing developers. Both for-profit and nonprofit housing developers agree that a simplified entitlement process will make the City more attractive to them. It is also recommended for the City to expand the creation of precise plans and incentivize 100% affordable housing development in all of them.

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Appendix A: Affordability Levels

Affordability levels for inclusionary units are typically based on an Area Median Income (AMI), which is calculated annually by the U.S. Department of Housing and Urban Development (HUD). The Area Median Income is the midpoint of a region's income distribution – half of households in a region earn more than the median and half earn less than the median (City of Minneapolis, 2019). If a household makes less than 80% of an area's median income, HUD defines it as low-income. Income levels are determined with household size taken into account. **Table 4** below shows HUD housing affordability levels.

Table 4

HUD Affordability Categories

Extremely Low-Income	Very Low-Income	Low-Income	Moderate-Income	Above Moderate-Income
0-30% of AMI	31-50% of AMI	51-80% of AMI	81-120% of AMI	Above 120% of AMI

Note: AMI refers to Area Median Income. Table produced from (California Department of Housing and Community Development, 2019)

Households typically pay 30% of the top income in their range for an inclusionary unit (e.g. 30% of 80% of AMI for a moderate-income household). This is because, according to HUD, households are considered cost-burdened if they spend more than 30% of their gross income on housing; they may not have enough money left over to cover other essential living costs (HUD.gov). The reality of this HUD assumption varies depending on the costs of living in a given location.

Appendix B: Proformas

Basic Assumptions

Construction costs for ownership units are minimized when project density is 22 units per acre or less, but to maximize revenues, the unit count must be as high as possible.

Hard costs for rental developments:

Up to 3 Stories - $180/SF

4-5 Stories - $200/SF

6 stories - $340/SF

Hard costs for ownership developments:

Up to 3 stories - $165/SF (cost savings assumed for large, efficient home building company)

Apartment Pro Forma

Downtown

ASSUMPTIONS	
4 woodframe stories; includes 1 story of covered parking	No density bonus units built, but modifications, waivers and concessions assumed
Elevator in building	Within 2 minute walk to the SMART Transit Station
Assumes corner lot	Parking concess. of 0.5 spaces/unit in density bonus scenario
10% retail on ground floor	260 SF per parking stall

Color Key
= Core variable to be manipulated
=Important results

ZONING REGULATIONS

Zone	Min Lot Size (SF)	Minimum area per dwelling unit (SF)	Allowable Denisty /Acre	Max Units allowed on lot	Max Base Height (feet)	Max Base Height (stories)	Max Lot Coverage	Setbacks required
2/3MUE	6000	600	72.6	36.3	54	5	100%	0
					5 stories			

LAYOUT

	Base Project	Density Bonus Project
Usable Acres	0.5	0.5
Usable Acres (SF)	21,780 SF	21,780 SF
Units	27	36
Total Stories	4	4
Residential Stories	3	3
Max units possible per floor	14.5 per floor	
Max units possible with 4 stories	44 units	
Net Rentable Square Feet Needed	18,400 SF	24,840 SF
Circulation	22%	20%
SF Needed including Circulation	22,448 SF	29,808 SF
Parking SF Needed @ 260 SF/stall	7,020 SF	6,513 SF
Retail SF	2,100 SF	2,100 SF
Gross Square Footage Needed	31,568 SF	38,421 SF
Density/Acre	54.0	72.9

Assumption of 1 unit per 1500 SF of site area

LAND COSTS

	Base Project	Density Bonus Project
Land Cost/Acre	$2,750,000	$2,750,000
Total Land Cost	$1,375,000	$1,375,000
Land Cost/Unit	$50,926	$37,723

BMR GAUGE

BMR %ages	Units Required	Achieved
25%	7	5
24%	6	
23%	6	
22%	6	
21%	6	
20%	5	
19%	5	
18%	5	
16%	4	
15%	4	

UNIT MIX AND GROSS REVENUE FOR MARKET RATE UNITS

					Base Project w/ 20% BMRs		Density Bonus Project (35% bonus based on 20% BMR Req.)	
Apartment Type	Mix	NRSF per Unit	Rent/SF/Mo.	Rent/Month/ Unit	# of Units	Total bedrooms	# of Units	Total bedrooms
Studio	30%	455	$5.61	$2,554	7	0	9	0
1 bedroom	33%	640	$4.69	$2,998	7	7	10	10
2 bedroom	37%	900	$4.33	$3,900	8	16	12	23
3 bedroom	0%	1,100	$4.00	$4,400	0	0	0	0
Studio BMR VERY LOW	0%	455	$2.19	$995	0	0	0	0
1 bedroom BMR VERY LOW	20%	640	$1.77	$1,135	1	1	1	1
2 bedroom BMR VERY LOW	20%	900	$1.41	$1,266	1	2	1	2
3 bedroom BMR VERY LOW	0%	1,100	$1.27	$1,395	0	0	0	0
Studio BMR LOW	20%	455	$2.64	$1,203	1	0	1	0
1 bedroom BMR LOW	20%	640	$2.14	$1,372	1	1	1	1
2 bedroom BMR LOW	20%	900	$1.70	$1,532	1	2	1	2
3 bedroom BMR LOW	0%	1,100	$1.54	$1,691	0	0	0	0
TOTALS	**100%**				**27**	**29**	**36**	**34**
WEIGHTED AVE. BASE PROJECT		**681 SF**	**$4.16 /SF/month**	**$2,836/month**	**27**		**36**	
WEIGHTED AVE. DENSITY PROJECT		**685 SF**	**$4.29 /SF/month**	**$2,940/month**				

PARKING REQUIREMENTS

			Base Project		Density Bonus Project			
Apartment Size	Downtown Parking District Requirements		Base # of Units	# of Parking Spaces Needed	Affordable Housing / State Density Bonus Parking Standards (includes handicap and guest parking)		Base # of Units	# of Parking Spaces Needed
	Uncovered	Covered			Uncovered	Covered		
Studio < 500 sq. ft.	1	1	8	8	1	1	10	10
Studio > 500 sq. ft.	1	1		0	1	1		0
1 BRM	1	1	9	9	1	1	12	12
2 BRM <900 sq. ft.	1	1	10	10	2	2	14	27
2 BRM >900 sq. ft.	1.5	1.5		0	2	2		0

