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Inclusionary Affordable Housing Economic Analysis

Prepared for the City of Napa

December 10, 2019

bae urban economics

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Lark Ferrell
Housing Manager
Housing Division, City of Napa
1115 Seminary Street
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Dear Ms. Ferrell:

We are pleased to submit this Inclusionary Affordable Housing Economic Analysis. This study evaluates the feasibility of inclusionary housing requirements in Napa and evaluates policy options for facilitating the production of affordable housing in Napa through requirements or incentives for new market-rate residential development projects.

We hope that this report is helpful in assisting the City with evaluating policies to address affordable housing needs.

Sincerely,

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EXECUTIVE SUMMARY

Like most cities in California, the City of Napa faces significant challenges in addressing affordable housing needs and has a limited set of tools and financial resources to address these challenges. In 2018, the Napa City Council directed City staff to evaluate inclusionary housing requirements as one way to increase the production of affordable housing in the City. As part of this process, the City commissioned BAE Urban Economics (BAE) to prepare a study to evaluate the financial feasibility of an inclusionary program in the City of Napa (Napa) and provide recommendations on how to update the City's affordable housing policies to maximize the number of affordable units produced while still maintaining overall project feasibility.

Methodology

The following study is based primarily on an analysis of development feasibility for a range of residential real estate development prototype projects to evaluate the economics of developing multifamily rental, condominium, and single-family residential projects in Napa. The purpose of the development feasibility analysis is to test whether new market rate residential development projects can absorb a requirement to provide affordable units within a project pursuant to an inclusionary housing ordinance while maintaining financial feasibility under current market conditions. Based on the findings of the financial feasibility analysis, the study then evaluates policy options to facilitate the development of affordable units in Napa through requirements and incentives that could be applied to new market rate residential development and provides recommendations.

To obtain input on the financial feasibility analysis and various policy options, BAE and City staff convened three meetings with market rate residential developers, affordable housing developers, affordable housing advocates, and other stakeholders that are active in the local residential development community. Input received during these meetings informed the analysis presented in this report.

Real Estate Development Feasibility Context

The analysis and findings presented in this report reflect significant recent increases in construction costs in Napa and the surrounding region, as well as rising land costs which have impacted the feasibility of developing new residential projects. Developers and other real estate professionals expect that the factors that affect feasibility will shift over time, making real estate development conditions more favorable for new residential development, though there is no current consensus as to the timing of this change. This correction will require increases in rents and sale prices, decreases in construction costs, decreases in land sale costs or some combination of these factors.

Financial Feasibility Analysis

The financial feasibility analysis involved preparation of static residential development pro-forma financial models for seven baseline prototype projects in order to evaluate the feasibility of an inclusionary housing program in Napa. The static pro-forma models represent a form of financial feasibility analysis that developers often use at a conceptual level of planning for a development project, as an initial screening test of financial feasibility for a development concept. The detailed pro-formas that BAE prepared for this analysis are provided in Appendix A. The financial feasibility analysis for this study started with a version of each prototype that did not include any affordable units (i.e., all units had market-rate rents or sale prices) to first test whether the prototypes are feasible under current conditions without affordability requirements. To the extent that any prototypes are financially feasible under current conditions, the analysis tested the number of affordable units that these prototypes can absorb while maintaining financial feasibility.

Residential Prototypes

Most of the prototypes are based on projects that have recently been completed in Napa and projects in the City's development pipeline. The prototypes are designed to be representative of the likely range of residential development projects in Napa in the near to medium term. The prototypes also include two prototypes (Prototypes 3 and 6) that differ from recent projects in Napa but could potentially be built under existing zoning and development standards in the City, which are included to expand the range of projects evaluated in this study. The seven prototypes evaluated in this study are:

- A 20-unit small lot detached single-family home development, built at a density of 5.7 dwelling units per acre (d.u./acre) (Prototype 1)
- A large lot detached single-family home development, built at a density of 3.3 d.u./acre, (Prototype 2)
- A duplex project with ten homes on five lots, built at a density of 8.3 d.u./acre (Prototype 3)
- A 20-unit multifamily rental development with surface parking, built at a density of 20 d.u./acre (Prototype 4)
- A 50-unit multifamily rental development with surface parking, built at a density of 20 d.u./acre (Prototype 5)
- A 40-unit multifamily rental development with a mix of podium and surface parking, built at a density of 40 d.u./acre (Prototype 6)
- A condominium project consisting of 20 3-story attached townhomes built at a density of 20 d.u./acre (Prototype 7)

