

Planning Commission
REGULAR MEETING AGENDA
Tuesday, August 13, 2024 | 7:00 PM
City Hall Council Chamber – 70 N. First Street

CALL TO ORDER / ROLL CALL

This Planning Commission meeting will be conducted in person and virtually via video teleconferencing (Zoom) in compliance with the provisions of the Brown Act. Members of the public may attend this meeting in person at Campbell City Hall or virtually via Zoom at <https://campbellca.gov/PCSignup>. The meeting will also be live streamed on Channel 26, the City's website, and on YouTube at <https://www.youtube.com/@CityofCampbell>.

Written correspondence will be accepted via email at planning@campbellca.gov until 5:00 PM on the day of the meeting, and thereafter may be delivered in-person at the public hearing. Written correspondence will be posted to the City's website and distributed to the Planning Commission. If you choose to email your comments, please indicate in the subject line "FOR PUBLIC COMMENT" and indicate the item number.

APPROVAL OF MINUTES

1. **Approval of Minutes of July 23, 2024** (*Roll Call Vote*)
 - Meeting Minutes, 7/23/2024 (Regular Meeting)

COMMUNICATIONS

AGENDA MODIFICATIONS OR POSTPONEMENTS

ORAL COMMUNICATIONS

This portion of the meeting is reserved for individuals wishing to address the Planning Commission on matters of community concern that are not listed on the agenda. In the interest of time, the Chair may limit speakers to five minutes. Please be aware that State law prohibits the Commission from acting on non-agendized items, however, the Chair may refer matters to staff for follow-up.

PUBLIC HEARING

Note: Members of the public may be allotted up to two (2) minutes to comment on any public hearing item. Applicants/Appellants and their representatives may be allotted up to a total of five (5) minutes for opening statements and up to a total of three (3) minutes maximum for closing statements. Items requested/recommended for continuance are subject to Planning Commission's consent at the meeting.

2. 725 Kenneth Avenue – Site and Architectural Review (Resolution/Roll Call Vote)

Public Hearing to consider the request of Meysam Rezvani to allow the demolition of an existing 1,656 square foot home and construction of a new 4,560 square-foot 2-story home on property located at **725 Kenneth Avenue**. The application under consideration is a Site and Architectural Review Permit. File No.: PLN-2024-12. Staff is recommending that this item be deemed Categorical Exempt from CEQA. Planning Commission action is final unless appealed in writing to the City Clerk within 10 calendar days. *Project Planner: Nishant Seoni, Contract Associate Planner.*

Recommended Action: That the Planning Commission adopt a resolution approving a Site and Architectural Review Permit.

3. Inclusionary Housing Ordinance & Nexus Study (Resolution/Roll Call Vote)

Continued Public Hearing to consider amendments to Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code that would lower the inclusionary housing requirement threshold to five units (currently 10 units) and change the method in which in-lieu fees and inclusionary housing requirements are calculated in addition to other changes. This item is associated with, and supported by, an Affordable Housing Nexus Study that serves to evaluate changes to the City's inclusionary housing requirement threshold and in-lieu fee, and the establishment of new commercial linkage fees. File No.: PLN-2023-85. Staff is recommending that this item be deemed Categorical Exempt from CEQA. Tentative City Council Meeting Date: August 20, 2024. *Project Planner: Stephen Rose, Senior Planner.*

Recommended Action: That the Planning Commission adopt a resolution recommending adoption of an Ordinance to amend Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code.

NEW BUSINESS**4. Discussion of Community Development Fiscal Year 2024 Workplan**

This item will present the Department's adopted FY 24 Workplan, included in the FY 24 Budget adopted by the City Council, and will include discussion of expected timelines and touchpoints for Planning Commission review and any opportunities for Planning Commission support, if desired.

5. Report of the Community Development Director**ADJOURNMENT**

Adjourn to the Planning Commission meeting of **August 27, 2024**, at 7:00 PM, in the City Hall Council Chambers, 70 North First Street, Campbell, California and via telecommunication.

Americans with Disabilities Act (ADA)

In compliance with the Americans with Disabilities Act, listening assistance devices are available for meetings held in the Council Chambers. If you require accommodation to participate in the meeting, please contact the City Clerk's Office at ClerksOffice@campbellca.gov or 408-866-2117 in advance of the meeting.



**PLANNING COMMISSION
REGULAR MEETING MINUTES
Tuesday, July 23, 2024 | 7:00pm
City Hall Council Chamber**

CALL TO ORDER

The Regular Planning Commission meeting of July 23, 2024, was called to order at 7:00 pm by Chair Zisser, and the following proceedings were had to wit.

ROLL CALL

Planning Commissioners Present:

Alan Zisser, Chair
Matt Kamkar, Vice Chair
Maggie Ostrowski
Michael Krey
Davis Fields
Adam Buchbinder
Cori Majewski

Planning Commissioners Absent:

None

Staff Present:

Rob Eastwood, Director
Bill Seligmann, City Attorney
Stephen Rose, Senior Planner
Tracy Tam, Associate Planner
Larissa Lomen, Assistant Planner
Nishant Seoni, Contract Planner
Eloiza Murillo-Garcia, Housing Program Manager
Roger Storz, Senior Civil Engineer
Matthew Jue, City Traffic Engineer
Ken Ramirez, Administrative Analyst

APPROVAL OF MINUTES

1. **Approval of Minutes of June 25, 2024 (Roll Call Vote)**

- Meeting Minutes, 6/25/2024 (Regular Meeting)

Meeting minutes approved. Commissioner Buchbinder and Majewski abstained.

COMMUNICATIONS

AGENDA MODIFICATIONS OR POSTPONEMENTS

Commissioners received Desk Items regarding Item 5

ORAL COMMUNICATIONS

This portion of the meeting is reserved for individuals wishing to address the Planning Commission on matters of community concern that are not listed on the agenda. In the interest of time, the Chair may limit speakers to five minutes. Please be aware that State law prohibits the Commission from acting on non-agendized items, however, the Chair may refer matters to staff for follow-up.

PUBLIC HEARING

Note: Members of the public may be allotted up to two (2) minutes to comment on any public hearing item. Applicants/Appellants and their representatives may be allotted up to a total of five (5) minutes for opening statements and up to a total of three (3) minutes maximum for closing statements. Items requested/recommended for continuance are subject to Planning Commission's consent at the meeting.

Disclosures – all except Kamkar visited Virginia Project. Zisser visited Pennylane Project, El Guapo's restaurant and had a general conversation regarding the item.

2. 1361 Peggy Avenue – Site and Architectural Review (Resolution/Roll Call Vote)

Public Hearing to consider the request of Sunghwa Kang to allow the demolition of an existing 1,336 square-foot single-family residence and the construction of a new approximately 2,621 square-foot single-family residence and 595 square-foot statewide exempt attached ADU on property located at **1361 Peggy Avenue**. The application under consideration is a Site and Architectural Review Permit. File No.: PLN-2023-89. Staff is recommending that this item be deemed Categorically Exempt from CEQA. Planning Commission action is final unless appealed in writing to the City Clerk within 10 calendar days. *Project Planner: Nishant Seoni, Contract Associate Planner.*

Recommended Action: That the Planning Commission adopt a resolution approving a Site and Architectural Review Permit.

Contract Associate Planner Nishant Seoni presented staff report to consider the request of Sunghwa Kang to allow the demolition of an existing 1,336 square-foot single-family residence and the construction of a new approximately 2,621 square-foot single-family residence and 595 square-foot statewide exempt attached ADU on property located at **1361 Peggy Avenue**.

Commissioners asked about impacts to sidewalk and what the applicant would be obligated to do improve.

Commission asked the SARC Committee to present a report on items covered during SARC meeting review.

Commissioners supportive of project.

Motion: Upon motion by Commissioner Krey, seconded by Commissioner Kamkar, the Planning Commission motioned to grant approval of Reso No. 4717 granting an approval of a Site and Architectural Review Permit to allow the demolition of an existing 1,336 square-foot single-family residence and the construction of a new approximately 2,621 square-foot single-family residence on property located at 1361 Peggy Avenue. Project File.: PLN-2023-89, by the following roll call:

AYES:	Krey, Fields, Ostrowski, Kamkar, Zisser, Majewski, Buchbinder
NOES:	None
ABSENT:	None
ABSTAIN:	None

3. **1001 Audrey Avenue – Site and Architectural Review Permit (Resolution/Roll Call Vote)**

Public Hearing to consider the request of Shailesh Naik to allow the demolition of an existing single-family residence and detached garage and the construction of a new 4,495 square foot two-story single-family home with attached 2 car garage and front and rear covered porches on property located at **1001 Audrey Avenue**. The application under consideration is a Site and Architectural Review Permit. File No.: PLN-2024-26. Staff is recommending that this item be deemed Categorical Exempt from CEQA. Planning Commission action is final unless appealed in writing to the City Clerk within 10 calendar days. *Project Planner: Nishant Seoni, Contract Associate Planner.*

Recommended Action: That the Planning Commission adopt a resolution approving a Site and Architectural Review Permit.

Contract Associate Planner presented staff report to consider the request of Shailesh Naik to allow the demolition of an existing single-family residence and detached garage and the construction of a new 4,495 square foot two-story single-family home with attached 2 car garage and front and rear covered porches on property located at **1001 Audrey Avenue**.

SARC member Fields presented SARC report and what was discussed.

Commissioners received clarification from City Attorney that a tree from a neighboring residence can be trimmed so long as it does not damage the vitality of the tree, even if it is leaning over the house.

Architect representing the applicant stated that privacy concerns were a priority during the design of the project and ensured the Planning Commissioner there will be privacy trees

planted and that the project design was conservative with measurement limitations. Stated that they trusted the recommendations from the landscape architect on the suggested number of trees that would be planted.

Commissioners were supportive of project.

Motion: Upon motion by Commissioner Krey, seconded by Commissioner Fields, the Planning Commission motioned to grant approval of Reso No. 4718 granting approval of a Site and Architectural Review Permit to allow the demolition of an existing single-family residence and detached garage and the construction of a new 4,495 square-foot two-story single-family home with attached 2 car garage and front and rear covered porches on property located at 1001 Audrey Avenue. Project File.: PLN-2024-26, by the following roll call:

AYES:	Krey, Fields, Ostrowski, Kamkar, Zisser, Majewski, Buchbinder
NOES:	None
ABSENT:	None
ABSTAIN:	None

4. **103 S. First Street – Site and Architectural Review Permit (Resolution/Roll Call Vote)**

Public Hearing to consider the request of Edwin Bruce Associates on behalf of Casco Properties to allow the replacement of siding material along with the installation of shade canopies over existing balconies for a duplex on property located at **103 S. First Street**. The application(s) under consideration includes a Site and Architectural Review Permit. File No.: PLN-2024-64. Staff is recommending that this item be deemed Categorically Exempt from CEQA. Planning Commission action is final unless appealed in writing to the City Clerk within 10 calendar days. *Project Planner: Larissa Lomen, Assistant Planner.*

Recommended Action: That the Planning Commission adopt a resolution approving a Site and Architectural Review Permit.

Assistant Planner Larissa Lomen presented staff report to consider the request of Edwin Bruce Associates on behalf of Casco Properties to allow the replacement of siding material along with the installation of shade canopies over existing balconies for a duplex on property located at **103 S. First Street**.

SARC reported that main discussion would be on compatibility and exterior, nonstructural aesthetic changes.

Assistant Planner Lomen clarified for the commission that until the City's municipal code is updated future modifications would require SARC review.

Applicant was present to answer any questions but did not have anything to add.

Commissioners were in support of the project but did not believe that an item of this nature should be coming before the Planning Commission for approval.

Motion: Upon motion by Commissioner Ostrowski, seconded by Commissioner Fields, the Planning Commission motioned to grant approval of Reso No. 4713 granting approval of a Site and Architectural Review Permit to allow the replacement of siding material along with the installation of shade canopies over existing balconies for an existing duplex on property located at 103 S. First Street. The application(s) under consideration include a Site and Architectural Review Permit. Project File.: PLN-2024-64, by the following roll call:

AYES: Krey, Fields, Ostrowski, Kamkar, Zisser, Majewski, Buchbinder

NOES: None

ABSENT: None

ABSTAIN: None

Chair Zisser request a brief break for 5 minutes at 8:00pm. Chair Zisser opened Public Hearing and called back to order at 8:06pm.

5. 320 Virginia Avenue – Minor Housing Development Permit Project and Tentative Vesting Subdivision Map (Resolution/Roll Call Vote)

Public Hearing to consider the application by Valley Oak Partners on behalf of VOP Ref Virginia, LLC to allow the construction of forty (40) unit townhome style condominium units and creation of 6 private lots and 9 common lots, with associated site improvements; and use of Density Bonus Law waivers and a concession from the Zoning Code and Multi-Family Development and Design Standards (MFDDS), on property located at **320 Virginia Avenue**. The application(s) under consideration includes a Minor Housing Development Project Permit and Tentative Vesting Subdivision Map, with use of Density Bonus Law (DBL) submitted under an SB-330 preliminary application filed in compliance with Government Code § 65941.1. File No.: PLN-2023-157. Staff is recommending that this item be deemed Categorically Exempt from CEQA. Planning Commission action is final unless appealed in writing to the City Clerk within 10 calendar days. *Project Planner: Tracy Tam, Associate Planner.*

Recommended Action: Adopt a Resolution approving a Minor Housing Development Project Permit and Tentative Vesting Subdivision Map with use of Density Bonus waivers and a concession.

Associate Planner Tracy Tam presented staff report to consider the application by Valley Oak Partners on behalf of VOP Ref Virginia, LLC to allow the construction of forty (40) unit townhome style condominium units and creation of 6 private lots and 9 common lots, with associated site improvements; and use of Density Bonus Law waivers and a concession from the Zoning Code and Multi-Family Development and Design Standards (MFDDS), on property located at **320 Virginia Avenue**.

Matthew Jue, City Traffic Engineer, stated that the project was consistent with the General Plan and therefore it was exempt from further transportation analysis as the impacts were analyzed in the General Plan Environmental Impact Report (EIR). There are two criteria for numbers of service. Data for this project showed that this project was well below the threshold requiring a traffic analysis.

City Attorney clarified for the Planning Commission the difference between a waiver and a concession. A waiver is something that would physically preclude the development of a project. Concession would increase the cost for doing the project such that it would impact the provision that it would be affordable units.

City Attorney clarified for the Planning Commission that if the Planning Commission were to deny the application, the applicant can sue the City and the Court can order the City to reconsider the denial of the application.

Director Rob Eastwood clarified for the Planning Commission that under state law the City can only apply objective standards to housing. A density bonus project can claim unlimited waivers. Bar is low and it is project as designed as noted in the court decision of Bankers Hill v. San Diego.

Associate Planner Tracy Tam clarified for the Planning Commission impacts to solar panels are not analyzed under CEQA and the Solar Shade Control Act is applicable when there are trees and shrubs that are adjacent to the project site. Further, the city does not have any objective standards that require analysis of impacts to solar panels. The item was not required to come before the Planning Commission earlier for review. The City is also not required to request from the applicant the financial substantiation for the requested waivers.

Matthew Jue, City Traffic Engineer, informed the Planning Commission that there is a neighborhood traffic program that is offered by the City. The website has a step by step process that will guide the neighborhood on the process.

Associate Planner Tracy Tam informed the Planning Commission that it is not feasible to make changes to the project based on subjective standards and state law states that housing projects can only be held to objective standards.

Applicant, Jim Sullivan, spoke and stated that 40 units was the lowest number of units they could build on the property. Jim also stated every unit will have a 2- car garage and the project is providing 6 parking spaces over the minimum required in Density Bonus Law. Project has 35% of space as open space. Units include two-bedroom units (12 of which are 1400 sq. ft.) and other units will range from 1800 -2400 sq. ft. and those will be four-bedroom units. Looking at waivers so that units have front entries along Virginia Ave.

Property was purchased in October of 2021. Attempted to meet the spirit of MFFDS and seriously looked at any potential privacy concerns. All units will be metered with individual solar panels. Hexagon, traffic study consultant, advised that curbs located near the proposed driveways will be painted red. The neighborhood can put in a request for traffic calming measures. The units will be privately owned and the common spaces will be maintained by an HOA.

Roger Storz, Senior Civil Engineer, informed the Planning Commission that a number of the trees along Virginia Avenue were in poor shape. The current trees on site are not the right type and they are old and deceased. It's the right time to plant the right trees under those power lines.

Chair Zisser opened the public hearing for comment.

Natalya Flom, neighbor, voiced a complaint to Planning Commission, stated that she did not receive notification of public hearing. She cited concerns with impacts to street parking and because of that, difficulties of getting into her driveway.

Christine Sun, neighbor, stated that when there is an event, the entire street is full of cars. Over 100 cars that could overflow to the adjacent streets. Rather than seeing green space would rather see extra parking. Expressed that residents would not have the angles on the sidewalks necessary to get into their driveway.

Tom Wagner, neighbor, stated that he wants to focus on privacy, have not heard any accommodations for privacy. Huge proponent of high density. Stated that the developer is unwilling to consider their privacy concerns.

Sandy Hames, neighbor, stated that the main concern is privacy. Units will have a tiny backyard, there's no space to put extra trees on their current property. Concerned to lose privacy. Requesting that the location of the backyard to be moved. Wants a traffic study to evaluate Budd Avenue. Requesting for privacy trees to be planted on the project site.

John Matthew, neighbor, stated that he sees people speeding through stop sign. Protect the people of what you are approving. Has questions about when the traffic study was done.

Chris Mikkelsen, neighbor, stated that the parking is grossly underestimated. Development will impact overflow parking onto the street. Want to reiterate traffic safety concerns.

Kathy Mastrini, neighbor, stated that she has concerns about getting out of the driveway in the morning. Christopher street has not been acknowledged as to their impact. Would like to have parking consideration for their neighbors.

Charles Gibson, neighbor, stated that it would behoove the commission to listen to the residents. Visitor parking will become resident parking by owners of townhomes. Biggest issue will be during the construction phase. Fearful streets will be inundated with construction vehicles and equipment. How are developers going to take precautions during the construction phase.

Raja Pallela, stated there is no more single-family zoning, reality of California housing crisis. Project being proposed is of lower density. There was a lot of process during the housing and General Plan update and if we need to keep having a lot of process, not sure what precedent is being set to what we have agreed to do to help the housing crisis 2 years ago. City has power to put parking restrictions on the street. Recognized Campbell's Planning Division for the award they received.

Applicant, Jim Sullivan, responded and stated that he knocked on neighbor's doors and found that was the most effective way to communicate with the community. Tried to address concerns of residents. Tried to work with Planning Division staff to identify creative solutions. Willing to work with planning to do what's possible. Redesigning is not possible right now.

Chair closed public comment.

Director Robert Eastwood informed the Planning Commission that there is no requirement that housing projects go through pre-application review process.

Most commissioners were in favor of project. Recommend that the community and City look at traffic calming measures for the community. Happy to see that housing is being built on an identified Housing Opportunity site. Majority believe that that it is a good project with good design. Important that the City and Planning Commission follow through with what is lawful. This is an easing of Campbell to larger projects.

City Attorney informed Planning Commission that the law states that the Planning Commission cannot apply conditions to the application unless the conditions are based on objective criteria as well.

Motion: Upon motion by Commissioner Buchbinder, seconded by Commissioner Krey, the Planning Commission motioned to grant approval of Reso No. 4714 granting approval of a Minor Housing Development Project Permit with use of Density Bonus Law (DBL) waivers and a concession from the Zoning Code and Multi-Family Development and Design Standards (MFDDS) to allow construction of a 40-unit townhome style condominium units across 6 buildings, with associated site and landscaping improvements; and a tentative vesting subdivision map to allow creation of 6 residential lots, 9 common lots, and related public and private

easements, on property located at 320 Virginia Avenue. Project File.: PLN-2023-157, by the following roll call:

AYES: Krey, Fields, Ostrowski, Zisser, Majewski, Buchbinder
NOES: Kamkar
ABSENT: None
ABSTAIN: None

6. 1940 Hamilton Avenue – Conditional Use Permit (Resolution/Roll Call Vote)

Public Hearing to consider the request of Modulus on behalf of Trevor Zink to establish a child daycare center, (“commercial child day care center”) within an existing office building on property located at **1940 Hamilton Avenue**. The application(s) under consideration includes a Conditional Use Permit. File No.: PLN-2024-55. Staff is recommending that this item be deemed Categorical Exempt from CEQA. Planning Commission action is final unless appealed in writing to the City Clerk within 10 calendar days. *Project Planner: Larissa Lomen, Assistant Planner.*

Recommended Action: That the Planning Commission adopt a resolution approving a Conditional Use Permit.

Assistant Planner Larissa Lomen presented staff report to consider the request of Modulus on behalf of Trevor Zink to establish a child daycare center, (“commercial child day care center”) within an existing office building on property located at **1940 Hamilton Avenue**.

Commissioners received clarification that proposal will meet the child care requirements set forth by the State, County, and Fire District as conditioned. Additional licensure will be required by the State outside the City’s purview.

Commissioners supportive of project.

Applicant present had nothing to add.

Motion: **Upon motion by Commissioner Buchbinder, seconded by Commissioner Kamkar, the Planning Commission motioned to grant approval of Reso No. 4715 granting approval of a Conditional Use Permit on property located at 1940 Hamilton Avenue. The application under consideration includes a Conditional Use Permit. Project File.: PLN-2024-55, by the following roll call:**

AYES: Krey, Fields, Ostrowski, Kamkar, Zisser, Majewski, Buchbinder
NOES: None
ABSENT: None
ABSTAIN: None

7. **266 E. Campbell – Conditional Use Modification Permit (Resolution/Roll Call Vote)**

Public Hearing to consider the request of TOPA Architecture on behalf of Margery Raffanti to formalize outdoor seating within a rear patio of an existing quick service restaurant with onsite alcohol sales and late-night hours (El Guapo's), on property located at **266 E. Campbell Avenue**. The application(s) under consideration includes a Conditional Use Modification Permit. File No.: PLN-2023-129. Staff is recommending that this item be deemed Categorical Exempt from CEQA. Planning Commission action is final unless appealed in writing to the City Clerk within 10 calendar days. *Project Planner: Larissa Lomen, Assistant Planner.*

Recommended Action: That the Planning Commission adopt a resolution approving a Conditional Use Modification Permit.

Commissioner Ostrowski left the Public Hearing, would be absent for the remainder of the Public Hearing.

Assistant Planner Lomen presented staff report to consider the request of TOPA Architecture on behalf of Margery Raffanti to formalize outdoor seating within a rear patio of an existing quick service restaurant with onsite alcohol sales and late-night hours (El Guapo's), on property located at **266 E. Campbell Avenue**.

Commissioners received clarification that there had but no noise complaints or objections from Police Department on the proposal. Commissioners were reassured that the back patio area would be safe for customers and there were no traffic collision concerns as the rear alley does not serve as a thoroughfare, but rather a parking lot access where traffic speeds are low.

Commissioners were in support of project.

Motion: Upon motion by Commissioner Kamkar, seconded by Commissioner Fields, the Planning Commission motioned to grant approval of Reso No. 4716 granting approval of a Conditional Use Permit to formalize outdoor seating within a rear patio of an existing quick service restaurant with a full-service bar and late-night hours (El Guapo's), on property located at 266 E. Campbell Avenue. The Application(s) under consideration includes a Conditional Use Permit. Project File.: PLN-2023-129, by the following roll call:

AYES:	Krey, Fields, Kamkar, Zisser, Majewski, Buchbinder
NOES:	None
ABSENT:	Ostrowski
ABSTAIN:	None

8. **Inclusionary Housing Ordinance & Nexus Study (Resolution/Roll Call Vote)**

Public Hearing to consider amendments to Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code that would lower the inclusionary housing requirement

threshold to five units (currently 10 units) and change the method in which in-lieu fees and inclusionary housing requirements are calculated in addition to other changes. This item is associated with, and supported by, an Affordable Housing Nexus Study that serves to evaluate changes to the City’s inclusionary housing requirement threshold and in-lieu fee, and the establishment of new commercial linkage fees. File No.: PLN-2023-85. Staff is recommending that this item be deemed Categorical Exempt from CEQA. Tentative City Council Meeting Date: August 20, 2024. *Project Planner: Stephen Rose, Senior Planner.*

Recommended Action: That the Planning Commission adopt a resolution recommending adoption of an Ordinance to amend Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code.

Motion: Upon motion by Commissioner Buchbinder, seconded by Commissioner Kamkar, the Planning Commission motioned to move the Inclusionary Housing Ordinance & Nexus Study item to the Planning Commission regular meeting of August 13, 2024, by the following roll call:

AYES: Krey, Fields, Kamkar, Zisser, Majewski, Buchbinder
NOES: None
ABSENT: Ostrowski
ABSTAIN: None

REPORT OF THE COMMUNITY DEVELOPMENT DIRECTOR

Director Eastwood updated the Planning Commission with the following:

- The Llewelyn project was approved by City Council
- City Council approved an emergency ordinance and standards in place
- Distributed an RFP in Hamilton Avenue Precise Plan.
- Approved wireless tower approved by Planning Commission was denied by City Council.
- Can talk about how to put items on consent
- Item on the workplan for FY23 is to consider the use of SARC.
- Planning Department received the State’s award of excellence
- Department was awarded the State’s Sustainable Transportation Planning Grant.

Chair Zisser encouraged all commissioners to view the latest City Council meeting and view City Council’s comments as to why they rejected wireless tower facility application that the Planning Commission approved.

ADJOURNMENT

Adjourned meeting at 11:43 p.m. to the next Regular Planning Commission Meeting on **Tuesday, August 13, 2024**, in the City Hall Council Chambers, 70 North First Street, Campbell, California and via telecommunication.

PREPARED BY: _____
Ken Ramirez, Administrative Analyst

APPROVED: _____
Alan Zisser, Chair

ATTEST: _____
Rob Eastwood, Secretary



CITY OF CAMPBELL · PLANNING COMMISSION
Staff Report August 13, 2024

PLN-2024-12
 Meysam
 Rezvani

Public Hearing to consider the request of Meysam Rezvani to allow the demolition of an existing 1,656 square-foot home and construction of a new 4,560 square-foot 2-story home on property located at **725 Kenneth Avenue** in the R-1-10 (Single-Family Residential) Zoning District.

STAFF RECOMMENDATION

That the Planning Commission take the following action:

1. **Adopt a Resolution** (reference **Attachment A**), approving a Site and Architectural Review Permit (PLN-2024-12) to allow the demolition of an existing 1,656 square-foot home and construction of a new 4,560 square-foot 2-story home.

ENVIRONMENTAL (CEQA) DETERMINATION

Staff recommends that the Planning Commission find that this project is Categorical Exempt under Section 15303 (New Construction or Conversion of Small Structures) of the California Environmental Quality Act (CEQA) as the project is one single-family residence in a residential zone.

PROJECT DATA

Zoning District:	R-1-10 (Single Family Residential)
General Plan Designation:	Low Density Residential (less than 4.5 units per gross acre)
Lot Area:	10,689 square feet
Building Height:	
Proposed:	26', 2 stories
Allowed:	28', 2 ½ stories
Proposed Building Square Footage:	
First floor:	2,052 square feet
First floor JADU:	446 square feet
Second floor:	1,635 square feet
Attached garage:	427 square feet
Front porch:	20 square feet
Rear porch:	142 square feet
Existing statewide exempt ADU ¹ :	770 square feet
Floor area (first floor + second floor + garage):	
Lot coverage (first floor + garage + porches):	4,560 square feet
	3,087 square feet

¹ Per State law, the ADU square footage does not count against the FAR or lot coverage maximum.

	Proposed	Required/Allowed
Floor Area Ratio:	0.426	0.45
Lot Coverage:	29%	35%
Private Open Space:	2,300 square feet	750 square feet minimum
Front Yard Paving:	0%	50%
Setbacks²:		
Front:	60'-9"	25'
Garage:	25'-1"	25'
Side (West):		
First floor:	8'	8'
Second floor:	12'-3"	12'-3"
Side (East):		
First floor:	15'-4"	10'
Second floor:	27'	12'-3"
Rear:	25'	25'
Parking:	2 covered, 2 uncovered	2, 1 covered
Landscaping:	Front, side yards. 10 trees	Front yard. 6 trees

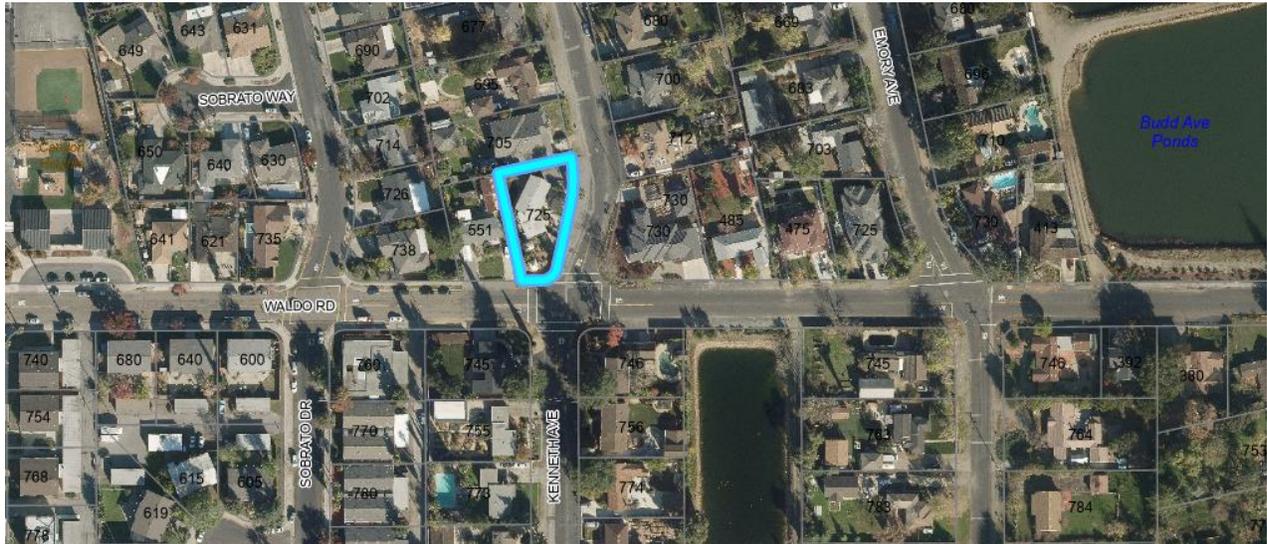
PROJECT DESCRIPTION

Applicant's Proposal: The applicant is seeking approval of a Site and Architectural Review Permit to allow the demolition of an existing 1,656 square-foot home and construction of a new 4,560 square-foot 2-story home and 446 square-foot Junior Accessory Dwelling Unit (JADU) (reference **Attachment B – Project Plans**).

Project Location: The project site is a 10,689 square-foot parcel located along the west side of Kenneth Avenue between Waldo Road and Budd Avenue as shown on the aerial map below. The site is in the Single-Family Residential (R-1-10) Zoning District within the San Tomas Area Neighborhood Plan (STANP) area and is currently developed with a one-story single-family home, shed, and 770 square-foot detached statewide exempt accessory dwelling unit (ADU) currently under construction and approved under a prior building permit. The single-family home and shed

² Side yard setbacks in the STANP are as follows: 8' or 60% of the wall height, whichever is greater, on one side. 10' or 60% of the wall height, whichever is greater, on one side. Second floor wall height is used for second story setbacks. First floor wall height is 10'-4", second floor wall height is 20'-6".

will be demolished and the existing detached ADU under construction will remain. The site is a corner lot and the lot fronts Waldo Road³. Front, side, and rear setbacks are calculated accordingly.



DISCUSSION

Scope of Review: The project is subject to the Housing Accountability Act (HAA) as the HAA defines a Housing Development Project as involving 2 or more residential units, mixed-use projects with at least 2/3 of the square footage designated for residential use, or transitional/supportive housing. The project includes a JADU in addition to the primary home. Projects subject to the HAA are subject to objective General Plan and zoning standards and cannot be denied based on subjective criteria.

The Site and Architectural Review permit requires review and approval by the Planning Commission. However, due to the passing of SB-9 and the requirement of ministerial approvals for one or two residential units, the Planning Commission is limited in requesting alterations to the project and cannot deny the project if it complies with the city's objective requirements.⁴

ANALYSIS

General Plan: The General Plan Land Use designation for the property is *Low-Density Residential (<4.5 units to the gross acre)*. The General Plan Land Use designation of Low-Density Residential allows for detached single-family homes and accessory dwelling units. The project is consistent with the General Plan Land Use designation as it is a detached single-family home with JADU.

Zoning Code: The project site has a R-1-10 zoning designation. The R-1-10 zoning district is generally reserved for low-density and detached residential development.

Administrative Procedure: The STANP requires a Site and Architectural approval by the Planning Commission for the construction of a building or structure on an undeveloped lot. Pursuant to

³ Per the definition of "front lot line" for a corner lots, Waldo Road is considered the "front" because it is the lot line "with the shortest cumulative length and having a combined interior angle of not more than one hundred thirty-five degrees."

⁴ Staff will be aligning the state's requirement of a ministerial single-family process with the Campbell Municipal Code in a future municipal code update. This has been identified on the City Council adopted workplan.

Official Director Interpretation No. 4, if a project involves the removal of an existing structure in order to construct a new structure, the property is to be viewed as undeveloped. As the project includes full demolition of an existing single-family residence and the construction of a new single-family residence, the property is considered to be undeveloped. Therefore, the project requires a Site and Architectural Review Permit.

San Tomas Area Neighborhood Plan (STANP) Design Criteria: The STANP contains design criteria which speak to compatibility, scale and mass, building orientation, and privacy impacts. Per the STANP, the design criteria should be used to evaluate new developments within the San Tomas Area.

However, as discussed above, SB-9 requires objective review and ministerial approval of single-family residences. Planning Commission review can only be used to ensure the proposed development meets all applicable objective standards. The design criteria are subjective, and therefore, cannot be used in reaching a decision. The Planning Commission is limited in requesting alterations to the project and cannot deny a project if it complies with the city's objective requirements.

Although the design criteria in STANP are written subjectively, the proposed project does comply with the design criteria and the applicant has made a good faith effort to propose a design consistent with the surrounding neighborhood. An evaluation of the design criteria can be found in **Attachment C – SARC Memorandum**.

Considerations in Review of Applications: In review of a Site and Architectural Review Permit, the Zoning Code (CMC Sec. 21.42.040) directs the Planning Commission to consider certain design and layout aspects of the proposal prior to rendering a decision, referenced to as “considerations”. These “considerations” are related to the following: traffic safety, congestion, site circulation, landscaping, structures, and site layout. Since the proposed project does not change the current use, density, or site layout in a significant manner, it is anticipated that there will be no impact pertaining to these considerations. Additionally, as these “considerations” are subjective, they cannot be used as the basis for a decision.

Findings for Approval: To grant approval of the requested Site and Architectural Review Permit, the Planning Commission must affirmatively establish that the project meets codified findings for approval. Findings establish the evidentiary basis for a City's decision to grant or deny a land use approval and to impose conditions of approval as necessary to establish the findings. The applicable findings depend upon the type of land use approval under review. The following analysis identifies each of the applicable findings in *italics* and how the proposed project satisfies them.

Site and Architectural Review Permit Findings:

1. The project will be consistent with the General Plan;

Yes. As a single-family dwelling built at a density of 1 unit per gross acre, the proposed project adheres to the site's Low Density Residential (less than 4.5 units per gross acre) land use designation. Because the Proposed Project's design, placement, and scale, as further described in this report, is well integrated with neighboring homes, the proposed project is consistent with the following General Plan Land Use Strategy:

Policy CD-1.1: Recognize that the city is composed of residential, industrial and commercial neighborhoods, each with its own individual character; and allow change consistent

with reinforcing positive neighborhood values, while protecting the integrity of the city's neighborhoods.

2. *The project conforms with the Zoning Code;*

Yes. As described in the Zoning Code section above, the project complies with the setbacks, height, floor area ratio, lot coverage, and parking requirements of the Zoning Code and STANP.

3. *The project will aid in the harmonious development of the immediate area; and;*

Yes. The proposed project is designed to align with the Zoning Code and STANP's requirements regarding setbacks, height, floor area ratio, lot coverage restrictions. This compliance ensures that the expansion is proportionate to the neighboring single-family homes, thus preserving the neighborhood's character.

4. *The project is consistent with the applicable adopted design guidelines, development agreement, overlay district, area plan, neighborhood plan, and specific plan(s).*

Yes. The project aligns with the City of Campbell's General Plan which promotes "attractive residential neighborhoods" and "consistent development patterns." The project aligns with the design guidelines for single-family dwellings in the STANP. The proposed project is consistent with the following General Plan Land Use Strategy:

Policy CD-1.2: Maintain safe, attractive, pedestrian-friendly residential neighborhoods and districts with identifiable centers, consistent development patterns, and a range of public and private services.

Site and Architectural Review Committee (SARC): The project was presented to the Site and Architectural Review Committee on July 9, 2024. The Committee discussed the application of objective Zoning Code development standards, STANP design guidelines, and neighborhood compatibility. The SARC supported the application as presented.

Public Outreach: The project was noticed to all property owners within 300 feet of the subject property and publicized in the newspaper (Metro). No public comments were received in response to this notice. No public comments were received.

Prepared by:



Nishant Seoni, Contract Associate Planner

Approved by:



Rob Eastwood, Community Development Director

Attachments:

A. Draft Resolution

- B. Project Plans
- C. SARC Memorandum

RESOLUTION NO. XXXX

BEING A RESOLUTION OF THE PLANNING COMMISSION OF THE CITY OF CAMPBELL APPROVING A SITE AND ARCHITECTURAL REVIEW PERMIT TO ALLOW THE DEMOLITION OF AN EXISTING 1,656 SQUARE-FOOT HOME AND CONSTRUCTION OF A NEW 4,560 SQUARE-FOOT 2-STORY HOME ON PROPERTY LOCATED AT **725 Kenneth Avenue**. PROJECT FILE NO. PLN-2024-12

After notification and public hearing, as specified by law and after presentation by the Community Development Director, proponents and opponents, the hearing was closed.

The Planning Commission finds as follows with regard to the approval of a Site and Architectural Review Permit:

1. The Project Site is zoned R-1-10 (Single Family Residential) on the City of Campbell Zoning Map.
2. The Project Site is designated Low Density Residential (4.5 units/gr. acre) on the City of Campbell General Plan Land Use diagram.
3. The Project Site is a 10,689 square-foot parcel located along the west side of Kenneth Avenue between Waldo Road and Budd Avenue.
4. The Proposed Project is an application for a Site and Architectural Review Permit to allow the demolition of an existing 1,656 square-foot home and construction of a new 4,560 square-foot 2-story home. There are no protected trees proposed for removal.
5. The project site is located in the San Tomas Area Neighborhood Plan (STANP), and therefore, is subject to the regulations contained therein, including the maximum building height, floor area ratio, lot coverage, and setbacks. The project site complies with these development standards.
6. The Proposed Project will result in a lot coverage of 29% and a Floor Area Ratio (FAR) of .426, where a maximum 35% lot coverage and .45 FAR are allowed in the R-1-10 Zoning District in the San Romas Area Neighborhood Plan.
7. The proposed project proposes a building height of 26 (a maximum of 28' and 2 ½ stories is allowed), a front setback of 60'-9" (25' is required), a first floor side setback of 8' and 12'-3" (where 8' and 12'-3" are required), a first floor side setback of 15'-4" and 27' (where 10' and 12'-3" are required), and a rear setback of 25' (where 25-feet is required).
8. The proposed project will provide 2 covered parking spaces and 2 uncovered parking spaces, satisfying the applicable parking requirement.
9. The Proposed Project is a "housing development project" under State law, which limits the City in its capability to "deny, reduce the density for, or render infeasible" the project under the Housing Accountability Act (HAA) (Government Code Section 65589.5) unless: 1) the proposal is found to be in violation of an objective general plan/zoning standard (other than those waived/reduced through use of the Density Bonus law); or 2) the project will result in a specific adverse impact to public health and safety.

10. Senate Bill 9 (SB-9; Government code § 65852.21) requires the ministerial approval of either one or two residential units, which includes single-family residences. Ministerial review means a process for development approval involving no personal judgment by the public official as to the wisdom of carrying out the project. The public official merely ensures that the proposed development meets all the applicable objective standards for the proposed action but uses no special discretion or judgment in reaching a decision.
11. The Proposed Project adheres to the relevant design guidelines and development frameworks, particularly the General Plan's focus on creating "attractive residential neighborhoods" with "consistent development patterns" and the STANP's design guidelines.
12. The Proposed Project is consistent with the Considerations in Review of Applications (CMC Section 21.42.040) for Site and Architectural Review.
13. In review of the proposed project, the Planning Commission considered the site circulation, traffic congestion, and traffic safety effects of the project, including the effect of the site development plan on traffic conditions on abutting streets; the layout of the site with respect to locations and dimensions of vehicular and pedestrian entrances, exit driveways, and walkways; the arrangement and adequacy of off-street parking facilities to prevent traffic congestion; the location, arrangement, and dimensions of truck loading and unloading facilities; the circulation patterns within the boundaries of the development, and the surfacing and lighting of the off-street parking facilities.
14. The Planning Commission further considered the landscaping design of the proposed project, including the location, height, and material of fences, walls, hedges, and screen plantings to ensure harmony with adjacent development or to conceal storage areas, utility installations, and other unsightly aspects of the development; the planting of groundcover or other surfacing to prevent dust and erosion; and the preservation of existing healthy trees.
15. The Planning Commission further considered the proposed project's architectural and site layout, including the general silhouette and mass, including location on the site, elevations, and relation to natural plant coverage, all in relationship to the surrounding neighborhood; the exterior design in relation to adjoining structures in terms of area, bulk, height, openings, and breaks in the facade facing the street; and appropriateness and compatibility of the proposed uses in relation to the adjacent uses and the area as a whole.
16. No substantial evidence has been presented which shows that the project, as currently presented and subject to the required Conditions of Approval, will have a significant adverse impact on the environment.

Based upon the foregoing findings of fact and pursuant to CMC Section 21.42.020 the Planning Commission further finds and concludes that:

Site and Architectural Review Permit Findings (CMC Sec. 21.42.060.B):

1. The project will be consistent with the General Plan;
2. The project conforms with the Zoning Code;
3. The project will aid in the harmonious development of the immediate area;

- 4. The project is consistent with applicable adopted design guidelines, development agreement, overlay district, area plan, neighborhood plan, and specific plan(s); and

Environmental Findings (CMC Sec. 21.38.050):

- 5. This project is Categorically Exempt per Section 15303, Class 3 of the California Environmental Quality Act (CEQA), pertaining to the construction of single-family dwellings.

THEREFORE, BE IT RESOLVED that the Planning Commission adopts a Resolution approving a Site and Architectural Review Permit to allow the demolition of an existing 1,656 square-foot home and construction of a new 4,560 square-foot 2-story home on property located at **725 Kenneth Avenue**, subject to the attached Conditions of Approval (attached **Exhibit A**).

PASSED AND ADOPTED this 13th day of August 2024, by the following roll call vote:

AYES: Commissioners:

NOES: Commissioners:

ABSENT: Commissioners

ABSTAIN: Commissioners:

APPROVED: _____

Alan Zisser, Chair

ATTEST: _____

Rob Eastwood, Secretary

CONDITIONS OF APPROVAL
Site and Architectural Review Permit
Project File No.: PLN-2024-12

Where approval by the Director of Community Development, City Engineer, Public Works Director, City Attorney or Fire Department is required, that review shall be for compliance with all applicable conditions of approval, adopted policies and guidelines, ordinances, laws and regulations and accepted engineering practices for the item under review. Additionally, the applicant is hereby notified that he/she is required to comply with all applicable Codes or Ordinances of the City of Campbell and the State of California that pertain to this development and are not herein specified.