3 BRM	2	1	0	0	2	2	0	0
4 BRM	2	1	0	0	2.5	2.5	0	0
Guest Parking Required?	No				No			
Tandem Parking	Yes; as an exception				Yes			
TOTALS			**27**	**27**			**36**	**50**

NET OPERATING INCOME						**Spaces Required w/ Concession**
	Driver 1	**Driver 2**	**Driver 3**	**Base Project Total**	**Density Bonus Total**	**25.0**
Total Units				27	36	
Total Market Rate Units				22	31	
Total BMR Units				5	5	
Revenues						
Gross Annual Rent	# of units	weighted ave. rent/ month	12 months	$918,872	$1,285,989	
Parking revenue				$0	$0	
Retail Space Revenue	$2 per SF	2,100 SF		$50,400	$50,400	
Potential Gross Income				**$969,272**	**$1,336,389**	
Less Vacancy	5%			$ (48,464)	$ (66,819)	
Effective Gross Income (EGI)				**$920,809**	**$1,269,569**	
Less Operating Expenses	22%	20%		$ (202,578)	$ (253,914)	
Net Operating Income				**$718,231**	**$1,015,656**	

PROJECT COSTS					
	Driver 1	**Driver 2**	**Base Project Total**	**Density Bonus Total**	
Hard Costs					
Construction	$200 per SF	Gross Constr.Area including parking	$6,313,600	$7,684,152	
Hard Cost Contingency	10% of Hard Costs		$631,360	$768,415	
Parking stacker	$7,500 per stacker	Not necessary assuming parking concession			
Parking stalls (uncovered)	$2,000 per stall				
Site improvement costs	$16,000 per unit		$432,000	$583,200	
Hard Costs Total			**$7,376,960**	**$9,035,767**	
Soft Costs					
Entitlements and Consultants	estimate		$600,000	$600,000	
Architecture/Engineering	12.5% of Hard Costs		$922,120	$1,129,471	
Municipal Fees	See Fees Tab		$586,890	$778,030	
Land Closing Costs	Estimate		$75,000	$75,000	

	Insurance	$6,000 per unit		$162,000	$218,700				
	Marketing, Preleasing	Estimate		$125,000	$125,000				
	Land Cost	$2,750,000 per acre		$1,375,000	$1,375,000				
	Developer's Fee	2% of Hard Costs		$147,539	$180,715				
	Construction Loan Origination Fee	1% of loan amount	Debt@60%ofPrjCost	$68,223	$81,106	**FINANCING HELPER**		**Base Project**	**Density Project**
	Construction Interest	8%	Debt@60%ofPrjCost	$489,494	$581,929	**Most Development Costs**		$ 11,370,509	$ 13,517,683
Soft Costs Total				**$4,551,266**	**$4,301,201**				
						Debt @ 60% (Loan Amount)		$ 6,822,305	$ 8,110,610
Total Project Development Costs				**$11,928,226**	**$13,336,968**	**Equity @ 40%**		$ 4,548,204	$ 5,407,073

RESIDENTIAL CONTRIBUTION RECAP				
	Driver 1		**Base Project**	**Density Bonus Project**
Net Operating Income (NOI)			$718,231	$1,015,656
Total Project Development Costs			$11,928,226	$13,336,968
Yield on Cost (NOI/Total Development Cost)			6.0%	7.6%
Total Project Value	5.5% Cap Rate		$13,058,743	$18,466,464
Return on Cost (Profit as a % of Cost)			9%	38%
Required Return on Cost			20%	20%

Apartment Pro Forma

Terra Linda

ASSUMPTIONS		Color Key
3 woodframe stories; separate surface parking lot	No density bonus units built, but modifications, waivers and concessions assumed	= Core variable to be manipulated
Walkup, no elevator	260 SF per parking stall	=Important results
Parking concess. of 0.5 spaces/unit in density bonus scenario		

ZONING REGULATIONS

Zone	Min Lot Size (SF)	Minimum area per dwelling unit (SF)	Allowable Denisty /Acre	Max Units allowed on lot	Max Base Height (feet)	Max Base Height (stories)	Max Lot Coverage	Setbacks required
HR1.8	6000	1800	24.2	24.2	36	3	60%	many

LAYOUT

	Base Project	Density Bonus Project
Usable Acres	1.0	1.0
Usable Acres (SF)	43,560 SF	43,560 SF
Units	18	24
Total Stories	3	3
Residential Stories	3	3
Units possible per floor	29.0 per floor	
Units possible with planned height	87 units	
Net Rentable Square Feet Needed	18,000 SF	24,300 SF
Circulation	20%	20%
SF Needed including Circulation	21,600 SF	29,160 SF
Parking SF Needed @ 260 SF/stall	9,256 SF	5,798 SF
Gross Square Footage Needed	21,600 SF	29,160 SF
Density/Acre	18	24

Assumption of 1 unit per 1500 SF of site area

LAND COSTS

	Base Project	Density Bonus Project
Land Cost/Acre	$ 2,500,000	$ 2,500,000
Total Land Cost	$2,500,000	$2,500,000
Land Cost/Unit	$ 138,889	$ 102,881

BMR GAUGE

BMR %ages	Units Required	Achieved
25%	5	4
24%	4	
23%	4	
22%	4	
21%	4	
20%	4	
19%	3	
18%	3	
16%	3	
15%	3	