Financial Feasibility Findings

The financial feasibility analysis found that, based on the assumptions used in this analysis, none of the residential prototypes are feasible under current market conditions, even before adding any inclusionary requirements. The current infeasibility of residential development in

Napa reflects development conditions throughout the region, which have been impacted by significant increases in construction costs over recent years, as noted above. Every individual development project will have unique financial characteristics, and these findings should not be interpreted to mean that no residential development will be feasible in Napa at this time. Rather, these findings indicate that there are broad challenges to achieving financial feasibility under current economic conditions and the majority of potential projects will likely need to wait for more favorable conditions before they can proceed.

Given the above, it is important to understand that current residential projects under consideration or under construction have been underwritten with different financial constraints than described in this report. Specifically, the costs for most current projects are the result of agreements reached under more favorable economics (e.g. land purchase prices or construction costs less than projected in this report).

On-Site Affordability Equivalents to the Affordable Housing Impact Fee

The City of Napa currently authorizes any developer to propose any alternative to paying the Affordable Housing Impact Fee, subject to a determination by the City Council that the proposed alternative advances affordable housing in a manner that is equal to or greater than what would be achieved by paying the fee. The City allows developers to opt out of paying the fee by agreeing to make at least 15 percent of the units in a project affordable to and reserved for households with incomes equal to 80 percent of AMI or below. Developers can also propose other alternatives to paying the fee, such as a land dedication or preserving affordable units at risk of conversion to market rate, subject to approval by the City Council.

On-Site Dedication of Affordable Units

The City's current Affordable Housing Impact Fee rates are significantly lower than the cost of dedicating even a small percentage of units to households with incomes equal to 80 percent of AMI, creating an incentive for market-rate developers to pay the fee rather than provide affordable units on site. The following analysis demonstrates that, for each of the prototypes tested in the financial feasibility analysis, the on-site affordability requirement that would be equivalent to a fee payment at current levels is significantly low, ranging from 1.6 percent to 10.4 percent, depending on the type of residential development and the affordability levels for the affordable units. These figures indicate that, under the City's current fee structure, it is significantly more cost-effective for a developer to pay the Affordable Housing Impact Fee than to dedicate units on-site to households with incomes equal to 80 percent of AMI. Consequently, market-rate developers in Napa tend to pay the City's Affordable Housing Impact Fee rather than provide affordable units on site, with few exceptions.

The on-site unit dedication that would be equivalent in cost to paying the Affordable Housing Impact Fee does not necessarily align with the number of units that the City could otherwise construct using Affordable Housing Impact Fee revenues. The analysis provided in this report shows that some of the prototypes evaluated in this study could potentially generate more

affordable units through fee payments than through an equivalent on-site affordability requirement. However, on-site dedication of affordable units can provide additional benefits compared to a fee payment, even for prototypes that could potentially support more affordable units through a fee payment than through on-site dedication. Such benefits can include more timely development of affordable units, benefits to residents of affordable units from integration with market rate housing, and distribution of affordable housing throughout the community rather than concentrating affordable units in a more limited number of 100 percent affordable projects.

Rent-Restricted ADUs

Some of the stakeholders that attended the stakeholder meetings for this study expressed potential interest in providing rent-restricted Accessory Dwelling Units (ADUs) within a project to meet affordable housing requirements. In this scenario, a developer would construct ADUs as part of a single-family development, then sell the lots (including the main unit plus an ADU) to individual homebuyers who would be responsible for renting the affordable ADUs. Deed restrictions would require homebuyers who purchase lots with rent-restricted ADUs to rent the ADUs to an income-qualified household at the designated affordable rental rate.

This study finds that rent-restricted ADUs in new single-family subdivisions could potentially provide affordable units without hampering the feasibility of market-rate units, though this strategy could present challenges related to fair housing and equal access to affordable units (i.e., challenges to monitoring and ensuring that individual homeowners would comply with applicable fair housing law). These potential issues should be evaluated as part of any policy to allow developers to meet affordable housing requirements by adding rent-restricted ADUs to single-family subdivisions.