PLANNING DEPARTMENT:

1. Approved Project: Approval is granted for a Site and Architectural Review to allow the demolition of an existing 1,656 square-foot home and construction of a new 4,560 square-foot 2-story home on property located at **725 Kenneth Avenue**. The project shall substantially conform to the Project Plans, included as **Attachment B** in the August 13, 2024, Planning Commission Staff Report, except as modified by the Conditions of Approval.
2. Permit Expiration: The Site and Architectural Review Permit approved herein ("Approval") shall be valid for one (1) year from the effective date of Planning Commission approval (expiring August 23, 2025). Within this one-year period a Building Permit for the project must be issued pursuant to CMC Sec. 21.56.030.B.1. Failure to meet this deadline or expiration of an issued Building Permit shall result in the Approval being rendered void.
3. Plan Revisions: Upon prior approval by the Community Development Director, all Minor Modifications to the approved project plans shall be included in the construction drawings submitted for Building Permit. Any modifications to the Building plan set during construction shall require submittal of a Building Permit Revision and approval by the Building Official prior to Final Inspection.
4. Fences/Walls: Any newly proposed fencing and/or walls shall comply with Campbell Municipal Code Section 21.18.060 and shall be submitted for review and approval by the Community Development Department.
5. On-Site Lighting: On-site lighting shall be shielded away from adjacent properties and directed on site in compliance with City of Campbell Lighting Design Standards (CMC 21.18.090). The design and type of lighting fixtures and lighting intensity of any proposed exterior lighting for the project shall be reviewed and approved by the Community Development Director. Lighting fixtures shall be of a decorative design to be compatible with the residential development and shall incorporate energy saving features.
6. Landscape Plans: Prior to issuance of a building permit, landscape plans shall be updated to show the planting of minimum 5-gallon bushes, and removal/retention of trees shall be made consistent between the site plan and landscape plans.
7. Construction Activities: The applicant shall abide by the following requirements during construction:

- a. The project site shall be posted with the name and contact number of the lead contractor in a location visible from the public street prior to the issuance of building permits.
- b. Construction activities shall be limited to weekdays between 8:00 a.m. and 5:00 p.m. and Saturdays between 9:00 a.m. and 4:00 p.m. No construction shall take place on Sundays or holidays unless an exception is granted by the Building Official.
- c. All construction equipment with internal combustion engines used on the project site shall be properly muffled and maintained in good working condition.
- d. Unnecessary idling of internal combustion engines shall be strictly prohibited.
- e. All stationary noise-generating construction equipment, such as air compressors and portable power generators, shall be located as far as possible from noise-sensitive receptors such as existing residences and businesses.
- f. Use standard dust and erosion control measures that comply with the adopted Best Management Practices for the City of Campbell.

BUILDING DIVISION:

8. Permit Required: A Building Permit application shall be required for the proposed project. The Building Permit shall include Electrical/Plumbing/Mechanical fees when such work is part of the permit.
9. Conditions of Approval: The Conditions of Approval shall be stated in full on the cover sheet of construction plans submitted for building permit.
10. Construction Fencing: The property shall be properly enclosed with construction fencing to prevent unauthorized access to the site during construction. The construction site shall be secured to prevent vandalism and/or theft during hours when no work is being done. All protected trees shall be fenced to prevent damage to root systems in compliance with the *Standards for Tree Protection During Construction*.
11. Construction Hours/Fines/Stop Work Notice: Failure to comply with permitted working hours that result in verified complaints may result in the issuance of a Stop Work Notice issued to the project with cessation of work for a minimum of seven (7) days from the date of issuance and an Administrative fine of up to \$1,000.00.
12. Timely Completion: Once under construction it shall be the obligation of the property owner and contractor to demonstrate continued progress on the project. In the event the building permit expires, the City may impose fines or exercise administrative remedies to compel timely completion of work.

PUBLIC WORKS DEPARTMENT

13. Frontage Improvements: The scope of this project triggers the requirement for Frontage Improvements as required by Campbell Municipal Code 11.24.040. However, per the San Tomas Area Neighborhood Plan, this section of Kenneth Avenue has been designated to remain unimproved and as such the applicant will not be required to construct new curb, gutter or sidewalk.
14. Construction Drawings: The applicant shall submit the following permit applications prior to, or concurrent with the main Building permit application:

- a. Encroachment Permit for Street Improvement Plans: The frontage improvements for the project shall be shown on a separate street improvement plan as detailed here: <https://www.campbellca.gov/187/Street-Improvements>
15. Storm Drain Area Fee: Prior to *issuance of any grading or building permits for the site*, the applicant shall pay the required Storm Drain Area fee, currently set at **\$2,120.00** per net acre, which is **\$520.25** (set for R-1 land use).
16. Stormwater Pollution Prevention Measures: Prior to issuance of any grading or building permits, the applicant shall comply with the National Pollution Discharge Elimination System (NPDES) permit requirements, Santa Clara Valley Water District requirements, and the Campbell Municipal Code regarding stormwater pollution prevention. The primary objectives are to improve the quality and reduce the quantity of stormwater runoff to the bay.

Resources to achieve these objectives include *Stormwater Best Management Practices Handbook for New Development and Redevelopment* (“CA BMP Handbook”) by the California Stormwater Quality Association (CASQA), 2003; *Start at the Source: A Design Guidance Manual for Stormwater Quality Protection* (“Start at the Source”) by the Bay Area Stormwater Management Agencies Association (BASMAA), 1999; and *Using Site Design Techniques to Meet Development Standards for Stormwater Quality: A Companion Document to Start at the Source* (“Using Site Design Techniques”) by BASMAA, 2003.
17. Water Meter: The project has an existing water meter installed in the public right-of-way. If the water service is required to be upsized as part of the project (i.e. due to fire sprinklers), then the new water meter shall be installed on private property behind the public right-of-way line.
18. Pavement Restoration: The applicant shall restore the pavement in compliance with City standard requirements. In the event that the roadway has recently received a pavement treatment or reconstruction, the project will be subject to the City’s Street Cut Moratorium. The applicant will be required to perform enhanced pavement restoration consistent with the restoration requirements associated with the Street Cut Moratorium. The City’s Pavement Maintenance Program website (<https://www.ci.campbell.ca.us/219>) has detailed information on the streets currently under moratorium and the enhanced restoration requirements.
19. Plans / Encroachment Permit / Fees / Deposits: *Prior to issuance of any grading or building permits for the site*, the applicant shall cause plans for public street improvements to be prepared, pay various fees and deposits, post security and provide insurance necessary to obtain an encroachment permit for construction of the standard public street improvements, as required by the City Engineer. The plans shall include the following, unless otherwise approved by the City Engineer:
 - a. Show location of all existing utilities within the new and existing public right of way.
 - b. Removal of existing AC installed at the roadway shoulder along project frontages and installation of a 6” section of ¾” gravel. AC shoulder paving may be installed for driveway approach and pedestrian walkway to connect the on-site driveway and pedestrian walkway to the edge of roadway.

- c. Installation of depressed curb at the property line along project frontages. See 705 Kenneth Avenue, neighbor to the north.
 - d. Restoration of the edge of roadway AC.
 - e. Construction of conforms to existing public and private improvements, as necessary.
20. Street Improvements Completed for Occupancy and Building Permit Final: Prior to allowing occupancy and/or final building permit signoff for any and/or all buildings, the applicant shall have the required *street improvements* installed and accepted by the City, and the design engineer shall submit as-built drawings to the City.
21. Utility Encroachment Permit: Separate encroachment permits for the installation of utilities to serve the development will be required (including water, sewer, gas, electric, etc.). Applicant shall apply for and pay all necessary fees for utility permits for sanitary sewer, gas, water, electric and all other utility work.

FIRE DISTRICT

22. Required Fire Flow: The fire flow for this project is 875 GPM at 20 psi residual pressure since an automatic fire sprinkler system will be installed. Note: The minimum required number and spacing of the hydrants shall be in accordance with CFC Table C102.1.
- a. Provide a fire flow letter from a local water purveyor confirming the required fire flow of 875 GPM @20 psi residual from a fire hydrant located within 600' of the farthest exterior corner of the structure. Contact San Jose Water for details on how to obtain the fire flow letter.
 - i. Fire flow shall be provided with building permit plan set.
23. Fire Sprinklers Required: An automatic residential fire sprinkler system shall be installed in all new one- and two-family dwellings.
- a. *Sprinklers noted on sheet T1.*
24. Construction Site Fire Safety: All construction sites must comply with applicable provisions of the CFC Chapter 33 and our Standard Detail and Specification S1-7. Provide appropriate notations on subsequent plan submittals, as appropriate to the project. CFC Chp. 33.
25. Address Identification: New and existing buildings shall have approved address numbers, building numbers or approved building identification placed in a position that is plainly legible and visible from the street or road fronting the property. These numbers shall contrast with their background. Where required by the fire code official, address numbers shall be provided in additional approved locations to facilitate emergency response. Address numbers shall be Arabic numbers or alphabetical letters. *Numbers shall be a minimum of 6 inches (101.6 mm) high with a minimum stroke width of 0.5 inch (12.7 mm).* Where access is by means of a private road and the building cannot be viewed from the public way, a monument, pole or other sign or means shall be used to identify the structure. Address numbers shall be maintained. CFC Sec. 505.1.
26. Water Supply Requirements: Potable water supplies shall be protected from contamination caused by fire protection water supplies. It is the responsibility of the applicant and any contractors and subcontractors to contact the water purveyor supplying the site of such project, and to comply with the requirements of that purveyor.

Such requirements shall be incorporated into the design of any water-based fire protection systems, and/or fire suppression water supply systems or storage containers that may be physically connected in any manner to an appliance capable of causing contamination of the potable water supply of the purveyor of record. Final approval of the system(s) under consideration will not be granted by this office until compliance with the requirements of the water purveyor of record are documented by that purveyor as having been met by the applicant(s). 2022 CFC Sec. 903.3.5 and Health and Safety Code 13114.7.

ALL WORK SHALL BE IN ACCORDANCE WITH THE CITY OF SAN JOSE ORDINANCES AND THE CALIFORNIA CIVIL CODE. THE CONTRACTOR SHALL BE RESPONSIBLE FOR OBTAINING ALL NECESSARY PERMITS AND APPROVALS FROM THE CITY OF SAN JOSE AND THE CALIFORNIA DEPARTMENT OF INDUSTRIAL RELATIONS. THE CONTRACTOR SHALL BE RESPONSIBLE FOR OBTAINING ALL NECESSARY PERMITS AND APPROVALS FROM THE CALIFORNIA DEPARTMENT OF INDUSTRIAL RELATIONS. THE CONTRACTOR SHALL BE RESPONSIBLE FOR OBTAINING ALL NECESSARY PERMITS AND APPROVALS FROM THE CALIFORNIA DEPARTMENT OF INDUSTRIAL RELATIONS.

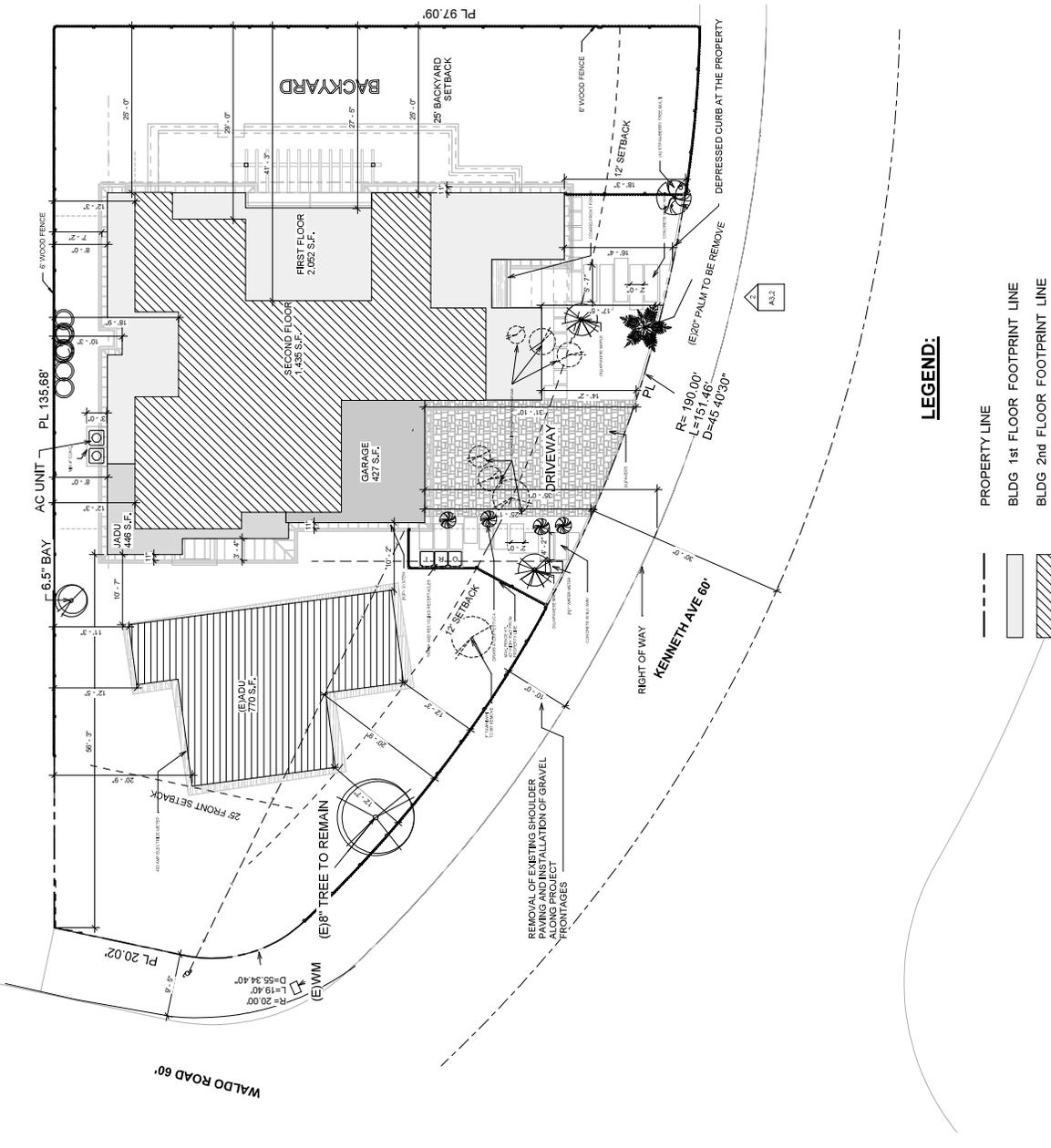
NO.	DESCRIPTION	DATE

PROGRESS
 DATE: _____
 DRAWN BY: _____
 CHECKED BY: _____

DHULPALA'S RESIDENCE
 SHEET NO. _____
 TOTAL SHEETS: _____

SITE PLAN
 NORTH
 SCALE: _____
 SHEET NO. _____

A0.1



LEGEND:
 - - - - - PROPERTY LINE
 [Hatched Box] BLDG 1st FLOOR FOOTPRINT LINE
 [Hatched Box] BLDG 2nd FLOOR FOOTPRINT LINE

GRADING and DEMOLITION NOTES:
 1. CONTRACTOR SHALL BE RESPONSIBLE FOR OBTAINING ALL NECESSARY PERMITS AND APPROVALS FROM THE CITY OF SAN JOSE AND THE CALIFORNIA DEPARTMENT OF INDUSTRIAL RELATIONS.
 2. ALL PUBLIC IMPROVEMENTS MUST BE COMPLETED PRIOR TO COMMENCEMENT OF CONSTRUCTION.
 3. CONTRACTOR IS RESPONSIBLE FOR DUST CONTROL AND INSURING THE AREA ADJACENT TO THE WORK IS LEFT IN A CLEAN AND SAFE CONDITION.
 4. THE CONTRACTOR SHALL REVIEW STD. DETAIL 64 ON TREE PROTECTION PRIOR TO ACCOMPLISHING ANY WORK OR REMOVING ANY TREES.
 5. BEST MANAGEMENT PRACTICES (BMPs) AS REQUIRED BY THE STATE WATER RESOURCES CONTROL BOARD, FOR ANY ACTIVITY WHICH DISTURBS SOIL, VEGETATION, OR CABLES SHALL BE UNDERGROUND.
 6. TO INITIATE RELEASE OF BONDS, CONTACT THE PUBLIC WORKS INSPECTOR FOR FINAL INSPECTION.
 7. SURFACE, DIRECTED AWAY FROM BUILDING FOUNDATIONS AND DIRECTED TO LANDSCAPE AREAS.
 8. THE CONTRACTOR SHALL BE RESPONSIBLE FOR OBTAINING AN ENCROACHMENT PERMIT FROM THE PUBLIC WORKS DEPARTMENT. MIN. 5% GRADE SLOPE AWAY FROM FOUNDATION FOR A MIN. DISTANCE OF 10 FEET MEASURE PERPENDICULAR TO THE FACE OF THE WALL.
 9. IF BUILDING SITE DOES NOT ALLOW 10 FEET OF SLOPE, INDICATE THE INSTALLATION OF DRAINS OR SWALES TO ENSURE DRAINAGE AWAY FROM THE STRUCTURE.
 10. FOUNDATION SHALL BE SLOPED A MIN. 2% AWAY FROM THE BUILDING.
 11. (E) DRAINAGE SHALL REMAIN THROUGHOUT CONSTRUCTION.

TREE PROTECTION NOTES:
 1. A PLOT PLAN SHALL BE PREPARED DESCRIBING THE RELATIONSHIP OF PROPOSED GRADING AND UTILITY TRENCHING TO THE TREES DESIGNATED FOR PRESERVATION. CONSTRUCTION SHALL BE LIMITED TO THE MINIMUM NECESSARY TO COMPLY WITH THE PERMITS. THE GROUND LEVEL SHALL BE INDICATED BY DASHED LINES. IF THE GROUND LEVEL IS PROPOSED FOR MODIFICATION BENEATH THE DRIP LINE, THE CONTRACTOR SHALL ADDRESS AND MITIGATE THE IMPACT TO THE TREES.
 2. ALL TREES TO BE PRESERVED ON THE PROPERTY AND ALL TREES ADJACENT TO THE PROPERTY SHALL BE PROTECTED WITH A FOUR-FEET HIGH FENCE AROUND THE DRIP LINE AND ARMOR AS NEEDED. THE EXTENT OF FENCING AND ARMORING SHALL BE DETERMINED BY THE CONTRACTOR. TREE PROTECTION SHALL BE PLACED BEFORE ANY EXCAVATION OR GRADING IS BEGUN AND SHALL BE MAINTAINED IN REPAIR FOR THE DURATION OF THE CONSTRUCTION WORK.
 3. ALL TREE PROTECTION SHALL BE CARRIED ON WITHIN THE DRIP LINE AREA OF ANY TREE DESIGNATED TO BE PRESERVED EXCEPT AS AUTHORIZED BY THE DIRECTOR OF ARBORIST.
 4. IF THE TRENCHING IS REQUIRED TO PENETRATE THE PROTECTION BARRIER FOR THE TREE, THE SECTION OF THE DRIP LINE SHALL BE HAND DUG SO AS TO PRECLUDE THE PENETRATION OF THE TRENCHING INTO THE ROOT SYSTEM. THE BARRIER APPROVAL BY STAFF WITH CONSULTATION OF AN ARBORIST SHALL BE COMPLETED.
 5. ALL EXCAVATION SHALL BE GRADED BY RECOGNIZED STANDARDS OF TREE PROTECTION AND DESIGN OF TREE WELLS.
 6. THE AREA UNDER THE DRIP LINE OF THE TREE SHALL BE PROTECTED FROM ALL EXCAVATION, GRADING, OR STORAGE OF MATERIALS.
 7. ALL EXCAVATION SHALL BE STORED OR DUMPED UNDER A TREE PROTECTION BARRIER.
 8. THE GENERAL CONTRACTOR SHALL USE A TREE SERVICE LICENSEE AS DEFINED BY CALIFORNIA BUSINESS AND OCCUPATIONS CODE TO MAINTAIN AND TRIM THE BRANCHES THAT MUST BE REMOVED DURING THE LANDSCAPE ARCHITECT/ARBORIST WITH APPROVAL OF STAFF.
 9. ALL BRANCHES TO BE REMOVED SHALL BE STORED OR ROOT SYSTEMS SHALL BE PREPARED IMMEDIATELY BY AN APPROVED TREE SURGEON.
 10. NO STORAGE OF CONSTRUCTION MATERIALS OR PARKING SHALL BE ALLOWED WITHIN THE DRIP LINE AREA OF ANY TREE DESIGNATED TO BE SAVED.
 11. TREE PROTECTION REGULATIONS SHALL BE POSTED ON PROTECTIVE FENCING AROUND TREES TO BE SAVED.

① SITE PLAN
 1/8" = 1'-0"

All dimensions shown on this drawing are based on the approved building permit. The contractor shall verify all dimensions and conditions of the site prior to construction. The contractor shall be responsible for obtaining all necessary permits and approvals from the local authorities. The contractor shall be responsible for ensuring that all construction complies with all applicable codes and regulations. The contractor shall be responsible for protecting all existing utilities and structures on the site. The contractor shall be responsible for maintaining access to all adjacent properties at all times. The contractor shall be responsible for removing all construction debris from the site. The contractor shall be responsible for restoring the site to its original condition or better. The contractor shall be responsible for all costs associated with the construction of this project.

NO.	DESCRIPTION	DATE

PROGRESS

DATE REVISION APPROVAL

 DATE

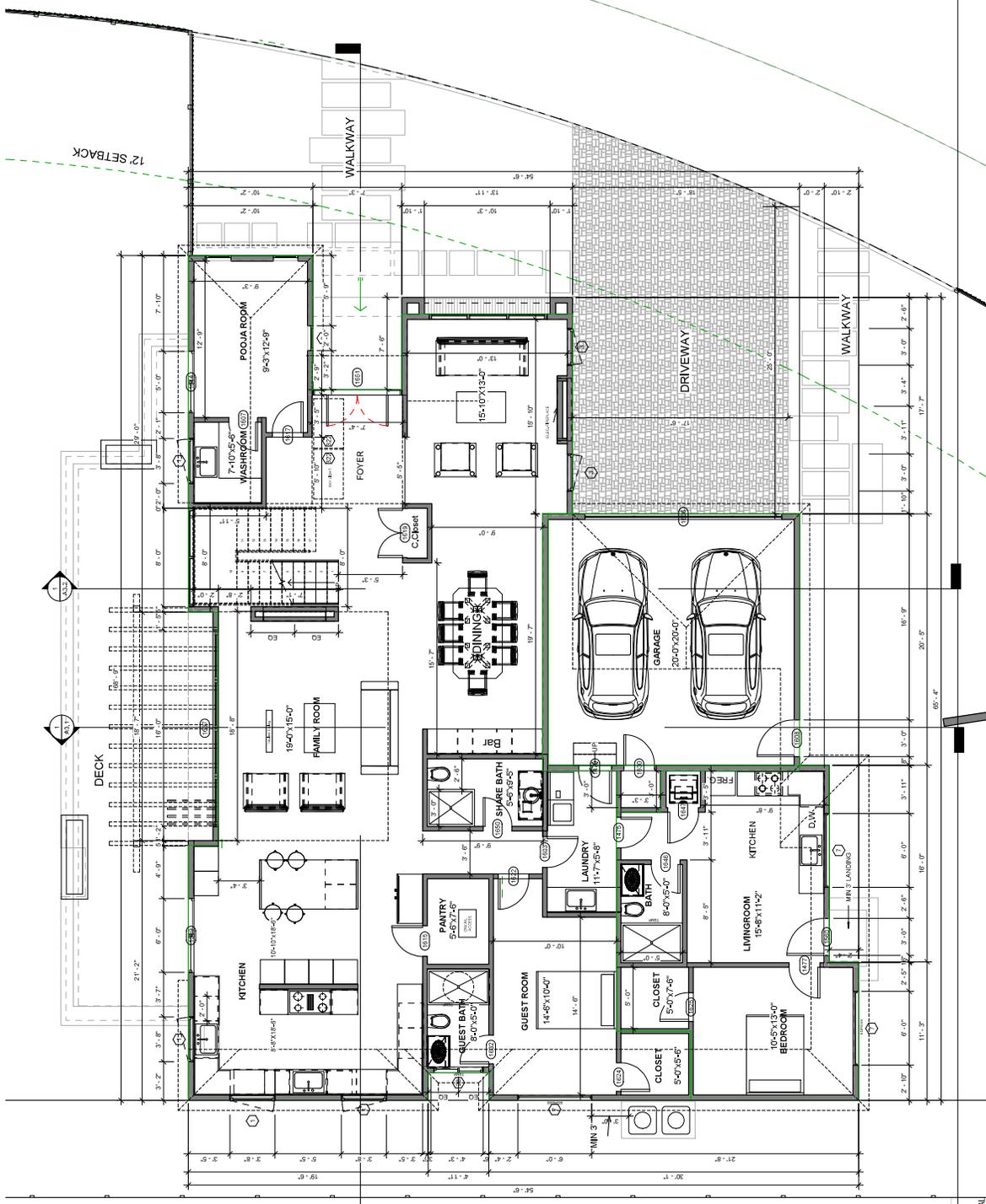
DHULPALA'S RESIDENCE

PROPOSED FLOOR PLAN

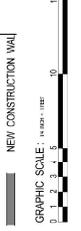
NO. DATE PROJECT SCALE DRAWING

DRAMA COURT ROSE

A1.2



LEGEND:





1550 FOXCHASE DR SAN JOSE, CA 95123
 TEL: 408.933.8440
 WWW.ARCHIGATECONSTRUCTION.COM

DHULPALA'S RESIDENCE:
 725 KENETH AVE
 CAMPBELL CA, 9008

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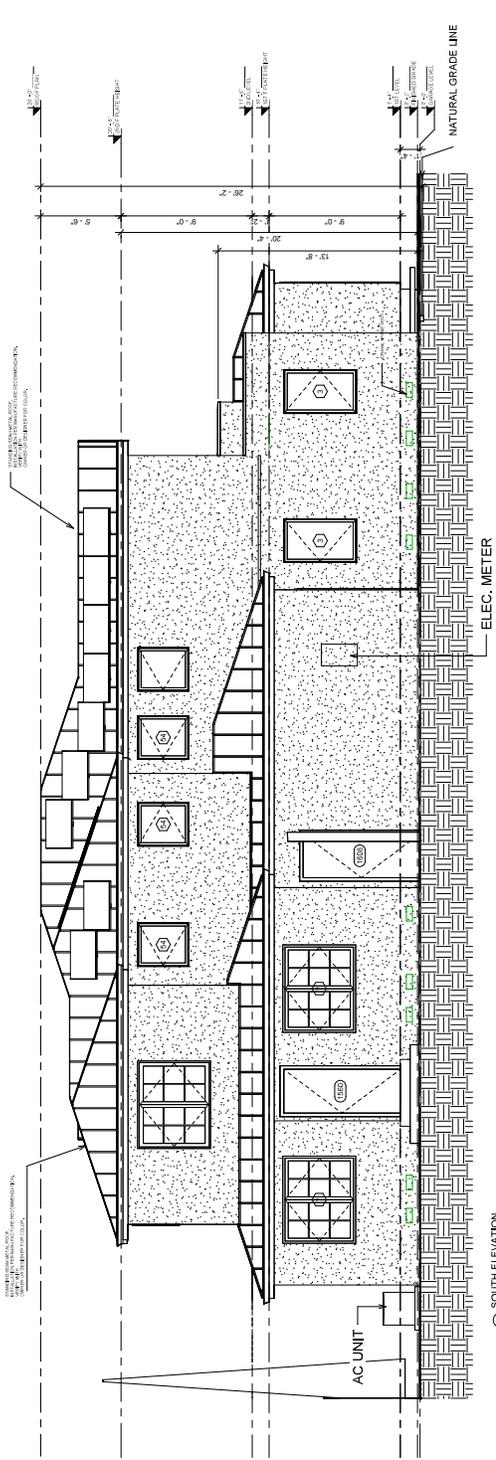
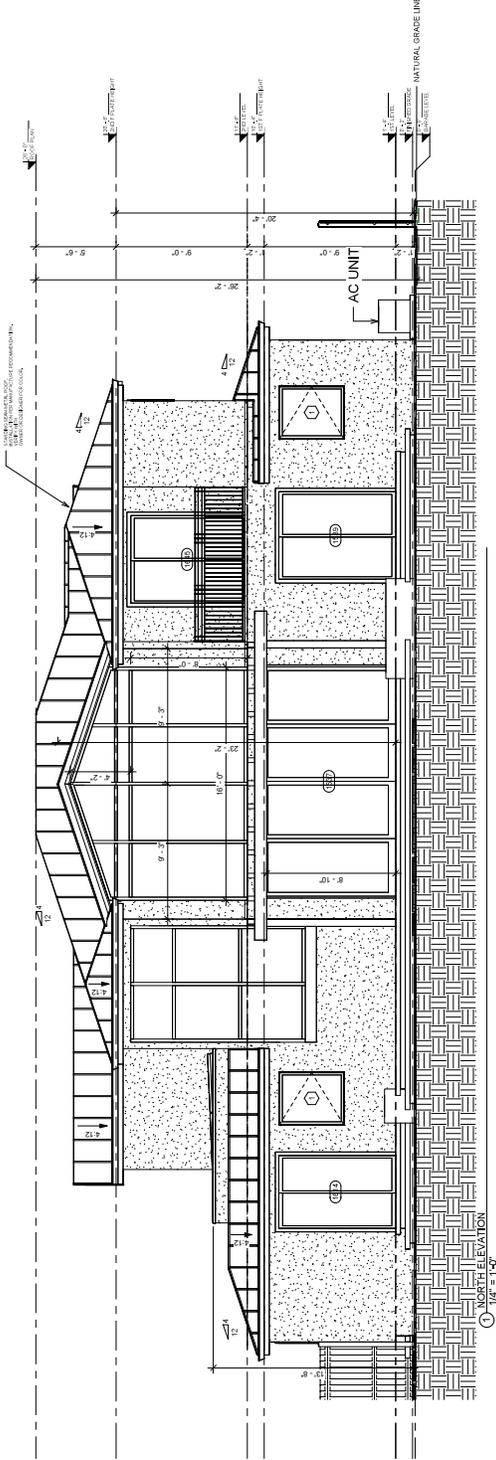
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DHULPALA'S RESIDENCE

EXTERIOR ELEVATIONS

NO.	DATE	PROJECT	SCALE	DRAWING

A2.2



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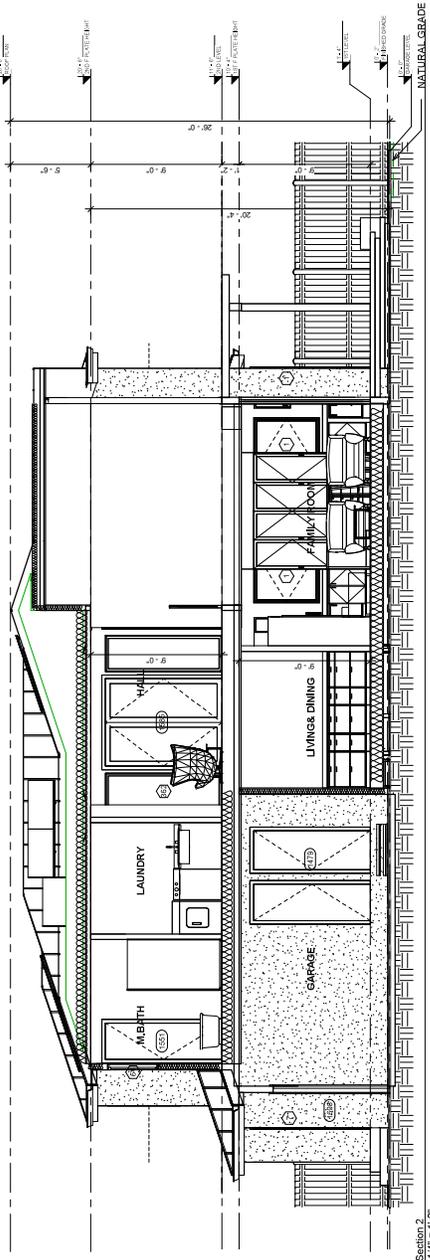
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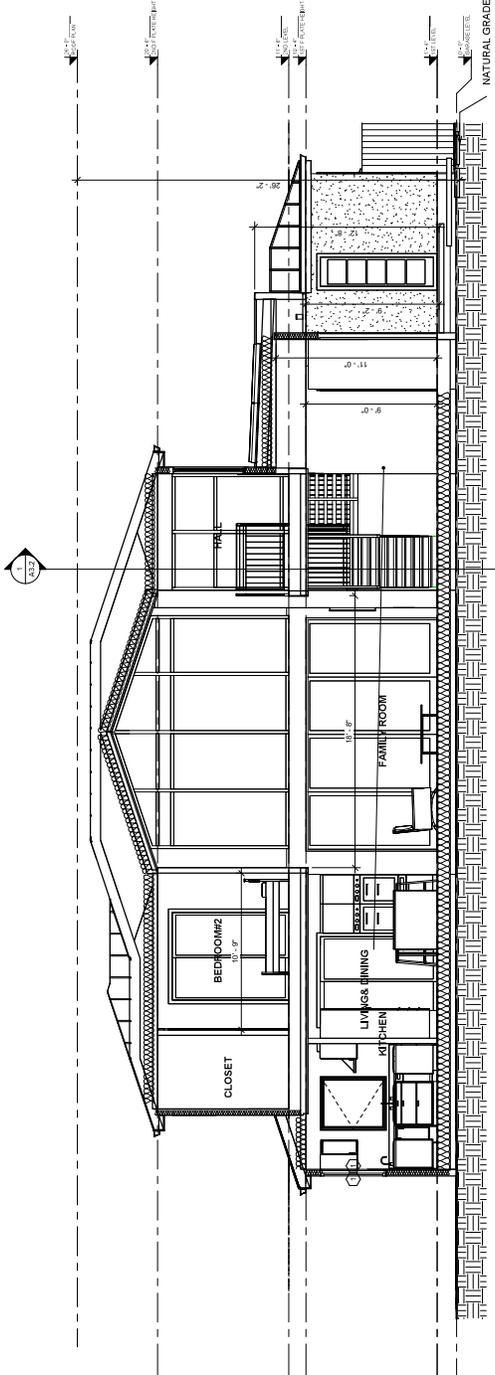
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SECTIONS	
NO.	DATE

A3.1



Section 2
1/4" = 1'-0"



Section 3
1/4" = 1'-0"

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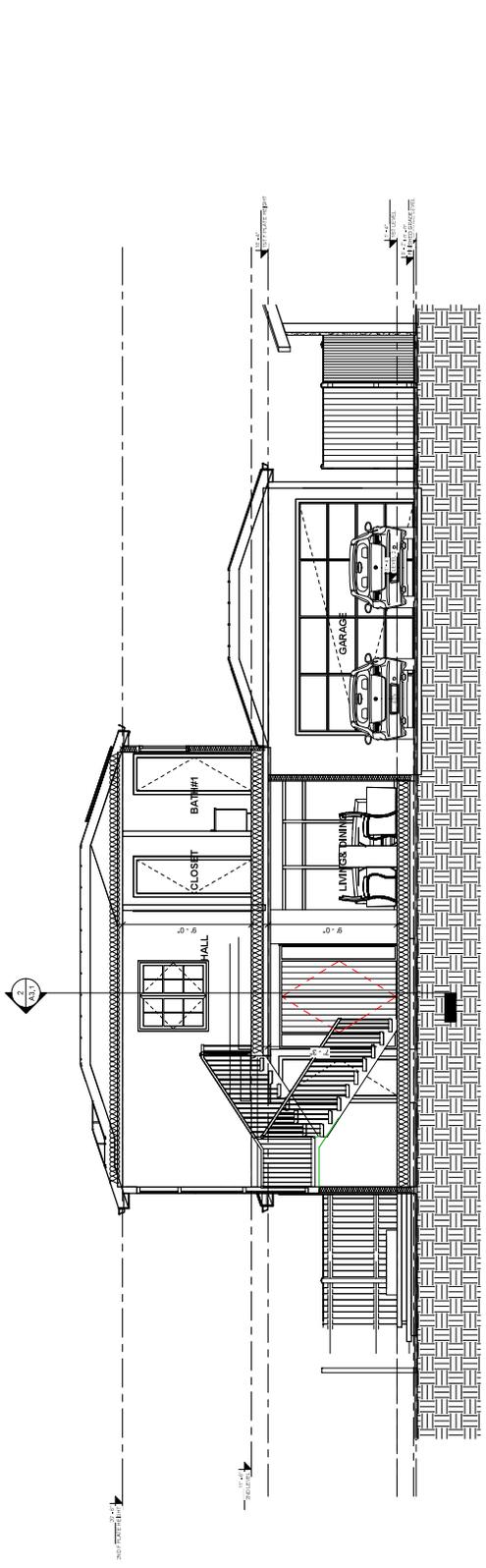
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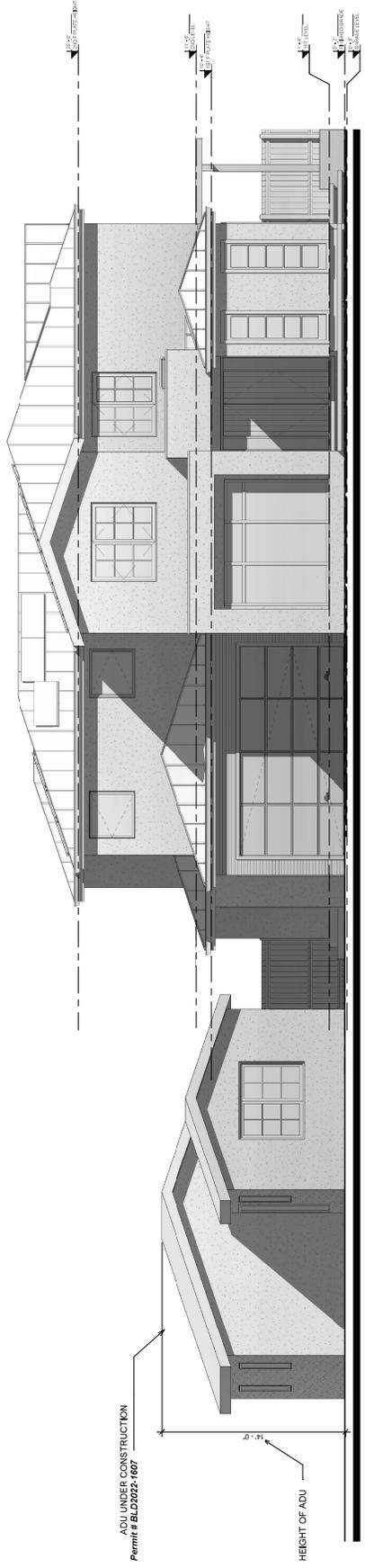
SECTION 88 STREET VIEW

NO.	DATE	PROJECT	SCALE	DRAWING

A3.2



① Section 4
1/4" = 1'-0"



ADU UNDER CONSTRUCTION
Permit # BLD2023-1607

HEIGHT OF ADU

② FRONT ELEVATION WITH THE ADU
1/4" = 1'-0"

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NO.	DESCRIPTION	DATE	BY

PROGRESS

DATE: 10/20/2023
DRAWN BY: [Signature]

PROJECT NO.: 2023-001
DATE: 10/20/2023

DHULPALA'S RESIDENCE

STREET VIEW

NO.	DATE	PROJ. NO.	SCALE	DRAWING

A3.3



FRONT VIEW



SOUTH VIEW



CORNER VIEW





EXTERIOR MATERIAL SCHEDULE

TITLE	TYPE	INFO
ROOF	STANDING SEAM METAL ROOF	138T AND 238T STANDING SEAM
WALL	STUCCO	SMOOTH WHITE
RAILING		STEEL WIRE W/PI
SIDING	SLATEPANEL	OAK COMPOSITE WOOD
GARAGE DOOR	ALUMINUM	OAK COLOR
DOOR		OAK COLOR
WINDOW	MILGARD	CHARCOL

ROOF



COMPOSITE WOOD



GARAGE DOOR



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NO.	DESCRIPTION	DATE	BY

PROGRESS

DATE: 10/20/2023
BY: [Signature]

PROJECT NAME: DHULIPALA'S RESIDENCE
PROJECT NO: 2023-001

MONTH	DATE	ISSUES	SCALE	DRAWING

A4.1

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NO.	DESCRIPTION	DATE	BY

PROGRESS

DATE: 10/20/2023
DRAWN BY: [Signature]

PROJECT: DHULPALA'S RESIDENCE

PROJECT NO.: 2023-001

SCALE: AS SHOWN

DATE: 10/20/2023

PROJECT: DHULPALA'S RESIDENCE

PROJECT NO.: 2023-001

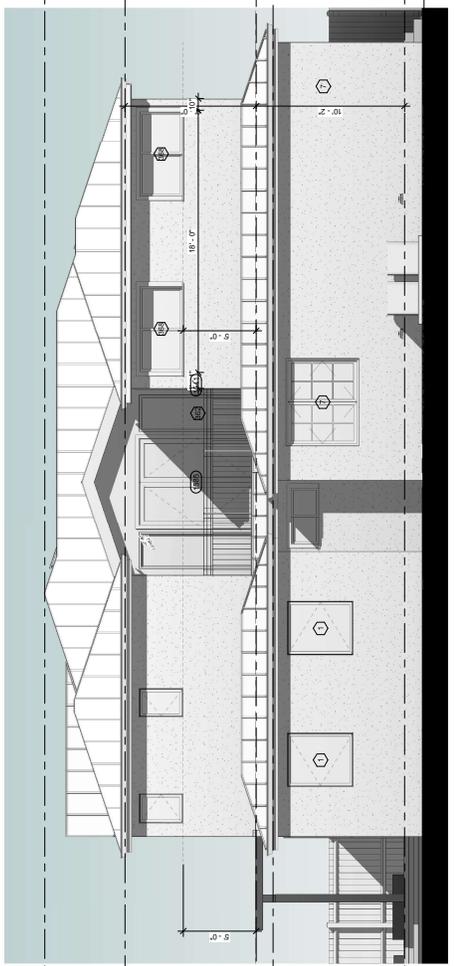
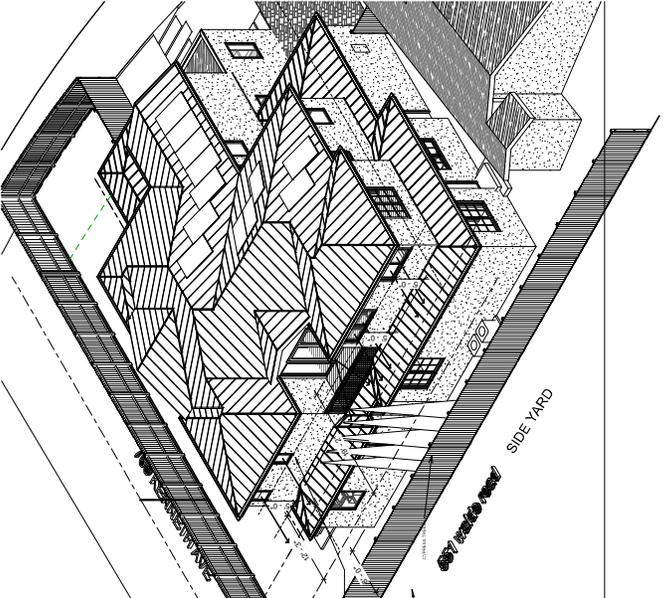
SCALE: AS SHOWN

DATE: 10/20/2023

PROJECT: DHULPALA'S RESIDENCE

PROJECT NO.: 2023-001

SCALE: AS SHOWN



① REAR ELEVATION FOR PRIVACY
1/4" = 1'-0"

ALL WORK SHALL BE IN ACCORDANCE WITH THE CALIFORNIA PLUMBING CODE (CPC) AND THE CALIFORNIA ELECTRICAL CODE (CEC). THE CONTRACTOR SHALL BE RESPONSIBLE FOR OBTAINING ALL NECESSARY PERMITS AND INSURANCE. THE CONTRACTOR SHALL BE RESPONSIBLE FOR PROTECTING ALL EXISTING UTILITIES AND STRUCTURES. THE CONTRACTOR SHALL BE RESPONSIBLE FOR THE PROTECTION OF ALL ADJACENT PROPERTIES AND UTILITIES. THE CONTRACTOR SHALL BE RESPONSIBLE FOR THE PROTECTION OF ALL ADJACENT PROPERTIES AND UTILITIES. THE CONTRACTOR SHALL BE RESPONSIBLE FOR THE PROTECTION OF ALL ADJACENT PROPERTIES AND UTILITIES.