UNIT MIX AND GROSS REVENUE FOR MARKET RATE UNITS

					Base Project w/ 20% BMRs		Density Bonus Project (35% bonus based on 20% BMR Req.)	
Apartment Type	Mix	NRSF per Unit	Rent/SF/Mo.	Rent/Month/ Unit	# of Units	Total bedrooms	# of Units	Total bedrooms
Studio	0%	455	$5.61	$2,554	0	0	0	0
1 bedroom	0%	640	$4.69	$2,998	0	0	0	0
2 bedroom	50%	900	$4.33	$3,900	7	14	10	20
3 bedroom	50%	1,100	$4.00	$4,400	7	21	10	30
Studio BMR VERY LOW	0%	455	$2.19	$995	0	0	0	0
1 bedroom BMR VERY LOW	0%	640	$1.77	$1,135	0	0	0	0
2 bedroom BMR VERY LOW	25%	900	$1.41	$1,266	1	2	1	2
3 bedroom BMR VERY LOW	25%	1,100	$1.27	$1,395	1	3	1	3
Studio BMR LOW	0%	455	$2.64	$1,203	0	0	0	0
1 bedroom BMR LOW	0%	640	$2.14	$1,372	0	0	0	0
2 bedroom BMR LOW	25%	900	$1.70	$1,532	1	2	1	2
3 bedroom BMR LOW	25%	1,100	$1.54	$1,691	1	3	1	3
TOTALS	**100%**				**18**	**45**	**24**	**51**
WEIGHTED AVE. BASE PROJECT		**1000 SF**	**$3.55 /SF/month**	**$3,555/month**	**18**		**24**	
WEIGHTED AVE. DENSITY PROJECT		**1000 SF**	**$3.71 /SF/month**	**$3,709/month**				

PARKING REQUIREMENTS

	Base Project				Density Bonus Project			
Apartment Size	Outside Downtown Parking District Requirements		Base # of Units	# of Parking Spaces Needed	Affordable Housing / State Density Bonus Parking Standards (includes handicap and guest parking)		Base # of Units	Density Bonus Project # of Parking Spaces Needed
	Uncovered	Covered			Uncovered	Covered		
Studio < 500 sq. ft.	1	1	0	0	1	1	0	0
Studio > 500 sq. ft.	1.5	1.5		0	1	1		0
1 BRM	1.5	1	0	0	1	1	0	0
2 BRM <900 sq. ft.	2	1	9	18	2	2	12	24
2 BRM >900 sq. ft.	2	1		0	2	2		0
3 BRM	2	1	7	14	2	2	10	20
4 BRM	2	1	0	0	2.5	2.5	0	0

Guest Parking Required?	1 space per 5 units			4	No		
Tandem Parking	No				Yes		
TOTALS			**16**	**36**		**22**	**45**

NET OPERATING INCOME						**Spaces Required w/ Concession**
	Driver 1	**Driver 2**	**Driver 3**	**Base Project Total**	**Density Bonus Total**	**22.3**
Total Units				18	24	
Total Market Rate Units				14	10	
Total BMR Units				4	4	
Revenues						
Gross Annual Rent	# of units	weighted ave. rent/ month	12 months	$767,808	$1,081,548	
Parking revenue				$0	$0	
Retail Space Revenue				$0	$0	
Potential Gross Income				**$767,808**	**$1,081,548**	
Less Vacancy	5%			$ (38,390)	$ (54,077)	
Effective Gross Income (EGI)				**$729,418**	**$1,027,471**	
Less Operating Expenses	20%	18%		$ (145,884)	$ (184,945)	
Net Operating Income				**$583,534**	**$842,526**	

PROJECT COSTS					
	Driver 1	**Driver 2**	**Base Project Total**	**Density Bonus Total**	
Hard Costs					
Construction	$180 per SF	Gross Constr.Area	$3,888,000	$5,248,800	
Hard Cost Contingency	10% of Hard Costs		$388,800	$524,880	
Parking stacker	$7,500 per stacker				
Parking stalls (uncovered)	$2,000 per stall		$71,200	$89,200	
Site improvement costs	$20,000 per unit		$360,000	$486,000	
Hard Costs Total			**$4,708,000**	**$6,348,880**	
Soft Costs					
Entitlements and Consultants	estimate		$600,000	$600,000	
Architecture/Engineering	12.5% of Hard Costs		$534,600	$721,710	
Municipal Fees	See Fees Tab		$419,932	$563,092	
Land Closing Costs	Estimate		$75,000	$75,000	
Insurance	$6,000 per unit		$108,000	$145,800	
Marketing, Preleasing	Estimate		$125,000	$125,000	
Land Cost	$2,500,000 per acre		$2,500,000	$2,500,000	
Developer's Fee	2% of Hard Costs		$94,160	$126,978	

	Construction Loan Origination Fee	1% of loan amount	Debt@60%ofPrjCost	$54,988	$67,239	**FINANCING HELPER**	**Base Project**	**Density Project**
	Construction Interest	8%	Debt@60%ofPrjCost	$394,535	$482,432	**Most Development Costs**	$ 9,164,692	$ 11,206,460
Soft Costs Total				**$4,906,215**	**$5,407,250**			
						Debt @ 60% (Loan Amount)	$ 5,498,815	$ 6,723,876
Total Project Development Costs				**$9,614,215**	**$11,756,130**	**Equity @ 40%**	$ 3,665,877	$ 4,482,584

RESIDENTIAL CONTRIBUTION RECAP				
	Driver 1		**Base Project**	**Density Bonus Project**
Net Operating Income (NOI)			$583,534	$842,526
Total Project Development Costs			$9,614,215	$11,756,130
Yield on Cost (NOI/Total Development Cost)			6.1%	7.2%
Total Project Value	5.0% Cap Rate		$11,670,682	$16,850,518
Return on Cost			21%	43%
Required Return on Cost			20%	20%

Apartment Pro Forma

Canal Area

ASSUMPTIONS	
4 woodframe stories; includes 1 story of covered parking	Parking concess. of 0.5 spaces/unit in density bonus scenario
Elevator	Assumes concession of height increase
Assumes addition of density bonus units	

Color Key
= Core variable to be manipulated
=Important results

ZONING REGULATIONS

Zone	Min Lot Size (SF)	Minimum area per dwelling unit (SF)	Allowable Density /Acre	Max Units allowed on lot	Max Base Height (feet)	Max Base Height (stories)	Max Lot Coverage	Setbacks required
HR1.5	6000	1500	29.04	29.04	36	3	60%	many

