



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: July 9, 2019
TO: Christine Daniel, City Manager
FROM: Charles S. Bryant, Community Development Director
SUBJECT: Resolution Of The City Council Of The City Of Emeryville Adopting The 2019 Housing Affordability Table Pursuant To The Affordable Housing Program (Article 4 Of Chapter 5 Of The Planning Regulations)

RECOMMENDATION

Staff recommends that the City Council approve the attached resolution adopting the 2019 Housing Affordability Table pursuant to the Affordable Housing Program (Article 4 of Chapter 5 of the Planning Regulations).

BACKGROUND

The City's Affordable Housing Program (AHP) was adopted in 1990 and updated in 2014. Prior to 2014, the ordinance required that new residential and live-work developments of thirty or more units (rental or for-sale) include a set-aside of Below Market Rate (BMR) units. In the case of for-sale developments, twenty percent of the units were to be set aside at the moderate income level. In the case of rental developments, six percent of the units were to be set aside at the very low income level and nine percent of the units were to be set aside at the moderate income level. In both rental and ownership projects, the AHP allowed the developer to apply to the City to provide low income units in lieu of all or some portion of their moderate income unit requirement. In 2014, the AHP was updated to require that new ownership residential projects of ten or more units have a set-aside of twenty percent of the units at the moderate income level. The current AHP requires an impact fee of \$29,185 per rental unit or an in-lieu production requirement of eight percent of the units at the low income level and four percent at the very low income level.

As a result of the AHP, the City's current BMR inventory includes 843 units, comprised of 617 rental units and 226 ownership units. Additionally, there are currently 202 new BMR rental units in the development pipeline or under construction. The income levels of the City's BMR units are as follows:

Tenure	Very Low Income	Low Income	Median Income	Moderate Income	Total
Rental	425	83	-	109	617
Ownership	29	34	21	142*	226
Total	454	117	21	251	843

**Includes units that were originally sold as Very Low or Low-Income but which have a requirement to be re-sold as Moderate Income units.*

Typically, the State of California Housing and Community Development Department (HCD) releases the income limits for each county between February and April of each year. This year, HCD released the income limits on May 6, 2019. A copy of the State's release is found in Attachment 2. After the State releases its annual income limits for Alameda County, staff updates the "Housing Affordability Table" which is used to provide the maximum sales prices and gross rent levels that are eligible under the AHP.

DISCUSSION

Alameda County Income Limits

The Alameda County Area Median Income limits by household size are as follows:

1-person:	\$78,200
2-person:	\$89,350
3-person:	\$100,550
4-person:	\$111,700
5-person:	\$120,650

The chart below presents the annual percentage changes in median income at the four-person household size since 2013. While increases were slight to moderate between 2013 and 2016, the continuous increases between 2016 and 2019 deviated from that pattern. This results in an increase of the allowable amounts of BMR gross monthly rents and maximum resale prices.

	2013	2014	2015	2016	2017	2018	2019
Alameda Co. Median Income -- 4 person household	\$93,500	\$93,500	\$93,500	\$93,600	\$97,400	104,400	\$111,700
% Increase	0.0%	0.0%	0.0%	0.1%	4.1%	7.2%	7.0%

Affordable Housing Cost

Pursuant to the AHP, maximum housing costs are calculated in compliance with Section 50052.5 of the California Health and Safety Code. The chart below shows the maximum amount that may be spent on total housing costs from a household's income for owner-occupied and renter-occupied housing.

- For owner-occupied housing, total housing costs include monthly mortgage principal and interest, property taxes and assessments, homeowner's insurance, homeowner association fees where applicable, an allowance for utilities, property maintenance and repairs and private mortgage insurance (PMI).
- For renter-occupied housing, total housing costs includes the monthly rent, and an allowance for utilities, fees or service charges charged to all tenants.

<u>Income Level</u>	<u>Ownership Housing</u>	<u>Rental Housing (gross rent)</u>
Moderate income	35% of 110% AMI	30% of 110% AMI
Low income	30% of 70% of AMI	30% of 60% of AMI
Very low income	30% of 50% of AMI	30% of 50% of AMI

Implementation of the AHP

As part of a development's entitlement process, the City places conditions of approval on the project to direct its design and development, as required by the AHP. For ownership projects of 10 or more units, the Planning Commission imposes a condition of approval requiring the applicant to enter into an Affordability Agreement that is approved by the City Council before the project may receive its building permits. For rental projects that choose the in-lieu production requirement instead of the Affordable Housing Impact fee, or that request development bonuses and are therefore required to include affordable units in the project, the Planning Commission imposes a condition of approval requiring the applicant to enter into an Affordability Agreement that is approved by the City Council before the project may receive its building permits.

The Affordability Agreement implements the requirements of the AHP, including the duration of the affordability covenants (45 years for ownership projects and 55 years for rental projects), the developer's requirements for marketing the BMR units, the designation of the BMR units within the project, the required resale restriction documents (for ownership projects), the required compliance documents (for rental projects), and the initial sales prices or rent levels for the affordable units.

Staff determines the initial sales prices or rents on a project-by-project basis, applying the State definition of affordable housing cost, but applying the specific project's estimate for homeowner dues and/or maintenance and utility costs.

Annual Housing Affordability Table

While each project's sales or rent levels are set individually and contained as an exhibit within that project's Affordability Agreement, staff also produces the Housing Affordability Table in conjunction with the release of the income limits by HCD.