Affordable Attached Homes in Detached Single-Family Developments

The financial feasibility analysis evaluated two variations of the two detached single-family prototypes to assess the financial feasibility of dedicating one out of the 20 lots in each prototype to create two attached affordable units, leaving the remaining 19 lots for market-rate units. The analysis found that dedicating one lot in the single-family detached prototypes to create two affordable units would generally have either a neutral or positive impact on the financial feasibility of the prototypes, particularly if the affordable units are priced for households with income equal to 150 percent of AMI. This option would also create more affordable units than either of the detached single-family prototypes would otherwise generate though an Affordable Housing Fee payment (at current levels) or the equivalent on-site affordable unit dedication. It is important to note that targeting 150 percent of AMI represents a 30-percentage point increase over what traditionally is referred to as “Moderate Income Housing”, which is limited to housing that is affordable to households at 120 percent of AMI. This higher income level is necessary to achieve an economic return sufficient to include these units within the prototype development.

Policy Recommendations

The primary purpose of this study was to evaluate the financial feasibility of inclusionary requirements for new residential development in the City of Napa. The analysis presented in this report indicates that new residential development is generally not feasible in the current real estate development environment, even with no inclusionary requirements, and therefore would not be feasible with inclusionary requirements. Based on these findings, this study makes the following four policy recommendations:

1) Formulate a **menu of alternatives to payment of the City's Affordable Housing Impact Fee**, giving developers the option to pay the fee or pursue an alternative means of compliance.

   Recommendation 1.A: Consider modifying the definition of an Affordable Housing Project, which is exempt from paying the Housing Impact Fee, from the current definition as a residential development in which 15 percent of units are affordable to extremely low-, very low-, or low-income households.

   Recommendation 1.B: Develop a menu of pre-approved alternatives to an Affordable Housing Impact Fee payment.

   Recommendation 1.C: Consider partnering with the Housing Land Trust of Sonoma County to facilitate inclusionary or on-site affordable unit production.

2) Adopt **incentives to encourage developers to provide affordable units on-site** within market-rate projects, or to pursue any other alternative means of compliance preferred by the City, rather than pay the Affordable Housing Impact Fee.

   Recommendation 2.A: Offer a clear option for developers of single-family detached housing developments to construct two attached affordable units on one lot.

   Recommendation 2.B: Reduce discretionary approval requirements for projects that provide affordable units.

   Recommendation 2.C: Explore CEQA exemptions for projects that provide affordable units.

   Recommendation 2.D: Consider providing down payment assistance to homebuyers to purchase price-restricted units.

   Recommendation 2.E: Facilitate partnerships that would allow developers to make direct contributions to projects that provide affordable units.

3) Consider a **mandatory inclusionary housing ordinance when real estate development conditions improve** in Napa, potentially including a phase-in period for new requirements.

   Recommendation 3.A: Continue to monitor the market to assess if mandatory inclusionary requirements might be feasible.

Recommendation 3.B: Consider a phase-in process for any future mandatory inclusionary requirements.

4) Continue to **explore other tools for increasing the production of affordable housing** in Napa.

The body of this reports includes the additional background and explanatory text for each of these recommendations.

INTRODUCTION

California State Assembly Bill 1505, which was signed into law as part of the State's 2017 housing legislation package, provides cities with the authority to adopt inclusionary ordinances that require some portion of units in market-rate rental developments to be affordable to lower-income households. AB 1505 requires local governments that adopt inclusionary ordinances to provide developers with alternative means of compliance, such as an in-lieu fee payment, land dedication, or off-site construction of affordable units. AB 1505 does not require cities to conduct a nexus study to justify inclusionary requirements or in-lieu fee rates. Many California cities have responded to this change in the legislative environment by restoring prior inclusionary housing ordinances, updating existing inclusionary ordinances, or adopting new inclusionary requirements.

In 2018, the Napa City Council directed City staff to evaluate reinstating inclusionary housing requirements as one way to increase the production of affordable housing in the City. As part of this process, the City commissioned BAE Urban Economics (BAE) to prepare a study to evaluate the financial feasibility of an inclusionary program in Napa and provide recommendations on how to update the City's affordable housing policies for residential projects to maximize the number of affordable units produced while maintaining residential development feasibility.

