

## TECHNICAL MEMORANDUM

---

To: Sharon Wood, David Lepo, and Jaime Murillo, City of Newport Beach  
From: Darin Smith  
Subject: Inclusionary Housing In-Lieu Fee Study; EPS #17062  
Date: October 7, 2008

---

Economic & Planning Systems, Inc. (EPS) was retained in 2004 by the City of Newport Beach to conduct an analysis of the City's inclusionary housing program, with specific focus on the calculation of an appropriate fee that housing developers may pay in lieu of providing affordable units within their development projects. Since EPS's initial study, the City has revised their inclusionary policy, thus requiring a revised analysis of the in-lieu fee. This Technical Memorandum presents an update of the findings of EPS's analysis and documents the methodology used to calculate the in-lieu fee.

### STUDY OVERVIEW AND SUMMARY OF FINDINGS

The key findings of EPS's analysis are as follows:

1. Through the Housing Element of the General Plan, the City of Newport Beach has an inclusionary housing program that requires residential developers to either provide 15 percent of the total units in their projects as affordable housing units, or pay a fee in lieu of providing those units.
2. The City's inclusionary housing policy does not require that the affordable units be of the same type or quality as the market-rate units in any given project. Thus, it is likely that some developers will elect to provide affordable units as rental apartments, even if the market-rate units in their projects are for sale.
3. The City has indicated that developers should have the choice of providing units for households of very low-income, low-income, or moderate income. Because units for lower-income households require higher construction subsidies, the percentage of units required varies by income category.

**BERKELEY**

2501 Ninth Street, Suite 200  
Berkeley, CA 94710-2515  
www.epsys.com

phone: 510-841-9190  
fax: 510-841-9208

**SACRAMENTO**

phone: 916-649-8010  
fax: 916-649-2070

**DENVER**

phone: 303-623-3557  
fax: 303-623-9049

4. EPS has determined that the following percentages would have essentially equivalent financial impacts on residential development projects (see **Table 1**):

8.5% Very low-income rental units, *or*  
15% Low-income rental units, *or*  
21.5% Moderate-income for-sale units

5. Using these equivalencies, the Inclusionary Housing In-Lieu fee has been calculated at a maximum of \$19,900 per market-rate unit based on 2007 value and cost figures, which can be adjusted annually as described in this document.

## REVIEW OF THE CITY'S INCLUSIONARY HOUSING POLICIES

### CURRENT INCLUSIONARY POLICY

The 2000-2008 Housing Element for the City of Newport Beach established a policy that reads as follows:

Policy 2.2      Encourage the housing development industry to respond to housing needs of the community and the demand for housing as perceived by the industry, with the intent of achieving the Regional Housing Needs Assessment construction goals within five (5) years.

The program set forth to accomplish this policy is Housing Program 2.2.1, which states that the City will:

“Require a proportion of affordable housing in new residential developments or levy an in-lieu fee. The City’s goal over the five-year planning period is for an average of 15 percent<sup>1</sup> of all new housing units to be affordable to very low-, low-, and moderate-income households. The City shall either (a) require the payment of an in-lieu fee, or (b) require the preparation of an Affordable Housing Implementation Plan (AHIP) that specifies how the development will meet the City’s affordable housing goal, depending on the following criteria for project size:

1. Projects of 50 or fewer units shall have the option of preparing an AHIP or paying the in-lieu fee.
2. Projects where more than 50 units are proposed shall be required to prepare an AHIP.”

---

<sup>1</sup> In determining the number of whole affordable units required, the City proposes that any decimal fraction less than 0.50 shall be rounded down to the nearest whole number, and any decimal fraction greater than or equal to 0.50 shall be rounded up to the next whole number.

Furthermore, this housing program allows the affordable units to be provided at an off-site location approved by the City, and is silent and thus flexible about the types of affordable units that must be provided. While some jurisdictions require that the affordable units be of the same type, size, and/or quality as the market-rate units in a given project, the Newport Beach policy allows the developer to provide their affordable units in the most efficient product types possible. This allowance of flexibility is important in calculating the in-lieu fee.

## PREVIOUS IN-LIEU FEE STUDIES

The City commissioned a study in 1999 for the formal establishment of an in-lieu fee program; however, that study did not result in a formalized in-lieu fee program. In addition, EPS was retained by the City in 2004 to conduct an in-lieu fee analysis of the City's then-current inclusionary housing policy, which required residential developers to provide 20 percent of the total units in their projects as affordable housing units. That study also did not result in a formalized in-lieu fee program, because the City has since reduced the inclusionary requirement from 20 to 15 percent.

However, despite not having a formal in-lieu fee program to date, the City has negotiated in-lieu fees with several developers in recent years. Examples of in-lieu fee received from past projects include the following:

<b>Development Project</b>	<b>Date</b>	<b>Market-Rate Units</b>	<b>Fee per Unit</b>	<b>Total Fees</b>
Ford	1995/96	404	\$5,000	\$2,020,000
Sailhouse	2000	90	\$6,000	\$540,000
Cannery Lofts	2002	22	\$6,359	\$139,898
15 <sup>th</sup> St. Townhomes	2003	42	\$8,000	\$336,000
<i>Total or Average<sup>2</sup></i>		558	\$5,441	\$3,035,898

The City committed \$1.8 million of the in-lieu fee reserve to the Bayview Landing senior affordable housing project. For future in-lieu fee expenditures, the City's Affordable Housing Task Force has created a program that identifies preferred options for the use of the funds.