NO.	DESCRIPTION	DATE

PROGRESS

DATE COMPLETED: _____
DATE: _____

DATE: _____
SCALE: _____

IRRIIGATION PLAN

NORTH DATE PROJECT SCALE DRAWING

L0.3

FRONT IRRIGATION LEGEND

WATER METERS	SYMBOL	DESCRIPTION	SIZE
1	⊞	WATER METER	3/4"
POINT OF CONNECTION			
1	⊞	AT FRONT	12.00 GPM @ 50.00 PSI
CONTROLLERS			
1	⊞	IRRIETROL FROM DIAL-F, RIPOCO-EXT-R	9 ZONES
1	⊞	IRRIETROL, CLIMATE LOGIC (WATER SENSOR)	
PIE (MAINLINE)			
1	⊞	SCHEDULE 40 PVC PIE	3/4"
2	⊞	TYPE K COPPER WATER PIPE	3/4"
VALVES			
1	⊞	IRRIETROL, 2 1/4" APR	3/4"
2	⊞	IRRIETROL, 2 1/4" APRBK-F	3/4"
PIE (LATERAL)			
1	⊞	SCHEDULE 40 PVC PIE	3/4"
IRRIIGATION HEADS			
1	⊞	HUNTER HP ROTATOR HP1000 90°	12.00 FT
DECK			
1	⊞	NET/PP TICHLINE CY	1/8", 4.3PH, 12' GRADING

IRRIIGATION NOTES

SCOPE
FURNISH ALL LABOR, MATERIALS, TOOLS AND EQUIPMENT REQUIRED TO INSTALL THE IRRIGATION SYSTEM SPECIFIED ON THE PLANS.

PROTECTION
CALL DIG ALERT 811 TO LOCATE ALL UNDERGROUND UTILITIES PRIOR TO ANY WORK.

DRAWINGS
THESE PLANS ARE SCHEMATIC. ACTUAL MAINLINE AND LATERAL LINES SHALL BE LOCATED BY THE CONTRACTOR. ALL LATERAL LINES SHALL BE SLEEVED UNDER PAVING AND/OR WALKWAYS SHALL BE SLEEVED IN SUCH 40 PVC PIPE (2 TIMES THE DIAMETER OF THE ENCLOSED PIPE.)

GENERAL
ALL IRRIGATION EQUIPMENT SHALL BE NEW AND UNUSED.

PLASTIC PIPE AND FITTINGS
SHALL BE TYPE II POLY(VINYL CHLORIDE). IT SHALL BE FREE FROM CRACKS OR DEFECTS.
MAINLINE SHALL BE SCH 40 PVC
LATERAL LINES SHALL BE CLASS 200 PVC.

WATER METER
NEW 3/4" WATER METER

SLEEVES
ALL MAINLINE OR LATERALS UNDER PAVING AND/OR WALKWAYS SHALL BE SLEEVED IN SCH 40 PVC PIPE (2 TIMES THE DIAMETER OF THE ENCLOSED LINE)

ALL CONTROL WIRES SHALL BE SLEEVED SEPARATELY FROM THE MAIN OR LATERAL LINES UNDER CONCRETE WALKS AND/OR DRIVEWAYS.

AUTOMATIC CONTROLLER
SEE IRRIGATION LEGEND FOR TYPE

PIPE AND CONTROL WIRE INSTALLATION
12 INCHES OF COVER. LOCATE CONTROL WIRES UNDERNEATH MAINLINES.

DNPS TURNING
NET/PP TICHLINE MAY BE PLACED IN TREE OR SHRUB RING FORMATION OR MAY BE LAD IN A GRID PATTERN AT 12 TO 18" O.C. WHOEVER WILL PROVIDE AN EVEN AND ADEQUATE AMOUNT OF WATER TO THE PLANTS.

PRESSURE TESTING
AFTER ALL LINES ARE CONNECTED AND FLUSHED OUT, CAP ALL OUTLETS AND TEST MAINLINES AT 50 PSI PRESSURE AND OPERATE FOR A PERIOD OF 24 HOUR PERIOD. CHECK ALL JOINTS FOR LEAKS AND MAKE NECESSARY REPAIRS.

COVERAGE TEST
AFTER PRESSURE TESTING, THE IRRIGATION SYSTEM SHALL BE ADJUSTED FOR COVERAGE AND PROPER FUNCTIONING.

GUARANTEE
ALL MATERIALS AND WORKMANSHIP SHALL BE GUARANTEED FOR A PERIOD OF ONE YEAR.

I AGREE TO COMPLY WITH THE REQUIREMENTS OF THE PRESCRIPTIVE COMPLIANCE OPTION TO THE SCHEDULE.



IRRIIGATION PLAN
1/8" = 1'-0"

MEMORANDUM



Community Development Department
Planning Division

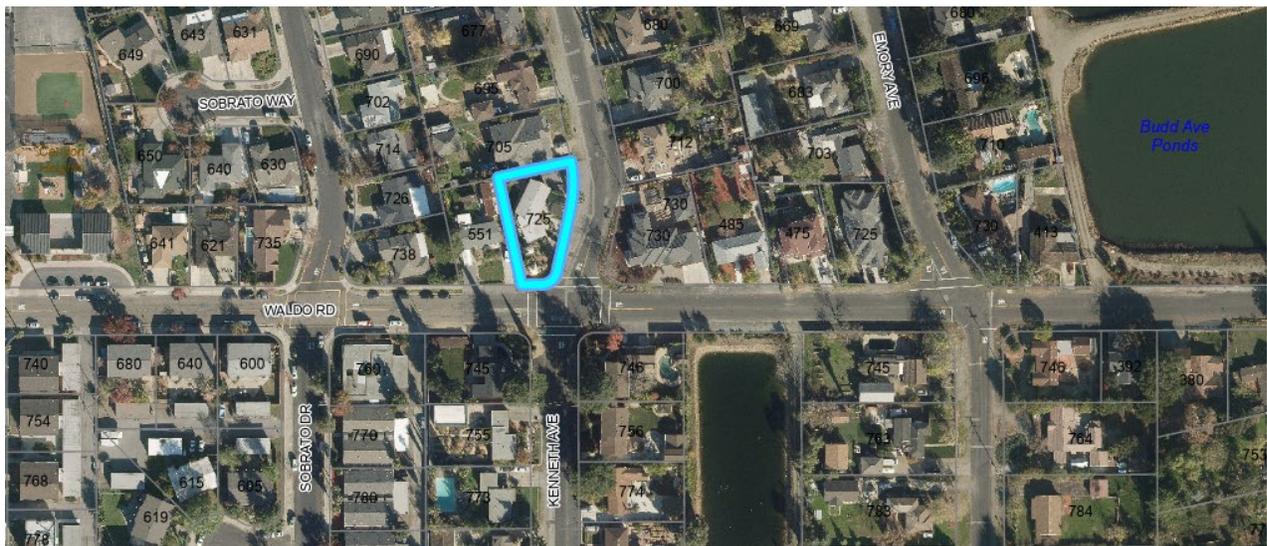
To: Site and Architectural Review Committee **Date:** July 9, 2024
From: Nishant Seoni, Contract Associate Planner
Via: Rob Eastwood, Community Development Director
Subject: Site and Architectural Review Permit
File No.: PLN-2024-12 ~ 725 Kenneth Avenue

PROPOSAL

The applicant is seeking approval of a Site and Architectural Review Permit to allow the demolition of an existing 1,656 square-foot home and construction of a new 4,576 square-foot 2 story home and 446 square-foot JADU (reference **Attachment 1** – Project Plans).

PROJECT SITE

The project site is a 10,689 square-foot parcel located along the west side of Kenneth Avenue between Waldo Road and Budd Avenue as shown on the aerial map below. The site is in the Single-Family Residential (R-1-10) Zoning District within the San Tomas Area Neighborhood Plan (STANP) area and is currently developed with a one-story single-family home, shed, and 770 square-foot detached statewide exempt ADU currently under construction and approved under a prior building permit. The single-family home and shed will be demolished and the existing detached ADU under construction will remain. The site is a corner lot and the lot fronts Waldo Road. Front, side, and rear setbacks are calculated accordingly.



PROJECT DATA

Zoning District:	R-1-10 (Single Family Residential)
General Plan Designation:	Low Density Residential (less than 4.5 units per gross acre)
Lot Area:	10,689 square feet
Building Height:	
Proposed:	26', 2 stories
Allowed:	28', 2.5 stories

Proposed Building Square Footage:	
First floor:	2,052 square feet
First floor JADU:	446 square feet
Second floor:	1,635 square feet
Attached garage:	427 square feet
Front porch:	20 square feet
Rear porch:	142 square feet

Existing statewide exempt ADU ¹ :	770 square feet
Floor area (first floor + second floor + garage):	4,560 square feet
Lot coverage (first floor + garage + porches):	3,087 square feet

	Proposed	Required/Allowed
Floor Area Ratio:	0.426	0.45
Lot Coverage:	29%	35%
Private Open Space:	2,300 square feet	750 square feet minimum
Front Yard Paving:	0%	50%
Setbacks²:		
Front:	60'-9"	25'
Garage:	25'-1"	25'
Side (North):		
First floor:	8'	8'
Second floor:	12'-3"	12'-3"

¹ Per State law, the ADU square-footage does not count against the FAR or lot coverage maximum.

² Side yard setbacks in the STANP are as follows: 8' or 60% of the wall height, whichever is greater, on one side. 10' or 60% of the wall height, whichever is greater, on one side. Second floor wall height is used for second story setbacks. First floor wall height is 10'-4", second floor wall height is 20'-6".

Side (South):		
First floor:	15'-4"	10'
Second floor:	27'	12'-3"
Rear:	25'	25'
Parking:	2 covered, 2 uncovered	2, 1 covered
Landscaping:	Front, side yards. 10 trees	Front yard. 6 trees

DISCUSSION

The Site and Architectural Review Committee's (SARC) role is to review the architectural design and site configuration of the proposed project for consistency with City design standards and guidelines and to make recommendations as appropriate to the Planning Commission, which is the final approval body for a Site and Architectural Review Permit. The STANP provides design guidelines for single-family homes focusing on the compatibility with surrounding homes, surface articulation, building orientation, and exterior design variation. The project's alignment with these guidelines is discussed below.

Scope of Review: Senate Bill 9 (SB-9) requires the ministerial approval of projects with either one or two residential units, which includes single-family residences. Ministerial review means a process for development approval involving no personal judgment by the public official as to the wisdom of carrying out the project. The public official merely ensures that the proposed development meets all the applicable objective standards for the proposed action but uses no special discretion or judgment in reaching a decision.³

The Site and Architectural Review permit requires review and approval by the Planning Commission. However, due to the passing of SB-9 and the requirement of ministerial approvals for one or two residential units, the Planning Commission is limited in requesting alterations to the project and cannot deny the project if it complies with the city's objective requirements.⁴

Site Layout: The proposed new single-family dwelling conforms with all applicable setback, parking, and paving standards and provides vehicle and pedestrian access directly from Kenneth Avenue, consistent with neighboring homes. The site layout maintains visual harmony and respects the character of the surrounding community consistent with General Plan Land Use Policy 3.1:

Policy LU-3.1: Recognize that Campbell is comprised of unique neighborhoods, each with its own individual character; and allow change consistent with reinforcing positive neighborhood values, while protecting the integrity of the city's neighborhoods.

Scale and Mass: The proposed single-family dwelling is designed to align with the STANP's floor area ratio, lot coverage, and height requirements. This compliance ensures that the new development is proportionate to the neighboring single-family homes, thus preserving the neighborhood's

³ This is contained in an [SB-9 Fact Sheet](#) authored by the California Department of Housing and Community Development.

⁴ Staff will be aligning the state's requirement of a ministerial single-family process with the Campbell Municipal Code in a future municipal code update. This has been identified on the City Council adopted workplan.

character. The applicant has proposed a roof slope and design consistent with neighboring homes. The home's entrance will be consistent with the STANP's recommendation to limit front entries to 1.5 stories or less. Architectural elements, discussed below, are in proportion to the overall home as shown below.



Front of home



Rear of home

Architectural Design: The proposed home incorporates a shape, roof pitch, and material selection that is consistent with surrounding homes and does not introduce a significantly different design to the neighborhood. The home will include an attached two car garage and be easily visible from the street. It will have a hipped, standing seam metal roof, shallow window fenestration, stucco and slate panel siding, and an aluminum garage door. The existing detached ADU under construction will have similar material and design elements as the primary home but is not subject to this Site and Architectural Review Permit.

Wall and roof plane articulation will be similar to adjacent homes but will still provide unique elevations. The home will not have any long unarticulated walls or roof planes and will include a change in articulation on the front entrance as well as the second floor that is set back from the first floor. The home will be located on the lot in a similar manner as adjacent homes and is within all setback requirements. Consistent with STANP guidelines, the front facing garage does not exceed 50% of the linear front elevation.

Landscaping: The project includes the removal of 6 unprotected trees, retention of 1 existing tree, and planting of 9 new trees for a total of 10 trees on site. Consistent with the STANP, the project will provide a minimum of one tree per 2,000 square feet of net lot area. The 10,689 square-foot parcel requires 6 trees. Trees to be removed will allow for construction of the home. The retained tree and new trees will be in the front, rear, and side of the home (which is in the front setback). Bushes will be planning in the front of the home within the side setback. Proposed landscaping is consistent with the surrounding neighborhood in both scale and type. Consistent with CMC Sec. 21.26.030, the front yard will be landscaped with a variety of trees (minimum 15-gallon size) and bushes (minimum 5-gallon size) that will be separated from the driveway.

Privacy: The proposed single-family dwelling will be two-story and will include screening trees on the northern side of the property. The eastern side of the home will be set back far enough from the rear property line as to not create privacy impacts with the neighboring home. The remaining two sides of the home are street facing. Window size, number, and distribution are consistent with surrounding single-family homes and, in combination with screening trees, will not allow for significant visibility into neighboring properties. In an effort to engage the community, staff mailed a courtesy notification about the project. No comments were received.

SUMMARY

The SARC should discuss the proposed project's design approach and site layout. If the SARC believes that the project warrants changes, the applicant may be asked to revise the design for review by the Planning Commission.

Attachments:

1. Project Plans



CITY OF CAMPBELL · PLANNING COMMISSION
Staff Report · August 13, 2024

PLN-2023-85
City-initiated

Continued Public Hearing to consider amendments to Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code serving to clarify existing provisions and implement Program H-1a of the 2023-2031 Housing Element by lowering the inclusionary housing unit threshold (from 10 units to 5 units) and changing the method in which housing in-lieu fees and inclusionary housing requirements are calculated and satisfied.

STAFF RECOMMENDATION

That the Planning Commission take the following action:

1. **Adopt a Resolution** (reference **Attachment A**), recommending adoption of an Ordinance to amend Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code.

EXECUTIVE SUMMARY

The City of Campbell's Inclusionary Housing Ordinance currently requires 15% of all units in residential projects with 10 or more units to be made available at affordable rents or affordable ownership costs. The Inclusionary Housing Ordinance also provides developers with alternative means of compliance (e.g., paying an in-lieu fee) for certain types of projects instead of providing affordable units within their project.

This item serves to present changes to the Inclusionary Housing Ordinance to implement Program H-1a of the 2023-2031 Housing Element, clarify existing requirements, and to comply with state law. Key changes include lowering the inclusionary housing unit threshold (from 10 to 5 units), changing how fractional housing obligations are rounded (e.g., .5 rounds up vs. all fractions round up), extending how long for-sale units must remain affordable (e.g., 45-years to 55-years), and making adjustments to the City's housing in-lieu fee program (e.g., adding an option to provide more affordable units in exchange for fewer more deeply affordable units and removing an option to pay an in-lieu fee for low density projects).

This item is supported by an Affordable Housing Nexus Study (reference Attachment B) that provides an analysis of the relationship and nexus between new market rate housing and non-residential development projects and an increased demand for affordable housing. The Affordable Housing Nexus Study supports the proposed changes to the Inclusionary Housing Ordinance and demonstrates projects will remain feasible to develop with the proposed policy options.

The Planning Commission's recommendation on this item will be forwarded to the City Council for consideration in tandem with the Affordable Housing Nexus Study as well as recommended changes to the City's fee schedule (i.e., establishing a new housing in-lieu fee and commercial linkage fee), and establishment of a new Title 19 (Housing) to the Campbell Municipal Code. The City Council meeting is scheduled for a public hearing on August 20, 2024. While items to be considered in tandem with the Inclusionary Ordinance are technically outside the formal purview of the Planning Commission, this report provides a brief overview of these changes as well for reference purposes (see "Related Updates").

ENVIRONMENTAL DETERMINATION

Staff recommends that the Planning Commission find that the proposed Ordinance is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of the California Environmental Quality Act (CEQA) in that there is no possibility that the proposed changes to the City's Municipal Code may have a significant effect on the environment.

BACKGROUND

The City of Campbell is in the process of implementing its 2023-2031 Housing Element which was adopted in 2023. The Housing Element identified updates to the City's Inclusionary Housing Ordinance as a "short-term" goal with review and adoption occurring in 2024. Key events leading up to the development of proposed amendments to the Inclusionary Ordinance are summarized below:

On April 18, 2023, the City Council adopted a Housing Element for the 2023-2031 planning period that identified programs to modify the City's Inclusionary Housing Ordinance (Program H-1a) and establish a Commercial Linkage Fee (Program H-2b) as follows:

Program H-1a: Inclusionary Housing Ordinance Implementation: Amend the Inclusionary Housing Ordinance to offer developers a menu of options for achieving affordability, adjusting the percentage of units required to be affordable depending on the degree of affordability achieved (i.e., moderate-, low-, very low-, and extremely low income). These amendments could also include:

- *Initiating a nexus study to reevaluate increasing the affordable housing in-lieu fee.*
- *Updating the inclusionary ordinance to require for-sale projects to provide the same allocation of units available to lower-income and very low-income units that is required for rental projects."*
- *Modifying the In-Lieu Fee threshold to apply only to developments of 5-9 units. Housing developments of 10 or more units would not be allowed to substitute affordable units with in-lieu fees.*

Program H-1b: Commercial Linkage Fee: Establish an affordable housing impact fee that will apply to nonresidential development to provide an additional local source of revenue to support production of affordable housing.

On [September 5, 2023](#), the City Council authorized the execution of a contract with BAE Urban Economics for the preparation of an Affordable Housing Nexus Study serving to analyze the relationship and nexus between new market rate housing and non-residential development projects and a demand for affordable housing consistent with the requirements of Housing Element Programs H-1a and H-1b above.

On [November 3, 2023](#), and [March 6, 2024](#), the City held stakeholder meetings soliciting feedback on potential changes to the City's housing in-lieu fee, the establishment of a commercial linkage fee, and related policy changes.

On [April 16, 2024](#), the City Council held a Study Session receiving a draft of the Affordable Housing Nexus Study. The staff report outlined various policy options in furtherance of Program H-1a and H-1b of the Housing Element, summarized stakeholder feedback, and suggested a series of guiding principles to aide in the discussion (establish fees that are simple to understand, equitable, and avoid discouraging new development). The City Council broadly agreed with the preliminary findings and provided policy direction supporting the recommended changes by staff

and requested further analysis on the impacts of the inclusionary ordinance on small projects (i.e., 5-9 units) to avoid unintended consequences and suggestions on how success of the program changes could be measured or confirmed (i.e., return after two-years) once adopted.

BAE Urban Economics has now completed the Affordable Housing Nexus Study including the additional analysis of small residential projects and changes to the City’s Inclusionary Housing Ordinance have been prepared by staff to reflect Council direction and feedback.

On July 23, 2024, the Planning Commission continued the subject item to its meeting of August 13, 2024. The decision to continue the item was in response to the late hour and number of remaining items to be heard on July 23, 2024.

DISCUSSION

The Draft Ordinance (reference Attachment A, Exhibit A) introduces changes to the Inclusionary Housing Ordinance serving to implement Program H-1a of the 2023-2031 Housing Element. Key revisions include lowering the inclusionary housing unit threshold (from 10 to 5 units), changing how fractional housing obligations are rounded (e.g., .5 rounds up vs. all fractions round up), extending how long for-sale units must remain affordable (e.g., 45-years to 55-years), and making adjustments to the City’s housing in-lieu fee program (e.g., adding an option to provide more affordable units in exchange for fewer more deeply affordable units and removing an option to pay an in-lieu fee for low density projects).

The following table serves to compare these changes, which have been prepared consistent with prior Council direction (see “Background”), with the existing provisions of the Inclusionary Housing Ordinance. The table also explains the purpose and impact of the change.

Summary of Changes			
Policy	Existing	Proposed	Explanation
Project Size Threshold	10 units	5 units	Changes to the minimum project size threshold and rounding provisions serve to produce more affordable housing and/or funding to the City’s housing fund (in circumstances where developers opt to pay the City’s housing in-lieu fee).
Rounding	≥.5 rounds up <.5 rounds down	All fractions round up	
Affordability¹	<u>For-Sale Projects</u> 40% Low-Income & 60% Moderate <u>For Rent</u> 40% Very-Low Income & 60% Low-Income	No Change	See discussion following table*.
Duration	For-Sale: 45-years For-Rent: 55-years	55-years (for-sale and for-rent)	To standardize the duration in which units must remain affordable and extend the duration in which for-sale units remain affordable.

¹ Reference Attachment D - “Income Limits in Santa Clara County”

Summary of Changes			
Policy	Existing	Proposed	Explanation
Housing In-Lieu Fee	May pay in-lieu fee for low-density residential projects (less than 6-units per gross acre).	May pay in-lieu for small projects (5-6 unit) and for fractional obligations less than .05.	These changes are designed to provide a more gradual “ramp” to compliance and help capture the fractional impact of housing development projects (which is currently rounded down) in support of City goals and objectives.
Effective Date	Effective today.	Varies; some provisions delayed up to one year.	<p>The proposed changes to the City’s inclusionary requirement threshold, rounding provisions, etc., are proposed to apply to projects submitted one year following adoption of the Ordinance.</p> <p>This delayed effective date helps to avoid impacts to projects in the “pipeline” and provide time for the market to improve and developers to respond.</p>

In consideration of the changes, it should be noted* that while Program H-1a also suggests the City could lower the affordability requirements of for-sale projects to match those imposed on for-rent projects (i.e., 40% very-low income & 60% low income) the Draft Ordinance does not propose such an amendment. The decision to exclude this change is in response to staff concerns it may: 1) frustrate the City’s efforts to produce for-sale moderate-income units (which are the most challenging to develop); 2) be found counterproductive to broader Housing Element goals, including Goal H-3, which aims to provide housing affordable to a variety of income levels (by reducing the production of for-sale moderate income units); and 3) diminish the City’s ability to satisfy its Regional Housing Needs Allocation (RHNA). For these reasons, staff has advised against the policy change.

ADDITIONAL CHANGES

In addition to the changes noted above, the Inclusionary Ordinance also includes the following miscellaneous updates/revisions:

1. Exception for Government Supported Projects. Exempts government supported projects, including rental or for-sale projects, from the requirements of the Inclusionary Ordinance. This change serves to alleviate projects built or supported by governmental agencies, which impose income restrictions on all units in the development (except manager’s units), from the requirements of the Chapter.
2. Preference Criteria. Updates the City’s preference criteria to implement Section 66300.6 of the Government Code which requires lower-income households displaced by demolition to be offered a first right of refusal to any required replacement housing units.
3. Fees Methodology. Updated the City’s fee calculation methodology to align with the Affordable Housing Nexus Study and requirements of state law. This results in the fee being multiplied against all habitable areas of a project (i.e., the area built) instead of against the assumed area that a BMR unit would have been (i.e., the area not built). As

these changes are associated with related changes to the City's fee schedule, they will require adoption of the Affordable Housing Nexus Study (reference Attachment B) by the City Council to effectuate.

4. Phasing. Adds provisions to ensure that each development phase of a multi-phase development project contributes its fair share of affordable units. This provision was added to protect against situations where a developer would assign all required affordable units into later phases of a project.

RELATED UPDATES

On August 20, 2024, the City Council will consider the Planning Commission's recommendation on proposed changes to the Inclusionary Housing Ordinance in addition to the following items:

- Adoption of the Affordable Housing Nexus Study: While the Affordable Housing Nexus Study supports the recommended policy changes to the City's Inclusionary Housing Ordinance, its primary purpose is to evaluate the impact that new market-rate housing and non-residential development has on the demand for affordable housing. Based on the impacts, the Affordable Housing Nexus Study identifies several policy options, including the establishment of a new housing in-lieu fee and commercial linkage fee. City Council adoption of the Affordable Housing Nexus Study serves to provide a legal basis to increase the City's housing in-lieu fee and establish a new commercial linkage fee.
- Establishment of New Fees: Based on the outcomes of the Affordable Housing Nexus Study, the City Council will consider establishing a new housing in-lieu fee and commercial linkage fee. Key details of the proposed fees are as follows:
 - **Commercial Linkage Fee**: \$9 flat fee per square-foot
 - Reductions: Reductions to this fee apply to small (projects under 5,000 sq. ft.) and large projects (areas over 100,000 sq. ft.).
 - Credit: Credit provided for existing areas proposed for demolition or areas recently demolished.
 - Exceptions: Non-residential area of vertical mixed-use projects, areas shared with a residential use, garages and other unusable areas
 - Effective Date: Applies to projects submitted one-year following adoption.
 - **Housing In-Lieu Fee**: \$60 flat fee per square-foot
 - Exceptions: ADUs and JADUs; common areas, garages and other non-livable areas, and areas shared with commercial uses.
 - Effective Date: Applies to projects submitted one-year following adoption.

Case study examples of these fees in practice are available as a dedicated attachment (reference Attachment C – Case Study Examples).

- Establishment of Title 19 (Housing): The City Council will consider the establishment of a new Title 19 (Housing) to the Campbell Municipal Code which will serve to establish provisions related to administration of the City's Housing Program and provide limited rent control for below-market rate housing units (mimicking rent control provisions of the [Tenant Protection Act of 2019](#) which limits yearly rent increases to 5% plus the percent

changes in the Consumer Price Index, or 10%, whichever is lower). The Ordinance will also serve to establish provisions governing the collection and use of a commercial linkage fee and the implementation of state-mandated tenant protections (Government Code Section 66300.6).

NEXT STEPS

Following the subject meeting, the subject item will be heard by the City Council at its meeting of August 20, 2024. Should the City Council adopt the proposed Ordinance there will be a delayed effective period (one year following adoption).

ALTERNATIVES

1. Propose amendments to the Inclusionary Ordinance policies or provisions as appropriate.

Prepared by: 
Stephen Rose, Senior Planner

Approved by: 
Rob Eastwood, AICP, Community Development Director

Attachments:

- A. Draft Resolution Recommending Approval of an Ordinance
- B. Affordable Housing Nexus Study
- C. Case Study Examples of Fees
- D. Income Limits in Santa Clara County

RESOLUTION NO.

BEING A RESOLUTION OF THE PLANNING COMMISSION OF THE CITY OF CAMPBELL RECOMMENDING THAT THE CITY COUNCIL ADOPT AN ORDINANCE AMENDING CHAPTER 21.24 (INCLUSIONARY HOUSING ORDINANCE) OF THE CAMPBELL MUNICIPAL CODE. FILE NO. PLN-2023-85.

After notification and public hearing, as specified by law and after presentation by the Community Development Director, proponents and opponents, the hearing was closed.

The Planning Commission finds as follows with regard to the recommended approval of an Ordinance amending Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code:

1. The Ordinance will amend Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code as set forth in **Exhibit A**.
2. Housing prices and rents in the City of Campbell have increased at a significantly higher rate than general wages. The lack of affordable housing in Campbell forces many residents to pay a very high percentage of their income for housing or to commute considerable distances, adding to air pollution and traffic congestion in Campbell and throughout Santa Clara County. The lack of affordable housing has made it more difficult to recruit workers from out of the area, in general, especially workers in lower-paying jobs, potentially affecting the economic vitality of the Campbell. New housing developments do not, to any appreciable extent, provide housing affordable to lower income households. As a result, there is a severe shortage of lower income housing as evidenced by the following:
 - a. According to the 2023-2031 Final Regional Housing Needs Allocation (RHNA) Plan for the San Francisco Bay Area, prepared by the Association of Bay Area Governments (ABAG), over half (56%) of the City's housing need is for very-low, low, and moderate-income households.
 - b. According to the U.S. Census Bureau, American Community Survey 5-Year Data (2015-2019) 44.6% of renters, and 27.4% of homeowners, in Campbell are cost burdened, spending more than 30% of their income on housing.
3. The proposed amendments to Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code include additional findings in Section 21.24.010 (Purpose and findings.) which are hereby included by reference.
4. The proposed amendments would be consistent with the 2040 General Plan and 2023-2031 Housing Element of the City of Campbell including, but not limited to, the following:

2040 General Plan

Goal LU-3: Employ creative approaches to providing a range of affordable housing options in Campbell while protecting the character of established neighborhoods.

LU-3.a: Implement the programs in the Housing Element in order to achieve the city's housing goals.

2023-2031 Housing Element

Program H-1a: Inclusionary Housing Ordinance Implementation: Amend the Inclusionary Housing Ordinance to offer developers a menu of options for achieving affordability, adjusting the percentage of units required to be affordable depending on the degree of affordability achieved (i.e., moderate-, low-, very low-, and extremely low income). These amendments could also include:

- *Initiating a nexus study to reevaluate increasing the affordable housing in-lieu fee.*
- *Updating the inclusionary ordinance to require for-sale projects to provide the same allocation of units available to lower-income and very low-income units that is required for rental projects.”*
- *Modifying the In-Lieu Fee threshold to apply only to developments of 5-9 units. Housing developments of 10 or more units would not be allowed to substitute affordable units with in-lieu fees.*

5. The legislature of the State of California has, in Government Code Sections 65302, 65560 and 65800, conferred upon local governments the authority to adopt regulations designed to promote the public health, safety and general welfare of its citizenry.
6. The review and adoption of the proposed amendments is done in compliance with California Government Code Sections 65853 through 65857, which require a duly noticed public hearing of the Planning Commission whereby the Planning Commission shall provide its written recommendation to the City Council for its consideration.
7. Adoption of the proposed Ordinance is considered a "project" under Section 15378(a)(1) of the California Environmental Quality Act (CEQA).
8. The recommended adoption of an Ordinance may be found exempt from environmental review under Section 15061(b)(3) of the California Environmental Quality Act (CEQA) in that there is no possibility that recommending changes to the City's Municipal Code may have a significant effect on the environment.

Based upon the foregoing findings of fact, the Planning Commission further finds and concludes that:

9. In consideration of the recommended adoption of the Ordinance, the Planning Commission provided due consideration of all evidence presented and provided in the entire administrative record.
10. The proposed amendments are consistent with the goals, policies, and actions of the 2040 General Plan and all applicable development agreements, area plans, neighborhood plans, and specific plans.

11. The proposed amendments will not be detrimental to the public interest, health, safety, convenience, or general welfare of the city.
12. The proposed amendments are internally consistent with other applicable provisions of the Campbell Municipal Code and Zoning Code.
13. No substantial evidence has been presented which shows that the project, as currently presented, will have a significant adverse impact on the environment.
14. The recommended adoption of an Ordinance is exempt under Section 15061(b)(3) of the California Environmental Quality Act (CEQA) as there is no possibility that the proposed changes to the City’s Municipal Code may have a significant effect on the environment.

THEREFORE, BE IT RESOLVED that the Planning Commission recommends that the City Council approve an Ordinance amending Chapter 21.24 (Inclusionary Housing Ordinance) as set forth in **Exhibit A**.

PASSED AND ADOPTED this 13rd day of August, 2024, by the following roll call vote:

AYES: Commissioners:
NOES: Commissioners:
ABSENT: Commissioners:
ABSTAIN: Commissioners:

APPROVED: _____
Alan Zisser, Chair

ATTEST: _____
Rob Eastwood, Secretary

ORDINANCE NO.

BEING AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CAMPBELL AMENDING CHAPTER 21.24 (INCLUSIONARY HOUSING ORDINANCE) OF THE CAMPBELL MUNICIPAL CODE. FILE NO. PLN-2023-85.

WHEREAS, after notification and public hearing, as specified by law and after presentation by the Community Development Director, proponents and opponents, the hearing was closed.

WHEREAS, the subject Ordinance will amend Chapter 21.24 of the Campbell Municipal Code.

WHEREAS, housing prices and rents in the City of Campbell have increased at a significantly higher rate than general wages. The lack of affordable housing in Campbell forces many residents to pay a very high percentage of their income for housing or to commute considerable distances, adding to air pollution and traffic congestion in Campbell and throughout Santa Clara County. The lack of affordable housing has made it more difficult to recruit workers from out of the area, in general, especially workers in lower-paying jobs, potentially affecting the economic vitality of the Campbell. New housing developments do not, to any appreciable extent, provide housing affordable to lower income households. As a result, there is a severe shortage of lower income housing as evidenced by the following:

- a. According to the 2023-2031 Final Regional Housing Needs Allocation (RHNA) Plan for the San Francisco Bay Area, prepared by the Association of Bay Area Governments (ABAG), over half (56%) of the City's housing need is for very-low, low, and moderate-income households.
- b. According to the U.S. Census Bureau, American Community Survey 5-Year Data (2015-2019) 44.6% of renters, and 27.4% of homeowners, in Campbell are cost burdened, spending more than 30% of their income on housing.

WHEREAS, the proposed amendments to Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code include additional findings in Section 21.24.010 (Purpose and findings.) which are included herein by reference.

WHEREAS, the proposed amendments would be consistent with the 2040 General Plan and 2023-2031 Housing Element of the City of Campbell including, but not limited to, the following:

2040 General Plan

Goal LU-3: Employ creative approaches to providing a range of affordable housing options in Campbell while protecting the character of established neighborhoods.

LU-3.a: Implement the programs in the Housing Element in order to achieve the city's housing goals.

2023-2031 Housing Element

Program H-1a: Inclusionary Housing Ordinance Implementation: Amend the Inclusionary Housing Ordinance to offer developers a menu of options for achieving affordability, adjusting the percentage of units required to be affordable depending on the degree of affordability achieved (i.e., moderate-, low-, very low-, and extremely low income). These amendments could also include:

- *Initiating a nexus study to reevaluate increasing the affordable housing in-lieu fee.*
- *Updating the inclusionary ordinance to require for-sale projects to provide the same allocation of units available to lower-income and very low-income units that is required for rental projects.”*
- *Modifying the In-Lieu Fee threshold to apply only to developments of 5-9 units. Housing developments of 10 or more units would not be allowed to substitute affordable units with in-lieu fees.*

WHEREAS, the legislature of the State of California has, in Government Code Sections 65302, 65560 and 65800, conferred upon local governments the authority to adopt regulations designed to promote the public health, safety and general welfare of its citizenry.

WHEREAS, the review and adoption of the proposed amendments is done in compliance with California Government Code Sections 65853 through 65857, which require a duly noticed public hearing of the Planning Commission whereby the Planning Commission shall provide its written recommendation to the City Council for its consideration.

WHEREAS, adoption of the proposed Ordinance is considered a "project" under Section 15378(a)(1) of the California Environmental Quality Act (CEQA).

WHEREAS, the proposed Ordinance may be found exempt from environmental review under Section 15061(b)(3) of the California Environmental Quality Act (CEQA) in that there is no possibility that the proposed changes to the City’s Municipal Code may have a significant effect on the environment.

WHEREAS, the legislature of the State of California has, in Government Code Sections 65302, 65560 and 65800, conferred upon local governments the authority to adopt regulations designed to promote the public health, safety and general welfare of its citizenry.

WHEREAS, the proposed amendments will not be detrimental to the public interest, health, safety, convenience, or general welfare of the city.

WHEREAS, the proposed amendments are internally consistent with other applicable provisions of the Campbell Municipal Code and Zoning Code.

WHEREAS, in consideration of the adoption of the subject Ordinance, the City Council provided due consideration of all evidence presented and provided in the entire administrative record.

THEREFORE, the City Council of the City of Campbell does ordain as follows:

Section 1. Chapter 21.24 (Inclusionary Housing Ordinance) of the Campbell Municipal Code is hereby amended to read as set forth in **Exhibit A-1** with underlining (underlining) indicating new text and strikeouts (~~strikeouts~~) indicating deleted text.

Section 2. If any section, sentence, clause, phrase, word, or other provision of this Ordinance is for any reason held to be unconstitutional or otherwise invalid, such holding shall not affect the validity of the remaining sections, sentences, clauses, phrases, words or other provisions of this Ordinance, or the validity of this Ordinance, shall stand notwithstanding the invalidity of any section, sentence, clause, phrase, word or other provision.

Section 3. The proposed Ordinance is exempt under Section 15061(b)(3) of the California Environmental Quality Act (CEQA) as there is no possibility that the proposed changes to the City’s Municipal Code may have a significant effect on the environment.

Section 4. The City Council further finds and determines that the proposed Ordinance is consistent with the goals, policies, and actions of the 2040 General Plan and the 2023-2031 Housing Element.

Section 5. That this Ordinance shall become effective thirty (30) days following its passage and adoption and shall be published, or summary thereof, one time within fifteen (15) days upon passage and adoption in the Metro Silicon Valley, a newspaper of general circulation for the City of Campbell, County of Santa Clara.

PASSED AND ADOPTED this _____ day of _____, 2024, by the following roll call vote:

AYES: COUNCILMEMBERS:
NOES: COUNCILMEMBERS:
ABSENT: COUNCILMEMBERS:
ABSTAIN: COUNCILMEMBERS:

APPROVED: _____
Susan M. Landry, Mayor

ATTEST: _____
Andrea Sanders, City Clerk

Chapter 21.24 INCLUSIONARY HOUSING ORDINANCE**21.24.010 Purpose and findings.**

- A. The purpose of this Chapter is to enhance the public welfare by establishing policies which facilitate the availability of housing affordable to a broad range of households with varying income levels within the City of Campbell, meet the City's regional share of housing needs, and implement the goals and objectives of the General Plan and Housing Element.
- B. The City Council desires to encourage the development of inclusionary units to be located upon the same site as market rate residential development to provide for integration of lower income households with households in market rate neighborhoods and to disperse Inclusionary Units throughout the City where new residential development occurs.
- C. The City's Housing Element recognizes that affordable housing is a critical component to the City's economic and social health. Establishing policies which facilitate the availability of housing affordable to a broad range of households with varying income levels within the City of Campbell is consistent with and will implement the City's Housing goals, policies, and programs for Affordable Housing which include, but are not limited to, the following:
 - 1. Goal 1: Improve Housing Affordability in Campbell – Encourage the Production of Affordable Housing; and
 - 2. Program H-1a (Inclusionary Housing Ordinance Implementation).
- D. Providing affordable housing for new employees in lower income jobs locally (rather than leaving those employees to obtain housing in lower cost areas far from Campbell employment centers and transit corridors) helps minimize housing's contribution to greenhouse gas emissions and locating housing to reduce vehicle miles traveled and auto dependency. If the increased demand for affordable housing is not addressed within Campbell it will cause such housing to be built elsewhere, in areas with lower land values that are far from city employment centers and transit corridors, and the resulting commuting will cause increased traffic and transit demands and consequent noise and air pollution.
- E. If the increased demand for affordable housing is not addressed within Campbell it may also impact economic growth in that businesses within the city may find it more difficult to attract and retain the variety of workers that they need.
- F. Establishing policies which facilitate the availability of housing affordable to a broad range of households with varying income levels also implements policies of the State of California to: (1) provide sufficient capacity for new housing affordable at all income levels necessary to accommodate the State's future economic growth; and (2) by providing housing for lower income workers, long commutes from less expensive housing markets can be avoided and thus contribute to the implementing the Global Warming Solutions Act of 2006 and the Sustainable Communities and Climate Protection Act of 2008.
- G. State housing policy requires the City to assist in the development of adequate housing to meet the needs of lower income households. There is a significant shortage of housing affordable to lower income households, which will only increase as the finite number of residentially zoned parcels within the city are purchased and developed for market rate residential developments. This loss of residential land available for affordable housing is another impact of market rate residential development.
- H. The requirements of this Chapter are based on a number of factors including, but not limited to, the City's long-standing commitment to economic diversity; the serious need for affordable housing as reflected in local and State housing laws, regulations, and policies; the demand for affordable housing created by the development of market rate housing; and the impact that the lack of affordable housing production has on the health, safety, and welfare of the City's residents including its impacts on traffic, transit and related air quality impacts, and the demands placed on

the regional transportation infrastructure. Establishing policies which facilitate the availability of housing affordable to a broad range of households with varying income levels that are reasonably related to the burdens created by new market-rate development on the City's need for affordable housing will contribute to addressing impacts and fulfilling goals of the City and State of California.

- I. The City also desires to provide the residential development community with alternatives to construction of the inclusionary units on the same site as the market rate residential development. Therefore, Section 21.24.070 (Alternatives) includes a menu of options from which an applicant may elect, in lieu of building affordable units within a residential project. Nothing in this Chapter shall deem or be used to deem the compliance options in Section 21.24.070 (Alternatives), including, but not limited to, the in lieu housing fee authorized pursuant to Section 21.24.70.C., as an ad hoc exaction, as a mandated fee required as a condition to developing property, or as a fee subject to the analysis in Building Industry Association of Central California v. City of Patterson (5th Dist. 2009) 171 Cal. App. 4th 886.
- J. The City has prepared a Nexus Study which shows that there is a reasonable relationship between the purpose for which the in-lieu housing fees established by this Chapter are to be used and the type of development projects on which the fees are imposed, between the need for affordable housing and market-rate development and between the amount of the fees and the cost of the affordable housing units or portion of the units attributable to the development on which the fees are imposed. The Nexus Study complies with the requirements of California Government Code section 66001(A)(4) by establishing the reasonable relationship between the need for affordable housing and the development of market-rate housing.
- K. It is the intent of the City that the in-lieu housing fee established by this Chapter shall be supplementary to any conditions imposed upon a market-rate housing project pursuant to other provisions of the Municipal Code, the Subdivision Map Act, the California Environmental Quality Act, and other State and local laws, which may authorize the imposition of project specific conditions on development.
- L. High housing costs relative to income can contribute to overcrowding which has been found to contribute to impacts to public health, safety, and welfare according to the U.S. Department of Housing and Urban Development's 2007 report on "Measuring Overcrowding in Housing" and the Center for Disease Control's 2020 publication on "Health Effects of Housing."
- M. The requirements of this Chapter are adopted pursuant to the City's police power authority to protect the public health, safety, and welfare. The requirements of this section are consistent with Housing Element goals related to protecting the public welfare by fostering an adequate supply of housing for persons at all economic levels and maintaining both economic diversity and geographically dispersed affordable housing.