LAYOUT

	Base Project	Density Bonus Project
Usable Acres	1.0	1.0
Usable Acres (SF)	43,560 SF	43,560 SF
Units	22	30
Total Stories	4	4
Residential Stories	3	3
Units possible per floor	29.0 per floor	
Units possible with planned height	87 units	
Net Rentable Square Feet Needed	22,000 SF	29,700 SF
Circulation	20%	20%
SF Needed including Circulation	26,400 SF	35,640 SF
Parking SF Needed @ 260 SF/stall	4,392 SF	14,404 SF
Gross Square Footage Needed	30,792 SF	50,044 SF
Density/Acre	22	30

Assumption of 1 unit per 1500 SF of site area

LAND COSTS

	Base Project	Density Bonus Project
Land Cost/Acre	$ 2,500,000	$ 2,500,000
Total Land Cost	$2,500,000	$2,500,000
Land Cost/Unit	$ 113,636	$ 84,175

BMR GAUGE

BMR %ages	Units Required	Achieved
25%	6	4
24%	5	
23%	5	
22%	5	
21%	5	
20%	4	
19%	4	
18%	4	
16%	4	
15%	3	

UNIT MIX AND GROSS REVENUE FOR MARKET RATE UNITS

					Base Project w/ 20% BMRs		Density Bonus Project (35% bonus based on 20% BMR Req.)	
Apartment Type	Mix	NRSF per Unit	Rent/SF/Mo.	Rent/Month/ Unit	# of Units	Total bedrooms	# of Units	Total bedrooms
Studio	0%	455	$5.61	$2,554	0	0	0	0
1 bedroom	0%	640	$4.69	$2,998	0	0	0	0
2 bedroom	50%	900	$4.33	$3,900	9	18	13	26
3 bedroom	50%	1,100	$4.00	$4,400	9	27	13	39
Studio BMR VERY LOW	0%	455	$2.19	$995	0	0	0	0
1 bedroom BMR VERY LOW	0%	640	$1.77	$1,135	0	0	0	0
2 bedroom BMR VERY LOW	25%	900	$1.41	$1,266	1	2	1	2
3 bedroom BMR VERY LOW	25%	1,100	$1.27	$1,395	1	3	1	3
Studio BMR LOW	0%	455	$2.64	$1,203	0	0	0	0
1 bedroom BMR LOW	0%	640	$2.14	$1,372	0	0	0	0
2 bedroom BMR LOW	25%	900	$1.70	$1,532	1	2	1	2
3 bedroom BMR LOW	25%	1,100	$1.54	$1,691	1	3	1	3
TOTALS	100%				22	55	30	64
WEIGHTED AVE. BASE PROJECT		1000 SF	$3.66 /SF/month	$3,663/month	22		30	
WEIGHTED AVE. DENSITY PROJECT		1000 SF	$3.79 /SF/month	$3,789/month				

PARKING REQUIREMENTS

	Base Project				Density Bonus Project			
Apartment Size	Outside Downtown Parking District Requirements		Base # of Units	# of Parking Spaces Needed	Affordable Housing / State Density Bonus Parking Standards (includes handicap and guest parking)		Base # of Units	Density Bonus Project # of Parking Spaces Needed
	Uncovered	Covered			Uncovered	Covered		
Studio < 500 sq. ft.	1	1	0	0	1	1	0	0
Studio > 500 sq. ft.	1.5	1.5		0	1	1		0
1 BRM	1.5	1	0	0	1	1	0	0
2 BRM <900 sq. ft.	2	1	11	11	2	2	15	30
2 BRM >900 sq. ft.	2	1		0	2	2		0
3 BRM	2	1	9	9	2	2	13	26
4 BRM	2	1	0	0	2.5	2.5	0	0

Guest Parking Required?	1 space per 5 units			4	No			
Tandem Parking	No				Yes			
TOTALS			**20**	**24**			**28**	**55**

NET OPERATING INCOME						**Spaces Required w/ Concession**
	Driver 1	**Driver 2**	**Driver 3**	**Base Project Total**	**Density Bonus Total**	**27.7**
Total Units				22	30	
Total Market Rate Units				18	13	
Total BMR Units				4	4	
Revenues						
Gross Annual Rent	# of units	weighted ave. rent/ month	12 months	$967,008	$1,350,468	
Parking revenue				$0	$0	
Retail Space Revenue				$0	$0	
Potential Gross Income				**$967,008**	**$1,350,468**	
Less Vacancy	5%			$ -	$ -	
Effective Gross Income (EGI)				**$967,008**	**$1,350,468**	
Less Operating Expenses	20%	18%		$ (193,402)	$ (243,084)	
Net Operating Income				**$773,606**	**$1,107,384**	

PROJECT COSTS					
	Driver 1	**Driver 2**	**Base Project Total**	**Density Bonus Total**	
Hard Costs					
Construction	$200 per SF	Gross Constr.Area including parking	$6,158,400	$10,008,800	
Hard Cost Contingency	10% of Hard Costs		$615,840.00	$1,000,880	
Parking stacker	$7,500 per stacker				
Parking stalls (uncovered)					
Site improvement costs	$16,000 per unit		$352,000	$475,200	
Hard Costs Total			**$7,126,240**	**$11,484,880**	
Soft Costs					
Entitlements and Consultants	estimate		$600,000	$600,000	
Architecture/Engineering	12.5% of Hard Costs		$846,780	$1,376,210	
Municipal Fees	See Fees Tab		$525,401	$724,189	
Land Closing Costs	Estimate		$300,000	$300,000	
Insurance	$6,000 per unit		$132,000	$178,200	
Marketing, Preleasing	Estimate		$125,000	$125,000	