Existing Requirements for New Development in the City of Napa

The City of Napa currently implements affordable housing impact fees for new non-residential and residential developments to mitigate the impacts of these developments on the need for affordable housing in Napa. Residential alterations, repairs, or other projects which do not result in an addition to an existing residential development are exempt from paying fees. Affordable housing projects, affordable units, and accessory dwelling units and efficiency units that are 500 square feet or less are also exempt. Fees are charged by type of development as follows:

- Condominiums: $4.75 per square foot
- Single-Family: $4.75 per square foot
- Multifamily: $4.05 per square foot
- Office: $3.55 per square foot
- Hotel: $6.00 per square foot
- Retail: $3.55 per square foot
- Industrial: $3.50 per square foot

There are several options for complying with the ordinance, including providing units on site or off site, donating land sufficient to accommodate affordable units, converting existing market rate units to affordable units, preserving affordable units at risk of loss, or through other

means consistent with the Housing Element. In order to take advantage of an alternative compliance option, a developer must submit documentation which establishes "that the alternative equivalent proposal will further affordable housing opportunities in the City to an equal or greater extent than payment of the affordable housing impact fees." Under the existing ordinance, an alternative equivalent proposal would require discretionary review and approval by the City Council.

Incentives

The City of Napa offers incentives in excess of the maximum amount provided for under the State Density Bonus Law, under Chapter 17.52 of the City of Napa Zoning Ordinance. Projects that incorporate amenities, public benefits, and/or affordable units in excess of the maximum percent of affordable units set forth under State Density Bonus Law are eligible for a density bonus up to a maximum of 100 percent under the City's current ordinance. Developers wishing to apply for such a supplemental bonus must provide evidence demonstrating that the proposed project either: 1) provides affordable units in excess of the maximum percentage of affordable units set forth under State Density Bonus Law; or 2) incorporates amenities or public benefits that justify an increase over the maximum bonus under State Density Bonus Law. The decision to approve a supplemental density bonus is discretionary.

Study Approach

This study is based primarily on an analysis of development feasibility for a range of residential real estate development prototype projects to evaluate the economics of developing multifamily rental, condominium, and single-family residential projects in the City of Napa. The purpose of the development feasibility analysis is to test whether new market-rate residential development projects can absorb a requirement to provide affordable units pursuant to an inclusionary housing ordinance while maintaining financial feasibility under current market conditions. Based on the findings of the financial feasibility analysis, the study then evaluates policy options to facilitate the development of affordable units in Napa through requirements and incentives that could be applied to new market-rate residential development and provides recommendations.

To obtain input on the financial feasibility analysis and various policy options, BAE and City staff convened three meetings with market-rate residential developers, affordable housing developers, affordable housing advocates, and other stakeholders that are active in the local residential development community. Input received during these meetings informed the analysis presented in the following chapters of this report.

Real Estate Development Feasibility Context

The analysis and findings presented in the following chapters of this report reflect the current real estate development environment in Napa and the surrounding region, which has been impacted by significant increases in construction costs over recent years, with particularly

rapid increases in the past year. While home sale prices and multifamily rental rates have also increased, the pace of the increases in sale prices and rents has not matched the pace of increases in construction costs. Developers have responded to construction cost increases in part by reducing the amount that they are willing to pay for site acquisition, as reductions in land costs can potentially offset increases in construction costs. While some property owners have accepted lower offers from developers, others continue to hold their sites in anticipation of improved market conditions in the future. As a result, developers throughout the region are facing challenges in achieving financial feasibility with new projects, and some report shrinking development pipelines as a result.

Despite these current challenges, Napa and other cities throughout the region continue to experience residential construction activity. Developers report that the construction contracts for many projects that are now under construction were negotiated and fixed six months to over a year ago, and therefore do not reflect the cost that a developer would pay if required to negotiate a construction contract in the current environment. Other projects may benefit from low site acquisition costs or high projected rents or sale prices that enable feasibility in the current environment, though these projects are not necessarily typical.

Developers and other real estate professionals expect that the current imbalance between construction costs and revenues will even out over time, at which point real estate development conditions will become more favorable, though there is no current consensus as to the timing of this change. This correction will require increases in rents and sale prices, decreases in construction costs, decreases in land sale costs or some combination of these factors.

FINANCIAL FEASIBILITY ANALYSIS

Prototype Projects

This section describes the seven residential development prototypes that the financial feasibility analysis evaluated. Five of the seven prototypes are based on projects that have recently been completed in Napa and projects in the City's development pipeline and are designed to be representative of the likely range of residential development projects in Napa in the near to medium term. The remaining two prototypes (Prototypes 3 and 6) differ from recent projects in Napa but could potentially be built under existing zoning and development standards in the City. These additional two prototypes are included to expand the range of projects evaluated in this study.

