



Memorandum

Date: June 2, 2023
To: City of Mountain View
From: Seifel Consulting, Inc.
Subject: North Bayshore Master Plan – Evaluation of Public Benefit for Inclusionary Housing

Seifel Consulting, Inc. (Seifel) was retained by the City of Mountain View to evaluate the public benefit associated with the provision of 5% inclusionary housing units, which was previously proposed as part of the December 2022 North Bayshore Master Plan (Master Plan or NBMP). In accordance with the Environmental Planning Commission’s request, a high-level analysis of the approximate value of the provision of inclusionary housing as a public benefit is presented in this memorandum.

Based on input from community members and the City of Mountain View, the applicant has refined various components of the North Bayshore Master Plan and submitted its revised Master Plan in March 2023 (NBMP or Master Plan). The NBMP would meet the affordable housing requirements of the North Bayshore Precise Plan (NBPP) by dedicating land for affordable housing and provide public benefits valued at \$18.5 million in current dollars including a variety of cash payments and other benefits to establish “people-centric funds,” implement an Active Use Assistance Program, provide public art, and facilitate the design and construction of Eco Gem Public Park. The applicant has indicated that inclusionary housing is not being provided as a public benefit given project feasibility considerations.

Approach to Analysis

The analysis values the public benefit of inclusionary housing based on build out of the NBMP, which is assumed at 7,000 housing units of which 5% or 350 units would be inclusionary units. The evaluation builds upon the prior analysis that Seifel prepared for the North Bayshore Gateway Master Plan, a review of current real estate data and consultation with the applicant. Market rent and sales prices have been adjusted to 2022 dollars from the assumptions used in the Gateway Master Plan to account for the combination of inflation as well as a high-rise premium given the high proportion of high-rise residential buildings in the Master Plan and the need to achieve sufficient revenues to support anticipated development costs. As the NBMP is proposed to be built during a 15 to 30 year time horizon, the types of housing to be built would likely change over time as well as the economic factors that affect housing affordability and housing development.

The public benefit analysis is based on two household income scenarios for inclusionary apartment units at 110% and 120% Areawide Median Income (AMI), and each of these is alternatively evaluated as an all-rental option and with a housing mix that includes 80% apartments and 20% condominiums (condos):

- Scenario 1A (Inclusionary Apartments at 110% AMI, All Rental)– The household income assumption of 110% AMI is used in this scenario because the California Health and Safety Code Section 50053 establishes affordable housing cost at 110% area median income (AMI) for rental units that serve

moderate income households up to 120% AMI. Currently, the applicant has indicated that they intend to build apartment units although the NBMP would allow condominiums to be built.

- Scenario 1B (Inclusionary Apartments at 110% AMI, Housing Mix With 20% Condo)– A housing mix of 80% apartments and 20% condominiums is used in this scenario based on the Gateway Master Plan, which assumed a potential mix of 10% to 20% condominiums. The inclusionary apartments would be provided at an affordable housing cost of 110% AMI and condos would be affordable to households at 135% AMI based on the NBMP.
- Scenario 2A (Inclusionary Apartments at 120% AMI, All Rental) – This scenario assumes all housing units are apartments that would be affordable to renter households based on an affordable cost at 120% AMI as indicated in the NBMP.
- Scenario 2B (Inclusionary Apartments at 120% AMI, Housing Mix With 20% Condo) – This scenario assumes a housing mix of 80% apartments and 20% condominiums and inclusionary apartments would be provided at an affordable housing cost of 120% AMI and condos at 135% AMI.

The value for each scenario is calculated based on the affordability gap, which is equal to the difference in value between an inclusionary unit at a restricted rent or price that is affordable to households at these income levels and the market value or price of housing as of 2022. Appendix 1 presents the supporting data and analysis in a series of appendix tables.

Summary of Key Findings

The findings from our evaluation of the public benefit for inclusionary housing are presented in this memorandum and the accompanying appendix tables, which can be summarized into two key findings:

- The value of the provision of 350 units of inclusionary housing as a public benefit is estimated to range between about \$43 million to \$66 million (in constant 2022 dollars) based on alternative scenarios regarding household income levels for inclusionary apartment units and the mix of housing to be built (all rental versus a mix of apartments and condominiums). Figure 1 and Exhibit 1 on the following page summarize the key findings.
- The ultimate value of this public benefit will depend on how much housing would be built of different housing types, future rents and/or sales prices of the housing units, the household incomes that would be served by the affordable housing, and other economic factors that would affect the development of housing in NBMP.

