

Inclusionary Housing Program City of Oakland

Economic Impact Analysis
Preliminary Results
May 17, 2007

Purpose

To analyze the impacts of potential inclusionary housing requirements on the feasibility of developing housing in Oakland.

Inclusionary Requirements Tested

- Draft Ordinance, Oct. 2006
- Three Inclusionary Options:
 - On-site: 15% of units affordable
 - Off-site: 20% of units affordable
 - In-lieu Fee: based on 20% affordable units

Other Inclusionary Parameters

- Affordability:
 - For-sale units affordable at 100% AMI
 - Rental units affordable at 60% AMI
- Inclusionary units at least proportional by number of bedrooms

Approach and Methodology

1. Representative Development Prototypes
Citywide
2. Summary Pro formas of Costs and
Revenues for Prototypes
3. Costs of Inclusionary Requirements

Approach and Methodology (continued)

4. Sensitivity Analysis of Impacts
 - on development feasibility
 - on land values
5. Findings and Implications for Housing Development
6. Ordinance Parameters That Could Influence Impacts

1) Housing Development Prototypes

- 7 Prototypes Representative of Development Projects in Oakland
 - building types
 - densities
 - locations serving different markets
- Focus on For-Sale Housing
 - Analysis shows rental housing development not feasible

[Table 1]

**PRELIMINARY TABLE 1
OAKLAND HOUSING DEVELOPMENT PROTOTYPES**

	Prototype A Low-rise Townhomes/ Row Houses	Prototype B Low-rise Lofts/Townhomes	Prototype C Low-rise Condos	Prototype D Lower/Mid-rise Condos
Construction Type	wood	wood	wood frame on concrete podium	wood frame on concrete podium
Height	3 floors including garage	3 floors including garage	3 flrs over 1 pkg on some/all site	4-5 floors over 1 level parking
Parking Location	garages in units	indiv. garages/surface pkg.	podium/surface; above grade	podium; above grade
Average Unit Size	1,300 sf	1,450 sf	1,080 sf	1,125 sf
Bedroom Mix	65% 2BR; 35% 3BR	50% 2BR; 50% 2+/3BR	32% 1BR; 32% 2BR; 36% 3BR	5% ST; 35% 1BR; 50% 2BR; 10% 3BR
Density	30-35 units/acre	30-35 units/acre	50-60 units/acre	80-100 units/acre
Locations in City	East Oakland / West Oakland	North Oakland / West Oakland (near Oakland/Emeryville border)	East Oakland / West Oakland	North Oakland / East Estuary
	Prototype E Mid-rise Condos	Prototype F Mid-rise Condos	Prototype G High-rise Condos	
Construction Type	wood frame on concrete podium	steel/concrete	steel/concrete	
Height	4-6 floors over parking	6-8 floors over parking	9-16 floors over parking	
Parking Location	podium; above grade	largely above grade	above/below grade	
Average Unit Size	900 sf	1,000 sf	975 sf	
Bedroom Mix	30% 1BR; 60% 2BR; 10% 3BR	40% 1BR; 55% 2BR; 5% 3BR	10%ST/45%1BR/35%2BR/10%3BR	
Density	100-140 units/acre	140-167 units/acre	200-300 units/acre	
Locations in City	Downtown / Jack London	Downtown / Jack London	Downtown / Jack London	

Source: Hausrath Economics Group
May 17, 2007

2) Summary Pro Formas for Development Prototypes

- Base case pro formas to assess feasibility of development without inclusionary program
- Market context:
 - Current land and development costs, 2006/2007
 - Project sales prices when units completed
 - Market cycle evened out, somewhat
- Feasibility thresholds to evaluate return

[Table 2]

