DRAFT MEMORANDUM

To: Katie Herlihy, City of Capitola

From: Darin Smith and Jake Cranor

Subject: Affordable Housing Fee Feasibility Assessment; EPS #201117

Date: September 3, 2021

The Economics of Land Use

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Economic & Planning Systems, Inc. (EPS) was retained by the City of Capitola (City) to prepare affordable housing nexus studies for both rental and for-sale residential development as a complement to a broader update of the City's Inclusionary Housing Ordinance. The City's goal is to ensure its policies encourage development of a range of housing options to address market pressures, mitigate displacement, and enable housing for future residents.

Under Capitola's existing inclusionary housing ordinance, new housing developments creating seven or more for-sale housing units, residential parcels, converted condominiums, or mobile home parcels are required to reserve and restrict one out of seven total units (nominally 15 percent) at or below prices affordable to the area median household income adjusted for household size. Housing development projects with a unit count that is not evenly divisible by seven must pay affordable housing fees for the remainder of the units at a cost of $10 per square foot.

Housing development projects that consist solely of rental housing units are required to pay $6.00 per square foot, and projects with fewer than seven for-sale housing units, residential parcels or converted condominiums, or mobile home parcels are required to pay affordable housing in-lieu fees ($10.00 per square foot) or provide affordable units on-site. In addition, a structural addition to an existing housing unit which will result in a fifty percent or greater increase in the housing unit's square footage is required to pay affordable housing in-lieu fees ($2.50 per added square foot).

This analysis evaluates the feasibility of potential changes to the City's affordable housing programs to inform levels of fees or inclusionary requirements that may be supported with minimal adverse impact on new development. The memo also describes an overview of comparable jurisdictions' inclusionary requirements, a discussion on the State's Density Bonus Law, a detailing of EPS's approach to the feasibility analysis, and recommendations for staff regarding the update to the City's inclusionary housing ordinance.

Definitions

When discussing affordable housing policies and programs, it is helpful to review certain definitions and see actual numbers. The figure below shows the names of various affordability categories, what those categories mean in terms of their relation to the median incomes of the County's overall population, and what the current maximum income level in each category would be for a 3-person household (generally, the average size of Capitola households). The specific income levels are set by the State Department of Housing and Community Development (HCD) and bear a nominal but not literal relationship to the median income. For example, the "Low Income" category is nominally set at up to 80 percent of the County's median income, but HCD sets the dollar amount at $95,600 or over 95 percent of the actual median income at $99,000. As shown, a "Very Low Income" household in Capitola earns up to nearly $60,000 per year, greater than the amount earned by two full-time workers earning the State's minimum wage of $13.00 per hour in 2021.

Affordability Category	**Percentage of County Median**	**2021 Max Income [1]** 3-person household
Extremely Low Income (ELI)	0% - 30%	$35,750
Very Low Income (VLI)	50%	$59,600
Low Income (LI)	80%	$95,600
Median Income	100%	$99,000
Moderate Income (Mod)	120%	$118,800

[1] 2021 HCD maximum income thresholds are used to translate employment, wages and total worker household incomes to affordable housing categories and to compute supportable housing costs based on household income levels.

Key Findings

1. Capitola's inclusionary requirement for ownership housing is more or less in line with its neighboring jurisdictions. Capitola requires that 15 percent of for-sale housing units be designated as affordable, while neighboring jurisdictions in the northern Central Coast that have inclusionary ordinances require either 15 percent or 20 percent. The degree of inclusionary units' affordability varies significantly, however. While Capitola requires that inclusionary units be priced at values affordable to the area median income, other jurisdictions require that ownerships units be set aside for income categories ranging from 'very low' to 'above moderate.'

2. Among northern Central Coast jurisdictions with an inclusionary housing ordinance, Capitola is the only one to that does not have an inclusionary requirement for rental (although rental developments do pay an affordable housing fee). Neighboring jurisdictions typically require a 12 to 20 percent set aside for affordable units in rental developments.

3. Due to high development costs including the acquisition of developable land, for-sale housing developments in Capitola appear to face challenges to achieve industry-standard financial returns while also meeting the City's current inclusionary standards for on-site units. The feasibility of such projects would be greatly enhanced if the developers are allowed to pay an in-lieu or nexus-based impact fee, even one much higher than the current fee at $10 per square foot. EPS estimates that a fee of roughly $25 per square foot would allow developers to achieve an attractive financial return, exceeding those

achievable when providing inclusionary units on-site, and would also fall within the maximum nexus-supported fees calculated in the EPS nexus study.