## INCLUSIONARY REQUIREMENTS AND FEES IN COMPARABLE CITIES

Staff members from the City of Newport Beach have assembled information regarding the inclusionary requirements of comparable coastal cities in California, as shown on **Table 2**. While this survey indicates that many nearby communities require private developers to provide affordable housing within their projects, it is clear that the requirements vary significantly among jurisdictions. For instance, the City of Laguna Beach requires that 25 percent of new units in projects of three or more units must be priced for households of moderate and low income. Most other jurisdictions require

---

<sup>2</sup> This amount may not represent the complete amount that has been received by the City to date.

between 10 and 20 percent inclusionary units. San Clemente had required the lowest percentage, at just 4 percent, but is in the process of updating their requirements to 12.5 percent.

**Table 2** also illustrates that in-lieu fees vary widely among these comparable cities, with the lowest figure being \$7,000 per market-rate unit (in Coronado) and the highest at nearly \$47,000 per market-rate unit (in Laguna Beach). Moreover, jurisdictions adjust their fees over time using various methods and benchmarks, including changes in land prices, market-rate home values, median incomes, construction costs, and the consumer price index.

## AFFORDABLE HOUSING SUBSIDY CALCULATION

### METHODOLOGY

The calculation of an appropriate fee in lieu of the development of inclusionary housing units requires the estimation of the subsidy required to develop an affordable unit. For this subsidy calculation, the value of the affordable unit (as calculated through sale values or capitalized rental operating income streams) is compared to the costs to develop the unit, including “direct” costs (labor and materials), “indirect” costs (design, permits, financing, etc.), and land acquisition costs.

### KEY ASSUMPTIONS

EPS sent the preliminary development cost, revenue, and valuation assumptions to numerous developers of market-rate and affordable housing in Orange County and Southern California (see **Appendix A**), and conducted telephone interviews with representatives of several companies. EPS made several adjustments to the original assumptions based on these groups’ input. Based on information and direction received from City staff, market-rate and affordable housing developers, and EPS research, EPS has determined that the following assumptions shall be used to calculate the affordable housing subsidy.

#### **Type of Unit**

To accurately reflect market conditions and calculate required development subsidies, it is important to ensure that the rent assumptions for affordable units are in fact below market rates. Staff from the City of Newport Beach conducted a survey of 13 market-rate apartment complexes in July 2007, and found that no units were affordable to very low-income households and very few were affordable to low-income households, but most were affordable to moderate-income households (see **Appendix B**). For this reason (and another discussed in the “In-Lieu Fee Calculation” section below), EPS has assumed that moderate-income households would occupy for-sale units.

All very low- and low-income affordable housing units developed with subsidy from the in-lieu fee are assumed to be multifamily rental units, while moderate-income units are assumed to be multifamily condominiums. These assumptions are consistent with the letter of the Housing Element, which does not require that inclusionary affordable units built by the developer be the same type of unit as the market-rate units.

EPS has further assumed that the inclusionary units would be mixed by number of bedrooms, with 40 percent of all units as one-bedroom units (for two-person households), 40 percent of all units as two-bedroom units (for four-person households), and 20 percent of all units as three-bedroom units (for six-person households).<sup>3</sup> While any given development project may have a different mix to serve specific market niches (e.g., families, singles, seniors, etc.), the unit distribution described above is a simplifying assumption that is similar to the distribution of rental units within the City as found in the 2000 Census.

For purposes of cost estimation, one-bedroom units are assumed to be 725 square feet, while two-bedroom units are 1,050 square feet and three-bedroom units are 1,250 square feet. These unit sizes are generally in the lower half of the size ranges discovered in a survey of Newport Beach apartment complexes, which showed one-bedroom units ranging from 626 to 1,152 square feet, two-bedroom units from 926 to 1,546 square feet, and three-bedroom units from 1,160 to 1,700 square feet.

The unit sizes and the distribution of units by number of bedrooms are assumed to be the same regardless of the income level being served.

### **Development Value**

The value of each unit is determined either by its sale price (for homeownership units) or the capitalized value of its net operating income stream (for rental units).

### Rental Development Value

#### *Monthly Rent*

The Housing Element states that for each income category, monthly rent is assumed to equal 30 percent of gross monthly household income. Moreover, EPS has assumed that inclusionary units within each category will be affordable at the maximum income within that category. For instance, a "low-income" household may have an income anywhere from 51 percent to 80 percent of Orange County's Median Family Income (MFI). EPS has assumed that the maximum monthly rent in this income category will be based on 80 percent of MFI, rather than 51 percent or some other middle figure (such as 65 percent). This assumption has the result of minimizing the housing production subsidy; however, the language of the Housing Element appears to allow for this possibility for those developers who would produce inclusionary units, so the same allowance is made for those who would pay the in-lieu fee. **Table 3** shows the income levels and associated allowable monthly rents for rental units of different sizes.

---

<sup>3</sup> The City's Housing Element establishes that the maximum household income for a given affordable unit shall assume two people per bedroom, except for efficiency units (one person).

It is also necessary to assume a certain amount of vacancy for calculating the effective gross income stream from a rental project. EPS has assumed at stabilized operations an affordable multifamily apartment complex in Newport Beach would have 5 percent annual vacancy.

#### *Operating Expenses*

Annual operating expenses for rental apartments are assumed at \$4,200 per one-bedroom unit, \$4,500 per two-bedroom unit, and \$4,800 per three-bedroom unit, regardless of income level. These operating expenses cover property management, common utilities, marketing, maintenance, taxes, and similar expenses.

#### *Capitalization Rate*

A rental unit's net operating income (effective gross income less expenses) is converted to a unit value through use of a capitalization rate. The capitalization rate reflects an investor's perceived risk, as well as the investor's opportunity cost. For a multifamily rental project in the City of Newport Beach, the capitalization rate is assumed to be 7.0 percent. This rate may be slightly higher than what might be achieved under present market conditions, but reflects a somewhat longer term rate that should be robust through market fluctuations. The calculations for apartment development values are shown on **Table 4**.