PRELIMINARY TABLE 2
RESIDENTIAL DEVELOPMENT PROTOTYPES - BASE CASE
CITY OF OAKLAND INCLUSIONARY HOUSING ANALYSIS

	<u>Prototype A</u> <u>Low-rise Townhomes /</u> <u>Row Houses</u>		<u>Prototype B</u> <u>Low-rise Lofts / Townhomes</u>		<u>Prototype C</u> <u>Low-rise Condos</u>		<u>Prototype D</u> <u>Lower/Mid-rise Condos</u>	
Development Characteristics								
Construction Type	wood		wood		wood frame on concrete podium		wood frame over concrete podium	
Height	3 floors including garage		3 floors including garage		3 flrs over 1 pkg on some/all site		4-5 floors over 1 level parking	
Parking Location	garages in units		indiv. garages / surface parking		podium/surface; above grade		podium; above grade	
Parking Ratio	2 spaces/du		2 spaces/du		1 space/du; some buyer-opted lifts		1 space/du; some buyer-opted lifts	
Average Unit Size	1,300 sf		1,450 sf		1,080 sf		1,125 sf	
Bedroom Mix	65% 2 BR; 35% 3 BR		50% 2 BR; 50% 2+/3 BR		32% 1 BR; 32% 2 BR; 36% 3 BR		5%ST/35%1BR/50%2BR/10%3BR	
Density	30-35 units/acre		30-35 units/acre		50-60 units/acre		80-100 units/acre	
Location in City	East Oakland / West Oakland		North Oakland / West Oakland (near Oakland/Emeryville border)		East Oakland / West Oakland		North Oakland / East Estuary	
Development Costs								
	Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit
Land /a/	\$34.62	\$45,000	\$40.00	\$58,000	\$25.00	\$27,000	\$44.44	\$50,000
Hard Construction	\$200.00	\$260,000	\$210.00	\$304,500	\$200.00	\$216,000	\$250.00	\$281,250
Government Permits and Fees	\$10.77	\$14,000	\$10.34	\$15,000	\$12.50	\$13,500	\$12.89	\$14,500
Other Soft Costs	\$43.23	\$56,200	\$49.66	\$72,000	\$50.65	\$54,700	\$62.22	\$70,000
Construction Financing	\$10.77	\$14,000	\$13.03	\$18,900	\$13.52	\$14,600	\$20.89	\$23,500
Total Development Costs (excl. devel. fee & return on capital)	\$299.39	\$389,200	\$323.03	\$468,400	\$301.67	\$325,800	\$390.44	\$439,250
Revenue								
Sales Price (avg.)	\$367.69	\$478,000	\$413.79	\$600,000	\$365.74	\$395,000	\$502.22	\$565,000
(Less) Sales Expenses	(\$12.85)	(\$16,700)	(\$14.48)	(\$21,000)	(\$12.78)	(\$13,800)	(\$17.56)	(\$19,750)
Sales Net of Sales Expenses	\$354.84	\$461,300	\$399.31	\$579,000	\$352.96	\$381,200	\$484.66	\$545,250
(Less) Development Costs	(\$299.39)	(\$389,200)	(\$323.03)	(\$468,400)	(\$301.67)	(\$325,800)	(\$390.44)	(\$439,250)
Net Revenue (for devel. fee & return on capital)	\$55.45	\$72,100	\$76.28	\$110,600	\$51.29	\$55,400	\$94.22	\$106,000
Measures of Return								
Net Revenue:								
As % of Devel. Costs (ROC)	18.5%		23.6%		17.0%		24.1%	
Required % of Costs (ROC)	16-18%		16-18%		16-18%		18-20%	
As % of Net Sales (ROS)	15.6%		19.1%		14.5%		19.4%	
Required % of Net Sales (ROS)	13-15%		13-15%		13-15%		14-16%	
Construction Period (months)	10		12		14		18	

/a/ Land cost per building square foot.

Source: Hausrath Economics Group
May 17, 2007

PRELIMINARY TABLE 2 (continued)
RESIDENTIAL DEVELOPMENT PROTOTYPES - BASE CASE
CITY OF OAKLAND INCLUSIONARY HOUSING ANALYSIS