4. New rental housing in Capitola also faces feasibility challenges due to high development costs. Even without any inclusionary requirements or in-lieu/impact fee obligations, rental development appears to fall somewhat short of industry-standard return thresholds. The City of Capitola may consider whether to maintain its current $6.00 per square foot in-lieu fee for rental development (which very modestly affects project feasibility) or eliminate any inclusionary or fee requirements for rental housing, but EPS does not recommend any increase to the City's current inclusionary standards for rental housing at this time.

5. The City currently charges an affordable housing in-lieu fee of $2.50 per square foot for home additions that increase an existing unit's size by 50 percent or greater. The for-sale housing nexus study indicates that this current fee and an even higher one could be justified from a nexus perspective. However, EPS cautions the City against raising the current home additions fee dramatically, as the cost burden of such an increase would fall largely upon existing homeowners who may not be able to absorb those costs as readily as can a professional developer who will sell a newly constructed unit very shortly after construction is complete.

Overview of Comparable Jurisdictions

In considering potential changes to the City's inclusionary requirements, it is helpful to understand how these policies are being implemented in comparable jurisdictions. To provide this context, EPS surveyed the neighboring jurisdictions in the Northern Central Coast Region, including in Santa Cruz County, Monterey County, and San Benito County.

- **Santa Cruz County:**
  - Capitola
  - Santa Cruz
  - Watsonville
- **Monterey County:**
  - City of Monterey
  - Marina
  - Monterey County
  - Salinas
  - Seaside
- **San Benito County**
  - San Benito County
  - San Juan Bautista

Inclusionary requirements adopted by jurisdictions in the Region vary based on local policy preferences, including factors such as the number of units in the development or the type of housing (i.e., rental, condominium, townhome, or single family). The charts on the following pages are divided into requirements for new rental development versus requirements for new for-sale developments, which often vary in cities. The charts also highlight the range of affordability requirements among the cities, from very-low to low- to moderate income. On the rental side, overall inclusionary percentages required ranged from 12 to 20 percent, as illustrated in **Figure 1.** On the for-sale side, percentages range from 15 percent to 20 percent (**Figure 2**).

Capitola is unique among its neighbors in that it does not have an inclusionary requirement for rental housing. Of the comparative set of jurisdictions, most have a requirement of 20 percent, while the City of Salinas and San Benito County have requirements of 12 percent and 15 percent, respectively. There is a high degree of variation with regard to affordability standards for rental properties, though every jurisdiction has a set-aside for low-income households. Six have set-asides for very low-income, while four have set-asides for moderate income. In most cases, developments with total units under a certain threshold are often exempted. This threshold varies from jurisdiction to jurisdiction, the lowest being five-unit projects (multiple jurisdictions), and the highest being 20-unit projects in Marina.

Should Capitola alter its inclusionary requirements to reflect the nexus study finding that a market rate renter-household generates demand for at least 0.14 below market rate units, it would fall in the lower end of the range of this comparison set. However, it would require the majority of inclusionary units being set aside for very low-income households, which would represent a much deeper level of affordability than most communities require.

