<u>Inclusionary Housing Study Public Meeting #1</u>

January 17, 2008
City Council Chambers

The meeting began at 1:30 pm in the City Council Chambers with a PowerPoint presentation by David Rosen of David Rosen and Associates. The PowerPoint presentation is available online at www.sjhousing.org under *Inclusionary Housing Study*.

Attendees: 9 City Staff and 28 public members representing non-profit and for-profit developers, market rate developers, community organizations, and interested public individuals.

Questions/Public Comment on David Rosen and Associations (DRA) PowerPoint presentation:

- Is the analysis using AMI adjusted for 2008?
  - The 2008 numbers will not be released until March 2008 and if changes need to be made, DRA will adjust the analysis.
- How were the set aside scenarios derived?
  - In consultation with Housing and Planning.
- Why is extremely low-income (ELI) not considered in the scenarios for DRA's modeling for ownership prototypes?
  - The affordability gap for ownership would be enormous for ELI housing and it is not economically feasible in the majority of scenarios for this product type.
- Why is DRA not considering workforce housing (150% AMI)?
  - The analysis is restricted to the legal definition of affordability (up to 120% of area median income), in addition, workforce housing has no legal definition.
- Is there an ability to change the scenario per unit subsidy?
  - Yes. These models should be considered benchmarks and will allow the City to explore the economic effects of a citywide inclusionary housing policy.
- Are set aside percentages set in stone? Can you add a fourth? How do the three compare to each other?
  - The 20% at 120% AMI scenario reflects the City's current inclusionary policy in Redevelopment Areas. This seems important to study, as it will show the effect of a similar policy citywide. The other two scenarios can be seen as steps down from this set-aside requirement. Each step down is potentially more costly to developers, but the higher cost is moderated by lower overall set-aside percentages in each scenario.
- Are these three set-aside scenarios the benchmarks for the analysis?
  - Yes. If more than three scenarios were included we would lose the ability to examine the results as there would be exponentially more results to consider. Therefore, these three were chosen as benchmarks, to show the effect of different "steps" or levels of inclustionary requirements, not as the only set-aside percentages possible.
- So the study is not to set the policy but to give a framework?
  - Yes, we want to apply different set-aside requirements on different products to show the range of the effect.
- Should these scenarios be considered as parameters?

    - We could do that if we keep the levels of affordability the same, but not if we vary the levels. And we heard at the City Council Study Session the desire for an inclusionary policy to address lower levels of affordability. To examine that, we have to study various targeting income levels.
- How you calculate expense for owner housing is extremely important.
- What is the purpose of the modeling? To set a different affordability requirement for different prototypes?
    - The analysis will measure the effect of an inclusionary policy on these five prototypes of market rate development, and will study the same policy on all prototypes. The intention is not to vary the requirement for different housing products.
- What criteria are you using for the downpayment?
    - We will use a 5% downpayment factor. State law is silent on this.
- Does LEED certification need to be considered? Is the City going in this direction?
    - No because we are trying to model what the market is doing.
- Because analysis is based on assumptions, how is developer profit margin arrived at in scenario 3?
    - The second public meeting will be devoted to developer cost budgets.
- Is the household size determined by the state?
    - The affordability price pegged at the occupancy level depending on the size of the unit. State Health and Safety Code stipulates household occupancy as one person per bedroom plus one. The length of affordability is modeled using state law (which does not apply for inclusionary) of 55 years for renter and 45 years for owner.
- Is the intention to have different inclusionary policy for different types of construction?
- No, that is not the purpose of the modeling. There are very few, if any, cities that do this type of inclusionary program. The purpose is to show the range of economic effects across the range of products produced in the City. The biggest difference between the scenarios and prototypes is in the cost of developing the different prototypes, not the different set aside percentages. Will you look at this?
    - Yes, that's why we are examining the effect on five prototypes.
- Are offsets meant to cover the entire costs of developers? Aren't incentives and offsets recognition that inclusionary requirements economically effect development?
    - Yes, but we are interested in moderating the effect, which is why we are studying different incentives and alternative compliance options.
- Will DRA consider the number of land acquisition and number of transactions for residential development?
    - DRA will complete an analysis of all accessible data, including land acquisition for residential development. DRA mentioned that this data can be difficult to determine, but will work with any developer willing to provide that data.
- Is there an objective in regard to how much of a cost we are trying to offset? 10% or 20%?
    - We are studying the effect of different inclusionary requirements on the residual land value. The residual land value with inclusionary, after factoring in the offsets, should be within 10% of the current land value.

Questions/Comments asked by David Rosen and Associates (DRA) to the audience:
Feedback on the prototypes:

- Will wrap product parking be considered in the modeling?
  - Developers noted there had been an increase in wrap around parking in North San Jose.
  - We talked about modeling a wrap product but heard that it is not as prevalent in San Jose and that the cost is not so different from a stacked flat product over podium parking.
- Several developers noted that the number of one bedroom units in Owner Prototype 1 may be too high, and suggested lowering the number of one bedroom units while increasing the number of two bedroom units.
  - DRA will explore the issue.
- Some said they would reverse the number of 2 and 3 bedroom units in the Owner Prototype 3, to have about one-third 2 bedroom and two-thirds three bedroom units.
- How did you pick these prototypes?
  - The prototypes are a function of what is either currently in the pipeline or anticipated in San Jose based on the last several years of production outside of redevelopment areas.
- Will the prototypes include a single family five bedroom 2 ½ garage?
  - Currently, DRA is not modeling five bedroom single family homes, but will explore the issue. Are you seeing this size being built outside of Redevelopment Areas? (no one could confirm this).
- For renter products, we see a unit mix closer to 50/50 one and two bedroom units, for projects outside of downtown.

- Should DRA use a high-rise rental prototype in the economic analysis?
- Is the unit per acre in the prototypes (70 units per acre) accurate for the City of San Jose?
  - Several developers noted that the units per acre could be increased to as much as 100 units per acre. DRA will be contacting those developers and further discussing the units per acre.

Incentives and Alternative Compliance Options:

- Should the City model density bonuses?
  - The Planning and Building Code Enforcement Department suggested modeling density bonus because the City's current policy may change in future years.
- Should the City model parking reductions?
  - Developers did not believe parking reductions would be helpful as an incentive.