	<u>Prototype E</u> Mid-rise Condos		<u>Prototype F</u> Mid-rise Condos		<u>Prototype G</u> High-rise Condos	
Development Characteristics						
Construction Type	wood frame on concrete podium		steel/concrete		steel/concrete	
Height	4-6 floors over parking		6-8 floors over parking		9-16 floors over parking	
Parking Location	podium; above grade		largely above grade		above/below grade	
Parking Ratio	1 space/du; some buyer-opted lifts		1 space/du		1 space/du	
Average Unit Size	900 sf		1,000 sf		975 sf	
Bedroom Mix	30% 1 BR; 60% 2 BR; 10% 3 BR		40% 1 BR; 55% 2 BR; 5% 3 BR		10% ST/45% 1BR/35% 2BR/10% 3BR	
Density	100-140 units/acre		140-167 units/acre		200-300 units/acre	
Location in City	Downtown / Jack London		Downtown / Jack London		Downtown / Jack London	
Development Costs						
	Per SF	Per Unit	Per SF	Per Unit	Per SF	Per Unit
Land /a/	\$62.22	\$56,000	\$50.00	\$50,000	\$45.13	\$44,000
Hard Construction	\$296.00	\$266,400	\$330.00	\$330,000	\$370.00	\$360,750
Government Permits and Fees	\$15.56	\$14,000	\$15.00	\$15,000	\$16.41	\$16,000
Other Soft Costs	\$75.56	\$68,000	\$70.00	\$70,000	\$76.00	\$74,100
Construction Financing	\$25.44	\$22,900	\$30.80	\$30,800	\$36.21	\$35,300
Total Development Costs (excl. devel. fee & return on capital)	\$474.78	\$427,300	\$495.80	\$495,800	\$543.75	\$530,150
Revenue						
Sales Price (avg.)	\$600.00	\$540,000	\$588.00	\$588,000	\$625.64	\$610,000
(Less) Sales Expenses	(\$21.00)	(\$18,900)	(\$20.60)	(\$20,600)	(\$21.90)	(\$21,350)
Sales Net of Sales Expenses	\$579.00	\$521,100	\$567.40	\$567,400	\$603.74	\$588,650
(Less) Development Costs	(\$474.78)	(\$427,300)	(\$495.80)	(\$495,800)	(\$543.75)	(\$530,150)
Net Revenue (for devel. fee & return on capital)	\$104.22	\$93,800	\$71.60	\$71,600	\$59.99	\$58,500
Measures of Return						
Net Revenue:						
As % of Devel. Costs (ROC)	22.0%		14.4%		11.0%	
Required % of Costs (ROC)	18-20%		20-22%		22-25%	
As % of Net Sales (ROS)	18.0%		12.6%		9.9%	
Required % of Net Sales (ROS)	14-16%		17-19%		19-23%	
Construction Period (months)	18		22		24	

/a/ Land cost per building square foot.

Source: Hausrath Economics Group
May 17, 2007

Base Case

Development Feasibility

- Feasibility Varies Among Development Prototypes
- Feasible Projects (returns above thresholds)
 - Prototype B: low-rise lofts/THs, NO/WO
 - Prototype D: mid-rise condos (4-5 fls), NO/EST
 - Prototype E: mid-rise condos (4-6 fls), DT

Base Case

Development Feasibility (cont'd)

- **Marginally Feasible Projects** (returns at thresholds)

Entry-level projects with lowest prices and costs

- Prototype A: Low-rise THs, EO/WO
- Prototype C: Lower-rise condos, EO/WO

- **Infeasible or Marginally Feasible Projects**

(returns below thresholds)

More costly steel/concrete construction

- Prototype F: Mid-rise condos (6-8 fls), DT
- Prototype G: High-rise condos (9-16 fls), DT

3) Costs of Potential Inclusionary Requirements

Affordable Sales Prices:

- Critical for Impact Assessment
- Based on State Redevelopment Law Definitions
- Calculated for Households with Incomes at 100% AMI

[Table 3]

**PRELIMINARY TABLE 3
ESTIMATING MAXIMUM SALES PRICES FOR
HOUSEHOLDS WITH INCOMES AT 100% AMI**

Maximum Sales Price Calculation - Two-Bedroom Example

	<u>Two-Bedrooms</u>
Maximum Household Income @100% AMI	\$75,400
Household Income Amount for Calculation (90% AMI)	\$67,860
Maximum Monthly Housing Cost (35% of Monthly Income) /a/	\$1,979
Utility Allowance Per Month	(\$126)
Other Costs Per Month (See Below) /b/	(\$544)
Maximum Available for Mortgage Payment	\$1,309
Maximum Mortgage Amount @ 6.875%	\$198,804
Down Payment (5%)	\$10,463
Maximum Affordable Sales Price	\$209,267

Summary of Maximum Affordable Sales Prices by Unit Sizes

Studio Unit	\$158,473
One-Bedroom Unit	\$183,149
Two-Bedroom Unit	\$209,267
Three-Bedroom Unit	\$232,662
Four-Bedroom Unit	\$249,326

/a/ Calculations may not sum exactly due to rounding.