Single-Family Prototypes

Table 1 summarizes the three single-family prototypes that were formulated for the financial feasibility analysis. The first two projects were selected to reflect the range of recently-constructed and proposed detached single-family developments in Napa. Prototype 1 is a small lot detached single-family home development on 3.5 acres, built at a density of 5.7 dwelling units per acre (d.u./acre), with an average lot size of 5,500 square feet and an average unit size of 2,000 square feet. Prototype 2 is a large lot detached single-family project on 6.0 acres, built at a density of 3.3 d.u./acre, with an average lot size of 10,000 square feet and an average unit size of 3,100 square feet. Prototype 3 consists of 10 duplex homes on five lots on a 1.2-acre site at a density of 8.3 d.u./acre. Recent single-family home development proposals in Napa have included similar duplex units as part of larger projects that also include detached single-family homes.

Table 1: Summary Single-Family Prototype Projects

Single-Family Prototypes			
Prototype Description	**Prototype 1: Small Lot Single Family Detached**	**Prototype 2: Large Lot Single Family Detached**	**Prototype 3: Duplex Single Family Attached**
Total Number of Homes	**20 homes**	**20 homes**	**10 homes**
Total Number of Lots	20 lots	20 lots	5 lots
Development Acreage	3.5 acres	6.0 acres	1.2 acre
Dwelling Units per Acre	5.7 du/acre	3.3 du/acre	8.3 du/acre
Average Lot Size	5,500 sf	10,000 sf	7,500 sf
Average Living Area per Home (sf)	2,000 sf	3,100 sf	1,700 sf

Source: BAE, 2019.

Multifamily Prototypes

Table 2 summarizes the four multifamily prototype projects that were developed for the financial feasibility analysis. The first two projects (Prototype 4 and Prototype 5) are rental projects with surface parking built at densities of 20 d.u./acre. This product type corresponds

with much of the recent multifamily rental development in Napa. The third project (Prototype 6) is a rental project with a mix of podium and surface parking built at a density of 40 d.u./acre. Although this represents a product type that is higher density than what is currently being proposed for development in Napa, it corresponds with the type of development that is allowed under current regulations and is envisioned to occur in Downtown Napa in the future. Prototype 7 is a for-sale condominium project consisting of three-story attached townhomes built at a density of 20 d.u./acre. This product type is consistent with the types of condominium projects currently being proposed for development in Napa.

Table 2: Summary of Multifamily Prototype Projects

Multifamily Prototypes				
Prototype Description	**Prototype 4: Multifamily Rental** 2-story building with surface parking	**Prototype 5: Multifamily Rental** 3-story building with surface parking	**Prototype 6: Multifamily Rental** 3-story stacked flats over podium parking	**Prototype 7: Townhomes (Condos)** 3-story attached townhomes
Total Dwelling Units	**20 units**	**50 units**	**40 units**	**20 units**
Site Size (acres)	1 acre	2.5 acres	1 acre	1 acre
Dwelling Units per Acre	20 du/acre	20 du/acre	40 du/acre	20 du/acre
Total Parking Spaces	**36 spaces**	**84 spaces**	**56 spaces**	**48 spaces**
	16 surface spaces	34 surface spaces	8 surface spaces	28 surface spaces
	20 carport spaces	50 carport spaces	48 podium spaces	20 private garages
Unit Mix	25% 1 bedroom	30% 1 bedroom	40% 1 bedroom	0% 1 bedroom
	75% 2 bedrooms	70% 2 bedrooms	60% 2 bedrooms	75% 2 bedrooms
	0% 3 bedrooms	0% 3 bedrooms	0% 3 bedrooms	25% 3 bedrooms
Average Unit Size	888 sf	875 sf	850 sf	1,300 sf

Source: BAE, 2019.

Methodology

The methodology used for this study involved preparation of static pro-forma financial feasibility models for each of the seven prototypes described above. The static pro-forma models represent a form of financial feasibility analysis that developers often use at a conceptual level of planning for a development project, as an initial test of financial feasibility for a development concept, to screen for viability. BAE developed the various modeling inputs and assumptions needed for the financial feasibility analysis based on interviews with residential developers and other residential real estate professionals active in the area, data from industry publications and databases, and other research. BAE refined the pro-forma models based on input received on a preliminary set of pro-formas during the project's second stakeholder meeting. The detailed pro-formas that BAE prepared for this analysis are provided in Appendix A.