21.24.010 Findings.

The City Council finds that:

- A. ~~Housing prices and rents in the city of Campbell have increased at a significantly higher rate than general wages. The lack of affordable housing in Campbell forces many residents to pay a very high percentage of their income for housing or to commute considerable distances, adding to air pollution and traffic congestion in Campbell and throughout Santa Clara County. The lack of affordable housing has made it more difficult to recruit workers from out of the area, in general, especially workers in lower paying jobs, potentially affecting the economic vitality of the Campbell. New housing developments do not, to any appreciable extent, provide housing affordable to low and moderate income households.~~
- B. ~~Continued new housing developments which do not include housing for low and moderate income households will serve to further aggravate the current shortage of affordable housing by reducing the small remaining supply of undeveloped land.~~

~~C.—The City Council approved the City's housing element of the general plan which includes a goal to encourage the provision of housing affordable to a variety of household income levels (Goal H-3).~~

~~D.—Implementation of the inclusionary ordinance is a necessary part of the City's efforts to meet its general plan housing element goals and objectives and its region-wide affordable housing obligations. Through the inclusionary ordinance, at least fifteen percent of the units in a new housing development of ten or more units will be price or rent restricted as units for low- and moderate-income households. In some circumstances, developers will be offered an option of providing affordable units off-site or payment of an in-lieu housing fee.~~

~~21.24.020 Purpose of chapter.~~

~~The purpose of this chapter is to further the City's efforts to require housing available to very low-income, low-income and moderate-income households. The city's general plan implements the established policy of the State of California that each community should foster an adequate supply of housing for persons at all economic levels.~~

~~Providing the affordable units required by this chapter will help to ensure that part of Campbell's remaining developable land is used to provide affordable housing. An economically balanced community is only possible if part of the new housing built in the City is affordable to households with limited incomes. Requiring builders of new housing to include some housing affordable to households at a range of incomes is fair, not only because new development without affordable units contributes to the shortage of affordable housing, but also because zoning and other ordinances concerning new housing should be consistent with the community's goal to foster an adequate supply of housing for persons at all economic levels. In general, affordable units within each housing development will serve the goal of maintaining an economically balanced community.~~

~~The inclusionary housing ordinance is required by the council to promote and protect the public health, safety, and general welfare while preserving and enhancing the aesthetic quality of the City. (Ordinance 2060, December 2005 Code Update, Title 21 Zoning, 21.01.030 Purpose).~~

~~21.24.020 Applicability.~~

~~This chapter shall not apply to rental projects or for-sale projects that are developed in accordance with, and subject to, a recorded governmental agency deed restriction or regulatory agreement that imposes affordable rent, occupancy, and eligibility restrictions or affordable ownership cost and sale price restrictions with associated eligibility and occupancy restrictions on all residential units in the development, except for manager's units. Such deed restriction or regulatory agreement must be recorded against the property, be binding on successors in interest for at least the same duration as required by this chapter, and be executed by the property owner and any of the following entities or agencies: the City of Campbell, the County of Santa Clara, the California Tax Credit Allocation Committee, the issuer of tax-exempt bonds used to finance the residential development, the California Department of Housing and Community Development or any other State of California agency, and the U.S. Department of Housing and Urban Development or any other federal agency.~~

~~21.24.030 Definitions.~~

~~As used in this chapter, the following terms shall have the meanings set forth below:~~

~~"Appliances" means refrigerators, stovetops, ranges, microwaves, air conditioners, furnaces, heat pumps, electric vehicle chargers, whole house fans, and battery storage systems.~~

~~"Affordable ownership cost" means average monthly housing costs during the first calendar year of a household's occupancy, as determined by the City, including mortgage payments, loan insurance fees, if any, property taxes, reasonable allowances for utilities and property maintenance and repairs, homeowners insurance and homeowners association dues, if any, that is affordable to a low- or~~

moderate- income household, or at even lower levels of affordability, adjusted for household size, which do not exceed the following:

~~1. For lower income households: one twelfth of thirty percent of seventy percent of area median income, adjusted for assumed household size based on presumed occupancy levels of one person in a studio apartment, two persons in a one bedroom unit, three persons in a two bedroom unit and one additional person for each additional bedroom thereafter.~~

~~2. For moderate income households: one twelfth of thirty five percent of one hundred ten percent of area median income, adjusted for assumed household size based on presumed occupancy levels of one person in a studio apartment, two persons in a one bedroom unit, three persons in a two bedroom unit and one additional person for each additional bedroom thereafter.~~

"Affordable rent" means monthly rent, including utilities and all fees for housing services, which do not exceed thirty percent (30%) of the gross monthly income adjusted for household size, the following:

~~1. For lower income households: one twelfth of thirty percent of sixty percent of area median income, adjusted for assumed household size based on presumed occupancy levels of one person in a studio apartment, two persons in a one bedroom unit, three persons in a two bedroom unit, and one additional person for each additional bedroom thereafter.~~

~~2. For very low income households: one twelfth of thirty percent of fifty percent of area median, adjusted for assumed household size based on presumed occupancy levels of one person in a studio apartment, two persons in a one bedroom unit, three persons in a two bedroom unit, and one additional person for each additional bedroom thereafter.~~

"Affordable unit(s)" means one or more living units which are required under this chapter to be rented at affordable rents or available at an affordable housing cost to specified households.

"Applicant" means a person or entity who applies for a residential project and, if the applicant does not own the property on which the residential project is proposed, also means the owner or owners of the property.

"Area median income" means area median income for Santa Clara County as published pursuant to California Code of Regulations, Title 25, Section 6932 (or its successor provision).

"Construction cost index" means the California Construction Cost Index (CCCI) published by the California Department of General Services, Real Estate Service Division~~Engineering News-Record San Francisco Building Cost Index~~. If that index ceases to exist, the community development director shall substitute another construction cost index which in his or her judgment is as nearly equivalent to the original index as possible.

"Development project " means any project undertaken for the purpose of development. "Development project" includes a project involving the issuance of a permit for construction or reconstruction but not a permit to operate. "Development project" does not include any ministerial projects proposed to be carried out or approved by public agencies.

"Eligible household" means a household whose household income does not exceed the maximum specified in Section 21.24.040 (General requirements.) of this chapter for a given affordable unit.

"Extremely low-income household" means a household whose household income does not exceed 30 percent of the area median income in Santa Clara County~~,the extremely low-income limits applicable to Santa Clara County~~, as published and periodically updated by the State Department of Housing and Community Development pursuant to Section 50105 of the California Health and Safety Code.

"First approval" means the first of the following approvals to occur with respect to a residential project: building permit, ~~planned development permit~~, tentative parcel map, tentative subdivision map, conditional use permit, site and architectural review permit, or other discretionary city land use approval.

"For-sale project" means a residential project, or portion thereof, which is intended to be sold to owner-occupants upon completion.

"Household income" means the combined adjusted gross income for all adult persons living in a living unit as calculated for the purpose of the Section 8 Program under the United States Housing Act of 1937, as amended, or its successor.

"Inclusionary housing agreement" means an agreement between the city and an applicant, governing how the applicant shall comply with this chapter.

"Livable area" means the total square footage of the interior of all dwelling units within a residential development that a tenant can occupy and use as measured from the interior face of the exterior walls. This area specifically includes all living spaces, kitchens and bathrooms, and usable closet and storage spaces within a dwelling unit. This definition specifically excludes common areas such as hallways, elevators, stairwells, mailrooms, multi-use rooms, indoor pool rooms, mechanical rooms, lobbies, parking areas, and areas shared with a non-residential use in a mixed-use development.

"Living unit" means one or more rooms designed, occupied, or intended for occupancy as separate living quarters, with cooking, sleeping, and bathroom facilities. For the purposes of this Chapter, Accessory Dwelling Units (ADUs) and Junior Accessory Dwelling Units (JADUs) shall not count as living units.

"Lower-income" means a household whose household income is less than eighty percent (80%) of the area median income in Santa Clara County, as published and periodically updated by the California Department of Housing and Community Development.

"Lower-income household" means a household whose household income is greater than fifty percent (50%) and does not exceed eighty percent (80%) of the area median income in Santa Clara County, as published and periodically updated by the California Department of Housing and Community Development pursuant to Section 50079.5 of the California Health and Safety Code. does not exceed the lower income limits applicable to Santa Clara County, as published and periodically updated by the California Department of Housing and Community Development pursuant to Section 50079.5 of the California Health and Safety Code.

"Manager's unit" means a housing unit within a rental housing development that is designated for occupancy by a property manager or on-site staff responsible for the management and maintenance of the property.

"Market rate unit" means a housing unit or the legal lot for such unit offered on the open market at the prevailing market rate for purchase or rental.

"Ministerial project " means a project for which the governmental agency's action involves only the application of fixed, objective standards or criteria, without personal judgement or discretion. Ministerial projects do not require discretionary approval by a public agency.

"Moderate-income household" means a household whose household income is greater than eighty percent (80%) and does not exceed one hundred twenty percent (120%) of the area median income in Santa Clara County, as published and periodically updated by the California Department of Housing and Community Development pursuant to Section 50093 of the California Health and Safety Code.

"Nexus Study" means the fee study entitled: "Affordable Housing Nexus Study" prepared by BAE Urban Economics, dated July 15, 2024, approved by the City Council on August 20, 2024, and on file with the City Clerk.

"Pending project" means a land use application that has been accepted by the community development department as complete before the effective date of the ordinance codified in this chapter shall be processed in compliance with the requirements in effect when the application was accepted as complete by the city.

"Rental project" means a residential project, or portion thereof, which is intended to be rented to tenants upon completion.

"Residential project" has two distinct meanings depending on the date of application submittal as follows:

-
1. For a residential project submitted less than one-year after the effective date of this Chapter, "Residential project" means, any parcel map, subdivision map, conditional use permit, site and architectural review permit, building permit, or other city approval, which authorizes ten or more living units or residential lots, or living units and residential lots with ten or more in combination, exclusive of any proposed accessory dwelling units. In order to prevent evasion of the provisions of this chapter, contemporaneous construction of ten or more living units on a lot, or on contiguous lots for which there is evidence of common ownership or control, even though not covered by the same city land use approval, shall also be considered a residential project. Construction shall be considered contemporaneous for all units which do not have completed final inspections for occupancy and which have outstanding, at any one time, any one or more of the following: parcel map, subdivision map, or other discretionary city land use approvals, or building permits, or applications for such an approval or permits. ~~A pending project shall not be considered a residential project under this chapter.~~
 2. For a residential project submitted one-year or more after of the effective date of this Chapter, "Residential project" means, any parcel map, subdivision map, conditional use permit, site and architectural review permit, building permit, or other city approval, which authorizes five or more living units or residential lots, or living units and residential lots with five or more in combination, exclusive of any proposed accessory dwelling units. In order to prevent evasion of the provisions of this chapter, contemporaneous construction of five or more living units on a lot, or on contiguous lots for which there is evidence of common ownership or control, even though not covered by the same city land use approval, shall also be considered a residential project. Construction shall be considered contemporaneous for all units which do not have completed final inspections for occupancy and which have outstanding, at any one time, any one or more of the following: parcel map, subdivision map, or other discretionary city land use approvals, or building permits, or applications for such an approval or permits.
 3. "Very low-income household" means a household whose household income is greater than thirty percent (30%) and does not exceed fifty percent (50%) of the area median income in Santa Clara County ~~does not exceed the very low-income limits applicable to Santa Clara County~~, as published and periodically updated by the State Department of Housing and Community Development pursuant to Section 50105 of the California Health and Safety Code.

21.24.040 General requirements.

- A. Percentage requirement. At least fifteen percent of all units in a residential project shall be made available at affordable rents or affordable ownership cost as prescribed in this section and shall be approved and completed not later than the times prescribed in Section 21.24.050 (Time performance)~~21.20.040 of this title~~, unless an alternative mode of compliance requirement is approved as set forth in Section 21.24.070 (Alternatives)~~21.24.060~~ of this chapter. When the percentage requirement results in a fraction of units, the owner of the property shall round fractional units as follows:
 1. For a residential project submitted less than one year after the effective date of this Chapter, the property owner shall construct the next higher whole number of affordable units where the fraction is 0.5 or greater and shall construct the next lower whole number of affordable units where the fraction of units is less than 0.5. ~~For fractions of units in residential projects, where the fraction is 0.5 or greater, the owner of the property shall construct the next higher whole number of affordable units, and where the fraction is 0.49 or less, the owner shall construct the next lower whole number of affordable units.~~
 2. For a residential project submitted one year or more after the effective date of this Chapter, for any fractions of units in residential projects the owner of the property shall construct the next higher whole number of affordable units.
- B. Provision of affordable units. Where affordable and market rate units are provided in a residential project, the affordable units, irrespective of income level, shall be indistinguishable, in terms of building materials, architectural features, lighting fixtures, type and number of appliances, and

landscaping areas from other residential units in the residential project. Further, affordable units, irrespective of income level, shall have the same access to parking facilities, project amenities, and recreational areas as other residential units in the residential project. Exceptions. The community development director may grant exceptions to the requirements of this chapter to residential projects located within the redevelopment project area, upon a finding that such exception is necessary to effective implementation of the redevelopment plan, while maintaining overall compliance with affordable housing production requirements set forth in Health and Safety Code Section 33413.

- C. Location and design-distribution of affordable units. Where affordable and market rate units are provided in a residential project, the All affordable units shall be reasonably distributed proportionally to the total units in the residential project, inclusive of any density bonus units, dispersed throughout the project in terms of their assignment to rental and ownership units, and their placement in buildings, floors, and model types (accounting for floor plans, bedroom count, and unit sizes) where different buildings, floors, or model types are present in the residential project, and shall be comparable to the design of the market-rate units in terms of distribution of model types, number of bedrooms, appearance, materials and finished quality of the market-rate units in the project. There shall not be significant identifiable differences between affordable units and market-rate dwelling units which are visible from the exterior of the dwelling units and the size and design of the dwelling units shall be reasonably consistent with the market-rate units in the development. Affordable units shall have the same access to project amenities and recreational facilities as market rate units.
- D. For-sale projects. Affordable units which are constructed in for-sale projects for owner-occupancy shall be sold at affordable ownership cost to lower-income households and moderate-income households. Of these affordable units in for-sale projects, forty percent of the required fifteen percent, or six percent of the total units in the residential project, shall be offered at affordable ownership costs exclusively to lower-income households, provided that where this requirement for lower-income units would result in a fraction of a lower-income unit, the number of lower-income units shall be rounded up and the number of moderate-income units which need not be lower-income units shall be rounded down. For determining compliance with the affordability requirements of this section, units provided at even lower income levels than those specified shall be found to satisfy the requirement. The sale price of units shall be based on the methodology established by, and on file with, the Community Development Department consistent with the requirements of this Chapter.
- E. Rental projects. The affordable units which are constructed in rental projects shall be offered for rent at affordable rents to lower-income households and very low-income households. Of these affordable units in rental projects, forty percent of the required fifteen percent, or six percent of the total units in the residential project, shall be offered at affordable rents exclusively to very low-income households, provided that where this requirement for very low-income units would result in a fraction of a very low-income unit, the number of very low-income units shall be rounded up and the number of lower-income units which need not be very low-income units shall be rounded down. For determining compliance with the affordability requirements of this section, units provided at even lower income levels than those specified shall be found to satisfy the requirement. The rental rates of units shall be based on the methodology established by, and on file with, the Community Development Department consistent with the requirements of this Chapter.
- F. Priority for rental or purchase of units. Preference in the rental or purchase of affordable units shall be given, first to income eligible lower income households of protected units displaced by demolition for any required replacement units as provided for by Section 66300.6 of the California Government Code, second (for up to ten percent of all affordable units subject to this chapter) to income eligible employees of the City of Campbell, third to income eligible existing Campbell residents, and fourth to income eligible persons employed within the city limits of the City of Campbell.

21.24.050 Time performance.

- A. Application requirements. An application for first approval of a residential project will not be deemed complete until the applicant has submitted plans and proposals which demonstrate the manner in which the applicant proposes to meet the requirements of this chapter, including any plans for the

construction of on-site units pursuant to Section 21.24.040 (General requirements.) of this chapter or the applicant's selection of an alternative ~~modemeans~~ of compliance pursuant to Section 21.24.070 (Alternatives.) of this chapter.

- B. Conditions. Conditions to carry out the purposes of this chapter shall be imposed on the first approval for a residential project. Additional conditions may be imposed on later city approvals or actions, including without limitation ~~planned development permits,~~ tentative parcel maps, tentative subdivision maps, conditional use permits, housing development permits, site and architectural review permits, or building permits. The conditions of approval included with the first approval of the residential project shall further provide that prior to the recordation of the parcel map or final map in the case of subdivisions and or prior to the issuance of building permits in the case of all other land use permits to which this chapter applies, the applicant shall enter into an inclusionary housing agreement acceptable to the community development director that contains specific requirements implementing the condition of approval including, but not limited to, as applicable, the number of affordable units, the level(s) of affordability, location and type of affordable units, timing of construction of affordable units in relation to the construction of the market rate units contained in the development, preferences given in selecting occupants, and amount of the in-lieu fee, if any. The inclusionary housing agreement may be amended by the parties, provided the amendment is consistent with the condition of approval imposed as part of the first approval and the then-existing city approvals. If such proposed amendment is minor or technical in nature, the community development director shall have authority to approve or disapprove the amendment on behalf of the city. If such proposed amendment makes a substantive or material change to the inclusionary housing agreement, such amendment shall be effective only if, following notice and hearing and such other procedures as may be required by law, approved by the city agency that gave the first approval on the project.
- C. No building permit shall be issued for any market rate unit until the applicant has obtained permits for affordable units sufficient to meet the requirements of Section 21.24.040 (General requirements.) of this chapter, or received approval of an alternative requirement of Section 21.24.070 (Alternatives.) of this chapter. No final inspection for occupancy for any market rate unit shall be completed until the applicant has constructed the affordable units required by Section 21.24.040 (General requirements.) of this chapter, or completed corresponding alternative performance under Section 21.24.070 (Alternatives.) of this chapter. The time requirements set forth in this subsection for issuance of building permits for market rate units and for final inspections for occupancy for market rate units may be modified to accommodate phasing schedules, model variations, or other factors in a residential project, if the city determines this will provide greater public benefit and an inclusionary housing agreement acceptable to the community development director or the Community Development Director's designee pursuant to subsection B of this section so provides.

21.24.060 Continued affordability and city review of occupancy.

- A. Term of affordability—For-sale projects. A resale restriction, covenant, deed of trust and/or other documents acceptable to the community development director or the director's designee, shall be recorded against each affordable owner-occupied unit. These documents shall, in the case of affordable units which are initially sold, be for a term of forty-five years and shall be renewed at the change of each title for a period of forty-five years for a residential project submitted less than one-year from the effective date of this Chapter. For a residential project submitted one year or more after the effective date of this Chapter, the term shall be fifty-five years and shall be renewed at the change of each title for a period of fifty-five years. The resale restriction, or other documents authorized by this subsection, and any change in the form of any such documents which materially alters any policy in the documents, shall be approved by the community development director or his or her designee prior to being executed with respect to any residential project.
1. For a residential project submitted less than one-year after the effective date of this Chapter, the property owner shall construct the next higher whole number of affordable units where the fraction is 0.5 or greater and shall construct the next lower whole number of affordable units where the fraction of units is less than 0.5.

2. For a residential project submitted one-year or more after of the effective date of this Chapter, for any fractions of units in residential projects the owner of the property shall construct the next higher whole number of affordable units.

- B. Term of affordability—Rental projects. A regulatory agreement, covenant, deed of trust, and/or other documents acceptable to the Community Development Director or the Director's designee, shall be recorded against each unit/complex for residential projects containing affordable rental units. These documents shall, in the case of affordable units which are rented, be for a term of fifty-five years and shall be renewed at the change of each title for a period of fifty-five years. The regulatory agreement and other documents authorized by this subsection, shall run with the property and not be affected by the sale of the property or units in the project. The regulatory agreement and other documents authorized by this subsection, and any change in the form of any such document which materially alters any policy in the document, shall be approved by the Community Development Director or his or her designee prior to being executed with respect to any residential project.
- C. Eligibility requirements. No household shall be permitted to begin occupancy of an affordable unit unless the city or its designee has approved the household's eligibility. If the city or its designee maintains a list of, or otherwise identifies, eligible households, initial and subsequent occupants of affordable units shall be selected first from the list of identified households, to the maximum extent possible, in accordance with rules approved by the community development director or his or her designee.

21.24.070 Alternatives.

An applicant may elect, in lieu of building affordable units within a residential project, to satisfy the requirements of this chapter by one of the following alternative modes of compliance, provided that the applicant includes such election in its application for the first approval of the residential project and that the criteria stated in the relevant subsection below are satisfied.

~~A. — Rental units in for-sale projects. Where owner-occupied affordable units are required by Section 21.24.040 of this chapter, instead construct as part of the residential project the same or a greater number of rental units, affordable to lower income households and very low-income households in the proportions and at the rents as prescribed in Section 21.24.040(E) of this chapter. Substitution of rental units shall be allowed under this subsection only if either: (1) the rental units are at least equal in number of bedrooms to the owner-occupancy units which would have been allowed, or (2) any comparative deficiency in bedrooms is compensated for by additional units and/or affordability to households with lower incomes.~~

AB. Off-site construction. Construct, or make possible construction by another developer of, units not physically contiguous to the market-rate units (or units that are physically contiguous to the market-rate units if the City determines this will provide greater public benefit and if an inclusionary housing agreement acceptable to the Community Development Director or his or her designee pursuant to Section 21.24.050(B) (Conditions.) of this chapter so provides) and equal or greater in number to the number of affordable units required under Section 21.24.040 (General requirements.) of this chapter. Off-site construction pursuant to this subsection shall be approved only if:

1. Approval has been secured for the off-site units not later than the time the residential project is approved and completion of the off-site units is secured by a requirement that final inspections for occupancy for the related market-rate units be completed after those for the affordable units, provided that the time requirements set forth in this subsection for final inspections for occupancy for market-rate units may be modified to accommodate phasing schedules, model variations, financing requirements, or other factors in a residential project for the off-site units, if the City determines this will provide greater public benefit, and if an inclusionary housing agreement acceptable to the Community Development Director or his or her designee pursuant to Section 21.24.050(B) (Conditions.) of this chapter so provides;

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2. The off-site units will be greater in number, larger or affordable to households with lower incomes than would otherwise be required in Section 21.24.040 (General requirements.) of this chapter;
 3. Financing or a viable financing plan is in place for the off-site units;
 4. In the event the off-site units receive any public assistance, the developer of the residential project will contribute to the off-site units economic value equivalent to the value of making on-site units in the developer's residential project affordable; and
 5. The City may require that completion of off-site units shall be further secured by the developer's agreement to pay an in-lieu fee in the amount due under subsection D of this section in the event the off-site units are not timely completed.
- BE.** Land dedication. Dedicate without cost to the city, a lot or lots within or contiguous to the residential project, sufficient to accommodate at least the required affordable units for the residential project. An election to dedicate land in lieu of compliance with other provisions of this chapter shall be allowed only if:
1. The value of the lot or lots to be dedicated is sufficient to make development of the otherwise required affordable units economically feasible, and financing or a viable financing plan is in place for at least the required number of affordable units; and
 2. The lot or lots are suitable for construction of affordable housing at a feasible cost, served by utilities, streets and other infrastructure, there are no hazardous material or other material constraints on development of affordable housing on the lot or lots, and land use approvals have been obtained as necessary for the development of the affordable units on the lot or lots.
- CD.** In-lieu housing fee. ~~Where a residential project has an approved density of six or fewer units per acre, the applicant of a residential project submitted one-year or more after the effective date of this Chapter may elect to pay an in-lieu housing fee, in accordance with Section 21.24.080 (Establishment and use of in-lieu housing fees), instead of developing the affordable units required in Section 21.24.040 (General requirements.) of this chapter, pursuant to the requirements set forth below: in this subsection.~~
1. Projects with 5 or 6 units: The applicant may pay an in-lieu housing fee to satisfy any fractional affordable unit obligation (i.e., 0.75 or 0.9 units) rather than constructing the next higher whole number of affordable units.
 2. Projects with 7 or more units: The applicant may pay an in-lieu housing fee to satisfy any fractional affordable unit obligation less than 0.5 rather than constructing the next higher whole number of affordable units. Nothing contained in this section shall alleviate the applicant from developing the remainder of the affordable units required by Section 21.24.040 (General requirements) or allow for payment of an in-lieu housing fee in situations where the fractional obligation is 0.5 or greater.
 - ~~1. The initial in-lieu fee schedule shall be set by City Council fee resolution or other action of the City Council so that the fee amounts are not greater than the difference between: (a) the amount of a conventional permanent loan that an inclusionary unit would support based on the affordable rent or sales price for the required inclusionary unit; and (b) the estimated total development cost of prototypical inclusionary units.~~
 - ~~2. The City Council may annually review the fees authorized by this subsection D of this section by resolution, and may, based on that review, adjust the fee amount. For any annual period during which the City Council does not review the fee authorized by this subsection, fee amounts shall be adjusted once by the community development director or his or her designee based on the construction cost index.~~
 3. In-lieu fees shall be calculated based on the fee schedule:
 - a. In effect at the time the fee is paid for a ministerial project application;

b. The date an application was deemed complete for a development project application; or

c. The date the complete preliminary application was submitted for a project submitted pursuant to California Government Code Section 65941.1.

If a permit meets more than one of the above criteria, the fee shall be based on the fee schedule in effect on the date that results in the lowest fee from the list above.

4. In-lieu fees shall be paid prior to issuance of building permits ~~for market-rate units in a residential project~~. If building permits are issued for only part of a residential project, the fee amount shall be based only on the number of units then permitted. ~~Where payment is delayed, in the event of default or for any other reason, the amount of the in-lieu fee payable under this subsection D of this section shall be based upon the fee schedule in effect at the time the fee is paid.~~

D. Substitution of units. The applicant may elect to provide additional affordable units, instead of developing the affordable units required in Section 21.24.040 (General requirements.) of this chapter, as set forth below:

1. Very Low-Income Units: The applicant may substitute required very low-income housing units at a ratio of one to two for low-income units or at a ratio of one to four for moderate income units.

2. Low-Income Units: The applicant may substitute required low-income housing units at a ratio of one to two for moderate income units.

21.24.080 Establishment and use of in-lieu housing fees.

A. Initial in-lieu housing fee. The initial in-lieu housing fee shall be set by City Council resolution based on an affordable housing analysis or nexus study which supports the initial fee rate and fee calculation method established in this Section.

B. Fee calculation method. The fee shall be calculated as follows:

$$\text{Fee} \times \frac{\text{Fractional Affordable Units}}{\text{Total Affordable Units Required}} \times (\text{Livable Area}) = \text{Total Due}$$

C. Fee adjustments. The initial fee established, in accordance with Section 21.24.080.A. (Initial in-lieu housing fee.), shall be adjusted annually on July 1, based on the percentage change in the construction cost index from the previous year.

DA. All in-lieu fees collected under this chapter shall be deposited into a separate account to be designated the City of Campbell housing trust fund.

EB. The in-lieu fees collected under this chapter and all earnings from investment of the fees shall be expended exclusively to provide or assure continued provision of affordable housing in the city through acquisition, construction, development assistance, rehabilitation, financing, rent subsidies or other methods, and for costs of administering programs which serve those ends. The housing shall be of a type, or made affordable at a cost or rent, for which there is a need in the ~~c~~City and which is not adequately supplied in the ~~c~~City by private housing development in the absence of public assistance.

21.24.090 Waiver of requirements.

Notwithstanding any other provision of this chapter, the requirements of this chapter shall be waived, adjusted or reduced if the applicant shows that there is no reasonable relationship between the impact of a proposed residential project and the requirements of this chapter, or that applying the requirements of this chapter would take property in violation of the United States or California Constitution or otherwise result in an unconstitutional application of this chapter. To receive a waiver, adjustment or reduction

under this section, the applicant must file a written request together with the development application(s) when applying for a first approval for the residential project, and/or as part of any appeal which the City provides as part of the process for the first approval. The written request shall provide substantial evidence showing that there is no reasonable relationship between the impact of a proposed residential project and the requirements of this chapter, or that applying the requirements of this chapter would take property in violation of the United States or California Constitution or otherwise result in an unconstitutional application of this Chapter. The City may assume that: (a) the applicant will provide the most economical inclusionary units feasible meeting the requirements of this Chapter; and (b) the applicant is likely to obtain housing subsidies when such funds are reasonably available. The waiver, adjustment, or reduction may be approved only to the extent necessary to avoid an unconstitutional result, after adoption of written findings, based on substantial evidence, supporting the determinations required by this section.

21.24.100 Enforcement.

- A. The City Council may adopt guidelines, by resolution, to assist in the implementation of all aspects of this Chapter.
- B. No permit, license, subdivision approval or map, or other approval or entitlement for a residential project shall be issued, including without limitation a final inspection for occupancy or certificate of occupancy, until all requirements applicable to the residential project at such time pursuant to this Chapter have been satisfied.
- C. The City Attorney shall be authorized to enforce the provisions of this Chapter and all inclusionary housing agreements, regulatory agreements, resale controls, deeds of trust, or similar documents placed on affordable units, by civil action and any other proceeding or method permitted by law.
- D. Failure of any official or agency to fulfill the requirements of this Chapter shall not excuse any applicant or owner from the requirements of this Chapter.
- E. The remedies provided for in this Chapter shall be cumulative and not exclusive and shall not preclude the City from any other remedy or relief to which it otherwise would be entitled under law or equity.

21.24.110 Phased projects.

- A. Purpose. This section serves to ensure that each development phase of a multi-phase development project contributes its fair share of affordable units and maintains consistency with the overall project's requirements.
- B. Required Affordable Units by Project Phase. Each phase of a development project must provide at least as many affordable units, by income level, as would be required if that phase, along with any previously completed project phase(s), were completed independently from the rest of the project.
- C. Building Permit Final. No development phase of a project shall receive a building permit final until all affordable units required by that phase of the project are completed.

21.24.120 Severability.

If any provision or clause of this Chapter or the application thereof is held to be invalid, such invalidity shall not affect the other provisions or applications of this Chapter which can be given effect without the invalid provision or application, and to this end, the provisions of this Chapter are declared to be severable.

bae urban economics

FINAL DRAFT Affordable Housing Nexus Study

Prepared for the City of Campbell

July 15, 2024

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1. INTRODUCTION

This study provides analysis to assist the City of Campbell in considering the adoption of commercial linkage fees and changes to the City's inclusionary housing in-lieu fees. The City of Campbell is situated in one of the highest-cost regions in the country, where market-rate housing is often unaffordable for lower-income and moderate-income households. The City has sought to address these challenges through a variety of programs and actions, including a long-standing inclusionary housing ordinance that requires that some units in most new market-rate residential developments be made affordable to lower-income or moderate-income households. The City's inclusionary housing ordinance allows developers of some projects to choose to pay an in-lieu fee instead of providing inclusionary units, with revenues from the in-lieu fee directed to support affordable housing programs. As part of the City's efforts to address affordable housing needs, the City is now considering the adoption of commercial linkage fees that would apply to new non-residential development projects in the City, with revenues from commercial linkage fees providing funding to support affordable housing programs.

The City of Campbell's 2023-2031 Housing Element Update includes programs related to the adoption of commercial linkage fees, updates to the City's inclusionary housing ordinance, and updates to the City's inclusionary housing in-lieu fees. These programs include:

Program H-1a: Inclusionary Housing Ordinance Implementation: Amend the Inclusionary Housing Ordinance to offer developers a menu of options for achieving affordability, adjusting the percentage of units required to be affordable depending on the degree of affordability achieved (i.e., moderate-, low-, very low-, and extremely low-income).

These amendments could also include:

- Initiating a nexus study to reevaluate increasing the affordable housing in-lieu fee.
- Updating the inclusionary ordinance to require for-sale projects to provide the same allocation of units available to lower-income and very low-income units that is required for rental projects.
- Modifying the In-Lieu Fee threshold to apply only to developments of 5-9 units. Housing developments of 10 or more units would not be allowed to substitute affordable units with in-lieu fees.

Program H-1b: Commercial Linkage Fee: Establish an affordable housing impact fee that will apply to nonresidential development to provide an additional local source of revenue to support production of affordable housing.

The analysis presented in this report supports the City's implementation of these Housing Element programs.

Commercial Linkage Fee Analysis

One of the purposes of this report is to provide the analysis needed to inform the City's consideration of the adoption of commercial linkage fees. Commercial linkage fees are considered to be development impact fees that are subject to the requirements of the California Mitigation Fee Act. Local governments have the authority to implement development impact fees for the purpose of mitigating all or some of the costs associated with addressing the impacts of new development. Under the California Mitigation Fee Act (Government Code Section 66000 et seq.), before adopting an impact fee, local governments must adopt a nexus study that demonstrates a reasonable relationship between the impacts of new development, the facilities needed to address those impacts, and the fees that the jurisdiction intends to charge.

One purpose of this study is to address this requirement by quantifying the estimated relationship between new non-residential development in Campbell, the need for workforce housing, and the public cost to construct housing that is affordable to lower-income workers. The basis for the commercial nexus analysis is that new non-residential development generates new employment and brings new worker households to the area. A portion of these workers will have wages and household incomes that are not high enough to enable them to afford market-rate housing in Campbell, and as a result new commercial development is associated with a need for additional affordable housing. The nexus analysis identifies the fees that the City of Campbell would need to charge to generate the funds necessary to support the construction of affordable units for these workers.

Nexus studies for this type of fee often find that the fee rates that are supported by the nexus analysis are relatively high, and that charging the full nexus-based fee amount would likely render most or all new non-residential development infeasible. This is because the nexus analysis estimates the revenue that would need to be collected to address the impacts that new development has on worker housing needs, which does not bear any direct relationship to the financial feasibility of new development projects. To address this, this study also includes a financial feasibility analysis to evaluate the impact that new fees could have on the feasibility of new non-residential development. While the nexus analysis identifies the maximum amount that Campbell could charge based on the relationship between new non-residential development and the need for affordable housing funds, the City can adopt lower fee rates based on financial feasibility considerations or other factors.

Residential Feasibility and In-Lieu Fee Analysis

Unlike commercial linkage fee programs, which focus on the establishment of fees, inclusionary housing programs focus on the production of affordable housing units. As an alternative to providing housing units, Inclusionary Housing Programs offer an "in-lieu fee"

which is not subject to the same “nexus” standard as commercial linkage fees as developers retain the option of providing affordable housing units instead of paying the in-lieu fee. By State law, a local requirement to provide affordable housing units is also not subject to a nexus standard, provided that the required inclusionary housing percentage does not exceed 15 percent of the conforming units provided¹.

This study offers two alternative methods for determining a reasonable residential in-lieu fee in Campbell, as well as recommendations for implementing an updated in-lieu fee. In addition, this study includes a residential financial feasibility analysis to evaluate the feasibility of various types of residential development in Campbell. The residential financial feasibility analysis can help to inform the consideration of potential changes to the inclusionary ordinance. In addition, the financial feasibility analysis informs recommendations related to updating the City’s inclusionary housing in-lieu fees.

Current Inclusionary Housing Requirements and In-Lieu Fee

Campbell’s inclusionary housing ordinance requires that new residential developments with ten or more units provide 15 percent of the units as affordable inclusionary units. For rental developments, 40 percent of the inclusionary units (i.e., six percent of the units in the project), must be affordable to very low-income households, with the remainder affordable to lower-income households. For for-sale developments, 40 percent of the inclusionary units (i.e., six percent of the units in the project), must be affordable to lower-income households, with the remainder affordable to moderate-income households. For example, a 100-unit rental development would be required to provide a total of 15 affordable inclusionary units, six of which are affordable to very low-income households and nine of which are affordable to lower-income households. A 100-unit for-sale development would be required to provide a total of 15 affordable inclusionary units, six of which are affordable to lower-income households and nine of which are affordable to moderate-income households.

Projects with a density of six dwelling units per acre or less have the option to pay an in-lieu fee rather than providing the inclusionary units. The current in-lieu fee is \$21.50 per square foot for rental developments and \$34.50 per square foot for for-sale developments. For example, a ten unit, for sale single family development with an average home size of 2,000 sq. ft., built at a density of six dwelling units per acre or less, would have the option to pay an in-lieu fee totaling \$276,000 (10 units x .15% = 2 units; 2 units x 2,000 sq. ft. per unit x 34.50 per square foot).

Campbell’s inclusionary ordinance requires a 55-year affordability term for rental developments and a 45-year affordability term for for-sale developments. As shown in Table 1,

¹ https://www.hcd.ca.gov/community-development/housing-element/housing-element-memos/docs/ab_1505_final.pdf

these affordability terms are comparable to the terms required by some nearby jurisdictions, but shorter than the required affordability terms in others. For example, Sunnyvale requires a 55-year affordability term for rental inclusionary units and a 30-year affordability term for for-sale inclusionary units, while Cupertino and San Jose require a 99-year affordability term for both rental and for-sale inclusionary units. Los Gatos and Mountain View require that inclusionary units remain affordable in perpetuity.

Table 1: Inclusionary Housing Affordability Terms in Nearby Jurisdictions

	Term of Affordability (Years)	
	Rental Units	For Sale Units
Campbell (a)	55	45
Cupertino	99	99
Los Gatos (b)	In Perpetuity	In Perpetuity
Mountain View	In Perpetuity	In Perpetuity
San Jose (c)	99	99
Santa Clara (d)	55	20
Sunnyvale	55	30

- (a) Affordability term for for-sale units renews at change of each title for the duration of the affordability term.
- (b) Los Gatos has an ADU Incentive Program that provides financing for ADU construction in exchange for making the ADU affordable. In the case of affordable ADUs financed through the ADU incentive program, the affordability term is 30 years.
- (c) Affordable housing developments request a term of affordability of less than 99 years and no less than 55 years.
- (d) For-sale units must be re-sold to a qualifying buyer if sold within 5 years; City loan is forgiven in this instance. If resold within years 6-20, the seller may sell to any buyer but is required to pay off City loan and at sale and City receives a share of the increased equity.

Source: BAE, 2024.

Affordability of Market-Rate Housing

Table 3 below shows the average market-rate rent in Campbell as of the third quarter of 2023 as well as the maximum affordable monthly rent for households of various sizes and income levels. The U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) characterize households as “extremely low-income,” “very low-income,” “low-income,” “moderate-income,” or “above-moderate income” based on percentages of the Area Median Income (AMI). These income categories are defined below.

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

The household incomes that correspond to each income level varies by household size, as shown in Table 2.

Table 2: Household Income Limits by Household Size, Santa Clara County, 2023

Income Level	Number of Persons in Household							
	1	2	3	4	5	6	7	8
Acutely Low	\$19,050	\$21,750	\$24,500	\$27,200	\$29,400	\$31,550	\$33,750	\$35,900
Extremely Low	\$37,450	\$42,800	\$48,150	\$53,500	\$57,800	\$62,100	\$66,350	\$70,650
Very Low Income	\$62,450	\$71,400	\$80,300	\$89,200	\$96,350	\$103,500	\$110,650	\$117,750
Low Income	\$96,000	\$109,700	\$123,400	\$137,100	\$148,100	\$159,050	\$170,050	\$181,000
Median Income	\$126,900	\$145,050	\$163,150	\$181,300	\$195,800	\$210,300	\$224,800	\$239,300
Moderate Income	\$152,300	\$174,050	\$195,800	\$217,550	\$234,950	\$252,350	\$269,750	\$287,150

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

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

The analysis shown in Table 3 indicates that market-rate rents in Campbell exceed the affordability threshold for extremely low- and very low-income households, as well as for most low-income households. It should be noted that the incomes shown in the table are at the top of the income range for each group. Therefore, while Table 3 indicates that some one- and two-person households with incomes equal to 80 percent of AMI can afford market-rate rents, most lower-income households have incomes that fall somewhere below 80 percent of AMI. As a result, market-rate rents exceed the affordability threshold for all but a small portion of lower-income households.

This analysis indicates that many new workers in Campbell with moderate or above moderate household incomes will generally be able to afford market-rate rental units in the City, while workers with lower household incomes will generally not be able to afford market-rate housing in Campbell. While some market-rate units in Campbell have rents that fall below the averages shown in Table 3, data from Costar indicate that the multifamily rental vacancy rate in Campbell is approximately three percent. This suggests that new housing will need to be built to accommodate an increase in worker housing demand regardless of the level of affordability needed. The market-rate rents shown in Table 3 are based on all market-rate units in Campbell, regardless of property age, and therefore are lower than the rents that would be charged at a newer development. As a result, new market-rate units are unlikely to provide housing that is affordable for worker households with extremely low, very low, and low incomes, and these households will need rent-restricted affordable housing in order to be able to afford to live locally.

Based on the calculations shown in Table 3, the nexus analysis provided in this study evaluates the extent to which new development generates a need for housing for extremely low-income, very low-income, and low-income households. As displayed below, the amounts

below market rates are reflected in negative values shown in red parentheses or positive values shown in green. The nexus analysis does not focus on the housing need for moderate or above-moderate income households because households at these income levels are more likely to be able to afford market-rate housing.

Table 3: Affordability of Market-Rate Multifamily Rental Units, Campbell, 2023

	Household (Unit) Size				Affordable?
	1 Person (Studio)	2 Person (1 Bedroom)	3 Person (2 Bedrooms)	4 Person (3 Bedrooms)	
Average Market-Rate Rent (a)	\$2,063	\$2,542	\$3,025	\$3,818	
Utility Costs (b)	\$168	\$179	\$217	\$253	
Maximum Affordable Monthly Rent					
Extremely Low Income (up to 30% AMI)					
Household Income (c)	\$37,450	\$42,800	\$48,150	\$53,500	
Max. Affordable Monthly Rent (d)	\$768	\$891	\$987	\$1,085	
Amount Above (Below) Market Rate Rent	(\$1,295)	(\$1,651)	(\$2,038)	(\$2,734)	No
Very Low Income (31-50% AMI)					
Household Income (c)	\$62,450	\$71,400	\$80,300	\$89,200	
Max. Affordable Monthly Rent (d)	\$1,393	\$1,606	\$1,791	\$1,977	
Amount Above (Below) Market Rate Rent	(\$670)	(\$936)	(\$1,235)	(\$1,841)	No
Low Income (51-80% AMI)					
Household Income (c)	\$96,000	\$109,700	\$123,400	\$137,100	
Max. Affordable Monthly Rent (d)	\$2,232	\$2,564	\$2,868	\$3,175	
Amount Above (Below) Market Rate Rent	\$169	\$21	(\$157)	(\$644)	No
Median Income (81-100% AMI)					
Household Income (c)	\$126,900	\$145,050	\$163,150	\$181,300	
Max. Affordable Monthly Rent (d)	\$3,005	\$3,447	\$3,862	\$4,280	
Amount Above (Below) Market Rate Rent	\$942	\$905	\$837	\$462	Yes
Moderate Income (101-120% AMI)					
Household Income (c)	\$152,300	\$174,050	\$195,800	\$217,550	
Max. Affordable Monthly Rent (d)	\$3,640	\$4,172	\$4,678	\$5,186	
Amount Above (Below) Market Rate Rent	\$1,577	\$1,630	\$1,653	\$1,368	Yes

Notes:

(a) The average asking multifamily rent by number of bedrooms in the City of Campbell at the end of the third quarter of 2023, as reported by CoStar.

(b) Housing Authority of Santa Clara County 2023 allowances for tenant-furnished utilities and other services for a multifamily unit that uses electricity for cooking, heating, and water heating, as well as electricity for lights and appliances. Figure assumes the tenant is charged for water and sewer services. The allowance is based on the number of bedrooms in the unit and a household is assumed to have one bedroom fewer than the number of people in the household.

(c) California Department of Housing and Community Development 2023 income limits for Santa Clara County.

(d) Assumes 30 percent of income spent on rent and utilities.

Sources: CoStar, 2023; California Department of Housing and Community Development, 2023; HUD OMB 2577-0169, 2022; Housing Authority of Santa Clara County, 2023; BAE, 2023.

Input from Developers

The process for preparing this nexus study report included obtaining input from residential and non-residential developers through a series of one-on-one interviews, two developer focus group sessions, and an online developer survey. The developer interviews focused on collecting input on detailed assumptions for the financial feasibility analysis and also included

some general discussion of the impact that changes in the in-lieu fees and adoption of commercial linkage fees might have on development feasibility in Campbell.

The developer focus group sessions focused on more general discussion of development feasibility and the potential impacts of a new commercial linkage fee and changes to the inclusionary housing in-lieu fee. Attendees were also asked to provide input on ways that the City might implement any changes in a manner that would minimize any potential negative impacts on feasibility. More than 56 individuals were invited to participate in the focus groups, approximately six attended the meeting on commercial linkage fees, and approximately 17 attended the meeting on inclusionary housing in-lieu fees.

