Hypothetical Development: Partial On-Site Production and Partial In-Lieu Fee Payment

Presented By: RSG

PARTIAL ON-SITE PRODUCTION, AND PARTIAL IN-LIEU FEE PAYMENT

1. Some developers may find that moderate income units are feasible to build on site, but low- and very low-income units are infeasible.
2. Rather than requiring either full on-site unit production, or full in-lieu fee payment, the City could offer Developers the option of partial on-site unit production and partial in-lieu fee payment.
3. Developer builds moderate-income units on site
4. Developer pays in-lieu fee proportional to required low- and very-low unit production.

(Examples on following slides)

PARTIAL ON-SITE PRODUCTION: SINGLE FAMILY

Fee based on 10% production requirement and weighted by RHNA obligations	Hypothetical Development: 100 Single Family Homes
1. Inclusionary Requirement for 100 Units @ 12.5% (1) (Rounded)	4 Moderate-income (100 x 12.5% x 30.0%) 4 Low-income (100 x 12.5% x 28.5%) 5 Very Low-income (100 x 12.5% x 41.5%)
2. Cost to Developer (2)	($364,000) per unit
3. Sales Revenue (3)	Moderate: $364,000 per unit Low: $144,000 per unit Very Low: $68,000 per unit
4. Feasibility Surplus/(Gap)	Moderate: $0 Low: ($220,000) Very Low: ($296,000)

(1) Weighted according to RHNA obligations (41.5% very low, 28.5% low, and 30.0% moderate)
(2) Hypothetical development cost inclusive of of land, construction costs, soft costs, contingencies, reserves, and developer profit, equivalent to the moderate-income unit value
(3) Based on 2022 Affordable Owner Cost Limits for Merced County

PARTIAL ON-SITE PRODUCTION: SINGLE FAMILY

<table>
<tr><th>Fee based on 10% production requirement and weighted by RHNA obligations</th><th colspan="2">Hypothetical Development:
100 Single Family Homes</th></tr>
<tr><td>5. Maximum Supportable Fee @ 10%</td><td colspan="2">$18,500</td></tr>
<tr><td>6. Fee by Income Level (1)
(Rounded to nearest 100)</td><td colspan="2">Moderate: $5,500
Low: $5,300
Very Low: $7,700</td></tr>
<tr><td rowspan="3">7. In-lieu Fee by Affordability Level (2)</td><td>Very Low</td><td>Low</td></tr>
<tr><td>$7,700/unit</td><td>$5,300/unit</td></tr>
<tr><td>$770,000</td><td>$530,000</td></tr>
<tr><td>8. Total Production and Fee</td><td colspan="2">4 Moderate-income units
$1,300,000</td></tr>
<tr><td colspan="3">(1) Weighted according to RHNA obligations (41.5% very low, 28.5% low, and 30.0% moderate)
(2) Total Number of Units in Development x Fee by Income Level</td></tr>
</table>

PARTIAL ON-SITE PRODUCTION: MULTIFAMILY

Fee based on 10% production requirement and weighted by RHNA obligations	Hypothetical Development: 100 Multifamily Units
1. Inclusionary Requirement for 100 Units at 12.5% (1) (Rounded)	4 Moderate-income (100 x 12.5% x 30.0%) 4 Low-income units (100 x 12.5% x 28.5%) 5 Very Low-income units (100 x 12.5% x 41.5%)
2. Cost to Developer (2)	($337,000) per unit
3. Capitalized Unit Value (3)	Moderate: $198,000 per unit Low: $52,000 per unit Very Low: $23,000 per unit
4. Feasibility Surplus/(Gap)	Moderate: $134,000 Low: $285,000 Very Low: $315,000

(1) Weighted according to RHNA obligations (41.5% very low, 28.5% low, and 30.0% moderate)
(2) Hypothetical development cost inclusive of of land, construction costs, soft costs, contingencies, reserves, and developer profit, equivalent to the moderate-income unit value
(3) Based on 2022 Affordable Rental Housing Cost Limits for Merced County

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PARTIAL ON-SITE PRODUCTION: MULTIFAMILY

Fee based on 10% production requirement and weighted by RHNA obligations	Hypothetical Development: 100 Multifamily Units	
5. Maximum Supportable Fee @ 10%	$25,400	
6. Fee by Income Level (1) (Rounded to nearest $100)	Moderate: $7,700 Low: $7,200 Very Low: $10,500	
7. In-Lieu Fee by Affordability Level (2)	Very Low	Low
	$10,500/unit	$7,200/unit
	$1,050,000	**$720,000**
8. Total Production and Fee	**4 Moderate-income units** **$1,770,000**	

(1) Hypothetical development cost inclusive of of land, construction costs, soft costs, contingencies, reserves, and developer profit, equivalent to the moderate-income unit value
(2) Weighted according to RHNA obligations (41.5% very low, 28.5% low, and 30.0% moderate)

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ANNEXATION AREAS

- **One property sold in the annexation areas in the last five years: 37.4-acre Baxter Ranch sold in October 2021 for $1.8 million ($46,800 per acre)**
- **Within the City:**
  - Land costs ranged from $100,000 to $1.3 million per acre
  - Median $297,000 per acre
- **Outside the City's corporate limits, but within the City's sphere of influence:**
  - Land costs ranged from $28,000 to $450,000 per acre
  - Median $55,000 per acre

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SUPPORTABLE AND FEASIBLE IN-LIEU FEES FOR THE CITY AND ANNEXATION AREAS

	Based on Land Values within the City		**Based on Unincorporated Land Values (1)**	
	Maximum Supportable (10% Production Req)	Maximum Feasible	Maximum Supportable (10% Production Req)	Maximum Feasible
Single Family Residential	$18,500 per unit $11 per sf	$15,200 per unit $9 per sf	$16,600 per unit $10 per sf	$43,400 per unit $26 per sf
Med Density Multifamily	$25,400 per unit $28 per sf	$23,000 per unit $25 per sf	$24,600 per unit $27 per sf	$33,200 per unit $37 per sf

(1) Feasibility may be further impacted by higher entitlement and infrastructure costs in annexation areas.

Alternatives

- Waive inclusionary requirements within the City limits
- Adjust fee based on area (North, South, AB3312)
- Waive or Reduce fee for In-Fill Development
- Policy only applies to new annexation
- Allow developers to split the requirement between building part affordable and paying in-lieu of building affordable housing