Figure 1 Inclusionary Requirements for New Rental Development

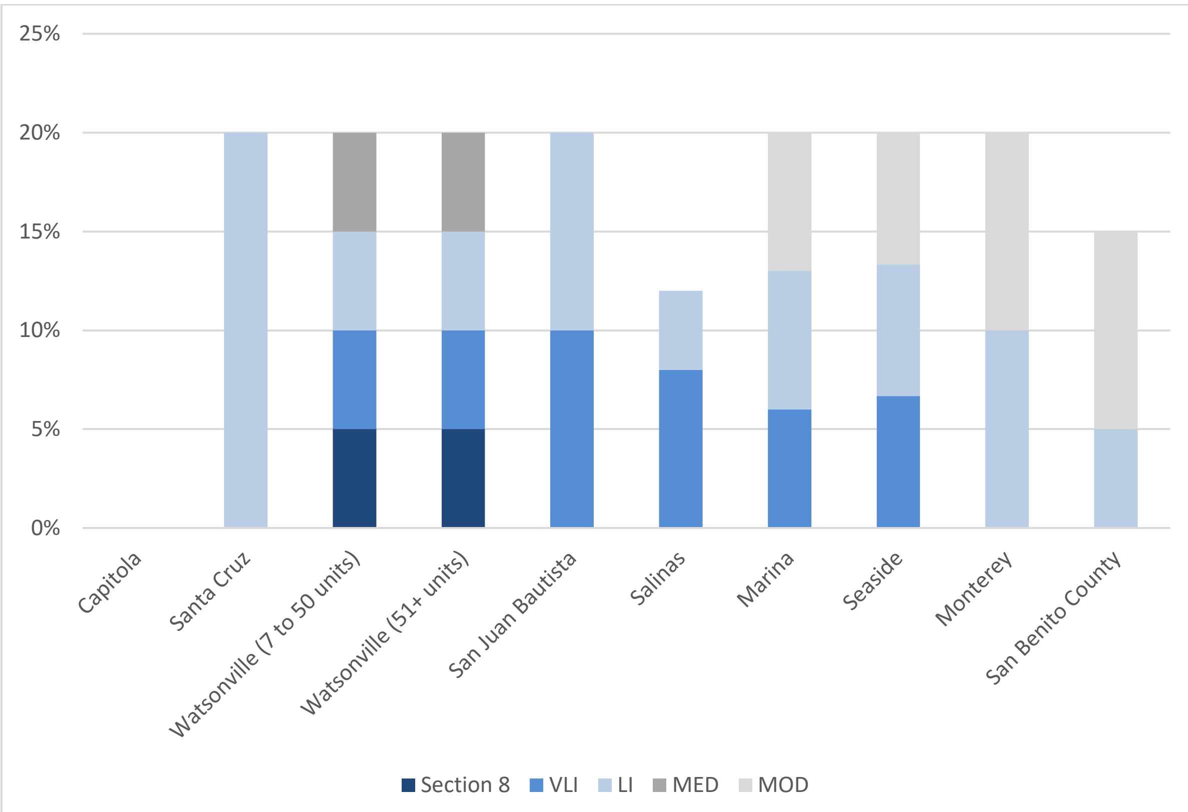
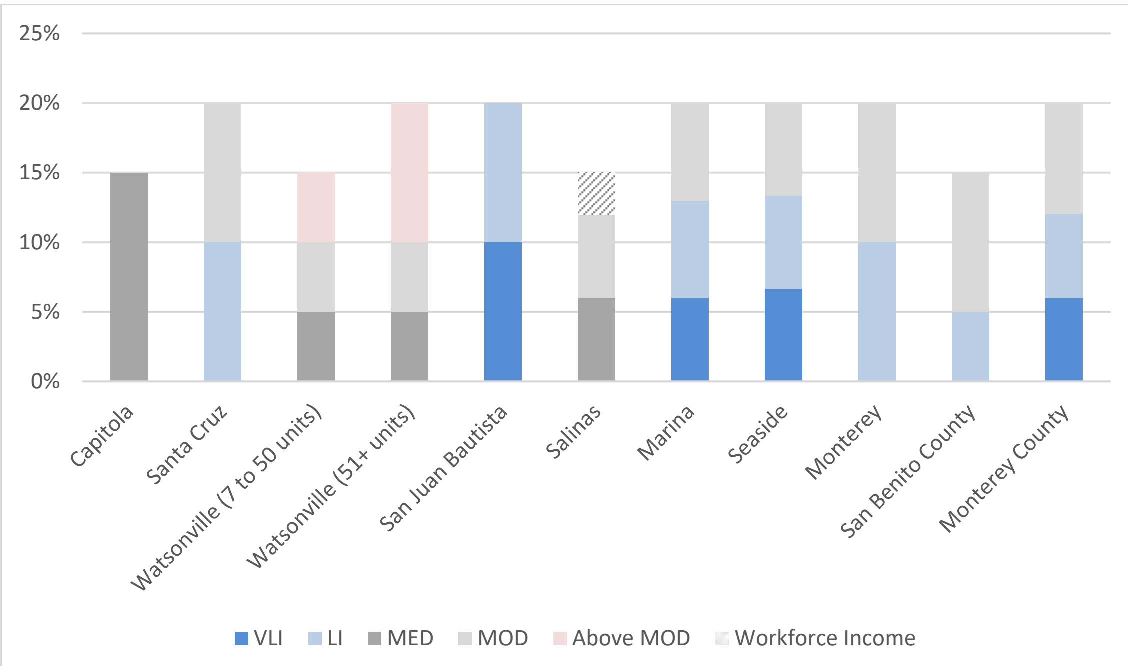