FINANCING HELPER				
Interest Rate:	8%	Month 1	Month 2	Month 3
	TOTAL	Feb-18	Mar-18	Apr-18
APARTMENTS DOWNTOWN				
BASE PROJECT				
DEBT	**$6,822,305**			
% of total Debt Drawn each month		0.00%	0.00%	0.00%
DEBT DRAW by month		$0.00	$0.00	$0.00
Total Debt Draw		$0	$0	$0
Interest by month @ 7%		$0	$0	$0
DENSITY PROJECT				
DEBT	**$8,110,610**			
% of total Debt Drawn each month		0.00%	0.00%	0.00%
DEBT DRAW by month		$0.00	$0.00	$0.00
Total Debt Draw		$0	$0	$0
Interest by month @ 7%		$0	$0	$0
APARTMENTS TERRA LINDA				
BASE PROJECT				
DEBT	**$5,828,129**			
% of total Debt Drawn each month		0.00%	0.00%	0.00%
DEBT DRAW by month		$0.00	$0.00	$0.00
Total Debt Draw		$0	$0	$0
Interest by month @ 7%		$0	$0	$0
DENSITY PROJECT				
DEBT	**$7,168,449**			
% of total Debt Drawn each month		0.00%	0.00%	0.00%
DEBT DRAW by month		$0.00	$0.00	$0.00
Total Debt Draw		$0	$0	$0
Interest by month @ 7%		$0	$0	$0
APARTMENTS CANAL				
BASE PROJECT				
DEBT	**$7,378,768**			
% of total Debt Drawn each month		0.00%	0.00%	0.00%
DEBT DRAW by month		$0.00	$0.00	$0.00
Total Debt Draw		$0	$0	$0
Interest by month @ 7%		$0	$0	$0
DENSITY PROJECT				
DEBT	**$10,510,906**			
% of total Debt Drawn each month		0.00%	0.00%	0.00%
DEBT DRAW by month		$0.00	$0.00	$0.00
Total Debt Draw		$0	$0	$0
Interest by month @ 7%		$0	$0	$0

Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11
May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0

Month 12	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18	Month 19
Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0

Month 20	Month 21	Month 22	Month 23	Month 24	Month 25	Month 26	Month 27
Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$0	$0	$0	$0	$0	$0	$0	$0
$0	$0	$0	$0	$0	$0	$0	$0

Month 28	Month 29	Month 30	Month 31	Month 32	Month 33	Month 34
May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
0.00%	0.00%	0.00%	0.00%	0.00%	6.15%	14.74%
$0.00	$0.00	$0.00	$0.00	$0.00	$419,909	$1,005,460
$0	$0	$0	$0	$0	$419,909	$1,425,369
$0	$0	$0	$0	$0	$2,799	$9,502
0.00%	0.00%	0.00%	0.00%	0.00%	6.15%	14.74%
$0.00	$0.00	$0.00	$0.00	$0.00	$499,203.44	$1,195,327.69
$0	$0	$0	$0	$0	$499,203	$1,694,531
$0	$0	$0	$0	$0	$3,328	$11,297
0.00%	0.00%	0.00%	0.00%	0.00%	6.15%	14.74%
$0.00	$0.00	$0.00	$0.00	$0.00	$358,718.02	$858,939.57
$0	$0	$0	$0	$0	$358,718	$1,217,658
$0	$0	$0	$0	$0	$2,391	$8,118
0.00%	0.00%	0.00%	0.00%	0.00%	6.15%	14.74%
$0.00	$0.00	$0.00	$0.00	$0.00	$441,213.98	$1,056,473.67
$0	$0	$0	$0	$0	$441,214	$1,497,688
$0	$0	$0	$0	$0	$2,941	$9,985
0.00%	0.00%	0.00%	0.00%	0.00%	6.15%	14.74%
$0.00	$0.00	$0.00	$0.00	$0.00	$454,158.95	$1,087,470.01
$0	$0	$0	$0	$0	$454,159	$1,541,629
$0	$0	$0	$0	$0	$3,028	$10,278
0.00%	0.00%	0.00%	0.00%	0.00%	6.15%	14.74%
$0.00	$0.00	$0.00	$0.00	$0.00	$646,940.29	$1,549,079.16
$0	$0	$0	$0	$0	$646,940	$2,196,019
$0	$0	$0	$0	$0	$4,313	$14,640

Month 35	Month 36	Month 37	Month 38	Month 39	Month 40	Month 41	Month 42
Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
35.51%	10.60%	3.70%	3.72%	18.29%	3.85%	0.56%	0.57%
$2,422,648	$722,881	$252,652	$254,126	$1,247,761	$262,887	$38,432	$38,656
$3,848,017	$4,570,898	$4,823,550	$5,077,677	$6,325,438	$6,588,325	$6,626,757	$6,665,413
$25,653	$30,473	$32,157	$33,851	$42,170	$43,922	$44,178	$44,436
35.51%	10.60%	3.70%	3.72%	18.29%	3.85%	0.56%	0.57%
$2,880,134.03	$859,388.17	$300,362.68	$302,114.79	$1,483,384.45	$312,530.20	$45,689.27	$45,955.79
$4,574,665	$5,434,053	$5,734,416	$6,036,531	$7,519,915	$7,832,445	$7,878,135	$7,924,090
$30,498	$36,227	$38,229	$40,244	$50,133	$52,216	$52,521	$52,827
35.51%	10.60%	3.70%	3.72%	18.29%	3.85%	0.56%	0.57%
$2,069,609.12	$617,539.87	$215,834.86	$217,093.90	$1,065,931.64	$224,578.22	$32,831.43	$33,022.95
$3,287,267	$3,904,807	$4,120,641	$4,337,735	$5,403,667	$5,628,245	$5,661,077	$5,694,100
$21,915	$26,032	$27,471	$28,918	$36,024	$37,522	$37,741	$37,961
35.51%	10.60%	3.70%	3.72%	18.29%	3.85%	0.56%	0.57%
$2,545,566.20	$759,558.22	$265,471.35	$267,019.94	$1,311,068.61	$276,225.45	$40,381.82	$40,617.38
$4,043,254	$4,802,812	$5,068,283	$5,335,303	$6,646,372	$6,922,597	$6,962,979	$7,003,597
$26,955	$32,019	$33,789	$35,569	$44,309	$46,151	$46,420	$46,691
35.51%	10.60%	3.70%	3.72%	18.29%	3.85%	0.56%	0.57%
$2,620,251.68	$781,843.23	$273,260.13	$274,854.15	$1,349,534.62	$284,329.75	$41,566.60	$41,809.07
$4,161,881	$4,943,724	$5,216,984	$5,491,838	$6,841,373	$7,125,703	$7,167,269	$7,209,078
$27,746	$32,958	$34,780	$36,612	$45,609	$47,505	$47,782	$48,061
35.51%	10.60%	3.70%	3.72%	18.29%	3.85%	0.56%	0.57%
$3,732,495.82	$1,113,719.96	$389,253.56	$391,524.21	$1,922,384.93	$405,022.01	$59,210.78	$59,556.18
$5,928,515	$7,042,235	$7,431,489	$7,823,013	$9,745,398	$10,150,420	$10,209,631	$10,269,187
$39,523	$46,948	$49,543	$52,153	$64,969	$67,669	$68,064	$68,461