The financial feasibility analysis for this study started with a version of each prototype that did not include any affordable units (i.e., all units had market rate rents or sale prices) to first test whether the prototypes are feasible under current conditions without affordability

requirements. To the extent that any prototypes are financially feasible under current conditions, the analysis tested the number of affordable units that these prototypes can absorb while maintaining financial feasibility.

Residual Land Value

The pro-forma models are structured to calculate the residual land value associated with each prototype. The residual land value for a residential rental project is equal to the market value of the completed project at stabilization, net of total development costs and developer profit. The capitalized value of the project at stabilization is defined as the annual net operating income (NOI) from the project (i.e., annual income from the project net of operating expenses), divided by the capitalization rate (cap rate). The cap rate is a common metric used to estimate the value of a property based on its NOI, and varies based on property type, location, and other property-specific characteristics. The residual land value for a residential rental project can be summarized as follows:

Capitalized Value at Stabilization (i.e., NOI / cap rate) – Total Development Costs
=
Residual Land Value

The residual land value for a for-sale project is equal to the net sale proceeds from the project (i.e., total revenue from sales after subtracting marketing costs) net of total development costs and developer profit:

Net Sale Proceeds (total revenues less marketing costs) – Total Development Costs
=
Residual Land Value

The residual land value approximates the maximum amount that a developer should be willing to pay for a given site, based on the value of the project that the developer would build on that site. In general, a development pro-forma that shows a residual land value that is approximately equivalent to the typical sale price for land among recent comparable sales indicates a financially feasible project. If a developer is able to acquire land for a price that is lower than the residual land value associated with his or her project, the difference between the residual land value and the actual sale price essentially represents additional project profit. For the purposes of this analysis, a project that generates residual land value in excess of actual site acquisition costs could potentially absorb an inclusionary requirement while remaining within the necessary feasibility thresholds.

To evaluate the cost of land in Napa, BAE relied in part on information provided by stakeholders that are active in the local residential development community. BAE cross-checked the information provided by stakeholders by assembling data on recent sales of residentially-zoned property using ListSource, a private data vendor that provides property

records from the County Assessor. BAE then compared the land sale records from ListSource to the sites for recently-constructed, planned, and proposed development projects in the City to determine which land sales are associated with residential development projects.

Residual Land Value Threshold for Large-Lot Single Family Prototype (Prototype 1): This analysis uses a residual land value threshold of $200,000 to $300,000 per unit to establish feasibility for the large-lot single family prototype, with a $200,000 per unit residual land value indicating a narrow feasibility margin that could constrain some projects. Said differently, this threshold represents the amount per lot a developer could pay and still achieve financial feasibility. This threshold is based on information provided by developers for this study, and consistent with information from ListSource on land costs for low-density single-family residential sites in Napa.

Residual Land Value Threshold for Small-Lot Single Family Prototype (Prototype 2): This analysis uses a residual land value threshold of at least $150,000 per unit to establish feasibility for the small-lot single family prototype, based on information provided by developers for this study. This threshold is consistent with information from ListSource on land costs for single-family residential sites in Napa with similar densities.

Residual Land Value Threshold for Multifamily Rental Prototypes (Prototypes 4, 5, and 6): This analysis uses a residual land value threshold of approximately $25,000 per unit to establish feasibility for the multifamily rental prototypes, based on information provided by developers for this study. This is lower than the land cost indicated by the data from ListSource; however, one developer interviewed for this analysis reported that land costs have decreased somewhat in response to recent increases in construction costs.

Residual Land Value Threshold for Townhome and Duplex Prototypes (Prototypes 3 and 7): This analysis uses a residual land value threshold of $100,000 to $125,000 per unit to establish feasibility for the townhome and duplex prototypes, based on data from ListSource. This threshold relied on data from ListSource only, rather than both ListSource and input from developers, due to a lack of feedback from developers related to land costs specific to these prototypes.

Key Assumptions

BAE formulated assumptions for the pro-forma analyses based on a combination of published data sources, experience with recent development projects in the local area, and a series of interviews with developers familiar with the local development environment. BAE also presented and discussed key assumptions during a meeting with stakeholders that are active in the local development community and provided a full set of preliminary draft pro-formas to the stakeholder group. After receiving input from the stakeholder group, BAE adjusted some assumptions based on stakeholder feedback. Specific information about key assumptions is provided in Appendix A.