Figure 1
Value Range for 350 Units of Inclusionary Housing
North Bayshore Master Plan

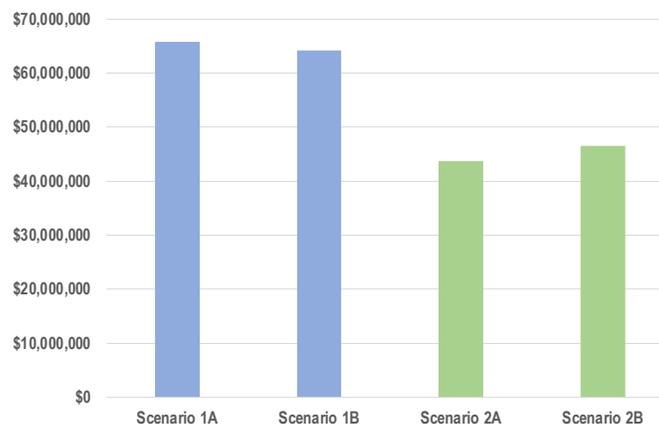


Exhibit 1
Description of Scenarios and Value Range for 350 Units of Inclusionary Housing
North Bayshore Master Plan

	Inclusionary Apartments		Inclusionary Condominiums		Public Benefit
	Percent of Inclusionary Units	Household Area Median Income (AMI)	Percent of Inclusionary Units	Household Area Median Income (AMI)	
Scenario 1A (Inclusionary Apartments at 110% AMI, All Rental)	100%	110% AMI	0%	N/A	\$65,800,000
Scenario 1B (Inclusionary Apartments at 110% AMI, Housing Mix With 20% Condo)	80%	110% AMI	20%	135% AMI	\$64,190,000
Scenario 2A (Inclusionary Apartments at 120% AMI, All Rental)	100%	120% AMI	0%	N/A	\$43,750,000
Scenario 2B (Inclusionary Apartments at 120% AMI, Housing Mix With 20% Condo)	80%	120% AMI	20%	135% AMI	\$46,550,000

Note: Refer to supporting appendix tables for further information. Household income for inclusionary apartments is based on 110% or 120% Santa Clara County area median income (AMI) while inclusionary condominiums are based on 135% Santa Clara County area median income (AMI).

Source: City of Mountain View, California Department of Housing and Community Development (HCD), Santa Clara County, Freddie-Mac Primary Mortgage Market Survey, FHA Mortgage Insurance Premium Zillow, Interviews with Developers.

Affordability Gap Analysis and Valuation of Public Benefit

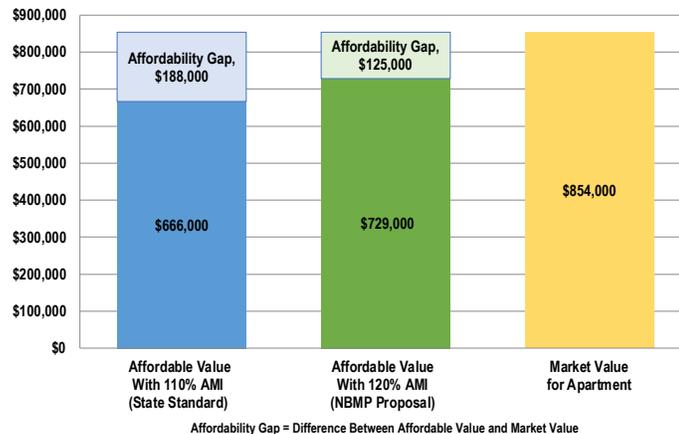
As described above, the value of the public benefit for each inclusionary housing scenario is evaluated based on the affordability gap, which is equal to the difference in value between an inclusionary unit at a restricted rent or price that is affordable to households at specific household income levels and the market value or price of housing. The public benefit is calculated based on the number of inclusionary apartments and/or condominiums multiplied by the affordability gap per unit for each respective unit type. The analysis first calculates the affordability gap for apartments at the two target income levels and then for condominium units. Appendix Table 1 summarizes the calculations of public benefit for the scenarios.