#### For-Sale Development Value

City policy dictates that the price of a for-sale affordable home cannot exceed three times the annual income of the occupying household. The Year 2007 income limits established by the U.S. Department of Housing and Urban Development for Orange County are shown on **Table 5**, as are the maximum allowable home prices. It is worth noting that not all jurisdictions limit the affordable home prices to three times the annual income, and that Newport Beach's policy results in lower prices than might be allowed in other jurisdictions for similarly sized households.

However, this effect is offset somewhat by Newport Beach's allowance of two persons per bedroom. Many jurisdictions base income levels on households of sizes equal to the number of bedrooms plus one (e.g., three-person household in a two-bedroom unit, four-person household in a three-bedroom unit), but Newport Beach allows four people in a two-bedroom unit and six in a three-bedroom unit. The corresponding income limits are higher for larger households; thus, the affordable price allowed for a three-bedroom unit is higher for a six-person household than it would be for a four-person household.

## Development Costs

The cost of development must be compared to the development value to determine if there is a need for financial subsidy. EPS has made a variety of cost assumptions, as detailed below. One overarching assumption is that development costs are the same regardless of the income level being served. The calculations for development costs are shown on **Tables 6 and 7** for apartments and condominiums, respectively.

### Direct Construction Costs

Direct construction costs include the costs for labor and materials for the buildings and standard site improvement (surface parking, landscaping, etc.) as well as contractor fees. EPS has assumed that direct construction costs would equal \$140 per gross square foot of each apartment building, and \$150 per square foot for condominiums because of the higher level of finish typical of for-sale development. These figures account for slight cost variations among unit sizes.

### Indirect Costs

Indirect costs include architecture and engineering costs, financing costs, permits and fees, and other development expenses beyond those required for actual labor and materials. For both apartments and condominiums, EPS has assumed that indirect costs will equal 35 percent of direct construction costs.

### Land Costs

Development costs must account for the price of the land underlying the apartment building. EPS has assumed that land entitled for multifamily housing in Newport Beach would cost \$3,000,000 per acre.<sup>4</sup> EPS has further assumed that both apartments and condominiums would be built at 24 dwelling units per acre, resulting in a land cost of roughly \$125,000 per unit. This density assumption is premised on the base allowance of up to 18 units per acre in the "RM – Multiple Residential" General Plan land use designation in the West Newport Mesa subarea in the City's Current General Plan, *plus* a maximum 35 percent density bonus for providing affordable units as allowed under State law.

### Developer Profit

As is standard for rental apartment development, developer profit is accounted for in the development value calculations through the capitalization rate and is thus not included as a separate line item for development costs. For condominiums, however, developers must realize their profit at the time of sale, as there is no ongoing revenue stream. EPS has assumed a 10 percent profit margin for developers of for-sale units affordable to moderate-income households.

---

<sup>4</sup> This \$3,000,000 per acre land value was derived from EPS's and City staff's conversations with market-rate and affordable housing developers.

## CALCULATIONS

Detailed calculations of development values and costs for each unit size and income level are shown on **Tables 8 and 9**, for apartments and condominiums, respectively. The inclusionary housing development subsidy is calculated by subtracting the development costs from the development value. If the result is negative, a subsidy is required in the amount shown. Those tables also show the “weighted average” subsidy by income level, assuming the units are distributed among one-, two-, and three-bedroom units as discussed above.

As shown on **Table 8**, rental units for very low- and low-income households require subsidy regardless of the unit size, as the costs of development exceed the value of the units.

**Table 9** shows that affordable condominium units require greater subsidy than apartment units. This result is because the construction costs are slightly higher, the developer profit adds an additional cost, and the City’s policy-based method for calculating allowable unit prices for for-sale housing (three times household income) yields lower unit values for condos than does the method for rental prices (30 percent of income on rent).

## IN-LIEU FEE CALCULATION

### METHODOLOGY

To calculate the in-lieu fee, the total cost that would have been incurred by the developer to produce the affordable units is divided by the number of units produced. For instance, a developer of a 20-unit project would be required to build three inclusionary units to achieve the City’s overall goal of “an average of 15 percent of all new residential development . . . affordable to very low-, low-, and moderate-income households.” If each inclusionary unit required a subsidy of \$100,000, the developer who builds the units would have borne a total subsidy of \$300,000. If the developer opts to pay the in-lieu fee instead of producing the units, and thus produces 20 market-rate units, the total subsidy of \$300,000 would be divided by 20 market-rate units to result in an in-lieu fee requirement of \$15,000 per market-rate unit. The actual assumptions and calculations are discussed below.

## CALCULATIONS

The primary assumption required to calculate the in-lieu fee is the proportionate income distribution of the households to be served by affordable housing units. Whereas some jurisdictions require that inclusionary units be provided to a mix of income-levels within the same project, the City of Newport Beach has suggested that developers should be given the option of providing affordable units for very low-, low-, or moderate-income households. As such, it is imperative that an economic equivalency be established

among these income levels, so that developers will not simply provide 15 percent of units for moderate-income households (that require the least subsidy) and do not produce any housing affordable to low- or very low-income households.

The City has determined that the basis for the economic equivalency shall be an inclusionary requirement that 15 percent of new units be affordable to low-income households. As shown on **Table 8**, the subsidy required to produce an apartment unit affordable to low-income households is roughly \$133,000. Thus, a 100-unit development providing 15 apartments affordable to low-income households would bear an implied subsidy of roughly \$1,995,000. If no such affordable units are produced and the developer builds 100 market-rate units, the cost of the implied subsidy spread over 100 units would be \$19,950 per market-rate unit.