Month 43	Month 44	Month 45	Month 46	**Total**
Aug-21	Sep-21	Oct-21	Nov-21	
0.57%	0.57%	0.58%	0.58%	**100%**
$38,882	$39,108	$39,337	$39,566	**$6,822,305**
$6,704,294	$6,743,403	$6,782,739	$6,822,305	**N/A**
$44,695	$44,956	$45,218	$45,482	**$489,494**
0.57%	0.57%	0.58%	0.58%	**100%**
$46,223.86	$46,493.50	$46,764.71	$47,037.51	**$8,110,610**
$7,970,314	$8,016,808	$8,063,573	$8,110,610	**N/A**
$53,135	$53,445	$53,757	$54,071	**$581,929**
0.57%	0.57%	0.58%	0.58%	**100%**
$33,215.58	$33,409.34	$33,604.23	$33,800.25	**$5,828,129**
$5,727,315	$5,760,725	$5,794,329	$5,828,129	**N/A**
$38,182	$38,405	$38,629	$38,854	**$418,163**
0.57%	0.57%	0.58%	0.58%	**100%**
$40,854.31	$41,092.63	$41,332.34	$41,573.44	**$7,168,449**
$7,044,451	$7,085,544	$7,126,876	$7,168,449	**N/A**
$46,963	$47,237	$47,513	$47,790	**$514,329**
0.57%	0.57%	0.58%	0.58%	**100%**
$42,052.96	$42,298.27	$42,545.00	$42,793.18	**$7,378,768**
$7,251,131	$7,293,429	$7,335,974	$7,378,768	**N/A**
$48,341	$48,623	$48,906	$49,192	**$529,420**
0.57%	0.57%	0.58%	0.58%	**100%**
$59,903.59	$60,253.03	$60,604.50	$60,958.03	**$10,510,906**
$10,329,090	$10,389,344	$10,449,948	$10,510,906	**N/A**
$68,861	$69,262	$69,666	$70,073	**$754,148**

MUNICIPAL FEES			1A Apartments Dwntwn	
			Base Project Fees	Density Bonus Project Fees
		Unit count	27	36
		Bedroom Count	29	34
		Residential Square footage Needed including circulation	22,448	29,808
		Total Hard Costs	$ 7,376,960	$ 9,035,767
FEE NAME	**FORMULA OR FEE AMOUNT**			
PARKLAND DEDICATION FEE	$ 1,967.98	x Number of Dwelling Units (for purchase only)	N/A	N/A
TRAFFIC MITIGATION FEE	$ 4,246	x 2 peak trips per new unit (**Net** New AM and PM Peak Hour Vehicle Trips) If there was an existing residential development, only count net new trips	$ 229,284	$ 309,533
STREET MAINTENANCE FEE	0.01	Roughly 1% of Valuation $0.01 x (Valuation of Improvements – $10,000.00)	$ 73,770	$ 90,358
MITIGATION MONITORING FEE	$ 5,713	Deposit (includes up to 30 hours of staff time – additional hours billed annually at fully burdened hourly rate)	$ 5,713	$ 5,713
WATER CONNECTION FEE	$ 4,785	($34,180 per acre-foot (AF) of estimated annual consumption)* (0.14 AF per dwelling)-for 3 units or more).	$ 18,088	$ 24,419
MECHANICAL, ELECTRICAL and PLUMBING FEES	$ 166.67	Per unit	$ 4,500	$ 6,075
SEWER CONNECTION FEE	$ 6,094	per unit	$ 164,546	$ 222,137
		Las Gallinas District did not return my call, used San Rafael District above as estimate instead		
DEVELOPMENT IMPACT FEE	$ 0.12	per Square Feet of Commercial Space.		
	$ 127.50	per Bedroom for Residential Uses	$ 3,698	$ 4,307
SCHOOL FEE	$ 3.79	per new square feet for residential developments.	$ 85,078	$ 112,972
		$0.61 per new square foot for nonresidential developments.		
FIRE DEPT FEES		$1,350 base sprinkler + 4.00/ head (avg. 7/unit) + $4.00 per device (1/unit).	$ 2,214	$ 2,516
TOTALS			**$ 586,890**	**$ 778,030**