The affordability gap for inclusionary apartments is calculated based on household AMI levels for Santa Clara County that were published by the State of California in 2022. These AMI levels are used to project the monthly and annual housing cost that is affordable to households at specific AMI levels:

- California Health and Safety Code Section 50053 establishes affordable housing cost at 110% AMI for rental units that serve moderate income households up to 120% AMI. Section 50053 also defines affordable rental cost based on 30% of AMI for moderate income households less what a renter would pay for utilities, which is used to calculate the affordable rental cost for the two alternative income scenarios for inclusionary apartments at 110% and 120% AMI. (See Appendix 2A.)
- Based on information provided by the applicant regarding the housing mix of the market rate units, the average household size is 2.25 persons per household, which is based on 20% studios, 40% one bedroom units, 35% two bedroom units and 5% three bedroom units. The average household size is calculated based on the correlation between household size and bedroom size in Section 50052.5, which applies to both rental and ownership units.
- The value of each inclusionary apartment alternative and a market rate apartment is calculated based dividing net operating income (NOI) by a capitalization rate (cap rate), which is used by appraisers to value multifamily apartments. NOI is assumed to equal rental revenues less a 5% vacancy allowance and less a 28% operating expense allowance, and the cap rate is assumed at 4.5%, as shown in Appendix Table 2B along with a description of other key assumptions.

Figure 2 below shows the affordability gap for apartments at 110% AMI and 120% AMI compared to the value of market rate apartments. The affordability gap for an inclusionary apartment unit at 110% AMI is greater than at 120% AMI given the lower household income level.

Figure 2
Affordability Gap for Inclusionary Apartment (Constant 2022 Dollars)
North Bayshore Master Plan

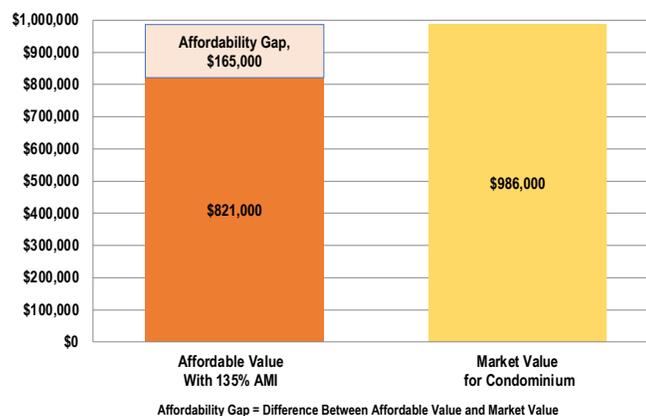


The affordability gap for inclusionary condominiums is based on the restricted value for an inclusionary condominium compared to the market value (sales price) for a market rate condominium:

- California Health and Safety Code Section 50052.5 defines affordable housing cost for ownership units that serve moderate income households at 35% of 110% AMI. The affordable homeownership costs for inclusionary condominium units are based on this 35% standard at 135% AMI.
- As described above, the average household size is 2.25 persons per household based on the correlation between household size and bedroom size in Section 50052.5.
- The affordable value of an inclusionary condominium is based on an affordable mortgage amount that is calculated based on a monthly affordable homeownership cost after deducting typical homeowner costs– utility, homeowner association, property tax and insurance costs. A 30 year fixed rate mortgage at 4.75% is assumed along with a 10 percent downpayment contribution by the buyer, as shown in Appendix Table 3 along with a description of other key assumptions. Appendix Table 4 presents other assumptions used in the analysis including household size and market rents and prices.

Figure 3 below shows the affordability gap for an inclusionary condominium at 135% AMI compared to the value of market rate apartments.