All assumptions used in this analysis are consistent with current estimates provided by developers that BAE interviewed for this project as well as with BAE's experience with recent projects in the area. However, it should be noted that development costs, residential rents, and residential sale prices are subject to variation, even among projects that are relatively similar, and the sources that BAE used to estimate assumptions for this study reflected this variation. In general, the stakeholders that reviewed the preliminary draft pro-formas indicated that the preliminary assumptions for the single-family residential prototypes were lower than actual single-family construction costs. Based on this input, BAE increased the single-family construction cost assumptions, resulting in the figures shown in Table 3 and Table 4 below. These cost assumptions are lower than the costs reported by some of developers and stakeholders, but is relatively high compared to developer survey feedback on single-family residential construction costs in Sonoma County, which BAE conducted concurrently with this analysis for a separate project.

Conversely, at least one developer that participated in the second stakeholder meeting indicated that the preliminary construction cost assumptions for multifamily rental development were lower than actual multifamily rental construction hard costs. BAE did not adjust the multifamily rental construction costs downward based on this input, in order to avoid potentially overstating the feasibility of new multifamily rental development. The higher construction cost assumptions shown in Table 3 and Table 4 below are consistent with input provided by at least one developer that is active in Napa that BAE interviewed for this analysis separately from the stakeholder meetings.

Financial Feasibility Findings

The financial feasibility analysis found that, based on the assumptions outlined above and detailed in the pro-formas shown in Appendix A, none of the residential prototypes are feasible under current market conditions, even before adding any inclusionary requirements. The small lot detached single family development and the large lot detached single family development (Prototypes 1 and 2) support positive residual land values, but the values are lower than typical land sale prices in Napa for these types of developments. The duplex project and all three multifamily rental projects (Prototypes 3, 4, 5, and 6) result in negative residual land values, indicating that these projects are infeasible even with no land cost. The higher-density (40 d.u./acre) multifamily rental project has a larger negative residual land value than the other prototypes due to the high cost of constructing podium parking for this prototype. The condominium/townhouse prototype (Prototype 7) supports a very small positive residual land value that is well below the land value necessary to demonstrate feasibility.

The findings presented below reflect the current development environment in Napa and the surrounding region, which has been impacted by significant increases in construction costs over recent years, with particularly rapid increases in the past year, as discussed in the

introduction to this report. While home sale prices and multifamily rental rates have also increased, the pace of the increase in sale prices and rents has not matched the pace of increases in construction costs. As a result, developers throughout the region are facing challenges in achieving financial feasibility with new projects. The current imbalance between construction costs and residential project revenues is expected to even out over time, at which point the feasibility of the prototypes would improve.

The financial feasibility findings for the single-family prototypes are shown in Table 3 below while Table 4 shows the findings for the multifamily rental prototypes.

Table 3: Summary of Financial Feasibility Analysis, Single Family Prototypes

	Prototype 1: Small Lot Detached 5.7 du/acre	Prototype 2: Large Lot Detached 3.3 du/acre	Prototype 3: Duplex 8.3 du/acre
Development Program			
Site Size (acres)	3.5	6	1.2
Total Lots	20	20	5
Total Homes	20	20	10
Average Lot Size (sq. ft.)	5,500	10,000	7,500
Average Living Area per Unit (sq. ft.)	2,000	3,100	1,700
Total Development Costs, Excluding Land Acquisition and Developer Profit			
Total Development Costs	$13,137,205	$20,446,274	$5,370,765
Total Development Costs per Unit	$656,860	$1,022,314	$537,076
Total Development Costs per Sq. Ft.	$328	$330	$316
Pricing Assumptions			
Average Market-Rate Sale Price per unit	$850,000	$1,400,000	$620,000
Residual Land Value Analysis			
Sales Revenue Net of Marketing Costs	$15,980,000	$26,320,000	$5,828,000
Less Development Costs	($13,137,205)	($20,446,274)	($5,370,765)
Less Developer Profit	($1,313,721)	($2,044,627)	($537,076)
Residual Land Value	$1,529,074	$3,829,099	($79,841)
Residual Land Value per Site sq. ft.	$10.03	$14.65	($1.53)
Residual Land Value per Unit	$76,454	$191,455	($7,984)
Feasible?	**No**	**No**	**No**

Note:
Costs do not include the cost of the Affordable Housing Impact Fee Payment because the pro-forma models are set up to test the feasibility of inclusionary requirements in lieu of the Affordable Housing Impact Fee.

Source: BAE, 2019.