Figure 2 shows that Capitola's for-sale inclusionary requirement of 15 percent is within the range of many neighboring jurisdictions. Capitola is again unique in that all inclusionary units must be affordable only to the median area income adjusted for household size, while other jurisdictions require set asides for multiple income categories, including low and even very-low-income units. Overall, affordability requirements for for-sale housing among neighboring jurisdictions focus on higher income levels than are required for rental housing. Again, the results of the nexus study show that there is potential justification for more aggressive inclusionary requirements in Capitola. However, this memorandum's analysis below indicates that more aggressive inclusionary standards may not be economically feasible in Capitola.

Figure 2 Inclusionary Requirements for New For-Sale Development



Feasibility Analysis

The City has asked EPS to compare the maximum fees as determined by the nexus studies to the costs and values of new development of various types, to determine whether the maximum fees represent a significant burden on project feasibility and to estimate a figure at which the fees may be more feasibly absorbed by developers. To do this, EPS has prepared financial pro formas reflecting the expected costs of new development, and compared those costs to the revenues that could be generated from the projects given various mixes of market-rate and affordable housing. EPS has endeavored to identify potential "win-win" scenarios, in which the development's affordability would be enhanced but so would the developer's return on investment, relative to adhering to the City's current inclusionary standards.

Ownership Scenarios

In evaluating various inclusionary and impact fee scenarios for ownership housing, EPS analyzed the development economics of a hypothetical development consisting of 100 single-family units[1] with a density of eight units per acre. Units are assumed to average 1,800 square feet and three bedrooms each, with an average of four persons per household. The five scenarios are:

Current Ordinance – 15 percent of units within the project must be affordable to households at the area median income adjusted for household size. For this hypothetical development, 15 units are inclusionary and there are no fractional units requiring the $10 per square foot fee.

Existing Fee –The current ordinance states that a $10 per square foot in-lieu fee applies to fractional inclusionary units (for instance, a 30-unit project would provide four inclusionary units (1/7 of 28 units) and pay the in-lieu fee on the remaining two market-rate units). Within in this scenario, the project would be assumed to pay the $10 fee for all units instead of providing any affordable units within the project.

No Inclusionary or Fee – This scenario shows the estimated return that could be achieved by developers if they are not required to pay any fee or provide any inclusionary units.

Maximum Nexus-Based Fee – Based on the results of the nexus study, a unit of this size/value can be charged a maximum fee of about $44 per square foot. The project would be assumed to pay this maximum fee for all units instead of providing any affordable units within the project.

Nexus-Based Inclusionary Requirement – The results of the nexus study show that 100 homes of this value would generate local spending and increase demand for local labor, resulting in demand for roughly 27 new affordable units, most of which would be required for very low-income households. For this scenario, EPS has modeled the construction of one affordable unit for every four market-rate units (or 20 percent of the total number of units), with the majority of the affordable units priced at very low-income levels per the nexus study findings.

Maximum Feasible Fee – This scenario shows the fee that can be levied against these units while still allowing the developer to achieve the profit margin required to make such a development feasible. No on-site inclusionary units are assumed.

Feasible Inclusionary Requirements – Three additional inclusionary scenarios show the number of inclusionary units that can be built when affordable to a given income level while still allowing the developer to achieve the required profit margin. The first assumes all inclusionary units are affordable to moderate-income households, the second assumes all inclusionary units are affordable to median-income households, and the third assumes all inclusionary units are affordable to low-income households.

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[1] EPS uses a hypothetical 100-unit project in order to illustrate the effects of various inclusionary or fee requirements in a mathematically clear manner. EPS is aware that 100-unit projects would be rare in Capitola, and has assumed per-unit costs more reflective of the economies of scale of much smaller projects (5-10 units). As such, EPS intends and believes that the results of this analysis can be reasonably interpreted to reflect for-sale housing developments with far fewer than 100 units.