The following subsections summarize the input received during this process.

Input Related to Fees on Both Non-Residential and Residential Development

- **Input on assumptions for financial feasibility analysis.** Survey respondents and participants in one-on-one interviews provided information on detailed assumptions for the financial feasibility analysis, including but not limited to information on hard construction costs, soft costs, land costs, rents, sale prices, and capitalization rates in Campbell.
- **Transparency and predictability of requirements.** Many participants highlighted the need for transparency and predictability in the requirements that apply to new development projects, both for residential and non-residential development. Participants that provided input on commercial linkage fees expressed a need for a clear, concise, easy to understand fee structure. Similarly, participants that provided input on inclusionary requirements and in-lieu fees emphasized a need to know the requirements before purchasing land and starting to plan a project. Both residential and non-residential developers indicated that development fees and inclusionary requirements affect the price that developers will offer for a development site. As a result, developers seek to understand the requirements that apply to a particular property before purchasing the land, and changes to those requirements after the land is purchased can impact the financial feasibility of the project. Participants also requested that Campbell designate a member of City staff to be knowledgeable in all fees that apply to development projects and act as a point of contact for developers seeking information on the fees that would apply to a proposed development project.
- **Applicability to mixed-use projects.** One developer that participated in the process commented that mixed-use projects with residential and nonresidential uses should not be required to provide affordable units in the residential component of the project and pay a commercial linkage fee for the nonresidential component of the project, particularly when the non-residential component of the project provides City tax revenues, such as in the case of a hotel that generates transient occupancy tax.

Input Related to Fees on Non-Residential Development

- **Financial feasibility challenges for non-residential development.** Participants cited significant financial feasibility challenges for non-residential development in Campbell and expressed concern that commercial linkage fees would add to these challenges. Participants noted that office vacancy rates remain high, and rents remain low as the office market continues to adjust to remote and hybrid work patterns following the COVID-19 pandemic. Developers noted that Campbell tends to have higher office vacancy rates and lower office rents than many nearby jurisdictions such as Cupertino and Mountain View. Meanwhile, construction costs and financing costs are comparable throughout the region and have increased substantially. Industrial developers cited similar challenges. Some developers noted that office building owners in Campbell are investors, whereas other cities have a large number of owner-occupants such as Apple and Google. One developer stated that Palo Alto will be first city in the area to experience development activity when office development activity resumes in the region, followed by cities such as Redwood City, Mountain View, and Sunnyvale, with developer interest in Campbell occurring relatively late in the market cycle. This developer noted that Campbell did not experience significant demand for new office development even during the strong office development environment that Santa Clara County experienced prior to the COVID-19 pandemic.
- **Timing of commercial linkage fee collection.** Some developers expressed a preference for having the option to pay commercial linkage fees later in the process than is typical for impact fees. For example, some focus group participants expressed a preference for a fee that would be collected when a building is sold rather than prior to project completion. Other participants stated that deferring fees to the issuance of certificate of occupancy would help with financial feasibility. Participants noted that fees that must be paid early in the development process (e.g., at building permit issuance) must be financed, adding expensive financing costs to the project.
- **Phase-in process.** One developer recommended phasing in any new commercial linkage fees by applying no fee to projects occurring in the near term until a set citywide square footage cap is met, then applying any new fees at a rate of half of the full rate until a second set citywide square footage cap is met, then applying the full fee rate. The intent of this strategy would be to encourage nonresidential development in Campbell in the near term as some developers may be incentivized to proceed before the fee comes into effect. In addition, the intent of this strategy would be to time the phase-in of the fee based on the strength of the market in Campbell, with the strength of the market being measured by the volume of citywide nonresidential construction activity.
- **Alternatives for generating revenue for affordable housing.** Some participants recommended alternatives to a commercial linkage fee to generate revenue for

affordable housing, such as using a portion of the City's transient occupancy tax revenues or instituting a transfer tax on the sale of all property.

Input Related to Fees on Residential Development

- **Financial feasibility of residential development.** Some participants noted financial feasibility challenges for residential development in Campbell, though participants also indicated a continued interest in pursuing residential development projects in Campbell. Some developers cited inclusionary requirements as a factor that has a negative impact on feasibility. One developer recommended that the City reduce inclusionary requirements either permanently or temporarily to encourage development. One developer commented on the challenges associated with acquiring properties from long-term owners that have existing income-generating tenants and a low carrying cost for their property due to low property taxes. These property owners are often reluctant to take on the risk of a redevelopment project or to accept a one-time payout from a property sale, rather than continuing to collect revenue from these properties in their current condition. Other factors cited as challenges included design standards and CEQA requirements. High construction costs and interest rates were also cited as major factors that are negatively impacting the financial feasibility of residential development. High interest rates have not only made development more expensive but have also provided more profitable returns from a range of investment types, making it more difficult to attract investors to real estate development projects with lower rates of return.
- **In-lieu fee option for residential projects.** Some participants expressed support for increasing the availability of the in-lieu fee option for residential projects, which is currently available only for projects with a density of six dwelling units per acre or less in Campbell, to allow the use of an in-lieu fee for projects at higher densities. Some participants noted that the option to pay an in-lieu fee could be subject to City Council approval. Participants also requested that the City provide an option to pay an in-lieu fee to satisfy the requirements for some units and provide the remainder of the units on site. For example, a developer might have the option to pay an in-lieu fee for the requirement to provide low-income units but would provide very low-income units in the project to be eligible for the State Density Bonus. Affordable housing developers that participated in the process noted that in-lieu fees can provide an important source of funding for affordable housing developments. Funding generated by these fees helps to fill critical gaps and makes projects more competitive for state and federal funds, many of which prioritize projects that receive local funding support.
- **Flexibility in meeting inclusionary requirements.** In addition to the flexibility to pay an in-lieu fee, developers highlighted the benefits of flexibility in meeting the inclusionary requirements more generally and allowing developers to propose creative solutions. For example, one developer cited the example of a project with a mix of rental and for-

sale units that provided all affordable units as rental units rather than providing both rental units and for-sale units as affordable units.

- **Project size threshold for inclusionary ordinance.** In general, participants opposed reducing the size threshold for the City’s inclusionary requirements below the current threshold of ten units, and some recommended that the City consider increasing the size threshold. Participants stated that reducing the size threshold would have a negative impact on financial feasibility for infill projects and smaller projects that provide middle-income housing.
- **Fee calculation methodology.** Developers commented that the City method of calculating fees results in a significantly lower fee compared to other communities and should drop its current method of calculating fees (which multiplies the fee against the assumed size of the unit “not provided”) in favor of that used by other jurisdictions (which multiplies the fee based on total livable area developed in the project), including the City of Mountain View.

AB 602 Requirements

The provisions of Assembly Bill 602 (AB 602, 2021 Legislative Cycle) came into effect in January 2022, enacting new requirements for impact fees and impact fee nexus studies. While some provisions of the legislation apply only to impact fees that apply to residential development, other provisions apply to impact fees charged on both residential and non-residential development. Key provisions of AB 602 include:

- **Level of Service.** AB 602 requires that impact fee nexus studies “identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new level of service is appropriate.” (See Government Code Section 66016.5(a)(2).)
- **Prior Nexus Study Assumptions and Fees Collected.** Pursuant to AB 602, Government Code Section 66016.5(a)(4) provides that “if a nexus study supports the increase of an existing fee, the local agency shall review the assumptions of the nexus study supporting the original fee and evaluate the amount of fees collected under the original fee.”
- **Capital Improvement Plan.** Under AB 602, Government Code Section 66016.5(6) states that “large jurisdictions shall adopt a capital improvement plan as a part of the nexus study.” For the purposes of this provision, Campbell is classified as a large jurisdiction.²
- **Residential Fees Proportional to Square Footage.** AB 602 stipulates that “if [a nexus] study is adopted after July 1, 2022, [it must] either calculate a fee levied or imposed

² AB 602 uses the definition of a “large jurisdiction” that is contained in Section 53559.1 of the California Health and Safety Code. This section defines a large jurisdiction as a county with a population of 250,000 or more as of January 1, 2019 or any city within that county.

on a housing development project proportionately to the square footage of the proposed units, or make specified findings explaining why square footage is not an appropriate metric to calculate the fees.”

- **30-Day Noticing.** Under AB 602, “All studies shall be adopted at a public hearing with at least 30 days’ notice, and the local agency shall notify any member of the public that requests notice of intent to begin an impact fee nexus study of the date of the hearing.”
- **Updates Every Eight Years.** AB 602 stipulates that nexus studies “shall be updated at least every eight years, from the period beginning on January 1, 2022.”

Appendix A provides an analysis of AB 602 compliance for the commercial linkage fee and inclusionary in-lieu fees that are evaluated in this report.

AB 1505 Requirements

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

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

- **The ordinance requires more than 15 percent of units to be affordable to households with incomes equal to 80 percent of the AMI or less.**
 - Applicability to Campbell: The City of Campbell’s existing inclusionary ordinance does not require more than 15 percent of units to be affordable to households with incomes equal to 80 percent of the AMI or less and is thus not subject to HCD review per AB 1505.
- **Either: 1) the jurisdiction did not meet at least 75 percent of its above-moderate income Regional Housing Needs Allocation (RHNA) over at least a five-year period, or 2) the jurisdiction failed to submit its annual Housing Element report for at least two consecutive years.**
 - Applicability to Campbell: The City of Campbell did meet at least 75 percent of its above-moderate income RHNA over the last eight-year period (RHNA 5) and has submitted its annual Housing Element report yearly.

- **Less than ten years have passed since the adoption or amendment of the ordinance.**
 - Applicability to Campbell: The City of Campbell's ordinance has been updated in the past ten years.

Campbell's ordinance does not meet any of the above criteria and thus would not trigger a review by HCD. Nonetheless, regardless of the specific provisions of AB 1505, HCD could consider the financial feasibility of the City's inclusionary ordinance as part of its review of future City of Campbell Housing Element Updates to assess whether the requirements constitute an undue constraint on housing production.

2. COMMERCIAL LINKAGE FEE ANALYSIS

This chapter provides an analysis of commercial linkage fees in the City of Campbell.

The first portion of this chapter consists of the nexus analysis, which identifies the relationship between the construction of new commercial space, the need for affordable housing, and the need for City funds to construct affordable housing. The nexus analysis establishes the maximum amount that the City can charge based on the need created by new development. Local jurisdictions often charge less than the maximum amount due to financial feasibility considerations or various policy objectives.

The second portion of the chapter provides a financial feasibility analysis to evaluate how commercial linkage fees might impact the feasibility of new commercial development in Campbell. This portion of the analysis is intended to inform policy decisions regarding the implementation of commercial linkage fees, including setting fee rates.

Recommendations supported by the analysis provided in this chapter are addressed in a separate chapter of this report, along with recommendations supported by the analysis of inclusionary housing in-lieu fees.

Commercial Linkage Fee Nexus Analysis

The nexus portion of the commercial linkage fee analysis identifies the relationship, or “nexus”, between the construction of new non-residential projects and the need for affordable housing funds. The commercial linkage fee nexus analysis is based on the premise that new commercial land uses generate new employment for workers that will have a range of household incomes. Due to high housing costs in Campbell, new workers with extremely low, very low, or low household incomes will be unable to afford most market-rate housing in the City without incurring substantial cost burdens. The resulting impact from new non-residential development is an increase in workers in Campbell that face a lack of affordable housing options. The commercial linkage fee mitigates these impacts by generating revenue to support the construction of housing affordable to the new lower-income worker households.

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

- Step 1: Identify land uses and employment densities.** This step consists of identifying the land uses that will be evaluated in the nexus analysis as well as the typical employment density (i.e., square feet per worker) for each use type.

Step 2: Estimate worker households by income level for each land use type. For each land use, the estimated number of worker households at each income level is a function of:

- The employment density for that land use (as identified in Step 1);
- The typical income distribution among workers employed in the land use (estimated as part of Step 2); and
- The typical number of workers per household among workers at each income level (estimated as part of Step 2).

This step yields an estimate of the number of lower-income worker households (i.e., those with household incomes equal to 80 percent of AMI or less) that each land use generates. This number constitutes the estimated affordable housing need associated with each land use type.

Step 3: Calculate the affordable housing financing gap. The financing gap is the amount of public subsidy needed to finance an affordable housing unit.

Step 4: Calculate the maximum nexus-based fee. The maximum nexus-based fee is equal to the number of lower-income worker households from Step 2 multiplied by the affordable housing financing gap from Step 3.

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

Step 1: Land Uses and Employment Densities

This analysis evaluates the following four land uses:

- Office
- Retail/Restaurant
- Hotel
- Industrial

For each land use, this study estimated the average employment density, expressed in terms of square feet of built space per worker. The process for the Nexus Study included a review of several studies to estimate average employment densities for each land use type, including Environmental Impact Reports for projects in the region, other commercial linkage fee nexus studies, and US Energy Information Administration Commercial Buildings Energy Consumption Survey data. Actual employment density can vary depending on the specific occupants in a given use. Therefore, this study uses employment densities that may be slightly higher than is typical for some uses to avoid overestimating the impacts of new development and to provide a conservative estimate of the maximum fee rate.

For example, the office employment density shown in the table likely provides a particularly conservative estimate of the number of workers in most new office developments. This study assumes an office density of 300 square feet per worker, though many offices have

transitioned to employment densities of 200 square feet per worker or less over the past decade. Moreover, in many cases more recent increases in hybrid work arrangements have led to increased employment densities within offices that are occupied. This is because employers with hybrid workers are less likely to have individual offices, desks, or workstations for workers who do not report to the office every day, and to increase the use of shared workspaces, leading to a decrease in office square footage per worker.³ While the number of people occupying an office space on any given day may shift with higher and lower densities depending on the day, the total number of workers that report to an office location, and therefore must live within the area, may be higher for a hybrid work environment compared to an environment in which all workers report to the office every day. Due to shared workspaces for hybrid workers, as well as the lack of a need to rent or purchase office space for workers that work entirely remotely, many employers have been able to decrease their office footprint, with a higher employment density within the occupied space. While these trends have generally led to increased office vacancies, these vacancies would not be expected to impact new office developments that are constructed in the future because developers will only pursue new development once they have confidence that new space will be leased up, or in a build-to-suit scenario in which a future tenant is already identified. As a result, new office space that is built in Campbell will likely be occupied at a higher employment density than is estimated in this analysis. To the extent that this analysis underestimates employment densities, this study provides a conservative estimate of the impact of new non-residential development and of the maximum fee that the City could charge based on the relationship between new development and the need for affordable housing.

As shown below, this nexus analysis assumes an employment density of 300 square feet per employee for office uses, 500 square feet per employee for retail and restaurant uses, 1,500 square feet per employee for hotel uses, and 750 square feet per employee for industrial uses.

Table 4: Employment Densities by Land Use

	Office	Retail/ Restaurant	Hotel	Industrial
Average Sq. Ft./Employee	300	500	1,500	750
Employees per 1,000 SF	3.33	2.00	0.67	1.33

Source: BAE, 2022.

³ See https://www.bisnow.com/national/news/office/office-occupiers-plan-to-shrink-footprints-even-attendance-mandates-rise-121624?utm_source=outbound_pub_7&utm_campaign=outbound_issue_72236&utm_content=outbound_link_7&utm_medium=email.

Step 2: Worker Households by Income Level

Worker occupations, salaries, and associated household incomes tend to vary between industries, and therefore this analysis identifies the industry sectors that might occupy each of the four land uses as a first step in identifying affordable housing need among worker households.

Researchers in economics typically categorize business establishments based on the North American Industry Classification System (NAICS), which provides numerical codes by industry sector. NAICS codes group all industries into 20 major industry categories, each identified with a two-digit code. Within each two-digit NAICS sector, more detailed sub-categories of industries are identified by three-digit NAICS codes, which are themselves comprised of more detailed subcategories of industries, up to the six-digit NAICS code level, with more digits associated with more detailed subcategories. For example, NAICS sector 72, Accommodation and Food Services, is comprised of NAICS code sectors 721 (Accommodation) and 722 (Food Services and Drinking Places). NAICS codes 721 and 722 are comprised of more detailed industries, identified by NAICS codes with four to six digits, depending on the level of specificity of the subcategories.

BAE developed a list of representative industries using NAICS-based Census industry categories likely to occupy each of the four commercial land uses. The U.S. Census Bureau uses this classification system as a basis for their system for classifying workers by industry for the American Community Survey (ACS). Each worker surveyed is categorized by a scheme which roughly corresponds to NAICS four-digit level data. Published ACS data roll the detailed categories up into several major industry categories, but a more detailed data set, the Public Use Microdata Sample (PUMS), allows analysis at a more fine-grained level. BAE queried the PUMS data set for Santa Clara County to identify the distribution of worker households by HCD income category, using the household incomes and household size for workers in the industries identified for each of the four commercial land uses. Table 5 below presents the distribution of worker households by HCD income level.

Table 5: Distribution of Worker Households by Income

Land Use	Estimated Household Income as a Percent of AMI						Total
	Extremely			Above			
	Low	Very Low	Low	Median	Moderate	Moderate	
Office	2.1%	3.1%	5.0%	7.1%	7.6%	75.1%	100.0%
Retail/Restaurant	10.7%	14.4%	17.3%	13.7%	9.6%	34.4%	100.0%
Hotel	10.9%	17.8%	23.4%	13.3%	11.4%	23.3%	100.0%
Industrial	3.2%	6.5%	9.5%	10.0%	9.6%	61.1%	100.0%

Notes:

Based on a cross tabulation of Public Use Microdata Samples (PUMS) from the 2017-2021 American Community Survey. These incomes were compared to household income limits published by the State of CA Department of Housing and Community Development (HCD) to determine the percentage of households falling into each income category. The analysis controlled for household size, to address the varying HCD income limits for each household size.

Sources: Census, American Community Survey Public-Use Microdata Sample (PUMS) 2017-2021; HCD; BAE, 2023.

The percentages in the household income distributions were then applied to the total workers per 1,000 square feet shown above in Table 4 to estimate the number of jobs per 1,000 square feet in each income category. The analysis translates the number of jobs into households by dividing the number of jobs by the average number of workers per worker household for each income category, using PUMS data to identify the average number of workers per worker household by household income level. As shown below in Table 6, office space generates an estimated 1.81 worker households per 1,000 square feet, including 0.21 lower-income (i.e., extremely low-income, very low-income, and low-income) worker households. Retail space generates an estimated 1.16 worker households per 1,000 square feet, including 0.54 lower-income worker households. Hotels generate an estimated 0.39 worker households per 1,000 square feet, including 0.22 lower-income worker households. Industrial space generates an estimated 0.73 worker households per 1,000 square feet, including 0.16 lower-income worker households.

Table 6: Worker Households by Income Level by Land Use

Land Use	Estimated Household Income as a Percent of AMI (a)						Total
	Extremely Low	Very Low	Low	Median	Moderate	Above Moderate	
Office							
Proportion of Total Jobs (b)	2.1%	3.1%	5.0%	7.1%	7.6%	75.1%	100.0%
Estimated Jobs per 1,000 SF (c)	0.07	0.10	0.17	0.24	0.25	2.50	3.33
Worker Households per 1,000 SF (d)	0.05	0.07	0.09	0.13	0.14	1.32	1.81
Retail/Restaurant							
Proportion of Total Jobs (b)	10.7%	14.4%	17.3%	13.7%	9.6%	34.4%	100.0%
Estimated Jobs per 1,000 SF (c)	0.21	0.29	0.35	0.27	0.19	0.69	2.00
Worker Households per 1,000 SF (d)	0.16	0.18	0.20	0.15	0.11	0.36	1.16
Hotel							
Proportion of Total Jobs (b)	10.9%	17.8%	23.4%	13.3%	11.4%	23.3%	100.0%
Estimated Jobs per 1,000 SF (c)	0.07	0.12	0.16	0.09	0.08	0.16	0.67
Worker Households per 1,000 SF (d)	0.05	0.08	0.09	0.05	0.04	0.08	0.39
Industrial							
Proportion of Total Jobs (b)	3.2%	6.5%	9.5%	10.0%	9.6%	61.1%	100.0%
Estimated Jobs per 1,000 SF (c)	0.04	0.09	0.13	0.13	0.13	0.81	1.33
Worker Households per 1,000 SF (d)	0.03	0.05	0.07	0.07	0.07	0.43	0.73
Average # of Workers per Household (e)	1.34	1.57	1.78	1.83	1.83	1.89	

Notes:

(a) Based on income limits published by HCD.

(b) Based on a cross tabulation of Public Use Microdata Samples (PUMS) from the 2017-2021 American Community Survey. These incomes were compared to household income limits published by HCD to determine the percentage of households falling into each income category. The analysis controlled for household size, to address the varying income limits for each household size. Figures for each land use are based on a combination of NAICS sectors deemed likely to be found in each land use.

(c) Total number of jobs per 1,000 SF of each land use as shown in Table 5, multiplied by the proportion of jobs in each income category.

(d) Estimated number of jobs multiplied by the average number of workers per household in each income category.

(e) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2017-2021.

Sources: American Community Survey, 2017-2021 Public Use Microdata Sample; CA Dept. of Housing and Community Development (HCD); BAE, 2023.

Step 3: Financing Gap

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

Affordable Unit Development Cost. To estimate the average construction cost for an affordable unit, BAE reviewed cost estimates provided in applications for tax credit funding that were submitted in 2022 and 2023 for proposed affordable housing developments in Santa Clara County. Cost information from applications submitted in 2022 was inflated to

2023 estimates based on the RS Means Historical Cost Index. Based on the information from these applications, BAE estimated that the average cost to construct an affordable housing unit in Campbell is approximately \$720,000, as shown in Table 7 below.

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

This analysis assumes four percent LIHTC equity financing because this funding source is more readily available than nine percent LIHTC financing, for which there is considerable competition. However, it should be noted that four percent LIHTC financing is nonetheless limited and is unlikely to be available at the levels that would be necessary to construct all affordable units needed to address housing needs generated by new non-residential developments. In addition, inclusion of four percent tax credits as a funding source shifts some of the cost of providing affordable housing onto the public sector because the tax credits reduce the tax credit investors' tax liability. Including four percent LIHTC financing as a source of funding in the nexus model reduces the net affordability gap shown in Table 7, and therefore serves as a conservative assumption in estimating the cost associated with mitigating the housing needs generated by new non-residential development. As shown in Table 7, four percent LIHTC equity would provide an estimated \$296,549 per affordable unit, based on an average cost of approximately \$720,000 per unit and standard current four percent tax credit pricing assumptions.

The financing gap calculation does not include financing from other public funding sources because other sources are limited and typically require a heavily competitive application process. These sources are not sufficient to fully address affordable housing needs that arise due to the impacts of future non-residential development projects in Campbell.

Table 7 also shows the estimated permanent loan amount per unit, based on the NOI from each unit (i.e., gross income net of vacancy and expenses) and typical financing terms. The rental rates used in this analysis are the 2023 rent limits for a two-bedroom unit for households at each income level, as set by the Tax Credit Allocation Committee (TCAC) for LIHTC projects, net of an estimated utility allowance. The use of the two-bedroom rent limit provides a conservative assumption because units in affordable housing developments tend to have a large share of studio and one-bedroom units, which have lower rental rates. Using the higher two-bedroom rental rate results in more assumed rental income from the affordable units, which results in a lower financing gap and a lower maximum fee amount. The vacancy, miscellaneous income, and operating expense assumptions shown in Table 7 are also based on information provided in 2022 and 2023 applications for LIHTC funding for projects in Santa Clara County. Based on the NOI for units at each affordability level and standard financing assumptions, the supportable loan amount ranges from \$38,099 per unit for units serving

extremely low-income households to \$384,970 per unit for units serving low-income households.

Net Financing Gap. The financing gap per affordable unit is equal to the total development cost less the tax credit equity and supportable loan amount. As shown, the financing gap per affordable unit ranges from \$91,493 for low-income units to \$384,970 for extremely low-income units. The financing gap has an inverse relationship to the income levels that each unit serves because units with higher income targeting generate more NOI and can therefore support higher debt service payments on a loan. The financing gap figures shown in Table 7 represent the amount of permanent financing subsidy that the City of Campbell would need to provide to support the development of units at each income level, assuming that the City's funds are leveraged with four percent tax credits and a permanent loan.

Table 7: Affordable Housing Financing Gaps, Campbell, 2023

	Income Group		
	Extremely Low	Very Low	Low
Household Income Limit (a)	\$48,150	\$80,300	\$123,400
Maximum Affordable Monthly Contract Rent per Unit (b)	\$987	\$1,790	\$2,995
Annual Gross Rent per Unit	\$11,844	\$21,480	\$35,940
Less 5% Vacancy	(\$592)	(\$1,074)	(\$1,797)
Miscellaneous Income per Unit (Annual) (c)	\$153	\$153	\$153
Less 5% Vacancy	(\$8)	(\$8)	(\$8)
Total Annual Revenue per Unit	\$11,397	\$20,551	\$34,288
Less Annual Operating Expenses per Unit (c)	\$8,425	\$8,425	\$8,425
Annual Net Operating Income per Unit	\$2,972	\$12,126	\$25,863
Annual Supportable Debt Service per Unit (d)	\$2,584	\$10,544	\$22,490
Total Development Costs per Affordable Unit (e)	\$719,619	\$719,619	\$719,619
Less: Permanent Loan Amount (f)	(\$38,099)	(\$155,461)	(\$331,577)
Less: Tax Credit Financing (4% LIHTC) (g)	<u>(\$296,549)</u>	<u>(\$296,549)</u>	<u>(\$296,549)</u>
Financing Gap per Affordable Unit (h)	\$384,970	\$267,608	\$91,493

Assumptions

Financing Terms

Debt Coverage Ratio	1.15
Interest Rate	5.46%
Amortization of Loan	30

Tax Credit Assumptions

Tax Credit Price	\$0.890
Eligible Basis %	89.1%
DDA Boost (i)	130%
Tax Credit Term (years)	10
4% Tax Credit Percentage	4.00%
Equity Partner Share	99.99%

Notes:

- (a) Based on a 3-person household, CA Department of Housing & Community Development, 2023.
- (b) Maximum affordable rents for 2-bedroom units per TCAC rent limits, net of 2-bedroom utility costs as shown in Table 3.
- (c) Data from funding applications for recent affordable housing projects in Santa Clara County.
- (d) Net Operating Income divided by Debt Coverage Ratio.
- (e) Based on financing terms assumptions.
- (f) The financing gap calculations that are shown in this table incorporate credit financing to offset a portion of the cost of constructing an affordable unit, which reduces the estimated financing gaps. However, it should be noted that projects must compete for tax credit financing, with a limited amount of funding available from tax credit financing in each round. It is unlikely that enough tax credits would be available to fully address affordable housing needs in Campbell or in the broader region, and therefore full mitigation of housing needs would likely require affordable housing developments to be constructed without tax credit financing. Therefore, the financing gaps shown in this table likely represent an underestimate of the funding that would be needed to address the full need.
- (g) Total Development Costs less Loan Amount and tax credit financing.
- (h) Average of development costs shown in low-income housing tax credit applications submitted in 2022 and 2023 for projects in Santa Clara County.
- (i) A portion of Campbell is designated as a difficult to develop area (DDA), meaning that projects in that portion of the City would receive a tax credit boost. This analysis applies the DDA boost to the tax credit assumptions to provide a conservative analysis, as projects built in Campbell that are outside of a DDA would not receive a DDA boost and would have a larger financing gap.

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

Step 4: Maximum Nexus-Based Fee

The final step in calculating the nexus-based fee is to apply the financing gap per affordable unit for each income level to the total housing need by income level for each of the non-residential uses. This is the maximum justifiable fee amount because it is directly derived from the nexus analysis described above (i.e., new commercial development generating new jobs combined into new worker households distributed by income band, and the cost to provide new affordable rental housing units to these same households). Because these fee rates are derived from the nexus analysis, these fee rates represent the maximum amount that the City of Campbell could charge based on the relationship between new non-residential development and the need for affordable housing funds. The City can choose to charge fees that are lower than this amount based on financial feasibility considerations or other factors. The following section of this chapter evaluates commercial linkage fees in Campbell from a financial feasibility perspective.

As shown in Table 8 below, the nexus-based fees are as follows:

- Office: \$47 per square foot
- Retail/Restaurant: \$128 per square foot
- Hotel: \$49 per square foot
- Light Industrial: \$34 per square foot

Table 8: Maximum Legal Commercial Linkage Fees, Campbell

<u>Income Level</u>	<u>Affordable Housing Need Per 1,000 SF (a)</u>	<u>Financing Gap (b)</u>	<u>Maximum Fee Per 1,000 SF (c)</u>	<u>Maximum Fee Per SF (d)</u>
Office				
Extremely Low Income (up to 30% AMI)	0.05	\$384,970	\$20,533	\$20.53
Very Low Income (31-50% AMI)	0.07	\$267,608	\$17,774	\$17.77
Low Income (51-80% AMI)	0.09	\$91,493	\$8,546	\$8.55
Total	0.21		\$46,853	\$46.85
Retail/Restaurant				
Extremely Low Income (up to 30% AMI)	0.16	\$384,970	\$61,460	\$61.46
Very Low Income (31-50% AMI)	0.18	\$267,608	\$49,141	\$49.14
Low Income (51-80% AMI)	0.20	\$91,493	\$17,858	\$17.86
Total	0.54		\$128,459	\$128.46
Hotel				
Extremely Low Income (up to 30% AMI)	0.05	\$384,970	\$20,876	\$20.88
Very Low Income (31-50% AMI)	0.08	\$267,608	\$20,232	\$20.23
Low Income (51-80% AMI)	0.09	\$91,493	\$8,021	\$8.02
Total	0.22		\$49,129	\$49.13
Industrial				
Extremely Low Income (up to 30% AMI)	0.03	\$384,970	\$12,480	\$12.48
Very Low Income (31-50% AMI)	0.05	\$267,608	\$14,677	\$14.68
Low Income (51-80% AMI)	0.07	\$91,493	\$6,558	\$6.56
Total	0.16		\$33,715	\$33.72

Note:

(a) See Table 6.

(b) See Table 7.

(c) Equal to the affordable housing need per 1,000 SF at each income level multiplied by the financing gap at the corresponding income level.

(d) Equal to the maximum possible nexus-based fee per 1,000 SF divided by 1,000.

Source: BAE, 2023.

Commercial Linkage Fee Financial Feasibility Analysis

This section evaluates the financial feasibility of Commercial Linkage Fees in Campbell. The nexus analysis provided in the previous section of this chapter identifies maximum justifiable fee rates based on the relationship between the impact that new development creates and the fees necessary to address that impact. However, jurisdictions that adopt these fees typically charge fee rates that are lower than the maximum amount identified in the nexus analysis to account for financial feasibility considerations.

To test the financial feasibility of commercial linkage fees in Campbell, BAE prepared static pro forma financial feasibility models to evaluate the economics of developing office, retail, hotel, and industrial uses in Campbell. The purpose of the financial feasibility analysis is to determine the feasibility of new non-residential development projects under current market conditions and identify commercial linkage fee rates that could potentially be applied to new non-residential development while minimizing any impacts on development feasibility.

Non-Residential Development Trends in Campbell

Since 2010, the inventory of non-residential space in the City of Campbell has remained fairly stagnant, despite significant expansion of these uses elsewhere in Santa Clara County. In terms of new development in Campbell, Costar data indicate that the city's most recent major office development was in 2017, with the delivery of a 200,000 square foot project. Although there has been limited new office space delivered since this project, there is an office project currently under construction in the city, amounting to roughly 166,000 square feet of new office space. In terms of new retail space, Campbell's most recent retail development was 12,000 square feet, delivered in 2022, with a limited amount of new retail delivered in years prior. New industrial development has also been limited in Campbell, with just one recent project delivered in 2023 amounting to 7,000 square feet. Lastly, the city's most recent new hotel development was in 2010, when a 162-room hotel (the Marriot Residences Inn) was delivered.

Prototype Projects

The financial pro forma analysis evaluated four non-residential prototypes, which are summarized in Table 9 below. These prototypes include an office prototype, a retail prototype, a hotel prototype, and a light industrial prototype. The prototypes are based on the City's land use regulations, as well as recent projects that have been constructed or are currently in the development pipeline in Campbell. These prototypes were also informed by feedback from developers during the non-residential developer focus group meeting and one-on-one meetings with local stakeholders as well as in the developer surveys.

Methodology

The methodology used for this study involved preparation of static pro forma financial feasibility models for each of the prototypes described above. The static pro forma models represent a form of financial feasibility analysis that developers often use at a conceptual level

of planning for a development project, as an initial test of financial feasibility for a development concept, to screen for viability. BAE developed the various modeling inputs and assumptions needed for the financial feasibility analysis based on interviews with non-residential developers that are active in the Campbell area, responses to the developer survey, data from industry publications and databases, and other research.

Residual Land Value. The pro-forma models are structured to calculate the residual land value associated with each prototype. The residual land value for a non-residential project is equal to the value of the completed project, net of total development costs. To estimate the value of the completed project (net of developer profit), the feasibility models divide the Net Operating Income (NOI) from the project (i.e., annual income from the project net of operating expenses) by the Yield-on-Cost (YOC) developers are seeking in order to consider a project feasible. The required YOC is a function of the prevailing capitalization rate in the city, plus a spread for new development to capture a margin for developer profit. The residual land value for the non-residential projects can be summarized as follows:

$$\begin{aligned} &\text{Project Value Net of Developer Profit (i.e., NOI / required YOC) - Total Development Costs} \\ &= \\ &\text{Residual Land Value} \end{aligned}$$

The residual land value approximates the maximum amount that a developer should be willing to pay for a given site, based on the value of the project that the developer would build on that site. In general, a development pro forma that shows a residual land value that is approximately equivalent to the typical sale price for land indicates a financially feasible project. A residual land value that is lower than the typical sale price for land typically indicates that there are financial feasibility challenges associated with constructing the project.

Residual Land Value Thresholds. Based on information provided during the developer interviews and a review of recent land transactions, this analysis assumes that land costs for the various non-residential developments range from \$2 million to \$6 million per acre. These land costs are dependent on the allowable uses on each site, as well as the overall market demand for each development typology. With a relatively flexible zoning code and ability to re-zone properties in the City, the value of land for each use can vary based on the site conditions, location, and expected entitlement process. However, the data indicate that land sold for future office and hotel uses tend to sell for modestly higher sale prices than land sold for industrial and retail uses, although all uses have examples of varying land transaction prices within the range listed above.

Financial Pro Forma Analysis Findings

Table 9 below shows a summary of the findings from the financial feasibility analysis. The full non-residential pro forma models are provided in Appendix B.

Office Development Feasibility. As shown in Table 9, the analysis found that office development feasibility is challenging under current market conditions. The main drivers of feasibility challenges are construction cost increases, high office vacancy rates, and uncertainty in the future demand for office space in Campbell. With increasing construction costs, rental rates and investor value expectations must adjust in order for projects to be considered feasible. Since the COVID-19 pandemic, office vacancy rates have increased significantly, leading to uncertainty in the office market from both developers and investors. During this time, rents have generally remained unchanged, indicating that rents have not kept pace with construction cost increases. Similarly, with increased interest rates and uncertainty from investors, return requirements have increased, leading to a higher required threshold to yield a feasible project. These factors combine to drive the current challenges in market feasibility for new office development in Campbell.

Retail Development Feasibility. Similar to office development, the retail development prototype is currently infeasible under existing market conditions. This is similarly driven by increasing construction costs and uncertainty around future demand for standalone retail space, both in Campbell and nationally. Unlike the office prototype, the retail prototype does yield a positive residual land value, though this value is not sufficient to acquire a site at the required land purchase price noted above, leading to project infeasibility.

Industrial Development Feasibility. While the industrial development prototype has the lowest cost per square foot, due to the single-story structure, typical rents for new industrial space are slightly below the rents needed support investment in new industrial development under current conditions. Similar to the retail prototype, the industrial development prototype does yield a positive residual land value, indicating the value of the project is greater than the cost of the vertical construction. However, the resulting residual land value of roughly \$280,000 per acre is well below the prevailing cost for industrial land in Campbell, indicating challenges to development feasibility.

Hotel Development Feasibility. Similar to the other non-residential prototypes, hotel development feasibility is challenging under the current construction cost and hotel demand market. While costs are relatively modest, due to the use of the cost-efficient wood-framed construction that this analysis assumes for the hotel prototype, the average daily room rental rates for hotels in Campbell are insufficient to generate the annual revenue needed to attract new developers and investors.

Table 9: Summary of Financial Pro Forma Analysis, Current Conditions (No Commercial Linkage Fee)

	Office	Retail	Industrial	Hotel
	3-story building with structured parking garage on 3.0 acres	Freestanding one-story retail building with surface parking on 0.5-acre site	Single story light manufacturing building with surface parking on 1.0 acres	4-story, 130 room hotel development with mostly surface parking on 2.5 acres
Lot Size (acres)	3.0 acres	0.5 acre	1.0 acres	2.5 acres
Gross Building Area	115,000 gsf	10,000 gsf	15,000 gsf	71,500 gsf
Number of Stories	3	1	1	5
Floor Area Ratio	0.88	0.46	0.34	0.66
Parking Ratio	4.44 spaces/1,000 sf	4.10 spaces/1,000 sf	2.87 spaces/1,000 sf	1.54 spaces/room
Hard Construction Costs	\$65,802,100 total \$572 per sq. ft.	\$3,652,100 total \$365 per sq. ft.	\$5,350,700 total \$357 per sq. ft.	\$32,728,000 total \$251,754 per room
Total Development Costs (excluding land & profit)	\$85,458,911 total \$743 per sq. ft.	\$4,744,001 total \$474 per sq. ft.	\$6,951,186 total \$463 per sq. ft.	\$42,507,499 total \$326,981 per room
Project Value to Investor	\$70,056,563 total \$609 per sq. ft.	\$5,062,500 total \$506 per sq. ft.	\$7,234,615 total \$482 per sq. ft.	\$36,462,689 total \$222,333 per room
Residual Land Value	(\$15,402,348) total (\$5,134,116) per acre	\$318,499 total \$636,999 per acre	\$283,429 total \$283,429 per acre	(\$6,044,810) total (\$2,417,924) per acre
Required Land Purchase Price	\$3.0 - \$6.0 Million per Acre	\$2.0 - \$5.0 Million per Acre	\$2.0 - \$4.0 Million per Acre	\$3.0 - \$6.0 Million per Acre
Feasibility Gap/Surplus <i>(Residual Land Value - Required Land Purchase Price)</i>	(\$8.1) - (\$11.1) Million per Acre	(\$1.4) - (\$4.4) Million per Acre	(\$1.7) - (\$3.7) Million per Acre	(\$5.4) - (\$8.4) Million per Acre
Feasible?	No	No	No	No

Source: BAE, 2023.

Fee as Share of Development Costs

One method for assessing the impact that commercial linkage fees would have on new non-residential development involves evaluating potential fees as a proportion of total development costs. The concept underlying this approach is that fees are unlikely to have a major impact on development feasibility if the fee rate is set to be equal to a relatively low share of total development costs.

Table 10 shows various fee rate scenarios that demonstrate the commercial linkage fee rates that would be equal to one, two, three, and four percent of the total development costs for each prototype, not including land or developer profit, with total development costs based on the financial pro forma analysis provided above. As shown, fees that are equal to one to four percent of total development costs would be equal to approximately \$7 to \$30 per square foot for the office prototype, \$5 to \$19 per square foot for the retail prototype, \$5 to \$19 per square foot for the industrial prototype, and \$6 to \$24 per square foot for the hotel prototype. All of these fee rates are lower than the maximum justifiable fee for each used that is identified in the commercial linkage fee nexus analysis presented above (see Table 8), meaning that adoption of fees at the rates shown in Table 10 would be consistent with the findings from the nexus analysis.

Table 10: Possible Commercial Linkage Fees as a Percent of Total Development Cost

	<u>Office</u>	<u>Retail</u>	<u>Industrial</u>	<u>Hotel</u>
TCD/Sq. Ft. (not including land) (a)	\$743	\$474	\$463	\$595
Fee Rate Scenario				
Fee Rate = 1% of Total Development Costs	\$7.43	\$4.74	\$4.63	\$5.95
Fee Rate = 2% of Total Development Costs	\$14.86	\$9.49	\$9.27	\$11.89
Fee Rate = 3% of Total Development Costs	\$22.29	\$14.23	\$13.90	\$17.84
Fee Rate = 4% of Total Development Costs	\$29.72	\$18.98	\$18.54	\$23.78

Notes:

(a) Based on the financial pro formas shown in Appendix B. Does not include land or developer profit.

Sources: BAE, 2023.

Non-Residential Fee Benchmark Analysis

An evaluation of the fees that are assessed by neighboring jurisdictions can help to evaluate the impact that commercial linkage fees might have on financial feasibility in Campbell.⁴ To the extent that cities with comparable market conditions assess fees and continue to attract new non-residential development, this could serve as an indication that Campbell could potentially assess similar fees without making non-residential development infeasible.

⁴ There are various terms that jurisdictions use to refer to commercial linkage fees, including “housing mitigation fees” and “affordable housing fees”. For the purpose of this report, all fees in other jurisdictions are referred to as commercial linkage fees regardless of the specific terminology used in each jurisdiction.

Conversely, if Campbell were to adopt fees that are significantly higher than the fees charged in nearby jurisdictions, this could affect developers' willingness to pursue projects in Campbell if developers are able to find attractive development opportunities in nearby cities with lower fees. However, it should be noted that developers consider many factors when deciding where to pursue development opportunities, with the local market being a major factor, and City fees may have only a limited impact on the overall decision-making process.

The following subsections provide information on 1) Commercial linkage fees charged in nearby jurisdictions; and 2) Total impact fees charged on non-residential uses in nearby jurisdictions.

Commercial Linkage Fees in Nearby Jurisdictions

Table 11 below shows commercial linkage fees that apply in several nearby jurisdictions. The table also shows the average rental rates for office, retail, and industrial uses in each jurisdiction as well as average hotel room rates in each jurisdiction. This market information is shown to provide high-level contextual information regarding variations in the market between the jurisdictions in the table, and how the market in Campbell compares to the market in each of the comparison jurisdictions. It should be noted that the average rental rates shown are for all properties of each type in each jurisdiction, according to data from Costar, and are therefore lower than the rental rates that would be typical of most new development in each jurisdiction.

Office Fees in Other Jurisdictions. For office uses, the fee rates assessed by the jurisdictions shown in Table 11 range from \$0 to \$34 per square foot, with Cupertino at the top of this range. Cities with no fees include those with no commercial linkage fees on any uses, which are Los Gatos, Monte Sereno, and Saratoga. In addition, San Jose does not charge a commercial linkage fee on office developments measuring less than 50,000 square feet and has no fee for any office in the South and East San Jose Growth Areas. For larger projects in areas of the San Jose where office uses are subject to housing mitigation fees, the fee rate varies based on total project square footage and location, up to \$17 per square foot. The City of San Jose applies a 20 percent discount if fees are paid in full prior to Building Permit issuance, with the full fee rate applied if paid at the scheduling of the Final Building Inspection. Mountain View, Santa Clara, and Sunnyvale all charge lower fees for the first 10,000 to 25,000 square feet of office development, with the threshold for the lower fee rate varying by city.

As shown in the table, office rents in Campbell fall approximately in the middle of the range among the comparison jurisdictions, with an average rental rate of \$4.13 per square foot per month, lower than in Cupertino, Mountain View, and Sunnyvale but higher than in San Jose and Santa Clara. The two comparison jurisdictions that have average office rents that are the most similar to those in Campbell are San Jose and Sunnyvale. As noted above, commercial linkage fees in San Jose vary based on project characteristics, up to a maximum of \$17 per

square foot. In Sunnyvale, the commercial linkage fee is equal to \$23 per square foot, though the fee is charged at half of this rate for the first 25,000 square feet of a project.