This table is used for reference purposes and is distributed to developers of projects subject to the AHP so that they may conduct project financial analyses. The calculations in the table are based on the State affordable housing cost definitions and the amounts are adjusted for family size. The table assumes a household size one more than the number of bedrooms. For example, the one-person household income limit is applied for studios, the two-person household income limit is applied for one-bedroom units, the three-person household income limit is applied for two-bedroom units, and so forth.

Actual sales and rent levels of BMR units may be less than the sales prices and rents in the table, which estimate the maximum sales price or rent that could be charged based

on statutory requirements. As noted above, actual maximums will be based on project specific information such as condominium fees and utility and maintenance costs. Furthermore, BMR units may be priced below the maximum as the developer, or seller in the case of resales, responds to market conditions.

A moderate income unit's sale price or rent level may be close to the market price. In this case, there may be little incentive for a household to buy or rent the unit, given the administrative burden on the household to qualify for a BMR unit. To sell or rent the unit, the developer may further discount the price. In general, market rate studio, one, two and three bedroom rents are higher than the maximum moderate income rents allowed for BMR units under the AHP. When rents increase, as they are currently in Emeryville, BMR rent restrictions will increasingly make apartments more affordable to very low, low and moderate income households. The same pattern is true in ownership units; the larger the unit, the more likely it is that the market price will be higher than the maximum moderate income price allowed for BMR units under the program. In addition, moderate income buyers currently have difficulty competing against all-cash offers for market rate units and are more likely to apply to purchase BMR units.

Rental housing assumptions

The Housing Affordability Table calculates *gross rents*. Developers are required to deduct from the gross rent any charges or fees paid by the tenants, and an allowance for utilities paid by tenants in accordance with the most recent utility allowances published by the Housing Authority of the County of Alameda (HACA).

Ownership housing assumptions

For ownership housing, it is necessary to make assumptions about several factors that influence the affordable sales price. These assumptions are the interest rate and term, the down payment level, the homeowner association fees, and utilities and homeowners' insurance allowances.

In the past year, some buyers have been able to access loans with interest rates as low as four percent. However, because moderate and low income households are often first-time purchasers and may not have a strong credit history, they may be subject to higher interest rates on their first mortgages than what is seen on average in the market. Staff uses the fifteen-year average of the Fannie Mae 30-year interest rate which currently calculates to 4.5 percent when rounded to the nearest 0.25 percentage point.

Staff currently estimates that the PMI on a mortgage on a condominium unit is approximately 0.5094% of the first mortgage amount when PMI is charged. This represents a minor reduction as compared to the PMI rate assumed for the 2018 table (0.52%) and is based on the average PMI rates charged to BMR program homeowners in Emeryville since 2015.

Finally, the table includes assumptions about utilities, homeowners' insurance cost, and homeowner association fees. These levels are based on staff's assessment of recent condominium projects that have been subject to the AHP as well as data from HACA.

Over the past few years, utility costs have risen. The increased incomes mean that buyers can afford to spend more on housing, which causes the maximum resale price to rise; however, that is offset slightly by the increase in the utility costs. The assumption of the cost of homeowners' insurance is based on the estimated monthly cost of HO6 Condo or Co-op Insurance cost in 2017 (adjusted for inflation) published by the Office of the State Insurance Commissioner.

Again, when the City is preparing an Affordability Agreement for an individual project, staff will obtain the estimated homeowner association fees for that project and calculate the maximum sales prices accordingly.

Summary of 2019 Housing Affordability Table

The chart below provides a summary of the maximum sales prices and rent levels for 2019, by unit size and income level. Under the Affordable Housing Program, the sales prices are set at the moderate income level (although the table includes all income levels), and the rent levels are set at the moderate, low, and very low income levels. While estimated sale prices have risen for most income levels and home sizes as compared to 2018, studios priced for low income or very-low income households as well as one-bedroom homes priced for very-low income households have decreased due to the increased cost of household expenses. However, because maximum resale prices are calculated using the actual HOA dues for a given unit rather than the value assumed in the table, it is possible that this will not be reflected in actual sales prices for these units.

2019 Maximum/Affordable Sales Prices				
	Studio	One-Bedroom	Two-Bedroom	Three-Bedroom
Moderate Income	\$310,039	\$357,287	\$398,841	\$440,298
Low Income	\$126,598	\$147,690	\$162,971	\$178,272
Very Low Income	\$80,995	\$95,633	\$104,319	\$112,965

2019 Gross Monthly Rents				
	Studio	One-Bedroom	Two-Bedroom	Three-Bedroom
Moderate Income	\$2,151	\$2,457	\$2,765	\$3,072
Low Income	\$1,173	\$1,340	\$1,508	\$1,676
Very Low Income	\$978	\$1,117	\$1,257	\$1,396

FISCAL IMPACT

Adoption of the 2019 Housing Affordability Table has no fiscal impact.

STAFF COMMUNICATION WITH THE PUBLIC

The Housing Committee reviewed the 2019 Housing Affordability Table at its regular meeting of June 5, 2019. The Committee voted unanimously to recommend that the City Council approve the table.

CONFLICT OF INTEREST

None.

CONCLUSION

Staff recommends that the City Council approve the attached resolution adopting the 2019 Housing Affordability Table.

PREPARED BY: Chadrick Smalley, Economic Development and Housing Manager

APPROVED AND FORWARDED TO THE CITY COUNCIL OF THE CITY OF EMERYVILLE:



Christine Daniel, City Manager

ATTACHMENTS

- State HCD Income Limits Release for 2019
- Draft Resolution, including Exhibit A, 2019 Housing Affordability Table