Key revenue assumptions are based on RedFin sales data for Capitola over the period from May 2020 through May 2021, which suggest that a home of this type and size in Capitola could sell for $800 per square foot or roughly $1.44 million. For the affordable units, maximum value by income category is shown in **Table 1**.

Land acquisition cost assumptions are based on local land transactions for the development of single-family homes, with an assumption of $2.6 million per acre held constant across all scenarios. Construction cost estimates are based on EPS experience with similar developments in Northern California, with total direct and indirect costs (except land and affordable housing fees) assumed to be $851,000 per unit.

The scenarios presented test the feasibility of incorporating different fee levels and affordability requirements, feasibility being measured by an estimated profit margin. These revenue and cost estimates inform a range of profit margins (net revenue divided by total cost), which vary by scenario, as shown in **Table .** Based on recent experience with developers and lenders in Northern California, EPS assumes that developers would require at least an 18 percent profit margin in order to accept the risk associated with the project.[2]

The results show that, unsurprisingly, the 'No Inclusionary or Fee' scenario yields the highest return, while the existing fee level at $10 per square foot also allows developers to achieve an attractive return. Providing affordable units on-site – even the City's current 15 percent requirement at median income, let alone the higher proportion at lower price points determined in the nexus study – appears to yield profit margins below development industry standards. This result would suggest that, under current market conditions regarding construction costs, developers of for-sale housing would need to reduce their costs (for instance, by paying less for land) and/or increase their revenues (by selling their homes at higher prices) in order to support the construction of on-site affordable units. Fees appear to be better tolerated than on-site inclusionary requirements, with the 'Maximum Nexus-Based Fee' scenario nearly achieving feasibility with a profit margin of nearly 15 percent. A fee set at roughly $25 per square foot appears to allow a attractive financial return to developers while also increasing City revenues for affordable housing and falling within the maximum fee levels calculated through the nexus study.

The three feasible inclusionary requirement scenarios show that, if all inclusionary units are affordable to moderate incomes, the developer could probably accommodate an inclusionary requirement of about 8 percent and still reach the 18 percent profit margin. If all inclusionary units are affordable at the median household income, an inclusionary requirement of 7 percent is likely to be feasible. When affordable for low-income households, only a 6 percent inclusionary requirement appears to be feasible.

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[2] An 18 percent profit margin means that the average prices at which the units can be sold exceed the total costs of development (property acquisition, design and entitlement process, construction, financing, marketing, etc.) by 18 percent. It is common for new housing construction in Northern and Coastal California to require at least a year for property acquisition and entitlement and another year for construction and marketing, so the total $1,176,000 per unit development costs might be roughly split over two years prior to selling the unit for $1.4 million in Year 3. In this case, an 18 percent profit margin would equate to closer to a 11 percent "Internal Rate of Return" on the overall investment – comparable to the rate of return on investing in the general stock market over the past decade. This is consistent with

Table 1 Affordable Home Value for a 4-Person Household by Income Category

Income Category	Maximum Household Income [1]	Maximum Unit Value
Very Low-Income	$66,200	$296,500
Low-Income	$106,200	$515,000
Median-Income	$110,000	$641,500
Moderate-Income	$132,000	$765,500

[1] For 4-person household. Assumes 30% of gross household income spent on housing costs for VLI and Low-Income, and 35% of gross income spent on housing for Median and Moderate.

Sources: City of Capitola; County of Santa Cruz; Economic and Planning Systems, Inc.