Retail Fees in Other Jurisdictions. The jurisdictions in Table 11 tend to assess lower commercial linkage fee rates on retail uses than on office uses. Among the jurisdictions shown in the table, commercial linkage fees range from \$0 in San Jose (regardless of location and project size), as well as in cities with no commercial linkage fee program, to \$20.50 per square foot in Sunnyvale. Similar to the office fees described above, some cities have different fee rates depending on project size. For example, Mountain View applies a lower fee rate to the first 25,000 square feet of a retail project and Santa Clara does not apply a fee to retail developments measuring less than 5,000 square feet.

Campbell has the highest retail rents of all of the jurisdictions shown in the table, with an average rental rate of \$3.34 per square foot per month. The two comparison jurisdictions that have average retail rents that are the most similar to those in Campbell are Cupertino and Sunnyvale, which assess commercial linkage fees on retail uses at a rate of approximately \$14 and \$21 per square foot per month, respectively.

Hotel Fees in Other Jurisdictions. Among the jurisdictions in Table 11 with a commercial linkage fee program, the commercial linkage fee rates that apply to hotel uses range from \$3.50 per square foot in Mountain View (lower fees apply to the first 25,000 square feet) to \$20.50 per square foot in Sunnyvale. Among the jurisdictions with a commercial linkage fee program, commercial linkage fees for hotels are lower than commercial linkage fees for office and equal to or higher than commercial linkage fees for retail uses.

Table 11 shows that hotel income per room in Campbell is slightly higher than in cities at the low end the range among the comparison jurisdictions. For hotel uses, Table 11 provides the Revenue per Available Room, or RevPAR, for each jurisdiction shown. RevPAR is a metric used to evaluate hotel performance and is equal to the average nightly rental rate per room multiplied by the hotel occupancy rate. As shown, as of October 2023 the 12-month RevPAR in Campbell was \$109, lower than in Cupertino and Mountain View and slightly higher than in San Jose, Santa Clara, and Sunnyvale. The table does not show a relationship between cities with a low RevPAR and those with low fees for hotel uses. For example, Mountain View has the highest RevPAR of all of the cities shown (\$139) and the lowest fee for hotel uses (\$3.49 per square foot). Meanwhile, Sunnyvale is among the cities with the lowest RevPAR measures (\$101) and has the highest fee rate (\$20.50 per square foot).

Industrial Fees in Other Jurisdictions. The jurisdictions in Table 11 show wide variation in the commercial linkage fee rates for industrial uses, ranging from \$3.49 per square foot in San Jose to \$33.76 per square foot in Cupertino. Some cities, including Cupertino, Mountain View, and Sunnyvale, charge the same fee for industrial uses as for office uses. Other cities,

including San Jose and Santa Clara, charge a substantially lower fee for industrial uses as compared to the fee for office uses.

As shown in the table, industrial rents in Campbell fall approximately in the middle of the range among the comparison jurisdictions, with an average rental rate of \$2.02 per square foot per month, lower than in Mountain View and Sunnyvale but higher than in San Jose and Santa Clara.⁵ The two comparison jurisdictions that have average retail rents that are the most similar to those in Campbell are Santa Clara and Sunnyvale, which assess commercial linkage fees on retail uses at a rate of approximately \$14 and \$23 per square foot per month, respectively.

⁵ Costar did not have data on industrial rental rates in Cupertino as of the writing of this report.

Table 11: Commercial Linkage Fees in Other Jurisdictions (per net new square foot)

Office	Current Fee Rate	Avg. Monthly Rent/SF (a)
Campbell	N/A	\$4.13
San Jose (c) (d)	\$17.44	\$3.96
Sunnyvale (f)	\$23.00	\$4.62
Santa Clara (e)	\$28.79	\$2.87
Mountain View (b)	\$33.00	\$5.15
Cupertino	\$33.76	\$4.76

Retail	Current Fee Rate	Avg. Monthly Rent/SF (g)
Campbell	N/A	\$3.34
San Jose (c)	\$0.00	\$2.83
Mountain View (h)	\$3.50	\$3.02
Santa Clara (i)	\$7.20	\$3.01
Cupertino	\$14.24	\$3.09
Sunnyvale	\$20.50	\$3.12

Hotel	Current Fee Rate	RevPAR (j)
Campbell	N/A	\$109
Mountain View (h)	\$3.50	\$139
San Jose (c) (k)	\$5.81	\$101
Santa Clara	\$7.20	\$104
Cupertino	\$16.88	\$120
Sunnyvale	\$20.50	\$101

Industrial	Current Fee Rate	Avg. Monthly Rent/SF (g)
Campbell	N/A	\$2.02
San Jose (c) (l)	\$3.49	\$1.37
Santa Clara (e)	\$14.39	\$1.61
Sunnyvale (f)	\$23.00	\$2.28
Mountain View (b)	\$33.00	\$2.53
Cupertino	\$33.76	N/A

Notes:

The Cities of Los Gatos, Monte Sereno, and Saratoga do not currently have commercial linkage fee programs. The City of Los Gatos plans to adopt commercial linkage fees by December 2024.

(a) Average office rents shown reflect average gross direct rents in each city as of the fourth quarter of 2023, according to data from Costar.

(b) Lower fee applies to first 10,000 SF.

(c) 20% discount applies if paid prior to Building Permit issuance; 100% of fee rate applies if paid at Scheduling of Final Building Inspection.

(d) Fee shown applies to developments \geq 100,000 sq. ft in the Downtown and nearby area; lower fees/no fees apply to smaller projects and in other areas. No fee for any office development in the South and East San Jose Growth Areas.

(e) Fee charged at $\frac{1}{2}$ rate for first 20,000 SF.

(f) Fee charged at $\frac{1}{2}$ rate for first 25,000 SF.

(g) Average retail and industrial rents shown reflect average NNN direct rents in each city as of the fourth quarter of 2023, according to data from Costar.

(h) Lower fee applies to first 25,000 SF.

(i) No fee applies to retail developments <5,000 SF.

(j) RevPAR is a metric used to evaluate hotel performance using the average revenue per room and is equal to the average nightly rental rate per room multiplied by the hotel occupancy rate. Figures shown reflect the RevPAR over the past 12 months as of October 2023.

(k) Fee does not apply to common area.

(l) No fee applies to industrial developments <100,000 sq. ft. or in the Edenvale & Monterey Corridor area.

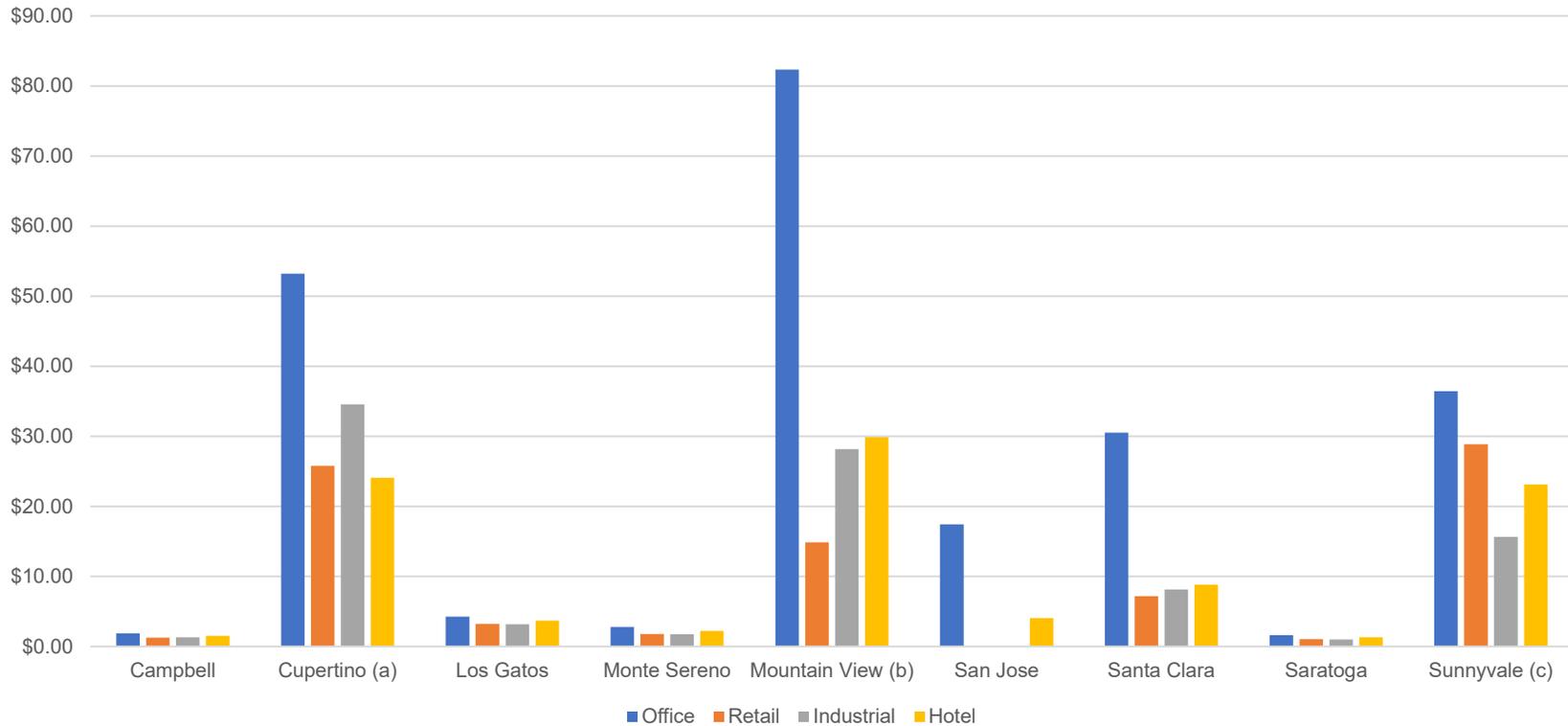
Sources: Costar, 2023; BAE, 2023.

Total Impact Fees for Non-Residential Uses in Nearby Jurisdictions

Figure 1 provides estimates of the total impact fees that would apply to each of the non-residential prototypes that are evaluated above. This analysis provides insight on how adopting commercial linkage fees in Campbell might affect the cost of impact fees in Campbell overall in relation to the cost of impact fees in neighboring jurisdictions. For example, if non-residential impact fees in Campbell were already comparable to non-residential impact fees in neighboring jurisdictions, adding commercial linkage fees could bring Campbell's total impact fee stack to a level that would exceed what is typical in nearby jurisdictions.

As shown, Campbell's impact fees are at the low end of the range for each use. Monte Sereno and Saratoga, both of which have very limited opportunities for non-residential development, have impact fees that are comparable to the fee rates in Campbell, while fees in Los Gatos are slightly higher than in Campbell. San Jose has higher impact fees for the office and hotel prototypes than Campbell but would assess no fees on the retail or industrial prototypes. The other cities shown, including Cupertino, Mountain View, Santa Clara, and Sunnyvale, would all charge significantly higher impact fees than Campbell for each of the nonresidential prototypes. This indicates that Campbell could assess commercial linkage fees on non-residential uses while keeping the total cost of non-residential impact fees in the City lower than or equivalent to the total cost of non-residential impact fees that apply in many other nearby jurisdictions.

Figure 1: Non-Residential Impact Fees in Campbell and Comparison Jurisdictions



Notes:

(a) Industrial fees do not include Transportation Impact Fees, which are calculated for industrial uses based on PM trips.

(b) Fees for office and hotel include North Bayshore Precise Plan Development Fees. These fees would not apply to developments outside of this Precise Plan Area. However, other fees apply to projects in other Precise Plan Areas.

Fees do not include Water Capacity Fees, which are calculated for non-residential uses based on number of water meters and meter size.

(c) Fee estimates for office include Moffett Park Specific Plan Fees. Fee estimates for retail and hotel include El Camino Real Specific Plan Fees.

Source: BAE, 2023.

Summary of Findings from Commercial Linkage Fee Analysis

The analysis presented above evaluates commercial linkage fees in Campbell based on a nexus analysis, an analysis of the financial feasibility of the non-residential development, fee rates based on a share of total development costs, and fees charged in other jurisdictions.

The nexus analysis identifies the following maximum justifiable fee rates:

- Office: \$47 per square foot
- Retail/Restaurant: \$128 per square foot
- Hotel: \$49 per square foot
- Light Industrial: \$34 per square foot

The financial feasibility analysis finds that all of the non-residential prototypes that were evaluated in this analysis face financial feasibility challenges in the current market due primarily to high construction costs and interest rates, low rents relative to the cost of construction, and continuing market uncertainty due to the changes in work patterns following the COVID-19 pandemic.

The analysis presented above includes calculations showing potential commercial linkage fee rates in Campbell if the City were to base fee rates on a percent of estimated total development costs. Fees that are equal to one to four percent of total development costs would be approximately equal to the following fee rates, all of which are consistent with the maximum fee rates established by the nexus analysis:

- Office: \$7-\$30 per square foot
- Retail/Restaurant: \$5-\$19 per square foot
- Hotel: \$6-\$24 per square foot
- Light Industrial: \$5-\$19 per square foot

For office uses, fees toward the low end of the range shown above would be lower than the fees that are charged in nearby jurisdictions, with the exception of some areas of San Jose. Fees toward the top end of this range would be toward the high end of the range among nearby jurisdictions. Similarly, for retail, hotel, and industrial uses, fees toward the low end of the ranges shown above would be toward the lower end of the range of fees that are charged in nearby jurisdictions, while fees toward the top end of these ranges would be toward the high end of the range among nearby jurisdictions.

3. RESIDENTIAL FINANCIAL FEASIBILITY ANALYSIS

This chapter provides a financial feasibility analysis to evaluate the financial feasibility of residential development in Campbell, including an evaluation of the financial feasibility of the City's inclusionary housing requirements. This analysis evaluates the financial feasibility of five residential development prototypes ranging from single-family homes to high-density multifamily development, described in more detail below. The findings from the financial feasibility analysis are intended to inform the City of Campbell in considering potential revisions to the inclusionary housing ordinance and the in-lieu fee. The in-lieu fee is evaluated in the following chapter of this report.

Residential Development Trends in Campbell

According to the California Department of Finance, the City's overall housing inventory expanded by roughly 1,500 units between 2010 and 2023, for a nine percent increase over that time period. Single-family detached units accounted for the largest number of new units (720 new units), followed by multifamily developments with five or more units (506 new units), and townhome developments (290 new units). In terms of multifamily developments, CoStar data indicates that the most recent rental project delivered in Campbell was built in 2018, including nearly 120 units. The City's 2021 Annual Housing Element Progress Report (APR) shows that three multifamily rental projects were issued certificates of occupancy in 2018, with 14, 112, and 16 units, respectively. The APR does not show any additional multifamily rental projects that were issued certificates of occupancy in subsequent years, though building permits have been issued for some multifamily rental projects in more recent years.

Based on a review of projects currently in the pipeline, either approved or seeking entitlements, the City has a select number of residential developments that were used to inform the residential prototypes. These pipeline projects range from lower-density single-family units, at roughly eight dwelling units per acre, to a condominium development with 36 dwelling units to the acre. The City's pipeline also includes two different developments that are proposing to include both rental apartments and for-sale townhomes, achieving a blended 20 to 35 dwelling units to the acre. As currently proposed, the higher-density projects in the pipeline are at or below five stories of construction, meaning that these projects are within the height limit for wood-frame construction and do not require more expensive construction methods that are necessary for buildings with more stories.

Campbell Residential Development Standards

The City recently updated the General Plan to adjust the allowable densities and adopted objective standards which provides for greater certainty in the design and development of new residential development. With the updates, the highest-density residential land use

designation allows between 57 and 75 dwelling units per gross acre. This density range allows for more dense projects, likely into six- or seven-story developments that include ground-floor concrete podiums to achieve higher densities. Several other land use designations allow for projects to reach up to 25 dwelling units per gross acre (or higher), which is sufficient to accommodate dense townhomes developments. The prototypes that are evaluated in this chapter are consistent with the new land use designations that have been adopted by the City.

Prototypes

The financial feasibility analysis evaluates five residential prototypes, consisting of two rental prototypes and three for-sale housing prototypes at various densities. The prototypes that were evaluated in this analysis are described in more below and summarized in Table 12.

Table 12: Summary of Residential Prototype Development Programs

	Prototype 1 Low-Density MFR Rental	Prototype 2 High-Density Mixed-Use	Prototype 3 For-Sale Condo	Prototype 4 For-Sale Townhomes	Prototype 5 Single-Family Subdivision
Development Program					
Site Size (acres)	2.0	2.0	1.0	1.0	0.5
Total Units	59	132	53	22	6
Affordable Units	9	20	8	4	0
Average Unit Size (net sq. ft.)	839	840	1,200	1,800	2,600
Parking Spaces	89	132	53	44	12

Sources: City of Campbell; BAE, 2023.

Prototype 1: Lower-Density Multifamily Rental. Prototype 1 is a lower-density multifamily rental development on a two-acre site accommodating 59 total residential units, with a density of roughly 30 du/acre. The prototype evaluated abides by the City’s current inclusionary housing ordinance by including nine units affordable to a mix of very low-income and low-income households, which is equal to 15 percent of the total units. Parking for Prototype 1 would be provided in a surface parking lot, including 89 parking spaces, or 1.5 spaces per unit.

Prototype 2: Higher-Density Multifamily Rental. Prototype 2 is a multifamily rental development on a two-acre site with an assumed density of 66 du/acre, yielding a total of 132 units. The prototype includes 20 units affordable to very low-income and low-income households, which is equal to 15 percent of the total housing units. Parking for Prototype 2 would be provided in a first-floor parking podium. This prototype includes parking at a ratio of one space per unit.

Prototype 3: Condominium. Prototype 3 is a condominium development on a one-acre site with a density of 53 dwelling units per acre. The prototype evaluated in this analysis assumes the developer aligns with the City’s existing inclusionary housing ordinance, providing four units affordable to low-income households, or 7.5 percent of the total units, as well as four

units affordable to moderate-income households, or another 7.5 percent of the total units. Parking for Prototype 3 would be provided in a first-floor parking podium, at a ratio of one space per unit.

Prototype 4: Townhomes. Prototype 4 is a townhome development on a one-acre site with an assumed base land use designation allowing for 22 dwelling units per acre. The prototype evaluated in this analysis includes two units affordable to low-income households, which is equal to nine percent of the 22 total units, as well as two units affordable to moderate-income households, aligning with the City’s existing inclusionary requirements. Parking for Prototype 4 would be provided in individual garages in each unit. Parking would be provided at a ratio of 2.0 spaces per unit.

Prototype 5: Single-Family Subdivision. Prototype 5 is a single-family subdivision on a 0.5-acre parcel with six total single-family units, for a density of 12 du/acre. Due to the structure of the City’s existing affordable housing ordinance, which only requires projects with ten or more units to include affordable housing units, this project does not include any housing units affordable to low- or moderate-income households. Parking for Prototype 5 is provided in individual garages in each unit, at a ratio of 2.0 spaces per unit.

Methodology for Financial Feasibility Analysis

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

The pro-forma models are structured to calculate the residual land value associated with each prototype. The residual land value for a residential rental project is equal to the value of the completed project, net of total development costs. To estimate the value of the completed project (net of developer profit), the feasibility models divide the Net Operating Income (NOI) from the project (i.e., annual income from the project net of operating expenses) by the Yield-on-Cost (YOC) developers are seeking in order to consider a project feasible. The required YOC is a function of the prevailing capitalization rate in the City, plus a spread for new development to capture a margin for developer profit. The residual land value for a residential rental project can be summarized as follows:

$$\begin{aligned} & \text{Project Value Net of Developer Profit (i.e., NOI / required YOC)} - \text{Total Development Costs} \\ & \qquad \qquad \qquad = \\ & \qquad \qquad \qquad \text{Residual Land Value} \end{aligned}$$

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

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

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

Rental Inclusionary Financial Feasibility Findings

The following section summarizes the financial feasibility of the two rental housing prototypes. This includes the estimated development cost of the project, as well as the project value upon completion, resulting in a residual land value. The residual land value is compared to prevailing land costs in the City of Campbell to determine the financial feasibility of the prototype. A summary of the financial feasibility findings is included below in Table 13.

Prototype 1: Lower-Density Multifamily Rental. The financial feasibility analysis indicates that the lower-density multifamily rental prototype faces development feasibility challenges in the current market. In total, the estimated total cost of the 59-unit project amounts to nearly \$27.7 million, or nearly \$470,000 per unit, excluding the cost of land acquisition. Hard costs for vertical construction account for the largest development cost, at nearly \$18.6 million, followed by soft costs (\$2.9 million), site preparation (\$1.7 million), construction financing costs (\$1.6 million), and City impact fees (\$1.3 million). The remaining costs are associated with developer fees and surface parking costs.

To estimate the value of the property to investors, this project is estimated to generate roughly \$1.3 million annually in net operating income. Based on a required yield on cost of 5.5 percent, the project value net of development profit is equal to roughly \$24.4 million. Based on the comparison between project value to investors and the estimated development cost excluding land, the feasibility models indicate a negative residual land value, indicating the project is unable to support a land acquisition cost and is therefore infeasible under current market conditions.

It should be noted that this prototype also faces feasibility challenges even with no inclusionary housing requirement. In a scenario in which all units in the prototype are market-rate units, this prototype still yields a negative residual land value. This finding indicates that changes to the City's inclusionary requirements would not make this prototype financially feasible.

Prototype 2: Higher-Density Multifamily Rental. Similar to the lower-density multifamily rental prototype, the higher-density prototype faces financial feasibility challenges in the current market. The 132-unit higher-density multifamily rental prototype, situated on a two-acre parcel, is estimated to have a total development cost of \$77.5 million, or \$587,000 per unit, excluding the cost of land acquisition. The per-unit cost for this prototype is higher than the per-unit cost for the lower-density multifamily rental prototype due to the inclusion of podium parking, which significantly increases the cost per parking space. Similar to the lower-density prototype, vertical hard construction costs account for the largest development cost, followed by soft costs. Due to the provision of podium parking, however, the parking costs account for the third most significant cost, at roughly \$7.2 million. The remaining costs are associated with construction financing, City impact fees, developer fees, and site preparation costs.

Based on an annual net operating income of \$3.4 million, the project value net of development profit is equal to roughly \$61.9 million. Based on the comparison between project value to investors and the estimated development cost excluding land, the feasibility models indicate a negative residual land value, indicating development feasibility challenges under existing market conditions.

Similar to the prior prototype, this prototype still faces feasibility challenges even without the inclusionary housing requirement.

For-Sale Residential Financial Feasibility Findings

The following section summarizes the feasibility of the three for-sale housing prototypes. Similar to the above approach, this section summarizes the total development cost, and compares this to the total sales proceeds of the units to calculate the residual land value. To determine feasibility, the residual land value is then compared to prevailing land costs for these development typologies in the City of Campbell. A summary of the financial feasibility findings is included below in Table 13.

Prototype 3: Condominium. The pro-forma analysis indicates that the condominium prototype is infeasible, due to lower sale proceeds relative to the cost of building the prototype. The estimated project cost of the condominium prototype is approximately \$45.6 million, or nearly \$860,000 per unit, excluding the cost of land acquisition or developer profit. The higher development cost relative to the rental prototypes is driven by high hard costs due to higher-end finishes and more expensive construction materials in a typical condominium development, as well as the provision of larger condominium units compared to rental units.

Similar to the other prototypes, vertical hard construction costs account for the largest share of development costs, followed by parking costs and soft costs.

As noted in prior sections, the feasibility of for-sale condominium prototypes is determined through the comparison between the revenue from one-time sales of the condominium units and the cost of delivering the units. Based on the expected sale prices, this 53-unit development generates roughly \$51.8 million in gross sales proceeds. After accounting for marketing costs, the net sales proceeds amount to approximately \$49.2 million, or a blended average of roughly \$929,000 per unit.

Assuming condominium developers require a one-time 18-percent profit margin in order to attract equity investors, the residual land value of the higher-density condominium prototype is negative, indicating the prototype does not support a land acquisition and is therefore considered infeasible. Similar to the rental prototypes, the market-rate component of the condominium prototype is not feasible even without the affordable component.

Prototype 4: Townhomes. The pro-forma analysis indicates that the townhome prototype is financially feasible in the current market. In total, the 22-unit townhome development on one acre is estimated to cost roughly \$15.6 million, or \$710,000 per unit, excluding land acquisition costs and developer profit. While these units are somewhat larger than the condominium units, the development typology affords a more efficient cost of construction, leading to reduced costs on a per-square-foot basis. Still, vertical hard construction costs account for the largest share of development costs, followed by soft costs and site preparation costs.

This analysis uses an estimated average sale price of approximately \$1.5 million per unit for this prototype, resulting in a total of \$31.0 million in net sales revenue from the project. This total accounts for a lower sale price among the inclusionary units in the project. After allowing an 18-percent developer profit threshold, the development has an estimated residual land value of approximately \$11.6 million. Based on comparable land sales, this residual land value is sufficient to acquire land suited for townhome developments, indicating the prototype is feasible and may even be able to support a slightly higher percentage of required inclusionary housing units.

Prototype 5: Single-Family Subdivision. The pro-forma analysis indicates that the single-family prototype is financially feasible in the current market. In total, the six-unit single-family subdivision on 0.5 acres is estimated to have a total development cost of roughly \$5.7 million, or \$950,000 per unit, excluding land acquisition costs and developer profit. Similar to the townhome prototype, the single-family development includes larger units than the high-density condominium prototype but has a lower cost of construction on a per-square-foot basis.

Based on data on recent home sales in Campbell as reported by Redfin, as well as on input provided by developers, this analysis uses an estimated average sale price of approximately \$2.6 million per unit, resulting in a total of \$14.8 million in net sales revenue from the project. The City's inclusionary ordinance would not apply to a project of this size, and therefore this analysis assumes that all units in this development would be market-rate units. After allowing an 18-percent developer profit threshold, the development has an estimated residual land value of approximately \$7.4 million, or \$14.8 million per acre. Based on comparable land sales, this residual land value is higher than the typical price required to acquire land suited for single-family developments in Campbell, indicating the prototype is feasible and may even be able to support an inclusionary housing requirement.

Summary of Findings

As outlined above, the feasibility of higher-density housing prototypes in the City of Campbell is currently challenging due to construction cost increases and other external market factors. However, lower-density prototypes including townhomes and detached single-family units are currently feasible, driven by the cheaper cost of construction for these development typologies and high sale prices. For the projects that are currently infeasible, even eliminating the city's inclusionary housing requirement is insufficient to render projects feasible, highlighting the external factors that are driving the current infeasibility. Based on the current inclusionary housing ordinance and in-lieu fee payment option, the single-family prototype is not subject to the inclusionary housing ordinance, as it provides less than ten units. However, this prototype generates the highest residual land value, due to the high sale prices.

Table 13: Summary of Residential Development Feasibility

	Prototype 1 Low-Density MFR Rental	Prototype 2 High-Density MFR Rental	Prototype 3 For-Sale Condo	Prototype 4 For-Sale Townhomes	Prototype 5 For-Sale Single- Family Subdivision
Development Program					
Site Size (acres)	2.0	2.0	1.0	1.0	0.5
Total Units	59	132	53	22	6
Affordable Units	9	20	8	4	0
Average Unit Size (net sq. ft.)	839	840	1,200	1,800	2,600
Parking Spaces	89	132	53	44	12
Total Development Costs, Excluding Land and Developer Profit					
Total Development Cost (TDC)					
Excl. Land & Profit	\$27,688,560	\$77,456,595	\$45,571,665	\$15,597,150	\$5,694,932
TDC per Unit	\$469,298	\$586,792	\$859,843	\$708,961	\$949,155
TDC per Gross Building SF	\$466	\$561	\$597	\$394	\$365
Residual Land Value Analysis					
Required Value Threshold (Rental)	\$24,394,015	\$61,937,400	n.a.	n.a.	n.a.
Net Sales Revenue (for-sale)	n.a.	n.a.	\$49,245,872	\$30,958,857	\$14,820,000
Residual Land Value	(\$3,294,546)	(\$15,519,195)	(\$5,608,693)	\$11,609,220	\$7,379,980
Residual Land Value per Acre	(\$1,647,273)	(\$7,759,597)	(\$5,608,693)	\$11,609,220	\$14,759,960
Required Land Purchase Price per Acre	\$3.0 - \$6.0 Million	\$4.0 - \$8.0 Million	\$4.0 - \$8.0 Million	\$2.5 - \$8.0 Million	\$6.0 - \$10.0 Million
Feasibility Gap/Surplus per Acre	(\$4.6) - (\$7.6) Million	(\$11.8) - (\$15.8) Million	(\$9.6) - (\$13.6) Million	\$3.6 - \$9.1 Million	\$4.8 - \$8.8 Million
Feasible under current conditions?	No	No	No	Yes	Yes

Source: BAE, 2023

4. INCLUSIONARY HOUSING IN-LIEU FEE ANALYSIS

This chapter analyzes potential changes to the City's inclusionary housing in-lieu fees. In-lieu fees are a common option that cities offer as an alternative to providing inclusionary units within a project, though cities differ in terms of the extent to which the in-lieu fee option is available for all projects or only in specific circumstances. In addition, cities differ in terms of the extent to which in-lieu fees are set at levels that are likely to incentivize developers to pay the fee or to provide inclusionary units on site. In general, a relatively high in-lieu fee tends to create an incentive for developers to provide inclusionary units on site, because the cost of the fee exceeds the cost to provide the inclusionary units. Conversely, a low in-lieu fee tends to create an incentive for developers to pay the fee rather than provide inclusionary units.

As discussed in the introduction to this report, Campbell currently allows developments with a density of six dwelling units per acre or less to pay an in-lieu fee rather than provide affordable units within the development. For projects providing rental units, the in-lieu fee is equal to \$21.50 per project square foot. For projects providing owner-occupied units, the in-lieu fee is equal to \$34.50 per project SF. Based on the current ordinance, only projects with ten or more units are subject to the inclusionary housing ordinance. Due to the density limits for projects that are eligible for the in-lieu fee option and the size threshold for the inclusionary ordinance, the City has only seen a limited number of projects that are subject to the inclusionary housing ordinance and fall within the density range for projects that are eligible to pay the in-lieu fee.

This chapter includes technical analysis for calculating the in-lieu fee as well as a benchmark analysis that evaluates in-lieu fees and total residential impact fees in comparison jurisdictions. Recommendations for implementation supported by the analysis provided in this chapter are addressed in the Policy Options section of this report, along with recommendations supported by the analysis of commercial linkage fees.

Inclusionary Unit Construction Cost Approach

Many cities base their inclusionary in-lieu fees on the cost to construct an affordable unit, often through a formula that applies on a project-by-project basis that is tied to the cost of construction. To inform the City's consideration of an inclusionary in-lieu fee, this subsection provides an analysis of the cost to construct inclusionary units in each of the five residential prototypes analyzed in this report.

For inclusionary rental units, this analysis estimates the cost to construct an inclusionary unit based on the per-unit construction costs shown in the pro-formas for the rental developments. The analysis then subtracts the amount of debt service that an affordable unit can support from the total construction cost to estimate the construction cost net of supportable debt. This approach recognizes that an affordable unit generates rental income to offset the cost of constructing the unit, albeit at a lower rate than needed to cover construction costs.

For inclusionary ownership units, this analysis estimates the cost to construct an inclusionary unit based on the per-unit construction costs shown in the pro-formas for the ownership developments. The analysis then subtracts the restricted sale price from the total construction cost to estimate the construction cost net of sales proceeds. Like the approach used for the rental units, this approach recognizes that an inclusionary unit generates revenue from the sale of the unit to offset the cost of constructing the unit, though this revenue is not sufficient to cover construction costs.

For all of the development prototypes, this analysis included the required developer profit and the land acquisition. Land costs were estimated at the midpoint of the ranges for each prototype as shown in Table 13.

As shown in Table 14 Table 1 below, based on the construction cost approach calculations, the in-lieu fee amount based on the construction cost approach ranges from \$107 to \$115 per net residential square foot for the rental prototypes. The lower-density rental prototype yields the lower in-lieu fee amount, due to a lower per-unit development cost for that prototype. Using the construction cost approach, the in-lieu fee for the for-sale units is equal to \$96 per net square foot for the condominium prototypes, \$70 per net square foot for the townhouse prototype, and \$83 per net square foot for the single-family prototype.

Table 14: Construction Cost In-Lieu Fee Amount by Prototype

	Prototype 1 Low-Density MFR Rental	Prototype 2 High-Density MFR Rental	Prototype 3 For-Sale Condo	Prototype 4 For-Sale Townhome	Prototype 5 For-Sale Single-Family Subdivision
Development Program					
Site Size (acres)	2.0	2.0	1.0	1.0	0.5
Total Units	59	132	53	22	6
Affordable Units	9	20	8	4	0
Total Net Project SF	49,500	110,900	63,600	39,600	15,600
Estimated Land Cost (per unit)	\$152,542	\$90,909	\$113,208	\$238,636	\$666,667
Construction Cost Approach					
Total Development Cost Per Unit, Incl. Land	\$646,336	\$703,737	\$1,148,199	\$1,118,165	\$1,906,670
Rental Prototypes					
Average Monthly Rent per Affordable Unit (a)	\$1,738	\$1,793	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Monthly Net Operating Income per Affordable Unit	\$401	\$454	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Supportable Debt per Affordable Unit	\$58,174	\$65,787	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
For-Sale Prototypes					
Avg. Net Sales Revenue per Affordable Unit (b)	<i>n.a.</i>	<i>n.a.</i>	\$384,484	\$429,464	\$476,313
Development Cost minus Sale Price per Aff. Unit	<i>n.a.</i>	<i>n.a.</i>	\$763,715	\$688,701	\$1,430,357
In-Lieu Fee Per Affordable Unit	\$588,162	\$637,951	\$763,715	\$688,701	\$1,430,357
Constructoin Cost In-Lieu Fee Amount					
Total In-Lieu Fee Amount	\$5,293,459	\$12,759,012	\$6,109,723	\$2,754,805	\$1,287,321
<i>Fee per Net Residential Sq. Ft. (c)</i>	<i>\$107</i>	<i>\$115</i>	<i>\$96</i>	<i>\$70</i>	<i>\$83</i>

Source: BAE, 2024.

Point of Indifference Approach

One factor to consider when setting an in-lieu fee is the “point of indifference”, or the fee amount that is generally equivalent to the cost of providing inclusionary units in a project. Fees that are set higher than this amount will generally incentivize developers to provide affordable units instead of paying the in-lieu fee because providing the units will be more cost-effective. Conversely, fees that are set lower than this amount will generally incentivize developers to pay the in-lieu fee instead of providing the affordable units. The following section summarizes the methodology for setting this fee amount, as well as the potential fee amount for each of the prototypes.

Methodology

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

This analysis evaluated the point of indifference by determining the in-lieu fee rate for each prototype that would result in the same feasibility results as providing inclusionary units. The analysis involved creating an alternate version of the pro-forma for each prototype. The pro-formas that were used for this portion of the analysis differed from the pro-formas that were used to test the feasibility of the inclusionary requirements in that the alternate versions do not have any affordable inclusionary units and instead include an in-lieu fee as part of the total development cost. To identify the point of indifference in-lieu fee for each prototype, the analysis determined the fee that would result in the same residual land value as in the inclusionary scenario. For example, as shown in Table 13 above, with the inclusionary units Prototype 4 results in a residual land value of \$11.6 million. To identify the point of indifference fee rate for Prototype 4, an alternate version of the Prototype 4 pro-forma was created with no inclusionary units. An in-lieu fee was then added to the development costs for in this alternate version of the pro-forma, with that fee rate set such that the residual land value associated with the project would be \$11.6 million, or equal to the residual land value in the inclusionary scenario for the same prototype.

The methodology for estimating the point of indifference fee rate for the single-family prototype involved creating two alternate versions of the single-family prototype pro forma. One alternate version evaluated a prototype that is similar to the single-family prototype discussed elsewhere in this report, but with seven units rather than six and a commensurate increase in the site size, with one of the seven units as an inclusionary unit (i.e., approximately 15 percent of a seven-unit project). The second alternate version evaluated the same seven-

unit single-family prototype with an in-lieu fee rather than an inclusionary unit, following the same methodology that was used for the other prototypes as described above.

The resulting in-lieu fee rates for each prototype approximate the “point of indifference,” or the inclusionary in-lieu fee payment that would have approximately the same cost impacts as providing affordable units within the project. In other words, if all else were equal, a residential rental project that pays the “point of indifference” fee rates shown in Table 15 would generally support the same residual land value as a project that provides the affordable units on site.

Findings

As shown below in, the rental prototypes yield a “point of indifference” in-lieu fee amount between \$55.50 and \$63.50 per net residential square foot. The for-sale prototypes yield a “point of indifference” in-lieu fee amount of \$61.50 per net residential square foot for condominium prototypes, \$92.00 per net residential square foot for townhomes, and \$90.50 per net residential square foot for single-family homes.

Table 15: Point of Indifference In-Lieu Fee Amount by Prototype

	Prototype 1 Low-Density MFR Rental	Prototype 2 High-Density MFR Rental	Prototype 3 For-Sale Condo	Prototype 4 For-Sale Townhome	Prototype 5 For-Sale Single-Family Subdivision
Point of Indifference In-Lieu Fee Amount (a)	\$2,747,250	\$7,042,150	\$3,911,400	\$3,643,200	\$1,647,100
Existing Fee per SF	\$21.50	\$21.50	\$34.50	\$34.50	\$34.50
Additional Fee per SF	<u>\$34.00</u>	<u>\$42.00</u>	<u>\$27.00</u>	<u>\$57.50</u>	<u>\$56.00</u>
Total Fee per SF	\$55.50	\$63.50	\$61.50	\$92.00	\$90.50

Note:

(a) Based on proformas shown in Appendix C.

Source: BAE, 2024.

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

Residential Fee Benchmark Analysis

The following subsections provide information on 1) Inclusionary housing in-lieu fees charged in nearby jurisdictions; and 2) Total impact fees charged on residential uses in nearby

jurisdictions. The fee information provided in this section may inform Campbell's process for identifying an in-lieu fee. To the extent that cities with comparable market conditions assess fees and continue to attract new residential development, this could serve as an indication that Campbell could potentially assess similar fees without making residential development infeasible. Conversely, if Campbell were to adopt fees that are significantly higher than the fees charged in nearby jurisdictions, this could affect developers' willingness to pursue projects in Campbell if developers are able to find attractive development opportunities in nearby cities with lower fees.

However, inclusionary housing in-lieu fees have little or no effect on the financial feasibility of residential development projects in jurisdictions where use of the in-lieu fee is generally restricted to specific types of projects, and therefore the information provided below should be considered within a broader policy context. As discussed in more detail below, many jurisdictions place restrictions on developers' ability to satisfy inclusionary requirements through payment of an in-lieu fee. These restrictions may include requiring City Council approval to pay an in-lieu fee, allowing in-lieu fees only for the purpose of meeting a requirement for a fractional unit, and allowing in-lieu fees only for small projects. In cases where the use of an in-lieu fee is restricted, most projects may be required to provide inclusionary units rather than pay the fee, making the specific in-lieu fee rate irrelevant to the financial feasibility of most projects. Similarly, the cost of an in-lieu fee is often not included in the total fees that apply to a residential development project because projects often provide inclusionary units rather than pay an inclusionary in-lieu fee.

Inclusionary In-Lieu Fees in Nearby Jurisdictions

Table 16 below shows the inclusionary housing in-lieu fees that apply in several nearby jurisdictions. The table also shows the median home sale prices in each jurisdiction as well as the average rental rates for multifamily rental units in each jurisdiction. This market information is shown to provide high-level contextual information regarding variations in the market between the jurisdictions in the table, and how the market in each jurisdiction shown compares to the market in Campbell. It should be noted that the median sale prices and average rental rates shown are for all properties of each type in each jurisdiction, according to data from Costar and Redfin, and are therefore lower than the rental rates and sale prices that would be typical of most new development in each jurisdiction.

As shown, almost all of the jurisdictions shown in Table 16 have restrictions on developers' ability to satisfy inclusionary requirements through payment of an in-lieu fee. These restrictions include requiring City Council approval to pay an in-lieu fee, allowing in-lieu fees only for the purpose of meeting a requirement for a fractional unit, and allowing in-lieu fees only for small projects. The exception is San Jose, which allows developers to choose whether to pay an in-lieu fee, provide inclusionary units, or pursue an alternative method of compliance.

Among the jurisdictions shown in Table 16 that have established in-lieu fee rates, in-lieu fees for for-sale developments generally range from \$21 per square foot (Cupertino, for some development types) to \$144 per square foot (Mountain View, for rowhouses or townhomes).⁶ Campbell's current in-lieu fee rate for for-sale developments is higher than the current in-lieu fee rates in Cupertino and San Jose and lower than the in-lieu fee rates in Mountain View. Campbell is unique among the jurisdictions shown in that Campbell has a single in-lieu fee rate for all for-sale development rather than a fee that varies by for-sale development type.

Among the jurisdictions shown in Table 16 that have established in-lieu fee rates, in-lieu fees for rental developments generally range from approximately \$22 per square foot (San Jose, in moderate market areas) to \$111 per square foot (Mountain View).⁷ Campbell's current fee rate is toward the low end of this range, at \$21.50 per square foot.

Rather than set fee rates, some jurisdictions set fees as a percent of building permit valuation (Los Gatos) or sale price (Sunnyvale, for for-sale developments). Some jurisdictions use a formula based on the difference between the affordable sale price and the market-rate sale price (Santa Clara, for for-sale projects).

While fee rates in nearby jurisdictions often provide insight on the fee rates that are financially feasible, in the case of an in-lieu fee the fee rates shown in Table 16 do not necessarily reflect financially feasible fee rates. As noted above, most of the jurisdictions shown place restrictions on developers' ability to pay an in-lieu fee and prefer that developers provide affordable inclusionary units. As a result, these jurisdictions may charge relatively high fee rates that would not be feasible for most projects in order to incentivize developers to provide inclusionary units rather than pay the fee. These cities may continue to experience residential development activity, with new development providing affordable units rather than paying an in-lieu fee, provided that the inclusionary requirements themselves are financially feasible.

Methodology for calculating fees: Jurisdictions in California generally determine the in-lieu by multiplying the fee by total net new livable square feet in a project. Alternatively, some jurisdictions may elect to calculate the fee by only the net new livable square feet of the affordable units that would have been included on site (the City of Campbell historically has followed this approach). The former method is recommended as it results in higher fees to support affordable housing production.

⁶ San Jose has a lower fee rate of \$14.54 per square foot for for-sale developments with 10-19 units that are built at 90 percent or more of the allowable density.

⁷ San Jose and Sunnyvale have lower in-lieu fees for some specific project types.