Because the subsidies per unit are greater for very low-income units, fewer very low-income units would generate the same overall economic impact to the development project. Similarly, moderate-income units require less subsidy, so more moderate-income units are required to generate the equivalent economic impact. On **Table 10**, EPS has calculated the economic equivalencies, which are summarized as follows:

<b>Income Level</b>	<b>Average Subsidy per Unit</b>	<b>Percent of Units</b>	<b>In-Lieu Fee per Market-Rate Unit</b>
Very Low (rental)	\$234,000	8.5%	\$19,890
Low (rental)	\$133,000	15.0%	\$19,950
Moderate (for-sale)	\$92,000	21.5%	\$19,780
<i>Average</i>	<i>\$133,000</i>	<i>15.0%</i>	<i>\$19,900</i>

Using this methodology, the in-lieu fee to be paid by developers choosing not to construct affordable units within their projects would be \$19,900 per market-rate unit.

Please note that EPS has evaluated the equivalency if a developer chose to provide moderate income rental units. As discussed earlier, many market-rate apartments in Newport Beach are actually affordable to moderate income households. In addition, because of the method required by the City to calculate the maximum affordable for-sale price (three times gross household income), the maximum price of a moderate income for-sale unit is actually lower than the capitalized value of a moderate income rental unit (compare those values on **Tables 4 and 5**) while the development costs are higher for condominiums than for rental apartments (see **Tables 6 and 7**). In EPS's calculations, there is no subsidy required for moderate income rentals, while moderate income for-sale units require a subsidy of roughly \$92,000. As a result, moderate income rentals do not provide housing that is not already being providing by market forces, and also cannot yield an equivalent benefit to the City (as measured through an equivalent subsidy from a developer), as even a project that provided 100 percent moderate income rentals would not result in an implicit subsidy comparable to the subsidy attributable to 15 percent low income units (see **Table 10**).

## ADDITIONAL CONSIDERATIONS

### FEE ESCALATION

The Inclusionary Housing In-Lieu Fees calculated herein reflect current income levels, allowable rent rates, unit values, and development costs. Each of these items is likely to change over time. In the past, the City of Newport Beach has adjusted its negotiated in-lieu fees according to an annual inflation measure, such as the Consumer Price Index.

There is no single accepted method of updating the fees without conducting an entirely new study, but jurisdictions often use a variety of readily accessible factors such as changes in median home values (published by DataQuick and other private sources), the change in the Construction Cost Index (as published by Engineering News Record), or changes in median household incomes (as published by HUD or HCD). Still other jurisdictions use factors that may be less readily available or consistent, such as the market-rate home value per building square foot or the change in the value of vacant land.

Using figures from **Table 8** as the base data, EPS recommends that the City use the following formula to update the in-lieu fees over time:

Item	2007 Figure (from EPS Table 8)	Change from 2007 to 2008	Inflation Factor Source	Updated Figure
Avg. Development Cost for Low-Income Rental Unit	\$338,459	+3.2%	Construction Cost Index from Engineering News Record	\$349,289
Less Avg. Value of Low Income Rental Unit	\$205,204	+6.9%	HUD Median Family Income for Orange County (\$84,100 in 2008 vs. \$78,700 in 2007)	\$219,363
= Subsidy per Affordable Unit	\$133,255			\$129,926
Multiplied by % Affordable Units	15%			15%
= In-Lieu Fee per Market-Rate Unit	\$19,900	-2.1%	Calculation	\$19,489

The calculated adjustment factor must then be applied to the in-lieu fee imposed by the City. In this example, the 2007 in-lieu fee figure (which is \$19,900 based on the average subsidies required for very-low, low-, and moderate income units) would be decreased by 2.1 percent to \$19,489. The fee decrease from 2007 to 2008 results from the fact that HUD shows Orange County income levels increasing at a faster rate than construction costs for the period. In other years, this relationship may be different, and the in-lieu fee may increase rather than decrease.

This adjustment methodology accounts for changes in both unit values (expressed through changes in affordable income levels) and some development costs (expressed through changes in costs for labor and materials), but does not necessarily account for all development costs, such as land acquisition, planning, impact fees, etc. For this reason, the City may wish to consider a regular re-calculation of the fee every few years to ensure that the fee continues to capture the full subsidy required to produce affordable housing units in the City of Newport Beach.

## PARTIAL SATISFACTION OF THE INCLUSIONARY REQUIREMENT

Through City approval of the AHIP, some developers may propose to provide some portion of the required inclusionary units within their own project, while paying the In-Lieu Fee for the remainder of their required units. In such instances, the City should determine the total amount of the subsidy required for the project, and charge the difference between the subsidies associated with the units provided in the project and those that will be required off-site. Thus, a 100-unit development providing ten apartments affordable to low-income households would need to provide five additional low-income affordable units off-site, or a total in-lieu fee subsidy of \$666,275 (\$133,255 average subsidy per affordable unit not built).

## APPLICATION OF CALCULATIONS IN THE COASTAL ZONE

Consistent with State law, Section 20.86 of the City's planning and zoning code ("Low and Moderate Income Housing within the Coastal Zone") states, "When demolition or conversion activities involve low- and moderate-income units, replacement units shall be provided on a one for one basis." This requirement is intended to be met through the actual provision of units, preferably on-site, but under certain circumstances, the developer can pay a fee in lieu of providing the affordable units.

The per-unit subsidies calculated on **Tables 8 and 9** of this document can be used to determine the in-lieu fees required of developers whose projects result in a loss of units in the Coastal Zone occupied by lower-income households. For example, if a proposed Coastal Zone project would result in one fewer rental unit occupied by a low-income household, the developer would pay a fee of \$133,255 in lieu of replacing that unit on site or off site.

## PROVISION OF MIXED-INCOME AFFORDABLE UNITS

For developers who opt to build inclusionary units rather than paying an in-lieu fee, this study indicates that developers would be providing roughly equivalent affordable housing benefits with 8.5 percent very-low income units, 15.0 percent low income units, or 21.5 percent moderate income units. While developers may have the option to choose which income level to serve (and thus which percentage of affordable units to include),

some developers may wish to provide affordable units for a mix of incomes, rather than all inclusionary units being priced for the same income level.