Table 2 Ownership Scenarios

		Current Ordinance		Existing Fee		No Inclusionary or Fee		Maximum Nexus-Based Fee		Nexus-Based Inclusionary Requirement		Maximum Feasible Fee		Feasible Inclusionary Requirement - Mod		Feasible Inclusionary Requirement - Median		Feasible Inclusionary Requirement - Low	
Program																			
Units in Project		100		100		100		100		100		100		100		100		100	
Item	**Value/ Unit[1]**	**Revenue Units**	**Total Value**	**Revenue Units**	**Total Value**	**Revenue Units**	**Total Value**	**Revenue Units**	**Total Value**	**Revenue Units**	**Total Value**	**Revenue Units**	**Total Value**	**Revenue Units [4]**	**Total Value**	**Revenue Units [4]**	**Total Value**	**Revenue Units [4]**	**Total Value**
Revenues																			
MR Units [1]	$1,440,000	85	$122,400,000	100	$144,000,000	100	$144,000,000	100	$144,000,000	80	$115,200,000	100	$144,000,000	92	$132,811,200	93	$134,553,600	94	$135,864,000
VLI Units [2]	$297,000	0	$0	0	$0	0	$0	0	$0	16	$4,752,000	0	$0	0	$0	0	$0	0	$0
Low Units [2]	$515,000	0	$0	0	$0	0	$0	0	$0	3	$1,545,000	0	$0	0	$0	0	$0	6	$2,909,750
Median Units [2]	$642,000	15	$9,630,000	0	$0	0	$0	0	$0	0	$0	0	$0	0	$0	7	$4,211,520	0	$0
Mod Units [2]	$766,000	0	$0	0	$0	0	$0	0	$0	1	$766,000	0	$0	8	$5,951,820	0	$0	0	$0
Total		*100*	*$132,030,000*	*100*	*$144,000,000*	*100*	*$144,000,000*	*100*	*$144,000,000*	*100*	*$122,263,000*	*100*	*$144,000,000*	*100*	*$138,763,020*	*100*	*$138,765,120*	*100*	*$138,773,750*
Costs																			
Land Purchase + Carrying Costs [3]	$325,000		$32,500,000		$32,500,000		$32,500,000		$32,500,000		$32,500,000		$32,500,000		$32,500,000		$32,500,000		$32,500,000
Hard + Soft Costs (excluding AH fee)	$851,000		$85,100,000		$85,100,000		$85,100,000		$85,100,000		$85,100,000		$85,100,000		$85,100,000		$85,100,000		$85,100,000
Affordable Housing Fee per SF			$0.00		$10.00		$0.00		$44.17		$0.00		$24.64		$0.00		$0.00		$0.00
Affordable Housing Fee Total			$0		$1,800,000		$0		$7,950,032		$0		$4,435,714		$0		$0		$0
Total			*$117,600,000*		*$119,400,010*		*$117,600,000*		*$125,550,032*		*$117,600,000*		*$122,035,714*		*$117,600,000*		*$117,600,000*		*$117,600,000*
Profit Margin			$14,430,000		$24,599,990		$26,400,000		$18,449,968		$4,663,000		$21,964,286		$21,163,020		$21,165,120		$21,173,750
Profit Margin (% of Costs)			**12.27%**		**20.60%**		**22.45%**		**14.70%**		**3.97%**		**18.00%**		**18.00%**		**18.00%**		**18.00%**

[1] Assumes $800 per SF
[2] See Table 1 for maximum sales price
[3] Based on CoStar for land transcations between 0.5 and 1 acre
[4] Rounded to nearest whole unit

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

Rental Scenarios

On the rental side, EPS modeled a 100-unit market rate multifamily development, assuming 20 units per acre. All units are assumed to have two bedrooms, with a household size of three people. Land acquisition cost is derived from recent transactions for multifamily development in Capitola and Santa Cruz, as reported by CoStar. Development costs are based on EPS's experience with similar developments in Northern California. For income assumptions, EPS compiled market-rate and affordable rents based on conditions and requirements in Capitola. As the standard metric for feasibility, EPS modeled the annual yield on cost, calculating aggregate Net Operating Income (NOI) divided by development costs. As on the ownership side, EPS evaluated a number of scenarios, adjusting the inclusionary requirements and fee levels in each. Outlined below are the tested against the current rental ordinance:

Current Ordinance – Rental multifamily developments are required to pay a fee of $6 per square foot.

No Inclusionary or Fee – This scenario shows the estimated return achieved by developers when they are not required to pay any fee or provide any inclusionary units.

Maximum Nexus-based Fee – The results of the nexus study show that two-bedroom rental units can justifiably be required to pay a fee of up to $54.54 per square foot, based on their impact on the demand for affordable housing. This scenario does not require any inclusionary units be built on-site.

Nexus-based Inclusionary Requirement – The results of the nexus study show that the construction of 100 market-rate rental units may generate demand for roughly 24 affordable units. For this scenario, EPS has modeled the construction of one affordable unit for every four market-rate units (20 percent of the total number of units), with the majority of the affordable units priced at very low-income levels per the nexus study findings.