Figure 3
Affordability Gap for Inclusionary Condominium (Constant 2022 Dollars)
North Bayshore Master Plan



Conclusion

As described in this memorandum, the ultimate value of the public benefit of providing inclusionary housing units will depend on how much housing would be built of different housing types, future rents and/or sales prices of the housing units, the household incomes that would be served by the affordable housing, and other economic factors that would affect the development of housing over the expected 30-year span of the project. Based on the analysis and assumptions presented in this memo the scenarios evaluated would yield the following range of public benefits:

- Scenario 1A and 1B (Apartments at 110% AMI and Condos at 135% AMI)– The value of the provision of 350 units of inclusionary housing as a public benefit is estimated to range between about \$64 million to \$66 million (in constant 2022 dollars) depending on whether the project includes an all rental versus a mix of 80% apartments and 20% condominiums.
- Scenario 2A and 2 B (Apartments at 120% AMI and Condos at 135% AMI)– The value of the provision of 350 units of inclusionary housing as a public benefit is estimated to range between about \$43 million to \$46 million (in constant 2022 dollars) depending on whether the project includes an all rental versus a mix of 80% apartments and 20% condominiums.

Appendix Table 1
Supporting Calculations of Value Range for 350 Units of Inclusionary Housing
Based on Affordability Gap for Apartment and Condominium Units
In Constant 2022 Dollars
North Bayshore Master Plan

	Apartments	Condominiums	Total or Average
Scenario 1A (Inclusionary Apartments at 110% AMI, All Rental)			
Percent of Units	100%	0%	100%
Household Area Median Income (AMI)	110%	N/A	110%
Distribution of Units	350	0	350
Market Value	\$854,000	\$986,000	N/A
<u>Affordable Value (based on affordable cost)</u>	<u>\$666,000</u>	<u>N/A</u>	<u>N/A</u>
Affordability Gap Per Unit	\$188,000	N/A	\$188,000
Total Public Benefit (Scenario 1A)	\$65,800,000	N/A	\$65,800,000
Scenario 1B (Inclusionary Apartments at 110% AMI, Housing Mix With 20% Condo)			
Percent of Units	80%	20%	100%
Household Area Median Income (AMI)	110%	135%	110% / 135%
Distribution of Units	280	70	350
Market Value	\$854,000	\$986,000	N/A
<u>Affordable Value (based on affordable cost)</u>	<u>\$666,000</u>	<u>\$821,000</u>	<u>N/A</u>
Affordability Gap Per Unit	\$188,000	\$165,000	\$183,400
Total Public Benefit (Scenario 1B)	\$52,640,000	\$11,550,000	\$64,190,000
	Apartments	Condominiums	Total or Average
Scenario 2A (Inclusionary Apartments at 120% AMI, All Rental)			
Percent of Units	100%	0%	100%
Household Area Median Income (AMI)	120%	N/A	120%
Distribution of Units	350	0	350
Market Value	\$854,000	\$986,000	N/A
<u>Affordable Value (based on affordable cost)</u>	<u>\$729,000</u>	<u>N/A</u>	<u>N/A</u>
Affordability Gap Per Unit	\$125,000	\$165,000	\$125,000
Total Public Benefit (Scenario 2A)	\$43,750,000	N/A	\$43,750,000
Scenario B-2 (Inclusionary Apartments at 120% AMI, Housing Mix With 20% Condo)			
Percent of Units	80%	20%	100%
Household Area Median Income (AMI)	120%	135%	120% / 135%
Distribution of Units	280	70	350
Market Value	\$854,000	\$986,000	N/A
<u>Affordable Value (based on affordable cost)</u>	<u>\$729,000</u>	<u>\$821,000</u>	<u>N/A</u>
Affordability Gap Per Unit	\$125,000	\$165,000	\$133,000
Total Public Benefit (Scenario 2B)	\$35,000,000	\$11,550,000	\$46,550,000

Note: Refer to supporting appendix tables for further information. Household income for inclusionary apartments is based on 110% Santa Clara County area median income (AMI) while inclusionary condominiums are based on 135% Santa Clara County area median income (AMI).

Source: City of Mountain View, California Department of Housing and Community Development (HCD), Santa Clara County, Freddie-Mac Primary Mortgage Market Survey, FHA Mortgage Insurance Premium Zillow, Interviews with Developers.