The City of Newport Beach can evaluate developers' alternative income-mix proposals by ensuring that the mixed-income proposal meets or exceeds the subsidy obligation that would be required under a single-income approach. An example follows:

Income Category	Single-Income Affordability			Mixed-Income Affordability		
	# of Units	Subsidy/ Unit	Total Subsidy Obligation	# of Units	Subsidy/ Unit	Total Subsidy Obligation
Very Low (rent)	0	\$234,000	\$0	6	\$234,000	\$1,404,000
Low (rent)	15	\$133,000	\$1,995,000	4	\$133,000	\$532,000
Moderate (sale)	0	\$92,000	\$0	1	\$92,000	\$92,000
<i>Total or Average</i>	15	\$133,000	<b>\$1,995,000</b>	11	\$184,364	<b>\$2,028,000</b>

In this example, the developer could provide four fewer affordable units (11 versus 15), but reach a lower level of income with some of those units and provide the City with an in-kind benefit that exceeds the basic 15 percent low income requirement. Another example follows:

Income Category	Single-Income Affordability			Mixed-Income Affordability		
	# of Units	Subsidy / Unit	Total Subsidy Obligation	# of Units	Subsidy/ Unit	Total Subsidy Obligation
Very Low (rent)	0	\$234,000	\$0	0	\$234,000	\$0
Low (rent)	15	\$133,000	\$1,995,000	8	\$133,000	\$1,064,000
Moderate (sale)	0	\$92,000	\$0	11	\$92,000	\$1,012,000
<i>Total or Average</i>	15	\$133,000	<b>\$1,995,000</b>	19	\$109,263	<b>\$2,076,000</b>

In this example, the combination of eight low income units and 11 moderate income units yields a slightly higher subsidy obligation than a project with 15 low income units. Similar calculations can be performed over time by using the adjustment factors used for updating the in-lieu fee.

**Table 1**  
**In-Lieu Fee per Market-Rate Unit by Income Level**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

<b>Income Level (1)</b>	<b>Average Subsidy Per Unit</b>	<b>Percent of Units</b>	<b>In-Lieu Fee per Market-Rate Units</b>
Very Low (50% of MFI) Rental	\$234,000	8.5%	\$19,890
Low (80% of MFI) Rental	\$133,000	15.0%	\$19,950
Moderate (120% of MFI) For-Sale	\$92,000	21.5%	\$19,780
<b>Weighted Average</b>	<b>\$133,000</b>	<b>15.0%</b>	<b>\$19,900</b>

(1) Median Family Income (MFI) as defined by U.S. Department of Housing and Urban Development (HUD). Year 2007 annual incomes are set at maximum within each category.

Sources: U.S. Department of Housing and Urban Development; Economic & Planning Systems, Inc.

**Table 2**  
**Survey of Inclusionary Housing Programs in Comparable California Cities\***  
**Conducted January 2008**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Jurisdiction	Type of Program	Requirements	Last Update
San Clemente	Construction Requirement	Currently 4%, 1 unit/25 units to very low income households for projects with 6+ units. Proposed: 12.5% or 1 unit/ 8 units to very low income households for projects with 2+ units.	To be updated March '08, previously updated before 2004
	In-Lieu Fee	Currently 1% of construction valuation of each dwelling unit. Recommended for 2008: Allow in-lieu fee for new construction projects with 2-7 units. Annual fee based on City building permit construction value, CPI, factor and subsidy needed to provide units at 50% of median income. For projects of 8 or more units when proven infeasible for new units to be provided on-site or off-site, City Council approval needed to allow provision of fees to deepen affordability at an existing affordable apartment site, or in combination with another affordable project to provide additional units. Less mortgage and O&M costs affordable to 4-person households @ 50% of med. income = \$100,000. Equals Affordability Gap for 1 affordable unit = \$248,500. Fee per market unit = \$248,500 x 12.5% = \$31,000/unit.	
Oceanside	Construction Requirement	10% of rental projects with 3+ units must be affordable for low-income households.	2002
	In-Lieu Fee	\$10,275 per unit (based on affordability gap from five years ago), plus administrative charges of \$100/unit and \$1,000/project	
Santa Monica	Construction Requirement	10% units for Very Low Income households, 20% of units for Low Income households. In commercial/industrial zones, all units must be affordable to moderate income households. No inclusionary requirements for single family housing (only for condos and apartments).	May, 2006. Affordable Housing Unit Development Cost increased July, 2007
	In-Lieu Fee	\$25.31/ square foot for apartments (updated annually), \$29.56/ square foot for condominiums (updated annually).	
Coronado	Construction Requirement	20% of projects with 2+ lots/dwelling units must be affordable for rent to very low and low income households, or affordable for sale to moderate income households.	approximately 10 years
	In-Lieu Fee	\$7,000 per market-rate dwelling unit in projects with 2+ units	
Laguna Beach	Construction Requirement	25% of projects with 3+ units must be affordable to low and moderate income households.	July, 2004
	In-Lieu Fee	\$46,978 per market-rate unit (average land cost per affordable unit, updated annually based on average sales price per acre of vacant residentially zoned properties).	
San Juan Capistrano	Construction Requirement	10% of projects with 2+ units, 15% if within boundaries of Redevelopment Agency	1995
	In-Lieu Fee	1% of project's building permit valuation for market rate units (looking to increase in future; also considering requiring projects above a certain size to build rather than pay)	
Irvine	Construction Requirement	15% of projects with 5+ units must be affordable, with the following distribution: 5% to very-low income, 5% to low income, 5% to moderate income	
	In-Lieu Fee	\$19,581 per market rate unit (updated every other year based on changes in average land value).	July, 2006
Huntington Beach	Construction Requirement	10% of all new housing construction of three or more units to be affordable for low, median, or moderate-income households (on or off site). Certain areas of the City require 15% affordability.	2004?
	In-Lieu Fee	Allowed only for projects of 3-9 units. Sliding scale starts at \$9,430 per market-rate unit for 3-unit project, increases to \$16,500 per unit for 9-unit project.	
Santa Cruz	Construction Requirement	15% of projects with 2-4 units to low and medium income households. 30% for SOU projects, 2-4 units.	Jan, 2007
	In-Lieu Fee	5+ units fee at the discretion of City Council. Calculated difference between affordable sales price of inclusionary unit and the value of a market-rate unit, calculated by multiplying the average square footage per unit by the market-rate price per square foot, as established by resolution of the city council.	
Half Moon Bay	Construction Requirement	Case by case basis no standard fees or requirements.	
	In-Lieu Fee		