Income assumptions include market rate rents of $3,850 per month for a two-bedroom unit, reflecting typical rents for newly constructed multifamily in the Greater Santa Cruz-Capitola area. Affordable rents were informed by the 2021 income limits for Santa Cruz County as determined by HUD, State of CA HCD, and County of Santa Cruz (**Table**). On the cost side, EPS used a land price of $1.4 million per acre for 5 acres, based on market data from 12 transactions from 2009-2020 for properties to be built for residential use. Aside from land, the cost of constructing the buildings is assumed to be modestly lower on a per-square-foot basis than was assumed for the for-sale project. These revenue and cost estimates inform a range of yield on cost percentages, which vary by scenario, as show in **Table .**

Assuming developers need an anticipated yield on cost of 5.25 percent[3] to move forward with a project of this nature, none of these scenarios provide a high enough return. The 'No Inclusionary or Fee' and 'Existing Fee' scenarios allow the highest yields, though still significantly below the required 5.25 percent yield, with the 'No Inclusionary or Fee' scenario understandably

[3] CoStar reports that Santa Cruz County apartment complexes built since 2000 have been transacting at average capitalization rates of roughly 4.50 percent. In EPS's experience, developers and lenders typically underwrite new construction projects with yield-on-cost ratios at least 0.75 percentage points higher than capitalization rates for existing, stabilized properties.

producing the highest return. The 'Maximum Nexus-Based Fee' scenario produces a yield on cost of about 4.6 percent, and the 'Nexus-based Inclusionary Requirement' scenario produced the lowest yield on cost at under 4.5 percent.

These results suggest that new market-rate rental housing in Capitola faces feasibility challenges due to high development costs. Even without any inclusionary requirements or in-lieu/impact fee obligations, rental development appears to fall somewhat short of industry-standard return thresholds. The City of Capitola may consider whether to maintain its current $6.00 per square foot in-lieu fee for rental development (which very modestly affects project feasibility) or eliminate any inclusionary or fee requirements for rental housing, but EPS does not recommend any increase to the City's current inclusionary standards for rental housing at this time.

Capitola vs. Other Communities

It is reasonable to ask why higher inclusionary standards may be feasible in other communities but not in Capitola. For example, Marina and Seaside require 20 percent inclusionary units for for-sale developments, including a mix of Moderate, Low, and Very Low-income levels. EPS has not evaluated the feasibility of each adopted inclusionary program described on **Figures 1** and **2**. However, we can make general observations.

The feasibility of development is dependent on numerous factors including both costs and revenues, and a large portion of the costs of development in Capitola is related to land acquisition – assumed at $2.6 million per acre or $325,000 per unit for for-sale development. In this case, land costs alone exceed the prices at which Very Low-income units could be sold in Capitola, and more than half of the prices for which Low- and Median-income units could be sold. By contrast, lower land costs in inland areas such as Watsonville, Salinas, and San Benito County may not present as great a financial hurdle for development feasibility and thus allow those jurisdictions to require more inclusionary units or lower affordable price points. While this land cost factor may not be the only reason that inclusionary housing standards create feasibility challenges in Capitola, it illustrates the fact that certain key considerations may not be evident in high-level comparisons of inclusionary standards among jurisdictions.

Furthermore, the adoption of an inclusionary standard does not necessarily indicate that such standards are in fact feasible. Indeed, under AB 1505 the State's Housing and Community Development Department (HCD) has authority under certain circumstances to require jurisdictions considering new or amended inclusionary housing standards after September 15, 2017 to submit analysis regarding the feasibility impacts of such standards[4] – recognizing that some inclusionary standards would be expected to have negative impacts in specific market areas. One circumstance that could trigger such a review by HCD is if the jurisdiction has permitted less than 75 percent of the "Above Moderate" (i.e., market-rate) housing it was allocated in the Regional Housing Needs Allocation (RHNA) process, as such a record could indicate that the inclusionary requirement is a deterrent to housing production due to feasibility impacts. Seven of the 10 jurisdictions shown on Figures 1 and 2, including Capitola, have fallen

[4] See: Division of Administration and Management Letterhead (ca.gov)

short of this 75 percent permitting threshold, suggesting that their inclusionary standards may be one factor in delivering fewer than their allocated housing units.[5]

In summary, EPS acknowledges that other communities have higher inclusionary standards than does Capitola, but recommends considering the results of this feasibility analysis as guidance regarding whether Capitola's standards should be increased.