Table 16: Inclusionary Housing In-Lieu Fees in Nearby Jurisdictions

For-Sale Units	Fee Rate	Median Home Sale Price (a)	Project Size Threshold for Inclusionary Req's
Fee Based on Affordable Unit Square Footage			
Campbell (b)	\$34.50 per SF	\$1,750,000	10 or more units
Cupertino (c)		\$3,015,000	N/A; requirements apply to all project sizes
Detached Single-Family	\$21.36 per SF		
Small Lot Single-Family or Townhome	\$23.49 per SF		
Multifamily Attached Townhome, Apartment, Condo	\$28.48 per SF		
Fee Based on Total Project Square Footage			
Mountain View (e)		\$1,830,500	N/A; requirements apply to all project sizes
Single-Family Detached and Condominiums	\$63 per SF		
Rowhomes and Townhomes	\$144 per SF		
San Jose (e)		\$1,350,000	10 or more units
Developments with 20+ units	\$29.07 per SF		
Developments with 10-19 units at <90% allowable density	\$29.07 per SF		
Developments with 10-19 units at >90% allowable density	\$14.54 per SF		
Fee Based on Construction Cost or Sale Price			
Santa Clara (g)	Difference b/t the market value and the affordable sale price, multiplied by the fractional amount due	\$1,505,000	N/A; requirements apply to all project sizes
Los Gatos (d)	6% of building permit valuation	\$2,382,875	5 or more units
Sunnyvale (h)	7% of contract sales price of all units in project	\$1,703,000	7 or more units
Rental Units			
	Fee Rate	Avg. Rent per SF (i)	Project Size Threshold for Inclusionary Req's
Fee Based on Affordable Unit Square Footage			
Campbell (b)	\$21.50 per SF	\$3.18	10 or more units
Cupertino (c)		\$3.74	N/A; requirements apply to all project sizes
Up to 35 du/acre	\$28.48 per SF		
Over 35 du/acre	\$35.60 per SF		
Fee Based on Total Project Square Footage			
Mountain View (e)	\$111 per SF	\$3.92	N/A; req's apply at all sizes
San Jose (f)		\$3.01	10 or more units
Strong Market Areas			
Developments with 20+ units	\$49.99 per SF		
Developments with 10-19 units at <90% allowable density	\$49.99 per SF		
Developments with 10-19 units at >90% allowable density	\$25.00 per SF		
Moderate Market Areas			
Developments with 20+ units	\$21.74 per SF		
Developments with 10-19 units at <90% allowable density	\$21.74 per SF		
Developments with 10-19 units at >90% allowable density	\$10.87 per SF		
Qualifying High Rises in Downtown Planned Growth Area	\$0		
Santa Clara (g)	\$28.79 per SF	\$3.40	N/A; req's apply at all sizes
Sunnyvale (h)		\$3.47	3 or more units
Projects with 3-6 units	\$15.00 per SF		
Projects with 7+ units	\$30.00 per SF		
Fee Based on Construction Cost			
Los Gatos (d)	6% of building permit valuation	\$3.17	5 or more units

Notes:

(a) Median home sale prices shown are the median home sale price in October 2023, according to data from Redfin.

- (b) In-lieu fees can be paid for projects with a density of six dwelling units per acre or less.
- (c) In-lieu fees can only be used to satisfy the inclusionary requirement for projects with fewer than 7 units or for fractional units in projects with more than 7 units if the fractional unit is less than 0.5. If the fractional unit is equal to 0.5 - 0.99 of a unit, the BMR unit requirement is rounded up and the project must provide one additional BMR unit. Projects with less than 7 units may provide one unit or pay the fee. All other alternatives to providing on-site inclusionary units are subject to City Council approval.
- (d) Inclusionary program applies to projects that include five or more residential units; Fee option is available only in limited cases and at the Town's discretion.
- (e) Fees are charged per net new livable SF. In-lieu fees can be paid for fractional units in projects with less than 7 units. In projects with 7+ units, in-lieu fees can be paid for a fractional unit that is equal to less than 0.5 of a unit. An in-lieu fee payment to satisfy the entire inclusionary requirement requires City County approval. Applicant must demonstrate that in-lieu fee payment will further the City's housing goals to a greater extent than providing units on site. Fees must be greater than the value of providing the units on site and higher than the in-lieu fees for fractional units that are cited above.
- (f) All projects may choose to pay the in-lieu fee rather than construct units. Additionally, projects can choose a mixed compliance option to provide a portion of units on-site and pay an adjusted in-lieu fee. The adjusted in-lieu fee rate varies depending on the number and affordability of the units provided. In-lieu fees provided above are for a development providing no inclusionary units on-site. Fee exemption for qualifying high-rises is set to expire.
- (g) Fees apply only to projects with fewer than 10 units or to satisfy the requirement for a fractional unit in projects with 10 units or more. All residential developments with 10 or more units are required to construct affordable units onsite. Projects with fewer than ten units may either provide one affordable unit or pay an in-lieu fee. Construction of one single-family home or duplex on a lot of record is exempt.
- (h) Inclusionary requirements apply to for-sale projects with 7 or more units or rental projects with 3 or more units. City Council approval required for in-lieu fee option for projects with 7+ units.
- (i) Average multifamily rent shown reflects the average monthly asking rent per square foot among multifamily properties in each jurisdiction as of the third quarter of 2023, according to data from Costar.

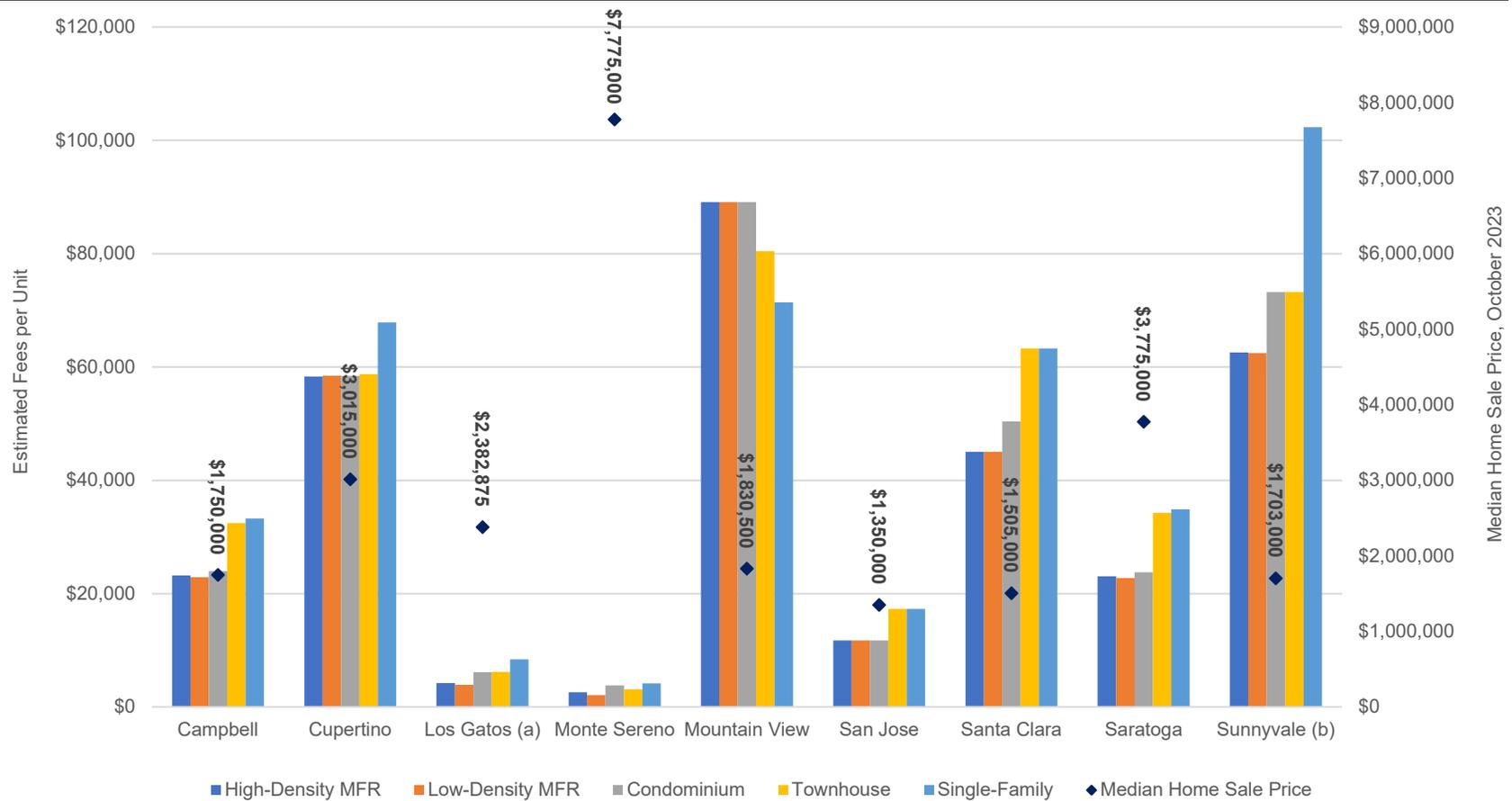
Sources: City of Campbell; City of Cupertino; City of Los Gatos; City of Mountain View; City of San Jose; City of Santa Clara; City of Sunnyvale; BAE; 2023.

Total Impact Fees on Residential Uses in Nearby Jurisdictions

Figure 2 provides estimates of the total impact fees that would apply to each of the five residential prototypes that are evaluated in this report in Cambell as well as in neighboring jurisdictions. This analysis provides insight on how Campbell compares to neighboring jurisdictions in terms of the total impact fees that apply to new residential development.

As shown, Campbell's impact fees are toward the middle of the range for each prototype. Los Gatos, Monte Sereno, and San Jose would generally assess lower impact fees than Campbell for each of the prototypes, while impact fees in Saratoga would be comparable to Campbell's impact fees. The other cities shown, including Cupertino, Mountain View, Santa Clara, and Sunnyvale, would all charge higher impact fees than Campbell for each of the residential prototypes. It should be noted that the fee estimates shown in Figure 2 do not include inclusionary housing in-lieu fees because most of the jurisdictions shown require that most projects provide inclusionary units rather than pay in-lieu fees. The information provided in Figure 2 indicates that Campbell is generally in line with neighboring jurisdictions in terms of the impact fees that apply to new residential development projects, with significantly lower residential impact fees than many nearby jurisdictions.

Figure 2: Residential Impact Fees in Campbell and Comparison Jurisdictions



Notes:

Fee calculations include park fees for Campbell, Cupertino, Mountain View, San Jose, Santa Clara, Saratoga, and Sunnyvale. These fees would be reduced to the extent that projects provide park space in accordance with each jurisdiction's requirements. Fee calculations do not include inclusionary housing in-lieu fees because most of the jurisdictions shown require that most projects provide inclusionary units rather than pay in-lieu fees.

(a) Fees do not include Traffic Impact Mitigation Fee, which are calculated based on new average daily trips generated

(b) Fee estimates do not include any Specific Plan Area fees. Some Specific Plan Areas have fees that would result in higher total fees than shown.

Source: BAE, 2023.

Summary of Findings from Inclusionary In-Lieu Fee Analysis

The analysis presented above evaluates potential inclusionary housing in-lieu fees in Campbell based on: 1) the cost to construct an inclusionary unit; and 2) the “point of indifference” in-lieu fee rate. Table 17 summarizes the findings from the construction cost approach and the point of indifference approach.

Table 17: Summary of Findings from In-Lieu Fee Analysis

	Prototype 1 Low-Density MFR Rental	Prototype 2 High-Density MFR Rental	Prototype 3 For-Sale Condo	Prototype 4 For-Sale Townhome	Prototype 5 For-Sale Single-Family Subdivision
Construction Cost Approach (per SF)	\$106.94	\$115.05	\$96.06	\$69.57	\$82.52
Point of Indifference Approach (per SF)	\$55.50	\$63.50	\$61.50	\$92.00	\$90.50

Source: BAE, 2024.

If City decision-makers generally prefer that developers provide inclusionary units rather than pay an in-lieu fee, the City should either place limits on the circumstances under which developers may satisfy inclusionary requirements through the payment of an in-lieu fee or adopt fee rates that are higher than the fee rates established through the point of indifference approach. Restrictions on the circumstances under which developers can pay the in-lieu fees could include allowing a fee payment for small projects or for requirements resulting in fractional units, but not allowing a fee payment to meet the entire inclusionary requirement for larger projects. Campbell could also require discretionary approvals for the use of an in-lieu fee in most circumstances.

5. KEY FINDINGS & POLICY OPTIONS

This chapter presents key findings and policy options based on the analysis presented in the preceding chapters of this report. These policy options and recommendations include the potential adoption of a commercial linkage fee and adjustments to the inclusionary housing in-lieu fee.

Affordable Housing Need

The potential implementation of a commercial linkage fees and adjustment to the inclusionary housing in-lieu fee are being considered in the context of significant affordable housing needs as demonstrated both by US Census Analyze the proportion of lower-income households relative to all households within the jurisdiction, using the latest data from the United States Department of Housing and Urban Development's (HUD) Comprehensive Housing Affordability Strategy (CHAS) database. According to this data, 28 percent of Campbell holds earn less than 50 percent of Median Family Income (MFI), with an additional 11 percent earning between 51 and 80 percent of MFI.

Additionally, for the 6th Housing Element Update Cycle (2023-2031), the City of Campbell has a Regional Housing Needs Allocation (RHNA) obligation totaling 2,977 units, including 1,186 units for lower-income households, or approximately 40 percent of the total. The recommended inclusionary housing set aside of 15 percent, as described further, is significantly lower than the need as documented both by HUD and the City's RHNA allocation. The AB 602 Analysis included in Appendix A below further explores the appropriateness and proportionality of the proposed commercial linkage fees and adjustment to the inclusionary housing in-lieu fees.

Commercial Linkage Fee Policy Options

The analysis presented in this report supports the following options related to the potential adoption of commercial linkage fees in Campbell in furtherance of Housing Element Program H-1b:

Program H-1b: Commercial Linkage Fee: Establish an affordable housing impact fee that will apply to nonresidential development to provide an additional local source of revenue to support production of affordable housing.

Commercial Linkage Fee Policy Option 1: Do not adopt commercial linkage fees.

City decision-makers may wish to refrain from adopting any commercial linkage fees at this time. This option is based on the non-residential financial feasibility analysis that was presented in this report, which found that office, retail, hotel, and industrial development faces financial feasibility challenges in the current market.

Commercial Linkage Fee Policy Option 2: Charge a fixed amount for all non-residential uses.

To simplify fee collection and make the City’s fee schedule easy to understand, Campbell could adopt a single commercial linkage fee rate that would apply to all non-residential uses. If the City pursues this approach, BAE recommends a fee that would be consistent with a fee rate that represents a low percentage of total development costs for all uses to which the commercial linkage fee would apply. For example, if the City adopts commercial linkage fees for office, retail, hotel, and light industrial uses, the recommended fee rate would be \$9 per square foot or less, which is equal to two percent of estimated total development costs (not including land or developer profit) for retail and light industrial uses.

Commercial Linkage Fee Policy Option 3: Adopt a Tiered Commercial Linkage Fees Based on Building Type.

Policy option 3 involves adopting commercial linkage fees with lower fees for specific uses based on various policy goals. If the City pursues this option, fees for some uses could be set at up to two percent of total development costs according to Policy Option 2, while fees for other uses would be set at lower rates, per the following maximum fee rates:

- Office: up to \$15 per square foot
- Retail/Restaurant: up to \$9 per square foot
- Hotel: up to \$12 per square foot
- Light Industrial: up to \$9 per square foot

Implementation Consideration: Timing of Fee Payment

- **Allow fees to be paid after building permit issuance.** Some of the developers that participated in the stakeholder focus groups highlighted the financial burden associated with paying commercial linkage fees at building permit issuance due to the high cost of financing for up-front development costs. While many jurisdictions require payment of all impact fees at building permit issuance, some allow fees to be paid at later stages in the development process, such prior to issuance of a certificate of occupancy.

Implementation Consideration: Exemptions and Discounts

- **Discount or exempt certain land uses and project sizes.** Some jurisdictions with commercial linkage fees choose not to charge fees or to charge low fees on specific non-residential uses and project sizes. For example, some jurisdictions take this approach with hotel and/or retail uses, often because these uses generate other revenues for the City (i.e., transient occupancy tax or sales and use tax), and as a result jurisdictions choose to incentivize these uses. It should be noted that transient occupancy tax and sales and use tax revenues accrue to a jurisdiction’s General Fund and therefore are not reserved for affordable housing.
- **Provide an exemption for the non-residential component of vertical mixed-use projects.** Some jurisdictions provide commercial linkage fee exemptions for the commercial

component of mixed-use projects, such as ground floor retail space in a residential building. For example, the City of Santa Clara provides an exemption for “Commercial square footage within a mixed-use development where the commercial space is integrated into a single building that also includes residential development at a density of thirty (30) dwelling units per acre or greater and where the commercial square footage does not exceed twenty thousand (20,000) square feet.” Jurisdictions may adopt these types of exemptions to incentivize the provision of ground-floor retail space in residential projects. In some cases, these exemptions are adopted because local codes require ground-floor commercial space in some areas, and an exemption may reflect that the jurisdiction is electing not to charge a fee on space that developers are required to build, and which is often not profitable.

Implementation Consideration: Phasing

For projects that do not meet the exemption criteria, options for phasing in a fee include:

- **No phase-in process.** This option would consist of applying the full adopted fee rate to all non-exempt projects following adoption.
- **Phase in based on time.** For example, Campbell could charge no fee for one-year after adoption.

Note: Housing development projects submitting preliminary applications under SB 330 (Housing Crisis Act of 2019) will generally not be subject to any in-lieu fee, even for the commercial component of a mixed-use project, provided that they submit their application prior to the effective date of the new fees.

Implementation Consideration: Fee Calculation Methodology

Jurisdictions will typically adopt fee calculation methodologies that factor in existing commercial space in cases where a new development is replacing an existing use. For example, in the hypothetical case of a 300,000 square foot commercial development replacing an existing 100,000 square foot development, the fee would be based on the net square footage of 200,000 square feet. The following potential implementing language and formula reflects accepted practices in comparable California jurisdictions:

*The housing impact fee for nonresidential development projects shall be charged on a per-square-foot basis for all net new usable commercial floor area, including all additions where floor area is increased, with a specific per-square-foot amount set for each nonresidential land use category and amount of floor area. The amount of the fee shall be computed as follows:
Fee = (sq. ft. of new land use * relevant commercial linkage fee) - (sq. ft. of existing land use * relevant commercial linkage fee).*

"Useable Commercial Area" means the total horizontal floor area in square feet of all stories of all non-residential building areas measured to the inside surface of exterior walls as well as any covered non-residential area outside of the building envelope that is covered or partially

covered by structures, beams, slats, or projections when viewed from above. This area specifically includes hallways, lobbies, elevators, stairwells, and mechanical rooms. This definition specifically excludes parking areas (including covered parking areas), areas shared with residential use in a mixed-use development, as well as areas covered by cornices, eaves, sills, and canopies cumulatively measuring less than 30-inches in depth as measured to the outside surface of exterior walls, as well as ground level paving, pools, spas and decks, landscape features, and light wells.

Inclusionary Housing In-Lieu Fee Findings and Policy Options

As new market rate units are added to the Campbell market, the wage earners living in these units spend money for goods and services in the local economy which in turn creates demand for lower-wage retail and service sector jobs. The policy basis for establishing an inclusionary housing requirements and in-lieu fee is in part based on the need for Campbell to generate resources to serve the housing needs of lower-wage worker households related directly to new market-rate development.

The analysis presented in this report supports various policy options related to inclusionary housing in-lieu fees in Campbell in furtherance of Housing Element Program H-1a:

Program H-1a: Inclusionary Housing Ordinance Implementation: Amend the Inclusionary Housing Ordinance to offer developers a menu of options for achieving affordability, adjusting the percentage of units required to be affordable depending on the degree of affordability achieved (i.e., moderate-, low-, very low-, and extremely low-income).

This section also provides implementation considerations for the phasing and method of calculation fees that should be considered after selecting a preferred initial option.

Inclusionary Housing Policy Option 1: Retain Existing Fees

This policy option would entail no change in the base fees charged in-lieu of providing on-site units (i.e., 10-units; For-Sale: \$34.50; For-Rent: \$21.50). This approach would also maintain the City's existing method of calculating fees, and result in significantly less revenue than all other jurisdictions included in the benchmarking analysis.

Inclusionary Housing In-Lieu Fee Policy Option 2: Increase in-lieu fees up to the point of indifference fee rate of \$60 with a threshold of five (5) units.

Table 15 shows the in-lieu fee rates that represent the "point of indifference" for each prototype, or the point at which the cost of the fee would be approximately equivalent to the cost of providing inclusionary units in a project. These fees are approximately \$60 per net square foot for rental developments and range from approximately \$60 per net square foot to \$90 per net square foot for for-sale developments, depending on the development type. In this

policy option, the City would adopt a single in-lieu fee of \$60 for all unit types to be applied as follows:

- Threshold: would apply inclusionary ordinance requirements (i.e., 15% affordability) to all projects of five (5) or more units
- Provide option to pay fees for any fractional requirement not resulting in a whole unit
 - Exception: Projects between 5-6 units may pay in-lieu fee instead of providing units

Note: This option deviates from the possible amendments contemplated by Policy H-1a, as it would require projects of seven (7) or more units to provide an affordable housing unit, when the fractional requirement exceeds 0.5 of a unit. As a result, this policy option would result in the production of more affordable housing units, fewer fees, than initially contemplated by Policy H-1a of the Housing Element.

Inclusionary Housing In-Lieu Fee Policy Option 3: Same as Policy Option 2 but with a threshold of seven (5-6) units

Table 15 shows the in-lieu fee rates that represent the “point of indifference” for each prototype, or the point at which the cost of the fee would be approximately equivalent to the cost of providing inclusionary units in a project. These fees are approximately \$60 per net square foot for rental developments and range from approximately \$60 per net square foot to \$90 per net square foot for for-sale developments, depending on the development type. In this policy option, the City would adopt a single in-lieu fee of \$60 for all unit types to be applied as follows:

- Threshold: Would apply to all project of seven (7) or more units
- Provide option to pay fees for any fractional requirement not resulting in a whole unit

Note: This option also deviates from the possible amendments contemplated by Policy H-1a, as it would exempt projects under 7 units from paying fees or providing units. As a result, this policy option would result in the generation of less fees than initially contemplated by Policy H-1a of the Housing Element.

Implementation Considerations: Phasing

The options for phasing in the in-lieu fee rate are similar to those described under the commercial linkage fees. As deemed appropriate, the in-lieu fees could be phased in over time as follows:

- **No phase-in process.** This option would consist of applying the full adopted fee rate to all non-exempt projects following adoption.

- **Phase in based on time (staff preferred).** For example, Campbell could charge no fee for one year after adoption.

Implementation Considerations: Fractional Units

Under options 2 and 3, the City would provide the option for developers to pay a fee to address requirements for fractional units. Campbell’s current inclusionary housing ordinance requires that developers round up to the nearest whole unit when there is a requirement for a fractional inclusionary unit of 0.5 or greater and allow the developer to round down to the nearest whole unit when there is a requirement for a fractional inclusionary unit less than 0.5. The City could allow payment of an in-lieu fee to satisfy the requirement for any fractional unit (i.e., up to .99 of a unit requirement) or just for fractional unit requirements when less than 0.5. The application of the in-lieu fee to fractional unit requirements could be implemented regardless of whether the City reduces the project size threshold for inclusionary requirements as described under Inclusionary Housing In-Lieu Fee Policy Options 2 or 3.

This study support two options for addressing “fractional” units, as follows:

- Option 1: Retain the existing 15 percent inclusionary requirement as adopted, in which fractions less than .5 round down, fractions .5 and over round up to a full unit.
- Option 2: Modify the 15 percent inclusionary requirement such the following options apply when there is a fractional obligation:
 - Provide a unit to satisfy any fractional obligation (i.e., 0.1); or
 - Pay a fee to satisfy any fractional obligation when one of the following conditions apply:
 - Any fractional obligation for projects with 5 or 6 units
 - The fractional obligation is less than .5 for projects 7 units and over

The benefits of applying the in-lieu fee to fractional units include generating some fee revenue from fractional units, though the magnitude of the revenue is likely to be small. In addition, charging an in-lieu fee for fractional units would reduce the magnitude of the difference in requirements for less than 0.5 units and requirements for 0.5 units or more. Reducing this gap in requirements may reduce the extent to which developers seek to keep projects smaller to avoid a requirement for an entire new inclusionary unit.

The specific formula for determining the in-lieu fee for fractional units would be as follows:

$$\text{Total Fee} = (\$60 \text{ per square foot}) * (\text{Fractional unit/Total inclusionary units required}) * (\text{Livable Area})$$

"Livable area" means the total square footage of the interior of all dwelling units within a residential development that a tenant can occupy and use as measured from the interior face of the exterior walls. This area specifically includes all living spaces, kitchens and bathrooms, and usable closet and storage spaces within a dwelling unit. This definition specifically

excludes common areas such as hallways, elevators, stairwells, mailrooms, multi-use rooms, indoor pool rooms, mechanical rooms, lobbies, parking areas, areas of Accessory Dwelling Units (ADUs) and Junior Accessory Dwelling Units (JADUs), and areas shared with a non-residential use in a mixed-use development.

Implementation Considerations: Affordability Term

The City currently has a 55-year affordability term for rental units and a 45-year term for for-sale units. To have a more standardized approach, the City should consider establishing a 55-year affordability term for both rental and for-sale units, in-line with best practices from other jurisdictions.

Implementation Considerations: Construction Cost Index

As the City implements a new policy, the fees will periodically need to be updated to keep pace with rising construction costs. This can be accomplished using one of two primary construction costs indices, as follows:

- California Department of General Services (DGS) Construction Cost Index CCCI: <https://www.dgs.ca.gov/RESD/Resources/Page-Content/Real-Estate-Services-Division-Resources-List-Folder/DGS-California-Construction-Cost-Index-CCCI>
- Engineering News Record ("ENR") Construction Cost Index for the San Francisco area published by McGraw Hill on January 1 of every year, or its successor publication

Implementation Considerations: Financial Feasibility of Fee Option for Smaller (six- and nine-unit) Townhome Developments

Stakeholder feedback obtained during this study process included some concerns from townhome developers about the potential impact of a new \$60 per square foot in-lieu fee on smaller scale (six or nine unit) townhome developments. Leveraging the same financial feasibility models described in depth above and in Appendix C below, BAE adjusted the project size, land area and fee assumptions to model both six-unit and nine-unit projects. In each case, the imposition of a \$60 fee does not present a constraint on feasibility with each prototype achieving an 18% profit as percent of total development costs and a positive land residual in excess of prevailing land prices in the market area.

APPENDIX A: AB 602 ANALYSIS

Assembly Bill 602 (AB 602, 2021) enacted new requirements for impact fees and impact fee nexus studies. This appendix provides an analysis of commercial linkage fees in relation to AB 602 requirements. Relevant provisions of AB 602 include:

1. **Level of Service.** AB 602 requires that impact fee nexus studies “identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new level of service is appropriate.” (See Government Code Section 66016.5(a)(2).)
2. **Prior Nexus Study Assumptions and Fees Collected.** Pursuant to AB 602, Government Code Section 66016.5(a)(4) provides that “if a nexus study supports the increase of an existing fee, the local agency shall review the assumptions of the nexus study supporting the original fee and evaluate the amount of fees collected under the original fee.”
3. **Capital Improvement Plan.** Under AB 602, Government Code Section 66016.5(6) states that “large jurisdictions shall adopt a capital improvement plan as a part of the nexus study.” For the purposes of this provision, Campbell is classified as a large jurisdiction.⁸

Commercial Linkage Fee AB 602 Analysis

This section provides discussion and analysis related to the commercial linkage fee analysis to comply with the provisions of AB 602 as described above. The subsections below are numbered to correspond to the four provisions described above.

1. Level of Service

A commercial linkage would generate the funding necessary to finance the construction of new publicly-assisted affordable housing units to serve new workers in Campbell as the City’s employment base grows. Therefore, in the context of the commercial linkage fee, the level of service can be defined in terms of the number of publicly-assisted affordable housing units in Campbell per worker employed in Campbell.

Existing Level of Service. According to the City of Campbell’s 2023-2031 Housing Element, there are 617 publicly-assisted affordable housing units in Campbell. This total consists of units that received public funding in exchange for providing affordable housing with a deed restriction of maintain units as affordable for a set time period. In addition to these units, the Housing Element identifies three deed-restricted affordable housing units that were created

⁸ AB 602 uses the definition of a “large jurisdiction” that is contained in Section 53559.1 of the California Health and Safety Code. This section defines a large jurisdiction as a county with a population of 250,000 or more as of January 1, 2019 or any city within that county.

through the City’s inclusionary housing program. These units did not receive public funding and therefore are not factored into this analysis. According to US Census American Community Survey (ACS) data collected between 2018 and 2022, there are an estimated 24,377 people that work in Campbell. Based on these figures, there are currently approximately 0.025 publicly-assisted affordable housing units per worker in Campbell, as shown in Table A-1 below.

Proposed New Level of Service. Table A-1 shows an analysis of the level of service that would be supported by commercial linkage fees, assuming fee rates equal to two percent of total development costs as shown in Table 10 (fees shown in Table A-1 are rounded to the nearest dollar). As shown, commercial linkage fee rates at that level would support the construction of an estimated 0.020 units of publicly-assisted affordable housing per new worker in office space, 0.019 units of publicly-assisted affordable housing per new worker in retail space, 0.060 units of publicly-assisted affordable housing per new worker in hotel space, and 0.042 units of publicly-assisted affordable housing per new worker in industrial space.

Table A-1: Level of Service Analysis, Commercial Linkage Fee

Existing Level of Service				
Workers in Campbell (a)	24,377			
Publicly-Supported Affordable Housing Units	617			
Publicly-Supported Affordable Housing Units per Worker	0.025			
Proposed New Level of Service				
	<u>Office</u>	<u>Retail/ Restaurant</u>	<u>Hotel</u>	<u>Industrial</u>
Fee Necessary to Address Full Housing Need	\$46.85	\$128.46	\$49.13	\$33.72
Possible Fee Rate	\$15.00	\$9.00	\$9.00	\$12.00
% of Full Need Mitigated by Possible Fee Rate	32%	7%	18%	36%
Estimated Number of Workers per 1,000 SF (b)	3.33	2.00	0.67	1.33
Affordable Housing Need per 1,000 SF (c)	0.21	0.54	0.22	0.16
Affordable Housing Need per 1,000 SF Mitigated by Possible Fee Rate (d)	0.07	0.04	0.04	0.06
Affordable Housing Units Funded per Worker (e)	0.020	0.019	0.060	0.042

Notes:

- (a) Based on ACS data collected between 2018 and 2022.
- (b) See Table 4.
- (c) See Table 6.
- (d) Equal to the affordable housing need per 1,000 SF multiplied by the percentage of the full need mitigated by the fee rate shown.
- (e) Equal to the affordable housing need per 1,000 SF mitigated by the fee rate shown divided by the estimated number of workers per 1,000 SF.

Sources: US Census American Community Survey, 2018-2022; City of Campbell Housing Element Update, 2023; BAE, 2023.

Appropriateness of New Level of Service. Table A-1 above indicates that commercial linkage fees for some uses could support a higher level of service than currently exists in Campbell, depending on whether the Campbell City Council adopts commercial linkage fees and, if so, what the adopted fee rates are. While the current level of service is 0.025 publicly-assisted affordable housing unit per worker, the hotel and industrial fees shown in Table A-1 would

support larger numbers of publicly-assisted affordable housing units per worker. A higher level of service would be appropriate in part because the current level of service is insufficient to provide enough affordable housing for Campbell's workforce. There is a persistent shortage of available affordable housing units throughout the region, and affordable housing developments consistently have long waiting lists for any available units.

The existing shortage of affordable units is also apparent in the number of households that are overpaying for housing in Campbell.⁹ As discussed in Campbell's 2023-2031 Housing Element, approximately 85 percent of extremely low-income households, 71 percent of very low-income households, and 59 percent of low-income households are overpaying for housing. These data indicate a significant gap in the number of lower-income households living in Campbell and the availability of affordable housing.

Commercial linkage fees will not address these existing deficiencies in the affordable housing inventory. However, supporting a higher level of service through commercial linkage fees could help to prevent new non-residential development in Campbell from continuing to replicate the same gaps in affordable housing delivery that exist under the current level of service. Even at a higher level of service, the City is unlikely to charge commercial linkage fees that would fully mitigate the need for affordable housing that new non-residential development is anticipated to create. As a result, some gaps in affordable housing delivery would remain unless mitigated through other means.

Furthermore, the higher level of service is appropriate based on the City of Campbell's Regional Housing Needs Allocation (RHNA). The RHNA is the number of housing units that the City is required to plan to accommodate during each eight-year Housing Element cycle. Prior to the start of each Housing Element cycle, the State determines the total RHNA for each region in California. Each region then goes through a process to distribute the RHNA among each of the cities and counties in the region. Under California law, each city and county in California is required to prepare a Housing Element every eight years and must demonstrate through the Housing Element that the jurisdiction has the ability to accommodate its RHNA during the eight-year Housing Element period. The RHNA for each city and county includes an allocation of units that will be affordable to low-income and moderate-income households, and the Housing Element must demonstrate that the jurisdiction has the ability to accommodate units at each affordability level.

For the 6th Housing Element Update Cycle (2023-2031), the City of Campbell has a RHNA obligation totaling 2,977 units, including 1,186 units for lower-income households. This a significant increase from the 5th Housing Element Update Cycle (2015-2023), when the City's RHNA obligation totaled 933 units, including 391 units for lower-income households.

⁹ A household is typically considered to be overpaying for housing if it spends more than 30 percent of its gross income on housing-related expenses, such as rent, utilities, or mortgage payments.

Campbell's 2023-2031 Housing Element reports that the City permitted 15 housing units that are affordable to lower-income households during the 5th Housing Element cycle. This suggests that Campbell will need to issue building permits for significantly more affordable housing units during the 6th Housing Element Cycle to address the City's RHNA. While a commercial linkage fee would not be intended to fully address the City's RHNA and would not be sufficient to do so, these figures demonstrate a need for the City of Campbell to enhance the level of service provided by the City's affordable housing inventory relative to existing conditions.

2. Prior Nexus Study Assumptions and Fees Collected

The City of Campbell does not have an existing commercial linkage fee, and therefore this nexus study does not relate to the increase of an existing fee. As a result, the provisions of AB 602 that relate to reviewing the assumptions of a prior nexus study and evaluating the amount of fees collected under the original fee do not apply to the commercial linkage fee analysis.

3. Capital Improvement Plan

Under AB 602, Government Code Section 66016.5(6) states that "large jurisdictions shall adopt a capital improvement plan as a part of the nexus study." For the purposes of this provision, Campbell is classified as a large jurisdiction. Government Code Section 66002 further states that "any local agency which levies a fee subject to [the California Mitigation Fee Act] may adopt a capital improvement plan, which shall indicate the approximate location, size, time of availability, and estimates of cost for all facilities or improvements to be financed with the fees."

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

Although affordable housing developments are not included in a formal capital improvement plan, the City of Campbell's 2023-2031 Housing Element Update provides a plan to accommodate the City's RHNA. This plan includes an identification of sites where all 1,186 lower-income units in the City's RHNA could be built over the eight-year Housing Element period. These units would be located within Campbell City limits, and will likely generally correspond to the approved, under construction, and pipeline projects identified in the Housing Element, as well as projects that could be constructed on the opportunity sites that

the Housing Element identifies. Projects with affordable units will vary in size based on the specific opportunities for affordable housing development that could occur during the planning period and may range from ten units to over 100 units (or from five units to over 100 units under possible policy options).

Information provided in recent applications for tax credit financing for new affordable housing developments in Santa Clara County indicates that the cost to build a publicly-assisted affordable housing unit currently averages an estimated \$720,000 per unit. Funds from commercial linkage fees would help to finance a portion of the cost to construct these units but are not anticipated to be sufficient to fund the construction of all of the lower-income units in the City's RHNA. The total cost that will be financed through the fees will depend on the amount of revenue generated by commercial linkage fees during the Housing Element cycle. In addition to commercial linkage fees, construction of these units will be financed by other public and private funding sources, including but not limited to low-income housing tax credits. A portion of the RHNA will also be met through other City housing programs, including the City's inclusionary ordinance.

APPENDIX B: NON-RESIDENTIAL PRO FORMAS

This appendix provides the detailed pro formas for non-residential uses that were used for the commercial linkage fee analysis provided in this report. This appendix also includes a description of the key assumptions used in the non-residential pro formas.

Key Assumptions

Hard Costs: Hard costs are the costs associated with the physical construction of a building, including all construction materials and labor. The hard cost assumptions are primarily based on information provided by developers that were interviewed for this study. The study also relies on published sources and BAE's experience with recent projects in the Bay Area to cross-check the information provided by developers and to fill gaps in the information that developers were able to provide.

Soft Costs: This analysis assumes that soft costs are equal to 20 percent of hard costs. This soft cost estimate includes engineering, architecture, and CEQA costs, as well as City cost-recovery fees for planning, permitting, and entitlements, but does not include financing costs or impact fees. Financing costs and impact fees were calculated separately and included in total development costs as separate line items.

Financing Costs: This analysis assumes a 6.5 percent interest rate on construction loans and loan fees equal to 1.0 percent of the loan amount. These assumptions are consistent with information provided by developers interviewed for this study as well as BAE's experience with recent projects in the region.

Impact Fees: BAE calculated impact fees for each prototype based on the City's impact fee schedule, which includes storm drain impact fees and roadway maintenance impact fees.

Commercial Rental Rates: For the office, retail, and industrial prototypes, this analysis uses rental rates that are based on information provided by developers during the developer interviews and cross-checked against data from Costar.

Hotel Operating Revenues and Expenses. This analysis uses data from Costar to estimate hotel room rates and occupancy rates. The hotel market continues to be impacted by the COVID-19 pandemic, with lower room rates and occupancy rates than in 2019, but has demonstrated a significant recovery from the most severe impacts of the pandemic. This analysis uses the 2019 average occupancy and room rates for hotel properties in Campbell on the basis that developers would likely need to anticipate a return to pre-pandemic conditions in order to pursue future hotel development.

Capitalization Rate and Yield on Cost: The capitalization rate (or cap rate) is defined as the net operating income that a property generates divided by the estimated sale price of a stabilized building. To support new development, investors require a spread between the capitalization rate and the project's Yield on Cost, calculated as the project's net operating income divided by the total development costs. To inform the current cap rates and required yield on cost metrics to support new development, this analysis uses information from developer interviews, Costar, and the CBRE United States Cap Rate Survey for the first half of 2023 to estimate cap rates for each of the prototypes.

Table B-1: Financial Pro Forma – Office Prototype

Development Program Assumptions		Development Cost Analysis	
Site		Hard Costs	
Site area (acres)	3.0	Site work	\$2,613,600
Site area (sq. ft.)	130,680	Hard construction costs	\$34,500,000
Structure		TI allowance costs	\$10,925,000
Building Size - Gross SF	115,000	Parking - surface	\$1,163,500
Common Area SF	5,750	Parking - structured	\$16,600,000
Net Rentable SF	109,250	Parking - underground	\$0
Common Area as a % of Gross	5%	Total Hard Costs	\$65,802,100
Parking (spaces)		<i>Hard Costs per Built Sq. Ft.</i>	<i>\$572</i>
Surface	511	Soft Costs	
Structured	179	Soft costs	\$13,160,420
Underground	332	Impact fees	\$260,630
	0	Commercial Linkage Fee	\$0
Development Cost & Income Assumptions		Developer Fee	\$2,632,084
Hard Costs		Total Soft Costs	\$16,053,134
Site Work, per site SF	\$20	Construction Financing Costs	
Construction hard costs, per SF	\$300	Construction Period Interest	\$3,112,545
Tenant improvements, per rentable SF	\$100	Loan Fees	\$491,131
Parking - surface, per space	\$6,500	Total Financing Costs	\$3,603,677
Parking - structured, per space	\$50,000	Total Development Costs	
Parking - underground, per space	\$90,000	excl. Land Value	\$85,458,911
Soft Costs		Cost per built sq. ft.	\$743
Soft Costs as a % of Hard Costs	20%	Feasibility Analysis	
Developer Fee as % of Hard Costs	4%	Projected Income	
Impact Fees & Extractions		Gross Annual Revenue	\$6,227,250
Impact Fees (per SF)	\$2.27	Less Vacancy	(\$622,725)
Operating Revenues & Expenses		Net Operating Income (NOI)	\$5,604,525
Rental Rate (per SF per month, NNN)	\$4.75	Project Value to Investor	\$70,056,563
Vacancy rate	10%	Less Development Costs	(\$85,458,911)
Construction Financing		Residual Land Value	(\$15,402,348)
Loan to cost ratio	60%	Residual Land Value/Acre	(\$5,134,116)
Interest rate	6.5%		
Loan fees (points)	1%		
Loan period (months)	18		
Draw down factor	65%		
Capitalization Rate			
Developer Profit Spread	7.00%		
Required Yield on Cost	1.00%		
	8.00%		

Sources: BAE, 2023.

Table B-2: Financial Pro Forma – Retail Prototype

Development Program Assumptions		Development Cost Analysis	
Site		Hard Costs	
Site area (acres)	0.5	Site work	\$435,600
Site area (sq. ft.)	21,780	Hard construction costs	\$2,300,000
Structure		TI allowance costs	\$650,000
Building Size - Gross SF	10,000	Parking - surface	\$266,500
Parking (spaces)		Parking - structured	\$0
Surface	41	Parking - underground	\$0
Structured	0	Total Hard Costs	\$3,652,100
Underground	0	<i>Hard Costs per Built Sq. Ft.</i>	<i>\$365</i>
Development Cost & Income Assumptions		Soft Costs	
Hard Costs		Soft costs	\$730,420
Site Work, per site SF	\$20	Impact fees	\$15,349
Construction hard costs, per SF	\$230	Commercial Linkage Fee	\$0
Tenant improvements, per rentable SF	\$65	Developer Fee	\$146,084
Parking - surface, per space	\$6,500	Total Soft Costs	\$891,853
Parking - structured, per space	\$50,000	Construction Financing Costs	
Parking - underground, per space	\$90,000	Construction Period Interest	\$172,784
Soft Costs		Loan Fees	\$27,264
Soft Costs as a % of Hard Costs	20%	Total Financing Costs	\$200,048
Developer Fee as % of Hard Costs	4%	Total Development Costs	
Developer Profit as % of Total Project Costs	0%	excl. Land Value	\$4,744,001
Impact Fees & Extractions		Cost per built sq. ft.	\$474
Misc. Impact Fees, not including CLF (per SF)	\$1.53	Feasibility Analysis	
Operating Revenues & Expenses		Projected Income	
Rental Rate (per SF per month, NNN)	\$3.75	Gross Annual Revenue	\$450,000
Vacancy rate	10%	Less Vacancy	(\$45,000)
Construction Financing		Net Operating Income (NOI)	\$405,000
Loan to cost ratio	60%	Project Value to Investor	\$5,062,500
Interest rate	7%	Less Development Costs	(\$4,744,001)
Loan fees (points)	1%	Residual Land Value	\$318,499
Loan period (months)	18	Residual Land Value/Acre	\$636,999
Draw down factor	65%		
Capitalization Rate			
Developer Profit Spread	1.50%		
Required Yield on Cost	8.00%		

Sources: BAE, 2023.

Table B-4: Financial Pro Forma – Industrial Prototype

Development Program Assumptions		Development Cost Analysis	
Site		Hard Costs	
Site area (acres)	1.0	Site work	\$871,200
Site area (sq. ft.)	43,560	Hard construction costs	\$4,200,000
Structure		Parking - surface	\$279,500
Building Size - Gross SF	15,000	Parking - structured	\$0
Parking (spaces)		Parking - underground	\$0
Surface	43	Total Hard Costs	\$5,350,700
Structured	0	<i>Hard Costs per Built Sq. Ft.</i>	<i>\$357</i>
Underground	0	Soft Costs	
Development Cost & Income Assumptions		Soft costs	\$1,070,140
Hard Costs		Impact fees	\$23,197
Site Work, per site SF	\$20	Commercial Linkage Fee	\$0
Construction hard costs, per SF	\$280	Developer Fee	\$214,028
Tenant improvements, per rentable SF	\$0	Total Soft Costs	\$1,307,365
Parking - surface, per space	\$6,500	Construction Financing Costs	
Parking - structured, per space	\$50,000	Construction Period Interest	\$253,173
Parking - underground, per space	\$90,000	Loan Fees	\$39,948
Soft Costs		Total Financing Costs	\$293,121
Soft Costs as a % of Hard Costs	20%	Total Development Costs	
Developer Fee as % of Hard Costs	4%	excl. Land Value	\$6,951,186
Impact Fees & Extractions		Cost per built sq. ft.	\$463
Misc. Impact Fees, not including CLF (per SF)	\$1.55	Feasibility Analysis	
Operating Revenues & Expenses		Projected Income	
Rental Rate (per SF per month, NNN)	\$2.75	Gross Annual Revenue	\$495,000
Vacancy rate	5%	Less Vacancy	(\$24,750)
Construction Financing		Net Operating Income (NOI)	\$470,250
Loan to cost ratio	60%	Project Value to Investor	\$7,234,615
Interest rate	7%	Less Development Costs	(\$6,951,186)
Loan fees (points)	1%	Residual Land Value	\$283,429
Loan period (months)	18	Residual Land Value/Acre	\$283,429
Draw down factor	65%		
Capitalization Rate			
Developer Profit Spread	1.50%		
Required Yield on Cost	6.50%		

Sources: BAE, 2023.