\*Survey conducted by City of Newport Beach staff, and has not been verified by Economic & Planning Systems, Inc.

Sources: Respective Planning Departments; City of Newport Beach

**Table 3**  
**Annual Incomes and Monthly Rents by Income Category**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Income Level (1)	Unit Size		
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)
<u>Very Low (50% of MFI)</u>			
Annual Income	\$34,650	\$43,300	\$50,250
Monthly Income	\$2,888	\$3,608	\$4,188
Monthly Rent (2)	\$866	\$1,083	\$1,256
<u>Low (80% of MFI)</u>			
Annual Income	\$55,450	\$69,300	\$80,400
Monthly Income	\$4,621	\$5,775	\$6,700
Monthly Rent (2)	\$1,386	\$1,733	\$2,010
<u>Moderate (120% of MFI)</u>			
Annual Income	\$83,175	\$103,950	\$120,600
Monthly Income	\$6,931	\$8,663	\$10,050
Monthly Rent (2)	\$2,079	\$2,599	\$3,015

- (1) Median Family Income (MFI) as defined by HUD.  
Year 2007 annual incomes are set at maximum within each category.  
(2) Monthly Rents are calculated at 30% of gross monthly income.

Sources: U.S. Dept. of Housing and Urban Development; Economic & Planning Systems, Inc.

**Table 4**  
**Affordable Apartment Value by Income Category and Unit Size**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Income Level (1)	Unit Size		
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)
<b>Very Low (50% of MFI)</b>			
Monthly Rent	\$866	\$1,083	\$1,256
Annual Rental Income	\$10,395	\$12,990	\$15,075
<u>less Vacancy at 5%</u>	<u>(\$520)</u>	<u>(\$650)</u>	<u>(\$754)</u>
<i>Effective Gross Income</i>	\$9,875	\$12,341	\$14,321
<u>less Operating Expenses</u>	<u>(\$4,200)</u>	<u>(\$4,500)</u>	<u>(\$4,800)</u>
<i>Net Operating Income</i>	\$5,675	\$7,841	\$9,521
<u>divided by Capitalization Rate</u>	<u>7.00%</u>	<u>7.00%</u>	<u>7.00%</u>
<b>Unit Value</b>	<b>\$81,075</b>	<b>\$112,007</b>	<b>\$136,018</b>
<b>Low (80% of MFI)</b>			
Monthly Rent	\$1,386	\$1,733	\$2,010
Annual Rental Income	\$16,635	\$20,790	\$24,120
<u>less Vacancy at 5%</u>	<u>(\$832)</u>	<u>(\$1,040)</u>	<u>(\$1,206)</u>
<i>Effective Gross Income</i>	\$15,803	\$19,751	\$22,914
<u>less Operating Expenses</u>	<u>(\$4,200)</u>	<u>(\$4,500)</u>	<u>(\$4,800)</u>
<i>Net Operating Income</i>	\$11,603	\$15,251	\$18,114
<u>divided by Capitalization Rate</u>	<u>7.00%</u>	<u>7.00%</u>	<u>7.00%</u>
<b>Unit Value</b>	<b>\$165,761</b>	<b>\$217,864</b>	<b>\$258,771</b>
<b>Moderate (120% of MFI)</b>			
Monthly Rent	\$2,079	\$2,599	\$3,015
Annual Rental Income	\$24,953	\$31,185	\$36,180
<u>less Vacancy at 5%</u>	<u>(\$1,248)</u>	<u>(\$1,559)</u>	<u>(\$1,809)</u>
<i>Effective Gross Income</i>	\$23,705	\$29,626	\$34,371
<u>less Operating Expenses</u>	<u>(\$4,200)</u>	<u>(\$4,500)</u>	<u>(\$4,800)</u>
<i>Net Operating Income</i>	\$19,505	\$25,126	\$29,571
<u>divided by Capitalization Rate</u>	<u>7.00%</u>	<u>7.00%</u>	<u>7.00%</u>
<b>Unit Value</b>	<b>\$278,641</b>	<b>\$358,939</b>	<b>\$422,443</b>

(1) Median Family Income (MFI) as defined by HUD.  
Year 2007 annual incomes are set at maximum within each category.

Source: Economic & Planning Systems, Inc.

**Table 5**  
**Annual Incomes and Allowable Home Sale Prices by Income Category and Unit Size**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Income Level (1)	Unit Size		
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)
<u>Very Low (50% of MFI)</u>			
Annual Income	\$34,650	\$43,300	\$50,250
Home Price (2)	\$103,950	\$129,900	\$150,750
<u>Low (80% of MFI)</u>			
Annual Income	\$55,450	\$69,300	\$80,400
Home Price (2)	\$166,350	\$207,900	\$241,200
<u>Moderate (120% of MFI)</u>			
Annual Income	\$83,175	\$103,950	\$120,600
Home Price (2)	\$249,525	\$311,850	\$361,800

(1) Median Family Income (MFI) as defined by HUD.