Home Additions

Capitola currently charges an affordable housing in-lieu fee of $2.50 per square foot for home additions that increase the unit size by 50 percent or greater. The EPS nexus study for for-sale housing includes a discussion of the impact of home additions on the demand for affordable housing, and concludes that a nexus-based fee could be justified for such projects, which are common in Capitola. While EPS concluded that a fee similar to those for new for-sale construction could be justified from a nexus perspective, raising the home additions fee from $2.50 per square foot to as much as $25 per square foot as suggested herein for new for-sale construction would represent a very large increase. A typical home addition is undertaken by the property owner to enhance their quality of life and eventual property value, but they may not be able to absorb high cost increases as well as a professional developer who can recoup their investment by selling the unit immediately upon completion. For this reason, EPS cautions the City of Capitola against a significant increase in the current $2.50 fee for home additions.

5 See Housing Element Open Data Project and SB 35 Determination (arcgis.com)

Table 3 Estimated Revenue Generation per Unit by Income Level – 3-Person Households

	3-Story Multifamily Building With Surface Parking			
Item	Very Low Income (50% AMI)	Low Income (80% AMI)	Moderate Income (120% AMI)	Market Rate
Household Income [1]	$59,600	$95,600	$118,800	N/A
Income Available for Housing Costs [2]	$17,880	$28,680	$35,640	$46,200
(Less) Operating Expenses per Unit per Year [3]	-$6,000	-$6,000	-$10,000	-$16,170
Net Operating Income	**$11,880**	**$22,680**	**$25,640**	**$30,030**

[1] Based on 2021 income limits for a three person household in Santa Cruz County.

[2] Assumes housing costs to be 30% of gross household income. Market rate rent assumed to be $3,850 per month

[3] Operating expenses are generally based on EPS feasibility studies in the region and are inclusive of utility costs; units at or below 80% of AMI are assumed to be built as non-profit and are therefore exempt from property taxes. Property taxes are assumed to comprise a share of the operating expenses for the moderate income category.

Source: California Housing and Community Development Department; Apartments.com; Economics and Planning Systems, Inc.

Table 4 Rental Scenarios

	Current Ordinance	No Inclusionary or Fee	Maximum Nexus Fee	Nexus-Based Inclusionary Requirement
Inclusionary Requirement	**0%**	**0%**	**0%**	**23%**
Total Project Costs				
Land Costs (1 acre) [1]	$7,000,000	$7,000,000	$7,000,000	$7,000,000
Hard and Soft Cost (excluding affordable housing fee)	$53,300,000	$53,300,000	$53,300,000	$53,300,000
Affordable Housing Fee (per SF)	$6.00	$0.00	$54.54	$0.00
Affordable Housing Fee (Total)	$570,000	$0	$5,248,750	$0
Total	$60,870,000	$60,300,000	$65,548,750	$60,300,000
Units by Price Point				
Market Rate Units	**100**	**100**	**100**	**81**
Annual NOI/Unit [2]	$30,030	$30,030	$30,030	$30,030
Aggregate NOI of Market Rate Units	$3,003,000	$3,003,000	$3,003,000	$2,432,430
Moderate Income Units (120% of AMI)	**0**	**0**	**0**	**0**
Annual NOI/Unit [2]	$25,640	$25,640	$25,640	$25,640
Aggregate NOI of Moderate Income Units	$0	$0	$0	$0
Low Income Units (80% of AMI)	**0**	**0**	**0**	**4**
Annual NOI/Unit [2]	$22,680	$22,680	$22,680	$22,680
Aggregate NOI of Low Income Units	$0	$0	$0	$90,720
VLI Units (50% of AMI)	**0**	**0**	**0**	**15**
Annual NOI/Unit [2]	$11,880	$11,880	$11,880	$11,880
Aggregate NOI of VLI Units	$0	$0	$0	$178,200
Total Project NOI	**$3,003,000**	**$3,003,000**	**$3,003,000**	**$2,701,350**
Weighted Avg. NOI/Unit	***$30,030***	***$30,030***	***$30,030***	***$27,014***
Yield on Cost	***4.93%***	***4.98%***	***4.58%***	***4.48%***

[1] Based on recent land sales for 1+ acre parcels, as reported by CoStar
[2] See Table 3 for revenue assumptions

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