Table B-5: Financial Pro Forma – Hotel Prototype

Development Program Assumptions		Development Cost Analysis	
Site		Hard Costs	
Site area (acres)	2.5	Site work	\$2,178,000
Site area (sq. ft.)	108,900	Hard construction costs	\$26,000,000
Structure		FF&E	\$3,250,000
Building Size - Gross SF	71,500	Parking - surface	\$1,300,000
Number of Hotel Rooms	130	Parking - structured	\$0
Parking (spaces)		Parking - underground	\$0
Surface	200	Total Hard Costs	\$32,728,000
Structured	0	<i>Hard Costs per Room</i>	<i>\$251,754</i>
Underground	0	Soft Costs	
Development Cost & Income Assumptions		Soft costs	\$6,545,600
Hard Costs		Impact fees	\$132,301
Site Work, per site SF	\$20	Commercial Linkage Fee	\$0
Construction hard costs, per room	\$200,000	Developer Fee	\$1,309,120
FF&E, per room	\$25,000	Total Soft Costs	\$7,987,021
Parking - surface, per space	\$6,500	Construction Financing Costs	
Parking - structured, per space	\$50,000	Construction Period Interest	\$1,548,189
Parking - underground, per space	\$90,000	Loan Fees	\$244,290
Soft Costs		Total Financing Costs	\$1,792,479
Soft Costs as a % of Hard Costs	20%	Total Development Costs	
Developer Fee as % of Hard Costs	4%	excl. Land Value	\$42,507,499
Developer Profit as % of Total Project Costs	0%	Cost per room	\$326,981
Impact Fees & Extractions		Cost per built sq. ft.	\$595
Misc. Impact Fees, not including CLF (per SF)	\$1.85	Feasibility Analysis	
Operating Revenues & Expenses		Projected Income	
Room Revenue (per occupied room night)	\$215	Gross Revenue	\$9,376,120
Other Revenue (per occupied room night)	\$32	Less Expenses	(\$6,094,478)
Expenses (as a % of operating revenue)	65%	Net Operating Income (NOI)	\$3,281,642
Occupancy Rate	80%	Project Value to Investor	\$36,462,689
Construction Financing		Less Development Costs	(\$42,507,499)
Loan to cost ratio	60%	Residual Land Value	(\$6,044,810)
Interest rate	7%	Residual Land Value/Acre	(\$2,417,924)
Loan fees (points)	1%		
Loan period (months)	18		
Draw down factor	65%		
Capitalization Rate			
Developer Profit Spread	1.00%		
Required Yield on Cost	9.00%		

Sources: BAE, 2023.

APPENDIX C: RESIDENTIAL PRO FORMAS

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

Key Assumptions

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

Hard Costs: Hard costs are the costs associated with the physical construction of a building, including all construction materials and labor. This analysis uses a hard cost assumption of \$375 per leasable square foot of residential space for the lower-density multifamily rental prototype, \$425 per leasable square foot of residential space for the high-density multifamily rental prototype, \$475 per leasable square foot of residential space for the condominium prototype, \$275 per square foot of residential space for the townhome prototype, and \$250 per square foot of residential space for the single-family prototype.

Parking Costs: BAE included parking as a separate cost item in order to estimate the specific cost of building parking in these projects. Based on stakeholder interviews, BAE estimates the cost of a podium parking space at \$55,000 per space. For prototypes including surface parking, BAE assumes a cost of \$5,000 per surface parking space.

Soft Costs: This analysis assumes that soft costs are equal to between 12.5 and 17 percent of hard costs. This soft cost estimate includes engineering, architecture, financing, and CEQA costs, as well as City cost-recovery fees for planning, permitting, and entitlements, but does not include impact fees. Impact fees are included as a separate line item, discussed below.

Impact Fees: BAE calculated impact fees for each prototype based on the City's impact fee schedule, including park in-lieu fees, storm drain area fees, and roadway maintenance fees.

Market-Rate Residential Rents: This analysis assumes that rental rates for market-rate units for the lower-density apartments will average approximately \$4.30 per net residential square foot, with some variation in rent per square foot based on unit size. Assuming slightly higher rents for the high-density prototype, BAE estimates rents are equal to \$4.55 per square foot, with some variation between units. These assumption is based on information provided by developers that were interviewed as part of this study as well as data from Costar on current multifamily rental rates in the Campbell area.

Affordable Residential Rents: The affordable rental rates used in this analysis are based on income limits for households at each income level, as published by HCD, assuming an affordable rent equal to 30 of the total household income. The HCD rent limits were adjusted based on an estimated utility allowance to ensure that the combined cost of rent and utilities was no higher than the rent limit.

Market-Rate Residential Sale Prices: This analysis assumes that sale prices for market-rate units will average approximately \$900 per net residential square foot for condominiums, \$950 per residential square foot for townhomes, and \$1,000 per square foot for single-family homes. This assumption is based on information provided by developers that were interviewed as part of this study as well as data from Redfin on sale prices among recently-sold condominiums and townhouses in Campbell.

Affordable Residential Sale Prices: The affordable sale prices used in this analysis are based on the published City of Campbell below-market rate sale prices.

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

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

Yield on Cost (rental prototypes): In order to meet developer and investor return thresholds, BAE assumes the project must reach a 5.5 percent Yield on Cost (YOC). This is roughly 75 basis points above the current capitalization rate. While this is a relatively small spread between the capitalization rate and the YOC, developers noted a willingness to proceed with projects yielding a 5.5 percent YOC due to the perceived strength of the Santa Clara County rental market.

Developer Profit Margin (for sale prototypes): This metric divides total developer profit by total development cost, to judge overall project feasibility. It can be considered as a

simple profit margin, irrespective of how a project is financed between debt and equity. Real estate development has higher risk inherent to many other types of investment activity, such as corporate bonds, so developers tend to seek higher profit threshold on real estate projects than these other investment options as a requirement for deciding whether to pursue a project. This study assumes an 18 percent profit threshold for the for-sale prototypes.

Residual Land Value Threshold: This analysis uses a land cost of approximately \$3 million to \$10 million per acre to assess the financial feasibility of each of the prototypes. The land costs vary by prototype in the City, with the single-family prototypes paying the highest in land costs due to the high sale prices of new single-family units. The land costs for the other prototypes tend to fall within the lower end of the range identified. This is generally consistent with input from the development community, however developers did note that site conditions and location greatly influence the site costs.

Table C-1: Low-Density Multifamily Rental Prototype Pro Forma, Inclusionary Scenario

Development Program Assumptions						Cost Assumptions				Development Cost Analysis				
Site Size - acres / square feet	2.00					Construction				Mixed-Income Development				
Total Units	59					Site Prep Costs (per site, sq.ft)	\$20			Affordable	Market Rate	Total Project		
Affordable (% - count)	15%					Hard Cost per net residential sf	\$375							
Market Rate (% - count)	85%					Parking cost per space, Surface	\$5,000			\$244,640	\$1,497,760	\$1,742,400		
Leasable sq.ft.	49,500					Soft Costs (% of hard costs)	15%							
Total Project sq.ft	59,400					Impact Fees (per unit) (a)	\$22,821							
Total Parking Spaces	89					Inclusionary Housing In-Lieu Fee (per SF)	\$21.50							
Parking spaces per du	1.5					Developer Fee (% of hard and soft)	4%							
Base Density Units						Rental Revenue								
		Units by AMI Level				All	Monthly Rent by AMI Level							
Unit Mix	Sq. Ft.	50%	60%	80%	MR	Units	50%	60%	80%	MR				
Studio	600	1	1	0	4	6	Unit Type							
1-BR	750	2	3	0	27	32	Studio	\$1,419	\$1,714	\$2,304	\$2,940			
2-BR	1,000	1	1	0	16	18	1-BR	\$1,514	\$1,830	\$2,462	\$3,300			
3-BR	1,300	0	0	0	3	3	2-BR	\$1,806	\$2,185	\$2,944	\$4,000			
All Units		4	5	0	50	59	3-BR	\$2,079	\$2,517	\$3,394	\$4,940			
Summary						Operating Costs								
		Affordable	Market-Rate		Total									
Number of Units (# - %)	9	15%	50	85%	59	Annual op. cost - per Affordable du	\$15,000							
Avg. Affordability (% AMI)	56%					Annual op. cost - per Market Rate du	\$15,000							
Leasable Sq. Ft.	6,950		42,550		49,500	Vacancy Rate, Residential	5.0%							
Total Sq. Ft.	8,340		51,060		59,400	Market Rate Cap Rate	4.75%							
Parking Spaces	14		75		89	Required Yield-on-Cost	5.50%							
						Financing								
						Construction-Period								
						MR Loan-to-Cost	65%							
						Loan Fees	1%							
						Drawdown Factor	65%							
						Interest rate	7.50%							
						Loan Term (months)	24							
						Feasibility Analysis								
										Mixed-Income Development				
										Affordable	Market Rate	Total Project		
						Project Income								
						Gross Scheduled Rents	\$187,704				\$2,156,160	\$2,343,864		
						Less Vacancy	(\$9,385)				(\$107,808)	(\$117,193)		
						Less Operating Expenses	(\$135,000)				(\$750,000)	(\$885,000)		
						Net Operating Income	\$43,319				\$1,298,352	\$1,341,671		
						Feasibility								
						Total Development Costs (ex. Land)	\$3,915,323				\$23,773,237	\$27,688,560		
						Per Unit (ex. Land)	\$435,036				\$475,465	\$469,298		
						Required Yield on Cost	5.50%				5.50%	5.50%		
						Project Value Net of Dev. Profit	\$787,615				\$23,606,400	\$24,394,015		
						Residual Land Value	(\$3,127,709)				(\$166,837)	(\$3,294,546)		
						RLV per unit	(\$347,523)				(\$3,337)	(\$55,840)		
						RLV per Acre	(\$1,563,854)				(\$83,418)	(\$1,647,273)		

Sources: BAE, 2023.

Table C-2: High-Density Mixed-Use Rental Prototype Pro Forma, Inclusionary Scenario

Development Program Assumptions						Cost Assumptions				Development Cost Analysis					
Site Size - acres / square feet	2.00					Construction					Mixed-Income Development				
Total Units	132					Site Prep Costs (per site, sq.ft)				\$20	Affordable	Market Rate	Total Project		
Affordable (% - count)	15%					Hard Cost per net sf				\$425					
Market Rate (% - count)	85%					Parking cost per space, Podium				\$55,000	Site Preparation	\$245,309	\$1,497,091	\$1,742,400	
Leasable sq.ft.	110,900					Soft Costs (% of hard costs)				15%	Vertical Construction				
Total Project sq.ft	138,080					Impact Fees (per unit) (a)				\$23,114	Hard Cost	\$6,885,000	\$42,372,500	\$49,257,500	
Total Parking Spaces	132					Inclusionary Housing In-Lieu Fee (per SF)				\$21.50	Parking Cost	\$1,100,000	\$6,160,000	\$7,260,000	
Parking spaces per du	1.0					Developer Fee (% of hard and soft)				4%	Soft Costs	\$1,197,750	\$7,279,875	\$8,477,625	
											Impact Fees	\$462,280	\$2,588,770	\$3,051,050	
											Inclusionary Housing In-Lieu Fee	\$0	\$0	\$0	
											Subtotal	\$9,645,030	\$58,401,145	\$68,046,175	
Base Density Units						Rental Revenue									
Unit Mix	Sq. Ft.	Units by AMI Level				All Units	Unit Type	Monthly Rent by AMI Level				Construction Financing			
		50%	60%	80%	MR			50%	60%	80%	MR	Const. Loan Fees	\$64,287	\$389,339	\$453,626
Studio	600	1	1	0	11	13	Studio	\$1,419	\$1,714	\$2,304	\$3,090	Const. Loan Interest	\$626,800	\$3,796,051	\$4,422,851
1-BR	750	5	7	0	60	72	1-BR	\$1,514	\$1,830	\$2,462	\$3,488	Developer Fee	\$395,614	\$2,395,929	\$2,791,543
2-BR	1,000	2	4	0	34	40	2-BR	\$1,806	\$2,185	\$2,944	\$4,250	Total Dev. Cost (excl. Land)	\$10,977,040	\$66,479,555	\$77,456,595
3-BR	1,300	0	0	0	7	7	3-BR	\$2,079	\$2,517	\$3,394	\$5,200	Per Unit	\$548,852	\$593,567	\$586,792
All Units		8	12	0	112	132						Per Net SF	\$678	\$702	\$698
												Per Gross SF	\$565	\$585	\$561
Summary						Operating Costs				Feasibility Analysis					
	Affordable	Market-Rate	Total			Commercial Rent (NNN)				\$2.50	Mixed-Income Development				
Number of Units (# - %)	20	15%	112	85%	132	Annual op. cost - per Affordable du				\$15,000	Affordable	Market Rate	Total Project		
Avg. Affordability (% AMI)	56%				n.a.	Annual op. cost - per Market Rate du				\$15,000					
Leasable Sq. Ft.	16,200		94,700		110,900	Vacancy Rate, Residential				5.0%					
Total Sq. Ft.	19,440		113,640		133,080	Market Rate Cap Rate				4.75%					
Parking Spaces	20		112		132	Required Yield-on-Cost				5.50%					
Ground Floor Commercial Space	5,000					Financing									
						Construction-Period					Project Income				
						MR Loan-to-Cost				65%	Gross Scheduled Rents	\$430,380	\$5,239,680	\$5,670,060	
						Loan Fees				1%	Less Vacancy	(\$21,519)	(\$261,984)	(\$283,503)	
						Drawdown Factor				65%	Less Operating Expenses	(\$300,000)	(\$1,680,000)	(\$1,980,000)	
						Interest rate				7.50%	Net Operating Income	\$108,861	\$3,297,696	\$3,406,557	
						Loan Term (months)				24	Feasibility				
											Total Development Costs (ex. Land)	\$10,977,040	\$66,479,555	\$77,456,595	
											Per Unit (ex. Land)	\$548,852	\$593,567	\$586,792	
											Required Yield on Cost	5.50%	5.50%	5.50%	
											Project Value Net of Dev. Profit	\$1,979,291	\$59,958,109	\$61,937,400	
											Residual Land Value	(\$8,997,749)	(\$6,521,445)	(\$15,519,195)	
											RLV per unit	(\$449,887)	(\$58,227)	(\$117,570)	
											RLV per Acre	(\$4,498,875)	(\$3,260,723)	(\$7,759,597)	

Sources: BAE, 2023.

Table C-3: For-Sale Condominium Prototype Pro Forma, Inclusionary Scenario

Development Program Assumptions						Cost Assumptions					Development Cost Analysis			
Site Size - acres / square feet	1.00					Construction					Mixed-Income Development			
Total Units	53					Site Prep Costs (per site, sq.ft)	\$20				Affordable	Market Rate	Total Project	
Affordable (% - count)	15%					Hard Cost per net residential sf	\$475							
Market Rate (% - count)	85%					Parking cost per space, Podium	\$55,000				\$131,502	\$739,698	\$871,200	
Leasable sq.ft.	63,600					Soft Costs (% of hard costs)	17.5%							
Total Project sq.ft	76,320					Impact Fees (per unit) (a)	\$23,908							
Total Parking Spaces	53					Inclusionary Housing In-Lieu Fee (per SF)	\$34.50							
Parking spaces per du	1.00					Developer Fee (% of hard and soft)	4%							
Base Density Units						Sale Revenue								
		AMI-Level				All	Sale Price by AMI Level							
Unit Mix	Sq. Ft.	50%	70%	110%	MR	Units	50%	70%	110%	MR				
2-BR	1,200	0	4	4	45	53	2-BR	\$188,601	\$297,056	\$512,384	\$1,080,000			
Summary						Financing								
Number of Units (# - %)	Affordable		Market-Rate		Total	Marketing Costs	5.00%							
Avg. Affordability (% AMI)	90%		90%		n.a.	Construction-Period								
Leasable Sq. Ft.	9,600		54,000		63,600	MR Loan-to-Cost	65%							
Total Sq. Ft.	11,520		64,800		76,320	Loan Fees	1%							
Parking Spaces	8		45		53	Drawdown Factor	65%							
						Interest rate	7.50%							
						Loan Term (months)	24							
											Feasibility Analysis			
											Mixed-Income Development			
											Affordable	Market Rate	Total Project	
Project Income														
Gross Sale Revenue											\$3,237,760	\$48,600,000	\$51,837,760	
Less Marketing Costs											(\$161,888)	(\$2,430,000)	(\$2,591,888)	
Net Sales Revenue											\$3,075,872	\$46,170,000	\$49,245,872	
Total Development Costs (ex. Land)											\$6,878,742	\$38,692,923	\$45,571,665	
Per Unit (ex. Land)											\$859,843	\$859,843	\$859,843	
Developer Profit Margin (% of Total Cost)											18%	18%	18%	
Developer Profit Threshold											\$1,401,192	\$7,881,707	\$9,282,900	
Residual Land Value											(\$5,204,062)	(\$404,630)	(\$5,608,693)	
RLV per unit											(\$650,508)	(\$8,992)	(\$105,824)	
RLV per Acre											(\$5,204,062)	(\$404,630)	(\$5,608,693)	

Sources: BAE, 2023.

Table C-4: For-Sale Townhome Prototype Pro Forma, Inclusionary Scenario

Development Program Assumptions						Cost Assumptions				Development Cost Analysis			
Site Size (acres)	1.00					Construction				Mixed-Income Development			
Total Units	22					Site Prep Costs (per site, sq.ft)	\$25			Affordable	Market Rate	Total Project	
Affordable (% - count)	18%					Hard Cost per gross residential sf	\$275						
Market Rate (% - count)	82%					Soft Costs (% of hard costs)	13%						
Leasable sq.ft.	39,600					Impact Fees (per unit) (a)	\$32,401			Site Preparation	\$198,000	\$891,000	\$1,089,000
Total Project sq.ft	39,600					Inclusionary Housing In-Lieu Fee (per SF)	\$34.50			Vertical Construction			
Total Parking Spaces	44					Developer Fee (% of hard and soft)	4%			Hard Cost	\$1,980,000	\$8,910,000	\$10,890,000
Parking spaces per du	2.00									Soft Costs	\$247,500	\$1,113,750	\$1,361,250
										Impact Fees	\$129,603	\$583,215	\$712,819
										Inclusionary Housing In-Lieu Fee	\$0	\$0	\$0
										Subtotal	\$2,357,103	\$10,606,965	\$12,964,069
Base Density Units						Sale Revenue							
	AMI-Level					All	Sale Price by AMI Level						
Unit Mix	Sq. Ft.	50%	70%	110%	MR	Units	Unit Type	50%	70%	110%	MR		
3-BR	1,800	0	2	2	18	22	3-BR	\$212,778	\$330,841	\$573,294	\$1,710,000		
										Marketing Costs	5.00%		
Summary	Affordable	Market-Rate		Total		Financing							
Number of Units (# - %)	4 18%	18	82%	22	Construction-Period								
Avg. Affordability (% AMI)	90%			n.a.	MR Loan-to-Cost								
Leasable Sq. Ft.	7,200	32,400		39,600	Loan Fees								
Total Sq. Ft.	7,200	32,400		39,600	Drawdown Factor								
Parking Spaces	8	36		44	Interest rate								
						Loan Term (months)							
						24							
						Construction Financing							
						Const. Loan Fees							
						\$16,608							
						\$74,737							
						\$91,345							
						Const. Loan Interest							
						\$161,930							
						\$728,684							
						\$890,613							
						Developer Fee							
						\$102,204							
						\$459,919							
						\$562,123							
						Total Development Cost							
						\$2,835,845							
						\$12,761,304							
						\$15,597,150							
						Per Unit							
						\$708,961							
						Per Net SF							
						\$394							
						\$394							
						Per Gross SF							
						\$394							
						\$394							
						\$394							
Feasibility Analysis													
										Mixed-Income Development			
										Affordable	Market Rate	Total Project	
Project Income													
Gross Sale Revenue										\$1,808,270	\$30,780,000	\$32,588,270	
Less Marketing Costs										(\$90,414)	(\$1,539,000)	(\$1,629,414)	
Net Sales Revenue										\$1,717,857	\$29,241,000	\$30,958,857	
Total Development Costs (ex. Land)										\$2,835,845	\$12,761,304	\$15,597,150	
Per Unit (ex. Land)										\$708,961	\$708,961	\$708,961	
Developer Profit Margin (% of Total Cost)										18%	18%	18%	
Developer Profit Threshold										\$682,270	\$3,070,217	\$3,752,487	
Residual Land Value										(\$1,800,259)	\$13,409,479	\$11,609,220	
RLV per unit										(\$450,065)	\$744,971	\$527,692	
RLV per Acre										(\$1,800,259)	\$13,409,479	\$11,609,220	

Sources: BAE, 2023.

Table C-5: For-Sale Single-Family Subdivision Prototype Pro Forma, Inclusionary Scenario

Development Program Assumptions						Cost Assumptions					Development Cost Analysis	
Site Size (acres)	0.50					Construction						Project Total
Total Units	6					Site Prep Costs (per site. sq.ft)	\$25					
Affordable (% - count)	0%					Hard Cost per gross residential sf	\$250					Site Preparation
Market Rate (% - count)	100%					Soft Costs (% of hard costs)	13%					\$544,500
Leasable sq.ft.	15,600					Impact Fees (per unit) (a)	\$33,191					Vertical Construction
Total Project sq.ft	15,600					Inclusionary Housing In-Lieu Fee (per SF)	\$0.00					Hard Cost
Total Parking Spaces	12					Developer Fee (% of hard and soft)	4%					Soft Costs
Parking spaces per du	2.00											Impact Fees
												Inclusionary Housing In-Lieu Fee
												Subtotal
												\$4,586,647
Base Density Units						Sale Revenue						
	AMI-Level					All	Sale Price by AMI Level					
<u>Unit Mix</u>	<u>Sq. Ft.</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>	<u>Units</u>	<u>Unit Type</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>	
3-BR	2,600	0	0	0	6	6	3-BR	\$212,778	\$330,841	\$573,294	\$2,600,000	Const. Loan Fees
												\$33,352
												Developer Fee
												\$205,246
												Total Development Cost
												<i>Per Unit</i>
												\$949,155
												<i>Per Net SF</i>
												\$365
												<i>Per Gross SF</i>
												\$365
Summary	Affordable	Market-Rate			Total							
Number of Units (# - %)	0	0%	6	100%	6	Financing						
Avg. Affordability (% AMI)	n.a.					Construction-Period						
Leasable Sq. Ft.	0		15,600		15,600	MR Loan-to-Cost	65%					Feasibility Analysis
Total Sq. Ft.	0		15,600		15,600	Loan Fees	1%					
Parking Spaces	0		12		12	Drawdown Factor	65%					Project Total
						Interest rate	7.50%					
						Loan Term (months)	24					Project Income
												Gross Sale Revenue
												\$15,600,000
												Less Marketing Costs
												(\$780,000)
												Net Sales Revenue
												\$14,820,000
												Total Development Costs (ex. Land)
												<i>Per Unit (ex. Land)</i>
												\$949,155
												Developer Profit Margin (% of Total Cost)
												18%
												Developer Profit Threshold
												\$1,745,088
												Residual Land Value
												<i>RLV per unit</i>
												\$1,229,997
												<i>RLV per Acre</i>
												\$14,759,960

Sources: BAE, 2023.

Table C-6: For-Sale Single-Family Subdivision Prototype Pro Forma, Seven-Unit Inclusionary Scenario

Development Program Assumptions						Cost Assumptions				Development Cost Analysis				
Site Size (acres)	0.58					Construction				Affordable	Market Rate	Project Total		
Total Units	7					Site Prep Costs (per site. sq.ft)	\$25							
Affordable (% - count)	14%					Hard Cost per gross residential sf	\$250			Site Preparation	\$90,750	\$544,500	\$635,250	
Market Rate (% - count)	86%					Soft Costs (% of hard costs)	13%			Vertical Construction				
Leasable sq.ft.	18,200					Impact Fees (per unit) (a)	\$33,191			Hard Cost	\$650,000	\$3,900,000	\$4,550,000	
Total Project sq.ft	18,200					Inclusionary Housing In-Lieu Fee (per SF)	\$0.00			Soft Costs	\$81,250	\$487,500	\$568,750	
Total Parking Spaces	14					Developer Fee (% of hard and soft)	4%			Impact Fees	\$33,191	\$199,147	\$232,339	
Parking spaces per du	2.00									Inclusionary Housing In-Lieu Fee	\$0	\$0	\$0	
Base Density Units						Sale Revenue				Subtotal	\$764,441	\$4,586,647	\$5,351,089	
						Sale Price by AMI Level								
Unit Mix	Sq. Ft.	AMI-Level			All	Unit Type	50%	70%	110%	MR	Const. Loan Fees	\$5,559	\$33,352	\$38,911
3-BR	2,600	0	1.0	0.0	6	3-BR	\$212,778	\$330,841	\$573,294	\$2,600,000	Developer Fee	\$34,208	\$205,246	\$239,454
						Marketing Costs	5.00%			Total Development Cost	\$949,155	\$5,694,932	\$6,644,088	
Summary						Financing				Per Unit	\$949,155	\$949,155	\$949,155	
Number of Units (# - %)	Affordable	Market-Rate	Total	7		Construction-Period	65%			Per Net SF	\$365	\$365	\$365	
Avg. Affordability (% AMI)	70%			n.a.		MR Loan-to-Cost	1%			Per Gross SF	\$365	\$365	\$365	
Leasable Sq. Ft.	2,600	15,600	18,200	18,200		Drawdown Factor	65%			Feasibility Analysis				
Total Sq. Ft.	2,600	15,600	18,200	18,200		Interest rate	7.50%			Project Income	Affordable	Market Rate	Project Total	
Parking Spaces	2	12	14	14		Loan Term (months)	24			Gross Sale Revenue	\$330,841	\$15,600,000	\$15,930,841	
										Less Marketing Costs	(\$16,542)	(\$780,000)	(\$796,542)	
										Net Sales Revenue	\$314,299	\$14,820,000	\$15,134,299	
										Total Development Costs (ex. Land)	\$949,155	\$5,694,932	\$6,644,088	
										Per Unit (ex. Land)	\$949,155	\$949,155	\$949,155	
										Developer Profit Margin (% of Total Cost)	18%	18%	18%	
										Developer Profit Threshold	\$290,848	\$1,745,088	\$2,035,936	
										Residual Land Value	(\$925,704)	\$7,379,980	\$6,454,276	
										RLV per unit	(\$925,704)	\$1,229,997	\$922,039	
										RLV per Acre	(\$11,108,453)	\$14,759,960	\$11,064,472	

Source: BAE, 2024.

Table C-7: Low-Density Multifamily Rental Prototype Pro Forma, Point of Indifference In-Lieu Fee Scenario

Development Program Assumptions						Cost Assumptions				Development Cost Analysis			
Site Size - acres / square feet	2.0		2.00		Construction				Total Project				
Total Units	59		59		Site Prep Costs (per site. sq.ft)	\$20							
Affordable (% - count)	0%		0%		Hard Cost per net residential sf	\$375							
Market Rate (% - count)	100%		100%		Parking cost per space, Surface	\$5,000			Site Preparation				
Leasable sq.ft.	49,500		49,500		Soft Costs (% of hard costs)	15%			\$1,742,400				
Total Project sq.ft	59,400		59,400		Impact Fees (per unit) (a)	\$22,821			Vertical Construction				
Total Parking Spaces	89		89		Inclusionary Housing In-Lieu Fee (per SF)	\$55.50			Hard Cost				
Parking spaces per du	1.5		1.5		Developer Fee (% of hard and soft)	4%			Parking Cost				
Base Density Units						Rental Revenue				Soft Costs			
										Impact Fees			
										Inclusionary Housing In-Lieu Fee			
										Subtotal			
										\$25,952,308			
										Construction Financing			
										Const. Loan Fees			
										Const. Loan Interest			
										Developer Fee			
										\$1,107,788			
										Total Dev. Cost (excl. Land)			
										\$30,737,664			
										<i>Per Unit</i>			
										<i>Per Net SF</i>			
										<i>Per Gross SF</i>			
										\$520,977			
										\$621			
										\$517			
										\$1,509,684			
										Feasibility			
										Total Development Costs (ex. Land)			
										\$30,737,664			
										<i>Per Unit (ex. Land)</i>			
										5.50%			
										Project Value Net of Dev. Profit			
										\$27,448,800			
										Residual Land Value			
										(\$3,288,864)			
										<i>RLV per unit</i>			
										(\$55,743)			
										<i>RLV per Acre</i>			
										(\$1,644,432)			

Source: BAE, 2024.

Table C-8: High-Density Mixed-Use Rental Prototype Pro Forma, Point of Indifference In-Lieu Fee Scenario

Development Program Assumptions						Cost Assumptions					Development Cost Analysis		
Site Size - acres / square feet	2.0		2.00		Construction								
Total Units			132		Site Prep Costs (per site. sq.ft)	\$20				Total Project			
Affordable (% - count)			0%		Hard Cost per net sf	\$425							
Market Rate (% - count)			100%		Parking cost per space, Podium	\$55,000				Site Preparation			
Leasable sq.ft.			110,900		Soft Costs (% of hard costs)	15%				\$1,742,400			
Total Project sq.ft			133,080		Impact Fees (per unit) (a)	\$23,114				Vertical Construction			
Total Parking Spaces			132		Inclusionary Housing In-Lieu Fee (per SF)	\$63.50				Hard Cost			
Parking spaces per du			1.0		Developer Fee (% of hard and soft)	4%				Parking Cost			
Base Density Units						Rental Revenue					Soft Costs		
Unit Mix	Sq. Ft.	Units by AMI Level				MR	All Units	Monthly Rent by AMI Level				Impact Fees	
		50%	60%	80%	100%			50%	60%	80%	MR	Inclusionary Housing In-Lieu Fee	
Studio	600				13	13	Unit Type					Subtotal	
1-BR	750				72	72	Studio	\$1,419	\$1,714	\$2,304	\$3,090	\$75,088,325	
2-BR	1,000				40	40	1-BR	\$1,514	\$1,830	\$2,462	\$3,488	Construction Financing	
3-BR	1,300				7	7	2-BR	\$1,806	\$2,185	\$2,944	\$4,250	Const. Loan Fees	
All Units		0	0	0	132	132	3-BR	\$2,079	\$2,517	\$3,394	\$5,200	Const. Loan Interest	
Summary						Operating Costs					Developer Fee		
		Affordable		Market-Rate		Total	Commercial Rent (NNN)				\$3,073,229		
Number of Units (# - %)	0	0%	132	100%	132	132	Annual op. cost - per Affordable du				Total Dev. Cost (excl. Land)		
Avg. Affordability (% AMI)	n.a.				n.a.		Annual op. cost - per Market Rate du				\$85,272,501		
Leasable Sq. Ft.	0		110,900		110,900		Vacancy Rate, Residential				Per Unit		
Total Sq. Ft.	0		133,080		133,080		Market Rate Cap Rate				Per Net SF		
Parking Spaces	0		132		132		Required Yield-on-Cost				Per Gross SF		
Ground Floor Commercial Space						5,000					Feasibility Analysis		
						Financing					Total Project		
						Construction-Period					Project Income		
						MR Loan-to-Cost					Gross Scheduled Rents		
						Loan Fees					Less Vacancy		
						Drawdown Factor					Less Operating Expenses		
						Interest rate					Net Operating Income		
						Loan Term (months)					Gross Scheduled Rents		
						1008.182					Less Vacancy		
											Less Operating Expenses		
											\$3,835,938		
											Feasibility		
											Total Development Costs (ex. Land)		
											Per Unit (ex. Land)		
											Required Yield on Cost		
											Project Value Net of Dev. Profit		
											Residual Land Value		
											RLV per unit		
											RLV per Acre		

Source: BAE, 2024.

Table C-9: For-Sale Condominium Prototype Pro Forma, Point of Indifference In-Lieu Fee Scenario

Development Program Assumptions						Cost Assumptions					Development Cost Analysis	
Site Size - acres / square feet	1.00					Construction						Total Project
Total Units	53					Site Prep Costs (per site. sq.ft)	\$20					
Affordable (% - count)	0%					Hard Cost per net residential sf	\$475					
Market Rate (% - count)	100%					Parking cost per space, Podium	\$55,000					Site Preparation
Leasable sq.ft.	63,600					Soft Costs (% of hard costs)	17.5%					\$871,200
Total Project sq.ft	76,320					Impact Fees (per unit) (a)	\$23,908					Vertical Construction
Total Parking Spaces	53					Inclusionary Housing In-Lieu Fee (per SF)	\$61.50					Hard Cost
Parking spaces per du	1.00					Developer Fee (% of hard and soft)	4%					Parking Cost
Base Density Units						Sale Revenue					Soft Costs	
											Impact Fees	
											Inclusionary In-Lieu Fee	
<u>Unit Mix</u>	<u>Sq. Ft.</u>	<u>AMI-Level</u>			<u>All</u>	<u>Sale Price by AMI Level</u>					Subtotal	
		<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>Units</u>	<u>Unit Type</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>	\$44,100,378	
2-BR	1,200				53	2-BR	\$188,601	\$297,056	\$512,384	\$1,080,000		
						Marketing Costs					5.00%	
Summary						Financing					Construction Financing	
Number of Units (# - %)	<u>Affordable</u>		<u>Market-Rate</u>		<u>Total</u>	Construction-Period					Const. Loan Fees	
Avg. Affordability (% AMI)	n.a.				n.a.	MR Loan-to-Cost					Const. Loan Interest	
Leasable Sq. Ft.	0		63,600		63,600	65%					\$292,315	
Total Sq. Ft.	0		76,320		76,320	1%					\$2,850,074	
Parking Spaces	0		53		53	65%					Developer Fee	
						Interest rate					7.50%	
						Loan Term (months)					24	
											Total Development Cost	
											<i>Per Unit</i>	
											<i>Per Net SF</i>	
											<i>Per Gross SF</i>	
											\$49,912,830	
											Feasibility Analysis	
											Total Project	
											Project Income	
											Gross Sale Revenue	
											Less Marketing Costs	
											Net Sales Revenue	
											\$54,378,000	
											Total Development Costs (ex. Land)	
											<i>Per Unit (ex. Land)</i>	
											Developer Profit Margin (% of Total Cost)	
											18%	
											Developer Profit Threshold	
											\$10,064,309	
											Residual Land Value	
											<i>RLV per unit</i>	
											<i>RLV per Acre</i>	
											(\$5,599,139)	
											(\$105,644)	
											(\$5,599,139)	

Source: BAE, 2024.

APPENDIX D: OVERVIEW OF IMPLAN

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

What is IMPLAN?

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

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

National Industry Data. The model uses national production functions for 546 sectors to determine how an industry spends its operating receipts to produce its commodities. The model also uses a national matrix to determine the *byproducts*¹⁰ that each industry generates. To analyze the impacts of household spending, the model treats households as an “industry” to determine their expenditure patterns. IMPLAN couples the national production functions with a variety of county-level economic data to determine the impacts for our example.

County-Level Economic Data. In order to estimate the county-level impacts, IMPLAN combines national industry production functions with county-level economic data. IMPLAN collects data from a variety of economic data sources to generate average output, employment, and productivity for each of the industries in a given county. It also collects data on average prices for all of the goods sold in the local economy. In this analysis, IMPLAN uses economic data for Santa Clara County. IMPLAN gathers data on the types and amount of output that each industry generates within the County. In addition, the IMPLAN model uses county-level data on the prices of goods and household expenditures to determine the consumption functions of regional households and local government, taking into account the availability of each commodity within the specified geography.

¹⁰ The byproducts refer to any secondary commodities that the industry creates.

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

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

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

- **Indirect Impacts.** The indirect impacts refer to the impact of local industries buying goods and services from other local industries, and to the jobs supported by those purchases. The cycle of spending works its way backward through the supply chain until all money leaks from the local economy, either through imports or by payments to income and taxes. For capital projects this would include payments for construction inputs such as wood, steel, office supplies, and any other non-labor payments that a construction firm would purchase in the building process.
- **Induced Impacts.** The induced impacts refer to the dollar and employment impacts of household spending by the employees generated by the direct and indirect impacts. In other words, induced impacts result from the household spending of employees of business establishments that the new households patronize (direct) and their suppliers (indirect). The model accounts for local commute patterns in the geography. For example, if 20 percent of construction workers who work in the region live outside of the region, the model will allocate 80 percent of labor's disposable income into the model to generate induced impact estimates. The model excludes payments to federal and state taxes and savings based on the geography's average local tax and savings rates. Thus, only the disposable incomes from local workers are included in the model.

Specifying the “Event” and Running the Model

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

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

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

Summarizing the Impacts

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

- *Employment* shows the number of employees needed to support the economic activity in the local economy. It should be noted that for annual impacts of ongoing operations, the employment figure shown represents the amount of employment needed to support that activity for a year. Furthermore, IMPLAN reports the number of jobs based on average output per employee for a given industry within the geography. This is not necessarily the same as the number of full-time positions.
- *Output* refers to the total economic value of the project in the local economy.
- *Value Added* shows the total income that the event generates in the local economy. This income includes:
 - *Employee Compensation* – total payroll costs, including benefits
 - *Proprietary Income* – payments received by self-employed individuals as income
 - *Other Property Type Income* – payments for rents, royalties, and dividends
 - *Indirect Business Taxes* – excise taxes, property taxes, fees, and sales taxes paid by businesses. These taxes occur during the normal operation of businesses, but do not include taxes on profits or income.

Case Study Examples

Commercial Linkage Fee Program:

1. Fee:
 - a. \$9 flat fee per square-foot for all commercial/industrial uses (garage areas exempt)
 - b. Require payment at time of building permit issuance.

2. Fee Reduction:
 - a. Small Projects: 50% of fee rate when resulting in 5,000 sq. ft. or less of net new area
 - b. Large Projects: 50% of fee rate for each additional square-foot over 100,000 sq. ft. of net new area

3. Effective Date:
 - a. Delay effective date for one year following adoption.

4. Exemption:
 - a. Provide a fee exemption for the non-residential component of vertical mixed-use projects (up to 15% of total building area).

5. Credit for Existing Building Area:
 - a. Provide credit for existing and/or recently demolished buildings, provided that less than two years elapses between the date of demolition permit final and the date of linkage fee payment.

- ❖ **Commercial Example 1:** New 6,000 sq. ft. restaurant, replacing existing 5,000 sq. ft. restaurant.

First provide credit for existing and/or recently demolished buildings:

6,000 sq. ft. (new)
<u>- 5,000 sq. ft. (old)</u>
1,000 sq. ft. net new area

Then multiply the remaining area by appropriate fee rate based on building size:

\$1,000 sq. ft. net new
x <u>\$4.50 rate</u>
\$4,500 – total fee due

- ❖ **Commercial Example 2:** New 155,000 sq. ft. office building (no prior building)

\$900,000 (100,000 sq. ft. at \$9 sq. ft. under flat fee)
<u>+\$247,500 (55,000 sq. ft. at reduced fee of \$4.5 sq. ft. for “large projects”)</u>
\$1,147,500 – total fee due

Inclusionary Housing Program:

1. Inclusionary Requirement:

- a. Retain requirement for 15% of new units to be inclusionary units.
- b. Lower inclusionary requirement threshold to 5 units (currently starts at 10 units)
- c. Remove provision allowing for fractional obligations less than 0.5 to “round down”
- d. Provide two options to satisfy inclusionary unit obligations as follows:
 - i. Option 1:
 1. Provide inclusionary units to satisfy any whole and/or fractional unit obligations (i.e., $13.35 = 14$ units)
 - ii. Option 2:
 1. Provide inclusionary units to satisfy any whole unit obligations and pay a fee to satisfy fractional obligations, when eligible, as follows:
 - a. Small Projects (5 or 6 Units): Any fractional obligation (i.e., 0.75 or 0.9)
 - b. All Others (7+ Units): Any fractional obligation less than 0.5

2. Fee Requirement:

- a. Establish a \$60 flat fee per square-foot (for all unit types) (exempting ADUs, JADUs)
- b. Multiply fee against total project area (instead of area of unit not provided)
- c. Require payment at time of building permit issuance (same as existing)
- d. Use following formula to calculate fees for any eligible fractional obligation:
 - i. $\text{Fee Rate} \times \text{Fractional Inclusionary Units} / \text{Total Inclusionary Units Required} \times \text{Habitable Square Feet} = \text{Total Due}$

3. Effective Date:

- a. Delay effective date for one year following adoption.

4. Affordability Restriction Period:

- a. 55 years initial period (currently 45 years for ownership and 55 years for rental)
- b. 55 years for any renewal (currently 45 years for both ownership and rental)

❖ **Housing Example 1: 89-unit project built with 1,000 sq. ft. average unit sizes**

Two eligible options to satisfy the inclusionary unit obligation as follows:

Option 1: Provide inclusionary units to satisfy any whole and/or fractional unit obligations as follows:

- 14 units (89 units x 15% = 13.35)

Obligation: Provide 14 inclusionary units.

Option 2: Provide inclusionary units to satisfy any whole unit obligations and pay a fee fractional unit obligation.

- Note: Eligible for fee payment as of 0.35 is under 0.5 (for a 7+ unit project)
- Fee Formula: $\$60$ (rate) x 0.35 (fractional obligation) / 13.35 (total obligation) x 89,000 sq. ft. (89 units at 1,000 sq. ft. average habitable square feet) = \$140,000

Obligation: Provide 13 inclusionary units and pay \$140,000.

❖ **Housing Example 2: 90-unit project built with 1,000 sq. ft. average unit size**

Only one eligible option to satisfy the inclusionary unit obligation as follows:

Option 1: Provide inclusionary units to satisfy any whole and/or fractional unit obligations as follows:

- 14 units (90 units x 15% = 13.5)

Obligation: Provide 14 inclusionary units.

Note: This example is not “eligible” for “Option 2” allowing fee payment for fractional units as the fractional obligation not less than 0.5.

❖ **Housing Example 3: 6-unit project built with 2,000 sq. ft. average unit size**

Option 1: Provide inclusionary units to satisfy any whole and/or fractional unit obligations as follows:

- .9 units (6 units x 15% = .9)

Obligation: Provide 1 inclusionary unit.

Option 2: Provide inclusionary units to satisfy any whole unit obligations (not applicable) and pay a fee for the fractional unit obligation (i.e., 0.9)

- Formula: \$60 (rate) x 0.9 (fractional obligation) / 0.9 (total obligation) x 12,000 sq. ft. (6 units at 2,000 sq. ft. average habitable square feet) = \$720,000

Obligation: \$720,000

2024 Santa Clara County Income Limits

Number of Persons in Household:		1	2	3	4	5	6	7	8
Santa Clara County Area Median Income: \$184,300	Extremely Low	38750	44250	49800	55300	59750	64150	68600	73000
	Very Low Income	64550	73750	82950	92150	99550	106900	114300	121650
	Low Income	102300	116900	131500	146100	157800	169500	181200	192900
	Median Income	129000	147450	165850	184300	199050	213800	228550	243300
	Moderate Income	154800	176900	199050	221150	238850	256550	274250	291900

- Extremely Low-Income: 0-30% of Area Median Income
- Very-Low Income: >30-50% of Area Median Income
- Low-Income: >50-80% of Area Median Income
- Moderate Income: >80-120% Area Median Income

Source: <https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/income-limits-2024.pdf>