2A Apartments TLinda		3A Apartments Canal		
Base Project Fees	Density Bonus Project Fees	Base Project Fees	Density Bonus Project Fees	
18	24	22	30	
45	51	55	64	
21,600	29,160	26,400	35,640	
$ 5,183,200	$ 6,990,400	$ 7,126,240	$ 11,484,880	
				RESPONSIBLE AGENCY
N/A	N/A	N/A	N/A	City of San Rafael
$ 152,856	$ 206,356	$ 186,824	$ 252,212	City of San Rafael
$ 51,832	$ 69,904	$ 71,262	$ 114,849	City of San Rafael
$ 5,713	$ 5,713	$ 5,713	$ 5,713	City of San Rafael
$ 12,059	$ 16,279	$ 14,738	$ 19,897	Marin Municipal Water District CONTACT: (415) 945-1455 Engineering direct line: 415-945-1532 https://www.marinwater.org/284/Fees-Costs
$ 3,000	$ 4,050	$ 3,667	$ 4,950	Marin Municipal Water District
$ 109,697	$ 148,091	$ 134,074	$ 181,000	San Rafael Sewer/sanitation District (South San Rafael) CONTACT: (415) 454-4001. Area stops at top of lincoln
				Las Gallinas Valley Sanitary District (North San Rafael) CONTACT: (415) 472-1734
				City of San Rafael
$ 5,738	$ 6,471	$ 7,013	$ 8,192	
$ 81,864	$ 110,516	$ 100,056	$ 135,076	San Rafael City Schools CONTACT: (415) 492-3233
				Dixie School District CONTACT: (415) 492-370
$ 1,926	$ 2,128	$ 2,054	$ 2,300	
$ 424,684	**$ 569,508**	**$ 525,401**	**$ 724,189**	

Townhouse Pro Forma

Tierra Linda

ASSUMPTIONS
3 woodframe stories; each unit includes 2 parking spaces
No density bonus units built, but modifications, waivers and concessions assumed

Color Key
= Core variable to be manipulated
=Important results

ZONING REGULATIONS

Zone	Min Lot Size (SF)	Minimum area per dwelling unit (SF)	Allowable Density /Acre	Max Units allowed on lot	Max Base Height (feet)
HR1.5	6000	1500	29.04	87.12	36

Max Base Height (stories)	Max Lot Coverage	Setbacks required
3	60%	many

LAYOUT

Usable Acres	3
Usable Acres (SF)	130,680 SF
Units	66
Total Stories	3
Residential Stories	3
Density/Acre	22.00

LAND COSTS

Land Cost/Acre	$	2,500,000
Total Land Cost	$	7,500,000
Land Cost/Unit	$	113,636

INITIAL COST ASSUMPTIONS

	Cost	Date/Duration
Fees	$ 41,000	
Deposit 1	$ 100,000	12/1/2018
Deposit 2	$ 400,000	3/1/2019
Entitlement Cost/Duration	$ 700,000	9 months

TIMING ASSUMPTIONS

Construct. Cycle Time	7 months
Monthly Sales Pace	4 months
Land COE	12/1/2019
Entitlement Start Date	3/1/2019

Final Map & Plans/Duration	$ 700,000	8 months
Site Development/Duration	$ 5,577,000	6 months
Site Development Contingenc	$ 557,700	10%
Dev Cost / Acre	$ 2,511,567	
Dev Cost / Unit	$ 114,162	
	Per Unit	Total
Hard Dev.	$ 70,000	$ 4,620,000
Direct Transfer Cost	$ 14,500	$ 957,000
Total	$ 84,500	$ 5,577,000

UNIT MIX & GROSS REVENUE

	SF per Unit	Units	Unit Mix (%)	Base Price	Hard Cost/SF
1 Bedroom	**900**	**0**	0%	**$ 606,980**	$ 165
2 bedroom	**1,050**	**27**	41%	**$ 700,990**	$ 165
3 Bedroom	**1,500**	**27**	41%	**$ 795,000**	$ 165
4 Bedroom	**1,750**	**0**	0%	**$ 845,000**	$ 165
					$ 165
1 B BMR Low	900	**0**	0.0%	$ 212,900	$ 165
2 B BMR Low	1050	**3**	4.5%	$ 245,200	$ 165
3 B BMR Low	1500	**3**	4.5%	$ 278,800	$ 165
4 B BMR Low	1750	**0**	0.0%	$ 312,400	$ 165
					$ 165
1 B BMR MOD	900	**0**	0.0%	$ 312,600	$ 165
2 B BMR MOD	1050	**3**	4.5%	$ 358,500	$ 165
3 B BMR MOD	1500	**3**	4.5%	$ 402,800	$ 165
4 B BMR MOD	1750	**0**	0.0%	$ 447,100	$ 165
Weighted Avg	**1275**	**66**		**$ 670,419**	**$ 165**

BMR GAUGE

BMR %ages	# Required	Achieved
20%	13	12
19%	13	
18%	12	
17%	11	
16%	11	
15%	10	

REVENUES				
	Driver 1	**Driver 2**	**Per Unit**	**Totals**
Sales Price			$ 670,419	$ 44,247,630
Lot Premium Revenue	1.5% of sales price		$ 10,056	$ 663,714
Option Revenue	5% of sales price		$ 33,521	$ 2,212,382
Cash Discounts (Buyer Closing Costs)			$ (7,500)	$ (495,000)
Total Sales Revenue			**$ 706,496**	**$ 46,628,726**
PROJECT COSTS				
	Driver 1	**Driver 2**	**Per Unit**	**Totals**
Base Construction			$ 210,375	$ 13,884,750
Fees and Permits			$ 41,000	$ 2,706,000
Option Costs	60% of option rev.		$ 20,113	$ 1,327,429
Common Costs	1% of sales rev.		$ 7,065	$ 466,287
Warranty	0.25% of sales rev.	$ 2,500	$ 4,266	$ 281,572
Contingency	1% of hard costs		$ 2,104	$ 138,848
Direct Costs Total			**$ 284,923**	**$ 18,804,885**
Land			$ 113,636	$ 7,500,000
Entitlements & Consultants			$ 10,606	$ 700,000
Architecture and Engineering			$ 10,606	$ 700,000
Land Development			$ 92,950	$ 6,134,700
Site Development Capitalized Interest (See Site Dev. Cap Int. Section below)	7%		$ 12,951	$ 854,748
Lot Cost - Incl. Site Dev. Cap Interest			**$ 240,749**	**$ 15,889,448**
Closing Costs	$150 per unit		$ 150	$ 9,900
Capitalized Construction Interest ((Soft Costs + Hard Costs minus Warranty and HC Contingency)/2)*Cap. Constr. Interest rate* (Construction cycle time/12)	7%		$ 14,989	$ 989,266
Total Cost of Sales			**$ 540,811**	**$ 35,693,500**
Direct Margin before Developer Fee			**$ 165,685**	**$ 10,935,226**
Developer Fee	3% of sales revenue		$ 21,195	$ 1,398,862
Total Project Development Costs			$ 562,005	$ 37,092,362