Exhibit 2A
Comparison of Affordable Rent to Market Rent
North Bayshore Master Plan

	Assumptions	Inclusionary Apartment (110% AMI)	Inclusionary Apartment (120% AMI)	Market Rate Apartment
Monthly Rent Calculation				
Average Bedroom Size ¹	<i>Based on market rate unit mix</i>	1.45 Bedroom	1.45 Bedroom	1.45 Bedroom
Average Household Size ¹	<i>Based on market rate unit mix</i>	2.25	2.25	2.25
Household (HH) Income Limit ²	<i>Based on County Area Median Income</i>	\$152,900	\$166,800	N/A
Affordable Monthly Housing Cost	<i>30% of income</i>	\$3,823	\$4,170	N/A
<u>Less: Monthly Utility Cost³</u>	<i>Estimated utility cost</i>	<u>\$90</u>	<u>\$90</u>	<u>N/A</u>
Monthly Rent (Rounded)	<i>See Exhibit 5</i>	\$3,730	\$4,080	\$4,780

Note: Numbers may not precisely calculate due to computer rounding. Rents rounded to nearest \$10.

1. Based on North Bayshore Master Plan unit mix for market rate units. Correlation of household size to bedroom size and affordable housing cost are based on Health and Safety Code Section 50053 for renter-occupied and Section 50052.5 for owner-occupied households.
2. Based on 2022 annual areawide median income limits for County published by HCD and HUD, with adjustments to income levels using HCD rounding methodology for income levels by household size.
3. Based on estimated cost of utilities for energy efficient building, which includes electric heating and cooking related costs. Utility costs are deducted from affordable housing cost to calculate affordable rent.

Source: City of Mountain View, California Department of Housing and Community Development (HCD), Santa Clara County, Zillow, Interviews with Developers.

Exhibit 2B
Calculation of Affordability Gap for Apartment Unit
North Bayshore Master Plan

	Assumptions	Inclusionary Apartment (110% AMI)	Inclusionary Apartment (120% AMI)	Market Rate Apartment
Net Operating Income (NOI) Calculation				
Monthly Rental Cost		\$3,730	\$4,080	\$4,780
Annual Rental Income	<i>12 months of rent</i>	\$44,760	\$48,960	\$57,360
Less: Vacancy Rate	<i>5.0% of rental income</i>	\$2,238	\$2,448	\$2,868
<u>Less: Operating Expenses</u>	<i>28.0% of rental income</i>	<u>\$12,533</u>	<u>\$13,709</u>	<u>\$16,061</u>
Net Operating Income (NOI)	<i>67.0% of rental income</i>	\$29,989	\$32,803	\$38,431
Affordable Value (at affordable cost)	<i>Value equals NOI divided by</i>	\$666,000	\$729,000	N/A
Market Value (based on market rent)	<i>4.5% capitalization rate</i>	N/A	N/A	\$854,000
Affordability Gap (Value Method)	<i>Difference between affordable value and market value</i>	\$188,000	\$125,000	N/A

Note: Numbers may not precisely calculate due to computer rounding. Affordable value and market value rounded to nearest thousand.

Source: City of Mountain View, California Department of Housing and Community Development (HCD), Santa Clara County, Zillow, Interviews with Developers

Appendix Table 3
Calculation of Affordability Gap for Condominium Unit
North Bayshore Master Plan

	Assumptions	Inclusionary Condominium Units (135% of AMI)¹	Market Rate Condominium
Mortgage and Sales Price Calculation			
Average Bedroom Size ¹	<i>Based on market rate unit mix</i>	1.45 Bedroom	1.45 Bedroom
Average Household Size ¹	<i>Based on market rate unit mix</i>	2.25	2.25
Household (HH) Income of Inclusionary Units ²	<i>Based on County Area Median Income</i>	\$187,650	N/A
Affordable Monthly Housing Cost	<i>35% of household income</i>	\$5,473	N/A
Less: Monthly Utility Cost ³	<i>\$90 estimated utility cost</i>	\$90	N/A
Less: Monthly HOA Cost ⁴	<i>\$500 estimated HOA</i>	\$500	N/A
Less: Monthly Property Tax Cost ⁵	<i>1.20% of sales price</i>	\$821	N/A
Less: Monthly Property Insurance Cost ⁶	<i>0.025% of sales price</i>	<u>\$205</u>	N/A
Maximum Monthly Affordable Mortgage Payment ⁷	<i>30 Year Fixed Rate Mortgage</i>	\$3,857	N/A
Maximum Affordable Mortgage⁷	<i>4.75% annual interest cost</i>	\$739,209	N/A
Plus: Buyer Downpayment	<i>10% of sales price</i>	\$82,134	N/A
Affordable Value (at affordable cost)	<i>Based on affordable cost (rounded)</i>	\$821,000	N/A
Market Value (at market sales price)	<i>Based on market sales price (see Exhibit 5)</i>	N/A	\$986,000
Affordability Gap (Value Method)	<i>Difference in value between affordable value at restricted price and market sales price</i>	\$165,000	N/A

Note: Numbers may not precisely calculate due to computer rounding. Affordable value and market value rounded to nearest thousand.

