



# Stakeholder Meeting

## March 6, 2024

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Nexus Study – Affordable Housing Fees

# Project Team



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**Stephen Rose, Senior Planner**



Rob



Eloiza



Stephen



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**BAE Urban Economics Inc.**



Paul

# Agenda

☐ Project Team

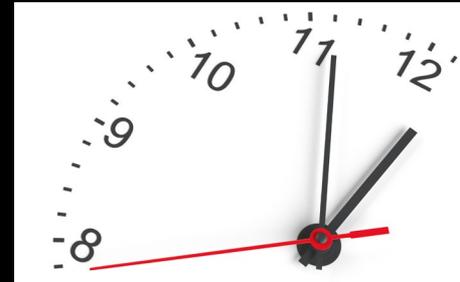
☐ Main Presentation

- Today's Discussion
- Nexus Study – Purpose & Components
- What We've Heard
- Commercial – Findings & Policy Options
- Residential – Findings & Policy Options

☐ Discussion

☐ Next Steps

45-minutes



# Today's Discussion

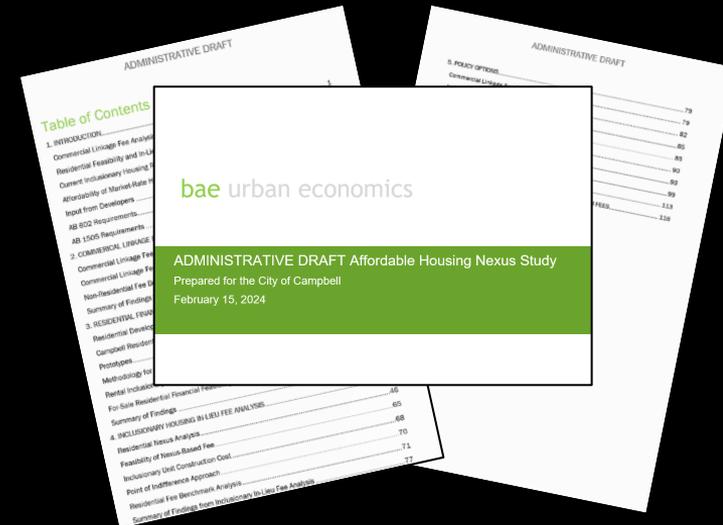
- Provide overview of the work in progress
- Introduce potential policy options
- Facilitate discussion on key policy options

# Nexus Study Process

- On April 18, 2023, City adopted the 2040 General Plan and 2023-2031 Housing Element.
- Included the following two (2) programs:
  - “Commercial Nexus Study” (Program H-1b):
    - Establish commercial linkage fee to support program and production of affordable housing
  - “Residential Nexus Study” (Program H-1a):
    - Reevaluate increasing the affordable housing in-lieu fee.
    - Lower the In-Lieu Fee threshold (i.e., 5-9 units)
- **How are the fees used?**
  - Support the production and retention of affordable housing.
  - Offset operational costs (the City of Campbell has a declining revenue model).

# Nexus Study Components

- Nexus Analysis: Establishes basis for “maximum” fee that may be charged
- Feasibility Analysis: Evaluates potential impacts on development
- Benchmarking Analysis: Evaluates fees charged by nearby communities
- Policy Options: Key decision points and strategies



# What We've Heard

## From all developers...

- One-on-One meetings served to inform pro-forma/prototypes used in the feasibility analysis
- Importance of transparency and predictability of requirements
- Feasibility challenges in current market conditions

## From residential developers...

- Expand in-lieu fee option
- Provide flexibility in how to satisfy requirements (i.e., providing in rental component)
- Avoid including projects with fewer than 10 units

## From commercial developers...

- Phase in fees
- Delay when fees are charged
- Offset fees charged for certain tax generating uses (i.e., hotels, retail)

# Commercial - Nexus Analysis

Establishes basis for “maximum” fee that may be charged.

- Maximum justifiable fee ranges from \$34 to \$129 per square foot based on type
- Retail/Restaurant uses result in the greatest need for affordable housing

Type	Maximum “Justifiable” Fee (accounting for financing gap)
Office	\$47 per sq. ft.
Retail/Restaurant	\$129 per sq. ft.
Hotel	\$49 per sq. ft.
Light Industrial	\$34 per sq. ft.