RESIDENTIAL CONTRIBUTION RECAP				
			Per Unit	Totals
Total Sales Revenue			$ 706,496	$ 46,628,726
Total Project Development Costs			$ 562,005	$ 37,092,362
Gross Margin $			**$ 144,490**	**$ 9,536,364**
Return on Cost (Profit as a % of Cost)			**20.5%**	**20.5%**
Required Return on Cost			20%	20%

SITE DEVELOPMENT CAPITALIZED INTEREST					
30.4=total months needed for project	Monthly Factor		Interest Multiplier		Capitalized Interest
Deposit 1	26	(Dev. Cycle Date minus Deposit 1 Date)/30.4	16.3%	(one plus capitalized interest rate/monthly factor minus one	$ 247
Deposit 2	23	(Dev. Cycle Date minus Deposit 2 Date)/30.4	14.3%	" "	$ 868
Land	14	(Dev. Cycle Date minus Land COE Date/30.4	8.5%	" "	$ 8,975
Entitlements & Consultants	23	(Dev. Cycle Date minus PSA Contract Date/30.4	14.3%	" "	$ 760
Civil / FM Costs	14	(Dev. Cycle Date minus Entitle. Cycle Date/30.4	8.5%	" "	$ 450
Land Development	6	"Development Cycle" length	3.6%	" "	$ 1,651
Total Per Unit Site Development Capitalized Interest					**$ 12,951**

Townhouse Pro Forma

Canal Area

ASSUMPTIONS
3 woodframe stories; each unit includes 2 parking spaces
No density bonus units built, but modifications, waivers and concessions assumed

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ZONING REGULATIONS

Zone	Min Lot Size (SF)	Minimum area per dwelling unit (SF)	Allowable Density /Acre	Max Units allowed on lot	Max Base Height (feet)
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Land Cost/Unit	$ 113,636

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Entitlement Cost/Duration	$ 700,000	9

TIMING ASSUMPTIONS	
Construct. Cycle Time	7
Sales Pace	4
Land COE	12/1/2019
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Civil / FM Costs	14	(Dev. Cycle Date minus Entitle. Cycle Date/30.4	8.5%	" "	$ 450
Land Development	6	"Development Cycle" length	3.6%	" "	$ 1,651
Total Per Unit Site Development Capitalized Interest					**$ 12,951**

Appendix C: Interview Questions for Developers

1. What are the most desirable locations for your company to develop housing right now?
    a. Most important factors that make them desirable?
2. Least desirable locations?
    a. Factors that make them less desirable?
3. How desirable is San Rafael as a location for your company to develop housing?
    a. Reason?
    b. How desirable is Marin County in general? Reason?
4. Has your company developed in San Rafael in the past?
    a. Housing?
    b. What type?
    c. What was your experience with implementing the IH requirement?
5. Do you have projects in the pipeline in San Rafael now?
    a. Details?
    b. What is your experience thus far with implementing the IH requirement?
6. What types of projects would your company like to develop in the future in San Rafael? (if any)
    a. How tall/dense would you ideally like to build?
7. How do inclusionary policies impact or not impact your developments?
    a. Where have the policies worked?
    b. Under what conditions have the policies worked?

8. What is your general opinion of San Rafael's inclusionary housing requirement?

Ownership			Rental		
2-10 Units	11-20 Units	20+ Units	2-10 Units	11-20 Units	20+ Units
10%	15%	20%	10%	15%	20%
Ownership developments: 50% affordable to low income and 50% to moderate income			Rental developments: 50% of affordable units for very low income and 50% of affordable units for low income *Requirement may not be applied to a rental-only development that does not include a condominium map or a density bonus request.		

   a. Is the San Rafael requirement comparable to the requirement in other areas that you are developing in?
   b. To what degree has San Rafael's IH requirement been a barrier to developing in the city?
   c. With the existing policy in place, what types/sizes of projects are most feasible in San Rafael for your company?
9. Besides changing the inclusionary requirement, what other actions could the City takes to make San Rafael a more desirable and feasible site of housing development?
10. Would you be willing to share your cap rate or rates for San Rafael developments? We are trying to find out if this policy is an impediment to development.
11. What other developers do you recommend I speak with?

Appendix D: Alternatives Criteria Matrix

Key:	no	yes	uncertain				
Alternatives	**Maximizes affordable housing production**	**Suggested by more than one *type* of interviewee**	**Suggested by more than one interviewee**	**Supported by standard practices in the field of inclusionary housing**	**Economically feasible in the City**	**Politically feasible**	**Totals**
Allow by-right in-lieu fee	1	1	1	1	1	1	6
Alter inclusionary requirements	1	1	1	1	1	1	6
City Council member take a strong prohousing stance	1	1	1	1	1	0	5
Move height and density decisions before design decisions	1	1	1	0	1	1	5
Require less parking	1	1	1	1	1	0	5
Streamline entitlement process and waive fees for nonprofit developers	1	0	0	1	1	1	4
Allow smaller, more numerous affordable units	1	0	1	1	1	0	4
Create more specific and/or precise plans in the City	1	0	1	0	1	1	4
Revise affordable housing requirement regularly	1	0	0	1	1	1	4
Communicate to developers early about fees and infrastructure requirements	1	0	0	1	1	1	4
Allow development by-right	1	0	0	1	1	0	3
Upzone more locations in the City	1	0	0	1	1	0	3
Allow land donation by-right	1	0	0	1	1	0	3
Cluster units	1	0	0	1	1	0	3
Relax commercial requirement and allow more housing-only development to be constructed	1	0	0	0	1	0	2
Create City Vision for Housing	0	0	0	0	1	0	1
Tie development fees to square footage or bedroom count	1	0	0	0	0	0	1