1. Based on North Bayshore Master Plan unit mix for market rate units. Correlation of household size to bedroom size and affordable housing cost are based on Health and Safety Code Section 50053 for renter-occupied and Section 50052.5 for owner-occupied households.
2. Based on 2022 annual areawide median income limits for County published by HCD and HUD, with adjustments to income levels using HCD rounding methodology for income levels by household size.
3. Based on estimated cost of utilities for energy efficient building, which includes electric heating and cooking related costs. Utility costs are deducted from affordable housing cost to calculate affordable mortgage.
4. Estimated cost based on review of recent condominiums for sale in Mountain View.
5. Estimated Citywide tax rate inclusive of bond override payments.
6. Estimated based on typical lender underwriting standards assuming that structural insurance is included in HOA cost.
7. Mortgage cost based on historical average mortgage interest rate for past 10 years for fixed rate, 30 year mortgage plus FHA Mortgage Insurance Premium.

Source: City of Mountain View, California Department of Housing and Community Development (HCD), Santa Clara County, Freddie-Mac Primary Mortgage Market Survey, FHA Mortgage Insurance Premium, Zillow, Interviews with Developers.

Appendix Table 4
Comparison of Key Development Assumptions for Affordable Housing Gap Analysis
North Bayshore Master Plan

	North Bayshore Precise Plan (NBPP)	Market Rate Apartment (Gateway and North Bayshore Master Plan)	Market Rate Condominium (Gateway and North Bayshore Master Plan)			
Average Unit Size (Net Square Feet)	725	725	800			
<i>Average Unit Size (Gross Square Feet)</i>	<i>967</i>	<i>1,000</i>	<i>1,000</i>			
<i>Residential Efficiency</i>	<i>75.0%</i>	<i>72.5%</i>	<i>80%</i>			
Monthly Market Rent and Sales Price¹	N/A	\$4,780	\$986,000			
<i>Per Unit Net Square Feet</i>	<i>N/A</i>	<i>\$6.59</i>	<i>\$1,233</i>			
Average Household Size²	1.80	2.25	2.25			
Average Bedroom Size²	1.4	1.45	1.45			
Assumed Distribution of Units by Bedroom Type and Unit Size (Net Square Feet)						
Bedroom Type	Unit Size (NSF)	Unit Mix (Goal)	Unit Size (NSF)	Unit Mix	Unit Size (NSF)	Unit Mix
Studio/Micro	450	40%	400	20%	450	20%
1 Bedroom	715	30%	715	40%	750	40%
2 Bedroom	1,025	20%	875	35%	1,000	35%
3 Bedroom	1,250	10%	1,050	5%	1,200	5%
Average Unit Net Square Feet or Total	725	100%	725	100%	800	100%

1. Market rents and prices are assumed to be 12% higher than North Bayshore Gateway Master Plan assumptions, which takes into account inflationary increases over the past 2.5 years plus a highrise premium given the large proportion of highrise buildings proposed in the NBMP. The Gateway Master Plan used the following assumptions: \$4,265 per month for market rent (including \$65 for unbundled parking cost based on \$100/month at a parking ratio of .65 spaces/ unit) for apartments and \$880,000 sales price for condominiums as of Fiscal Year 2019/20.
2. Average household size for North Bayshore Precise Plan is based on Supplemental EIR and NBPP unit mix goal. Average household and bedroom size for North Bayshore Master Plan units is calculated based on proposed market unit mix, with household size correlation to bedroom size based on Health and Safety Code Section 50052.5.

Source: City of Mountain View, North Bayshore Precise Plan, North Bayshore Master Plan and Gateway Master Plan.