/b/ Other monthly costs include:

Maintenance Reserve Per Month	\$25
Homeowner Association Dues Per Month	\$100
Property Taxes Per Month (1.32% of Sales Price)	\$230
Private Mortgage Insurance (.77% of Mortgage Amount)	\$128
Hazard and Casualty Insurance Per Month	\$61
Total	\$544

Source: Vernazza Wolfe Associates, Inc.; City of Oakland.
May 17, 2007

Cost of On-Site Compliance

- Cost defined by difference between affordable prices and market-rate prices in primary project
- On-site cost highest for projects in Downtown Oakland, North Oakland, and along Estuary

Cost of Off-Site Compliance

- Cost defined by difference between affordable prices and development costs
- Might be different product type and less costly construction
- Analysis treats subsidy of off-site development as a cost to the primary project

[Table 4]

PRELIMINARY TABLE 4
ESTIMATING COSTS OF OFF-SITE INCLUSIONARY HOUSING REQUIREMENTS

Off-Site Funding Requirements - Two-Bedroom Example

Unit Size For-Sale (Square Feet)	900
Development Cost For-Sale Unit @ \$330/SF	\$297,000
Affordable Sales Price for Two-Bedroom Unit	<u>\$209,267</u>
Gap - Difference Between Affordable Sales Price and Development Costs - Two Bedroom Unit	\$87,733

Summary of Off-Site Funding Requirements by Bedroom Size

Gap for Studio Unit	\$6,527
Gap for One-Bedroom Unit	\$47,851
Gap for Two-Bedroom Unit	\$87,733
Gap for Three-Bedroom Unit	\$163,338
Gap for Four-Bedroom Unit	\$196,174

Source: Vernazza Wolfe Associates, Inc.; City of Oakland.
May 17, 2007

In-Lieu Fee Calculation

- In-lieu fee revenues to cover costs of developing affordable housing
- Fee calculated as difference between affordable prices and development cost of City-assisted affordable projects

[Table 5]

**PRELIMINARY TABLE 5
ESTIMATING IN-LIEU FEE FOR
INCLUSIONARY HOUSING REQUIREMENTS TESTED**

In-Lieu Fee - Two-Bedroom Example

Unit Size in Square Feet	900
Development Cost For-Sale (\$395/SF)	\$355,500
Affordable Sales Price	<u>\$209,267</u>
<i>In Lieu Fee (Affordability Gap)</i>	\$146,233

Summary of In-Lieu Fees by Bedroom Size

In- Lieu Fee for Studio Unit	\$39,027
In-Lieu Fee for One-Bedroom Unit	\$93,351
In-Lieu Fee for Two-Bedroom Unit	\$146,233
In-Lieu Fee for Three-Bedroom Unit	\$241,338
In-Lieu Fee for Four-Bedroom Unit	\$283,924

Source: Vernazza Wolfe Associates, Inc.; City of Oakland.
May 17, 2007

Why In-Lieu Fee Is Higher Than Off-Site Cost

- Off-site development costs are based on private market development
- In-lieu fee includes costs of City requirements:
 - Prevailing wages
 - City contracting requirements
 - Allowable developer fee (for off-site option, fee included in primary project pro forma)

Comparative Costs of Compliance

- Costs vary among prototypes
- Costs for in-lieu fee and off-site options are lower than for on-site option in 5 of 7 prototypes
- Costs are similar among options for 1 prototype
- On-site option could be the least costly for 1 prototype

[Table 6]

PRELIMINARY TABLE 6
SUMMARY COMPARISON OF COSTS OF
INCLUSIONARY HOUSING OPTIONS, BY DEVELOPMENT PROTOTYPE

Costs of Affordable Housing per Unit in Primary Project
as Factored into Primary Project Pro Forma

Prototype	On-Site Option	Off-Site Option	In-Lieu Fee Option
A	\$37,540	\$23,690	\$37,240
B	\$54,750	\$26,160	\$40,390
C	\$26,540	\$22,610	\$35,820
D	\$51,820	\$19,210	\$31,570
E	\$48,430	\$17,610	\$29,560
F	\$55,860	\$16,110	\$27,690
G	\$59,320	\$14,830	\$25,970

Source: Hausrath Economics Group; Vernazza Wolfe Associates, Inc.;
City of Oakland. May 17, 2007

4) Analysis of Impacts of Inclusionary Housing Requirements

Impact Analysis Addresses:

- Effects on Project Feasibility
- Possible Longer-term Effects on Land Values
- Possible Implications for Development

Effects on Project Feasibility

- With inclusionary requirements, returns from development may drop below feasibility thresholds in most cases
- Requirements may have most effect on feasibility of:
 - Development of lower-priced housing in neighborhoods
 - Development of more costly building types downtown

[Table 7]