Year 2007 annual incomes are set at maximum within each category.

(2) Home prices are calculated at three times gross annual income, per City policy.

Sources: U.S. Dept. of Housing and Urban Development; Economic & Planning Systems, Inc.

**Table 6**  
**Rental Apartment Development Costs by Unit Size**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Item	Unit Size		
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)
<u>Unit Size</u>			
Net Square Feet per Unit	725	1,050	1,250
Gross Square Feet per Unit (1)	853	1,235	1,471
<u>Direct Costs</u>			
per Gross Square Foot	\$140	\$140	\$140
per Unit	\$119,412	\$172,941	\$205,882
<u>Indirect Costs</u>			
as percent of Direct Costs	35%	35%	35%
per Gross Square Foot	\$49	\$49	\$49
per Unit	\$41,794	\$60,529	\$72,059
<u>Improved Land Costs</u>			
per Acre	\$3,000,000	\$3,000,000	\$3,000,000
Units/Acre	24	24	24
per Unit	\$125,000	\$125,000	\$125,000
<u>Total Costs</u>			
per Gross Square Foot	\$336	\$290	\$274
per Unit	\$286,206	\$358,471	\$402,941

(1) Gross square footage is calculated assuming an efficiency ratio of 85%.

Sources: Market-rate and Affordable Housing Developers; Economic & Planning Systems, Inc.

**Table 7**  
**For-Sale Condominium Development Costs by Unit Size**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Item	Unit Size		
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)
<u>Unit Size</u>			
Net Square Feet per Unit	725	1,050	1,250
Gross Square Feet per Unit (1)	853	1,235	1,471
<u>Direct Costs</u>			
per Gross Square Foot	\$150	\$150	\$150
per Unit	\$127,941	\$185,294	\$220,588
<u>Indirect Costs</u>			
as percent of Direct Costs	35%	35%	35%
per Gross Square Foot	\$53	\$53	\$53
per Unit	\$44,779	\$64,853	\$77,206
<u>Improved Land Costs</u>			
per Acre	\$3,000,000	\$3,000,000	\$3,000,000
Units/Acre	24	24	24
per Unit	\$125,000	\$125,000	\$125,000
<u>Developer Profit</u>			
Total Other Costs per Unit	\$297,721	\$375,147	\$422,794
% of Total Other Costs	10%	10%	10%
per Unit	\$29,772	\$37,515	\$42,279
<u>Total Costs</u>			
per Gross Square Foot	\$384	\$334	\$316
per Unit	\$327,493	\$412,662	\$465,074

(1) Gross square footage is calculated assuming an efficiency ratio of 85%.

Sources: Market-rate and Affordable Housing Developers; Economic & Planning Systems, Inc.

**Table 8**  
**Affordable Apartment Subsidy by Unit Size and Weighted Average**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Income Level	Unit Size			Weighted Average (1)
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)	
<b>Very Low (50% of MFI)</b>				
Value per Unit	\$81,075	\$112,007	\$136,018	\$104,436
<u>Cost per Unit</u>	<u>\$286,206</u>	<u>\$358,471</u>	<u>\$402,941</u>	<u>\$338,459</u>
Subsidy per Unit	-\$205,131	-\$246,463	-\$266,923	-\$234,022
<b>Low (80% of MFI)</b>				
Value per Unit	\$165,761	\$217,864	\$258,771	\$205,204
<u>Cost per Unit</u>	<u>\$286,206</u>	<u>\$358,471</u>	<u>\$402,941</u>	<u>\$338,459</u>
Subsidy per Unit	-\$120,445	-\$140,606	-\$144,170	-\$133,255
<b>Moderate (120% of MFI)</b>				
Value per Unit	\$278,641	\$358,939	\$422,443	\$339,521
<u>Cost per Unit</u>	<u>\$286,206</u>	<u>\$358,471</u>	<u>\$402,941</u>	<u>\$338,459</u>
Subsidy per Unit	-\$7,565	\$0	\$0	\$0

(1) Weighted averages assume the following unit mix, based on 2000 Census:

1 BR	40%
2 BR	40%
3 BR	20%

Sources: U.S. Census Bureau; Economic & Planning Systems, Inc.

**Table 9**  
**Affordable Condominium Subsidy by Unit Size and Weighted Average**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Income Level	Unit Size			Weighted Average (1)
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)	
<b>Very Low (50% of MFI)</b>				
Value per Unit	\$103,950	\$129,900	\$150,750	\$123,690
<u>Cost per Unit</u>	<u>\$327,493</u>	<u>\$412,662</u>	<u>\$465,074</u>	<u>\$389,076</u>
Subsidy per Unit	-\$223,543	-\$282,762	-\$314,324	-\$265,386
<b>Low (80% of MFI)</b>				
Value per Unit	\$166,350	\$207,900	\$241,200	\$197,940
<u>Cost per Unit</u>	<u>\$327,493</u>	<u>\$412,662</u>	<u>\$465,074</u>	<u>\$389,076</u>
Subsidy per Unit	-\$161,143	-\$204,762	-\$223,874	-\$191,136
<b>Moderate (120% of MFI)</b>				
Value per Unit	\$249,525	\$311,850	\$361,800	\$296,910
<u>Cost per Unit</u>	<u>\$327,493</u>	<u>\$412,662</u>	<u>\$465,074</u>	<u>\$389,076</u>
Subsidy per Unit	-\$77,968	-\$100,812	-\$103,274	-\$92,166

(1) Weighted averages assume the following unit mix, based on 2000 Census:

1 BR	40%
2 BR	40%
3 BR	20%

Sources: U.S. Census Bureau; Economic & Planning Systems, Inc.