# Commercial - Feasibility Analysis

## Evaluates potential impacts on development.

- Study evaluated four prototype development projects
- Found all examples infeasible to build in current market conditions

	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
Feasible?	No	No	No	No

# Commercial – Benchmarking Analysis

## Evaluates fees charged by other communities.

- Campbell has no commercial impact fees
  - Cupertino/Mountain View/Sunnyvale have the highest commercial impact fees
- Several jurisdictions charge less, or no fee for certain uses
  - San Jose exempts retail
  - Mountain View & Cupertino reduce fees for hotel & retail

Office	Current Fee Rate
Campbell	N/A
San Jose (c) (d)	\$17.44
Sunnyvale (f)	\$23.00
Santa Clara (e)	\$28.79
Mountain View (b)	\$33.00
Cupertino	\$33.76

Retail	Current Fee Rate
Campbell	N/A
San Jose (c)	\$0.00
Mountain View (h)	\$3.50
Santa Clara (i)	\$7.20
Cupertino	\$14.24
Sunnyvale	\$20.50

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

Industrial	Current Fee Rate
Campbell	N/A
San Jose (c) (l)	\$3.49
Santa Clara (e)	\$14.39
Sunnyvale (f)	\$23.00
Mountain View (b)	\$33.00
Cupertino	\$33.76

# Commercial - Policy Options (Fee)

- Option 1: Do not adopt commercial linkage fees.
- Option 2 (Staff Preferred):
  - \$11 per sq. ft. for all uses (i.e., 1% of total development cost)
  - Exempt commercial areas when:
    - Under 5k sq. ft., or
    - Part of the ground-floor of a mixed-use building (up to 15% of building area) when meeting applicable code requirements
- Option 3:
  - \$11 per sq. ft. for office and industrial uses
  - \$6 for retail/restaurant and hotel uses
  - Exemption (Same as Option 2)

# Commercial – Policy Options (Timing)

- Option 1 (Staff Preferred):
  - Postpone effective date (i.e., 1 year after adoption).
  - Require payment of fees as those in effect at time of building permit issuance.

## Alternative timing options considered, but not pursued:

- Establish lower fees and escalate overtime [harder to anticipate and administer]
- Trigger fees based on construction event (i.e., “X” sq. ft. built) [too unpredictable]
- Trigger fees based on changes to market conditions (rent = “\$” sq. ft.) [hard to track]

# Residential – Existing Policy

- Existing Inclusionary Ordinance applies to projects 10 or more units
- Requires 15% of units to be made affordable.
- Fractions rounded up when  $>0.5$  and rounded down when  $<0.5$  a unit
- In-Lieu Fee established in 2007, option for projects  $<6$  du/acre:
  - For-Sale: \$34.50
  - For-Rent: \$21.50

# Residential - Feasibility Analysis

- Study evaluated five prototypes; for-sale townhomes & single-family found feasible to develop under current market conditions:

	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
<b>Development Program</b>					
Total Units	59	132	53	22	6
Affordable Units	0	0	0	0	0
Feasible under current conditions?	No	No	No	Yes	Yes

- Based on the feasibility analysis, a “Point of Indifference” (point at which a developer may just as likely build a unit, as opt to pay an in-lieu fee) was calculated as follows:

	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 Approach (per SF)	\$55.50	\$63.50	\$61.50	\$92.00	\$90.50

# Residential – Benchmarking Analysis

## Evaluates fees charged by other communities.

- Campbell's existing fees are toward the middle of the range for each prototype
- Cupertino, Mountain View, Santa Clara, and Sunnyvale charge higher fees (up to \$144 per square foot)

	For-Sale Fee Rate	For-Rent Fee Rate
<b>Campbell</b>	\$34.50	\$21.50
<b>Cupertino</b>	\$21.36- \$28.48	\$28.48-\$35.60
<b>Los Gatos</b>	6% of building permit valuation	6% of building permit valuation
<b>Mountain View</b>	\$63-\$144	\$111
<b>San Jose</b>	\$14.54-\$29.07	\$0-\$49.99
<b>Santa Clara</b>	Market value-affordable sales price X fractional amount due	\$28.79
<b>Sunnyvale</b>	7% of sales price of all units in project	\$15-\$30

# Residential – Benchmarking Analysis

Inclusionary threshold imposed by other communities.

Jurisdiction	For-Sale	For Rent
Campbell	10 units	
San Jose	10 units	
Los Gatos	5 units	
Sunnyvale	7 units	3 units
Cupertino	Requires apply to projects of any size.	
Mountain View		
Santa Clara		

# Residential - Policy Options (Fee & Threshold)

- **Option 1:**
  - No change (i.e., 10-units; For-Sale: \$34.50; For-Rent: \$21.50)
- **Option 2 (Staff Preferred):**
  - Raise fees to the point of indifference (\$60 per sq. ft.)
  - Lower inclusionary trigger to five (5) units
  - Require payment of fees for any fractional req. not resulting in a whole unit
  - Projects between 5-7 units may pay in-lieu fee
- **Option 3:**
  - Same as Option 2, but with seven (7) units as inclusionary trigger

# Other Changes

- As part of the update, City plans to standardize term limit for rental/ownership
  - Establish 55-year term for rental and for-sale units

# Upcoming Meetings / Next Steps

- ❑ **Release of Admin. Draft Nexus Study**
  - March 15, 2024 (tentative)
  
- ❑ **City Council Study Session**
  - Tuesday, April 16, 2024 (tentative)
  - Discussion on key policy options presented

# Thank you! – Please stay engaged

Email us!

housing@campbellca.gov

Visit our Website!

<https://www.campbellca.gov/751>