**TABLE 7
PRELIMINARY RESULTS**

**SUMMARY OF FEASIBILITY TESTING OF
POTENTIAL INCLUSIONARY HOUSING REQUIREMENTS IN OAKLAND
(All else remaining constant)**

	Development Prototypes						
	A Low-rise THs/ Row Houses EO/WO	B Low-rise Lofts/THs NO/WO	C Low-rise Condos EO/WO	D Lower/Mid-rise Condos (4-5 flrs) NO/EST	E Mid-rise Condos (4-6 flrs) DT	F Mid-rise Condos (6-8 flrs) DT	G High-rise Condos (9-16 flrs) DT
ROC Feasibility Threshold (net revenue as % of devel. cost)	16-18%	16-18%	16-18%	18-20%	18-20%	20-22%	22-25%
Base Case ROC	19%	24%	17%	24%	22%	14%	11%
ROC with Inclusionary Housing Requirements Met:							
-- On-Site	9%	12%	9%	12%	11%	3%	Negative
-- Off-Site	12%	17%	9%	19%	17%	11%	8%
-- In-Lieu Fee	8%	14%	5%	16%	14%	8%	6%

NOTE: Bold indicates return (ROC) at or above threshold for feasibility.

Source: Hausrath Economics Group, Preliminary Results; with inputs from Vernazza Wolfe Associates, Inc. and City of Oakland. May 17, 2007

Possible Longer-term Effects on Land Values/Prices

- Initially, with inclusionary requirements, residual land *values* would decline

Issue: Could land *prices* adjust to accommodate costs of inclusionary requirements?

Possible Longer-term Effects on Land Values/Prices (cont'd)

- Land price adjustments could make a difference for prototypes with stronger feasibility in base case
 - Adjustments may take time
- Lower land prices unlikely to compensate where development is marginally feasible or infeasible in base case
 - Land residuals may become negative or drop to low levels for 4 of 7 prototypes
 - Applies for lower-priced housing in neighborhoods and higher-cost housing downtown

[Table 8]

**TABLE 8
PRELIMINARY RESULTS**

**SUMMARY OF EFFECTS ON LAND VALUES OF
POTENTIAL INCLUSIONARY HOUSING REQUIREMENTS IN OAKLAND
(All else remaining constant)**

	Development Prototypes						
	A Low-rise THs/ Row Houses EO/WO	B Low-rise Lofts/THs NO/WO	C Low-rise Condos EO/WO	D Lower/Mid-rise Condos (4-5 flrs) NO/EST	E Mid-rise Condos (4-6 flrs) DT	F Mid-rise Condos (6-8 flrs) DT	G High-rise Condos (9-16 flrs) DT
Land Cost Assumed in Base Case, per SF Site	\$31-36	\$40-47	\$31-37	\$91-115	\$129-180	\$160-192	\$202-303
Land Residual with Inclusionary Housing Requirements Met and With Project Return at Feasibility Threshold:							
-- On-Site	\$15-18	\$31-36	\$7-9	\$58-73	\$75-105	Negative	Negative
-- Off-Site	\$22-25	\$47-55	\$7-9	\$109-136	\$135-189	\$38-45	Negative
-- In-Lieu Fee	\$11-13	\$36-42	Negative	\$83-104	\$104-146	Negative	Negative

NOTE: Land residual estimates assume return from development (ROC) at the mid-point of the feasibility thresholds identified for each prototype.
Bold indicates land residual at or above land costs in base case.

Source: Hausrath Economics Group, Preliminary Results; with inputs from Vernazza Wolfe Associates, Inc. and City of Oakland. May 17, 2007

5) Possible Implications for Housing Development

- Some Development may slow/stop
 - Until market adjusts to incorporate IZ
- Land prices would stabilize and may decline
 - Would take time for land prices to adjust
 - Changes in land prices unlikely to fully offset inclusionary costs in many cases

Possible Implications of Inclusionary Requirements (cont'd)

- Over time, market increases in sales prices may help restore feasibility
 - Prices need to go up faster than development costs
 - Price increases would then cover inclusionary costs before passing to land

Possible Implications for Housing Development (cont'd)

- Could encourage wood-frame construction over steel/concrete construction (already happening to some extent)
- Smaller, marginal projects unlikely to be built without significant adjustments

6) Possible Alternative Ordinance Parameters

- Reduce percentage of inclusionary units
- Increase income levels targeted
- Make off-site and in-lieu fee options same percentage of units as on-site option
- Adopt in-lieu fee below level of full gap
- Phase in program over time