**Table 10**  
**Inclusionary Housing In-Lieu Fee Calculation**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Item	Income Category				Total or Weighted Average (1)
	Very Low Rental	Low Rental	Moderate Rental	For-Sale	
Total Number of Units in Project (illustrative)	100	100	100	100	100
<u>x Percent Inclusionary</u>	<b><u>8.5%</u></b>	<b><u>15.0%</u></b>	<b><u>100.0%</u></b>	<b><u>21.5%</u></b>	<b><u>15.0%</u></b>
Number of Affordable Units Required	8.5	15	100	21.5	15
<u>x Weighted Average Subsidy by Income Level (1)</u>	<u>\$234,000</u>	<u>\$133,000</u>	<u>\$0</u>	<u>\$92,000</u>	<u>\$133,000</u>
Total Subsidy Required to Build Affordable Units	\$1,989,000	\$1,995,000	\$0	\$1,978,000	\$1,990,000
<b>Required Inclusionary Housing In-Lieu Fee per Market Rate Unit</b>	\$19,890	\$19,950	\$0	\$19,780	<b>\$19,900</b>

(1) Weighted Average incorporates only the for-sale moderate income units. Rental moderate income units are shown for illustrative purposes only.

(2) Subsidies per unit are rounded to the nearest thousand dollars, and are based on rental apartments for low and very low income, for-sale units for moderate income.

Source: Economic & Planning Systems, Inc.

The logo consists of the letters 'EPS' in a white, serif font, centered within a teal-colored rectangular box that has a slight gradient.

**Economic &  
Planning Systems**

*Public Finance  
Real Estate Economics  
Regional Economics  
Land Use Policy*

## APPENDIX A

**Appendix A**  
**Development Industry Contacts**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

<b>Company</b>	<b>Contact</b>	<b>Website</b>
<u>Affordable Developers</u> Jamboree Housing	Laura Archuleta	<a href="http://www.jamboreehousing.com">www.jamboreehousing.com</a>
National Community Renaissance (National CORE) (1)	Byron Ely	<a href="http://www.schdc.org">www.schdc.org</a>
Olson Company	John Reischl	<a href="http://www.theolsonco.com">www.theolsonco.com</a>
Related Companies (1)	Gino Canori	<a href="http://www.related.com">www.related.com</a>
The Irvine Company (1)	Dan Miller	<a href="http://www.irvinecompany.com">www.irvinecompany.com</a>
<u>Market Rate Developers</u> Brookfield Homes	John O'Brien	<a href="http://www.brookfieldhomes.com">www.brookfieldhomes.com</a>
Centex Homes (1)	David Hutchins	<a href="http://www.centexhomes.com">www.centexhomes.com</a>
Fieldstone Homes	Ralph Debbisch	<a href="http://www.fieldstone-homes.com">www.fieldstone-homes.com</a>
John Laing Homes (1)	Jennifer Shirk	<a href="http://www.johnlainghomes.com">www.johnlainghomes.com</a>
Lennar Homes (1)	Donna Kelly	<a href="http://www.lennar.com">www.lennar.com</a>
Pardee Homes	Kristy Scott	<a href="http://www.pardeehomes.com">www.pardeehomes.com</a>
Richmond America Homes	Jeff Hollenbeck	<a href="http://www.richmondamerican.com">www.richmondamerican.com</a>
Shea Homes (1)	Bob Gillis	<a href="http://www.sheahomes.com">www.sheahomes.com</a>
Standard Pacific Homes	Kathie Villari	<a href="http://www.standardpacifichomes.com">www.standardpacifichomes.com</a>
Warmington Homes (1)	Jared Knickmeyer	<a href="http://www.warmingtonhomesca.com">www.warmingtonhomesca.com</a>
William Lyon Homes (1)	Pat McCabe	<a href="http://www.lyonhomes.com">www.lyonhomes.com</a>
<u>Other</u> Building Industry Association of Orange County	Brian Starr	<a href="http://www.biaoc.com">www.biaoc.com</a>

(1) EPS conducted phone interviews with the representatives of these companies regarding the preliminary development cost, revenue, and valuation assumptions.

Source: Economic & Planning Systems, Inc.

The logo consists of the letters 'EPS' in a white, serif font, centered within a teal-colored rectangular box that has a slight gradient.

**Economic &  
Planning Systems**

*Public Finance  
Real Estate Economics  
Regional Economics  
Land Use Policy*

## APPENDIX B

**Appendix B**  
**Rental Rate Survey**  
**City of Newport Beach Affordable Housing In-Lieu Fee Study; EPS#17062**

Apartment Complex	Monthly Rents		
	1 BR (2-person HH)	2 BR (4-person HH)	3 BR (6-person HH)
Baypointe	\$1,899	\$2,229	-
Bayport	\$1,590	\$1,880	\$2,425
Bayview	\$1,590	\$1,880	\$2,425
Baywood	\$1,590	\$1,880	\$2,425
Mariner's Square	\$1,790	\$2,240	\$2,485
Newport Bluffs	\$1,815	\$2,295	\$3,040
Newport North	\$1,516	\$1,845	-
Promontory Point	\$2,195	\$2,395	-
The Colony	\$2,705	\$3,015	-
Newport Ridge	\$1,905	\$2,215	-
Coronado at Newport South	\$1,099	\$1,679	-
Coronado at Newport North	\$1,199	\$1,649	-
Fairway at Big Canyon	<u>\$2,150</u>	<u>\$3,400</u>	-
Average	\$1,773	\$2,200	\$2,560
Low	\$1,516	\$1,649	\$2,425
High	\$2,705	\$3,400	\$3,040
<u>Income Level (1)</u>			
Very Low (50% of MFI)	\$866	\$1,083	\$1,256
Low (80% of MFI)	\$1,386	\$1,733	\$2,010
Moderate (120% of MFI)	\$2,079	\$2,599	\$3,015

(1) See Table 3.

Sources: City of Newport Beach; Economic & Planning Systems, Inc.