Table 4: Summary of Financial Feasibility Analysis, Multifamily Prototypes

	Prototype 4: 20-Unit Rental 20 du/acre	Prototype 5: 50-Unit Rental 20 du/acre	Prototype 6: 40-Unit Rental 40 du/acre	Prototype 7: 20-Unit Condo 20 du/acre
Development Program				
Site Size (acres)	1.0	2.5	1.0	1.0
Total Units	20	50	40	20
Gross Building Area (sq. ft.)	19,722	48,611	40,000	26,000
Average Unit Size (sq. ft.)	888	875	850	1,300
Parking Spaces	36	84	56	48
Parking Type	Surface/Carport	Surface/Carport	Podium/Surface	Garage/Surface Surface
Total Development Costs, Excluding Land Acquisition and Developer Profit				
Total Development Costs (TDC)	$7,496,582	$18,433,438	$19,307,118	$10,284,742
TDC per Unit	$374,829	$368,669	$482,678	$514,237
TDC per Gross Building Sq. Ft.	$380	$379	$483	$396
Pricing Assumptions				
Average Monthly Market-Rate Rent per unit	$2,650	$2,630	$2,590	N/A
Average Market-Rate Sale Price per unit	N/A	N/A	N/A	$605,000
Residual Land Value Analysis				
Capitalized Value (Rental)	$8,088,421	$19,981,053	$15,600,842	N/A
Sales Revenue Net of Marketing Costs (Condo)	N/A	N/A	N/A	$11,374,000
Less Development Costs	($7,496,582)	($18,433,438)	($19,307,118)	($10,284,742)
Less Developer Profit	($749,658)	($1,843,344)	($1,930,712)	($1,028,474)
Residual Land Value	**($157,819)**	**($295,729)**	**($5,636,987)**	**$60,784**
Residual Land Value per Site Sq. Ft.	($3.62)	($2.72)	($129.41)	$1.40
Residual Land Value per Unit	($7,891)	($5,915)	($140,925)	$3,039
Feasible?	**No**	**No**	**No**	**No**

Note:
Costs do not include the cost of the Affordable Housing Impact Fee Payment because the pro-forma models are set up to test the feasibility of inclusionary requirements in lieu of the Affordable Housing Impact Fee.

Source: BAE, 2019.

ON-SITE AFFORDABILITY EQUIVALENTS TO THE AFFORDABLE HOUSING IMPACT FEE

As discussed in the introduction to this report, the City of Napa currently offers several alternatives to paying the City's Affordable Housing Impact Fee. Projects in which at least 15 percent of the units are affordable to and reserved for households with incomes equal to 80 percent of AMI or below qualify as Affordable Housing Projects, which makes these projects exempt from paying the City's Affordable Housing Impact Fee. Developers can propose alternatives to paying the fee, such as a land dedication, providing a lower percentage of affordable units, providing units restricted to households with incomes above 80 percent of AMI (such as 120 percent of AMI) on site, or preserving affordable units at risk of conversion to market rate, subject to approval by the City Council. Developers must demonstrate that any alternative proposal will further affordable housing opportunities in Napa to an equal or greater extent than payment of the fee. This chapter evaluates existing alternatives to paying the City's Affordable Housing Impact Fee as well as other additional options that the City could potentially offer to developers.

On-Site Dedication of Affordable Units

The City's current Affordable Housing Impact Fee rates are significantly lower than the cost of dedicating even a small proportion of units to households with incomes equal to 80 percent of AMI, creating an economic incentive for market-rate developers to pay the fee rather than provide units on site. Table 5 and Table 6 show the on-site affordability proportions that would be equivalent in cost to paying the City's current Affordable Housing Impact Fee, from the perspective of a residential developer. For each of the prototypes tested in the financial feasibility analysis, the on-site affordability requirement that would be equivalent to a fee payment is significantly low, ranging from 1.6 percent to 10.4 percent, depending on the type of residential development and the affordability levels for the affordable units. These figures indicate that, under the City's current fee structure, it is significantly more cost-effective for a developer to pay the Affordable Housing Impact Fee than to qualify for an impact fee exemption by providing 15 percent of units to households with incomes equal to 80 percent of AMI. Consequently, market-rate developers in Napa tend to pay the City's Affordable Housing Impact Fee rather than provide affordable units on site, with few exceptions.

Table 5: On-Site Affordability Equivalents to an Affordable Housing Impact Fee Payment, For-Sale Prototypes, City of Napa, 2019

	Prototype 1 Small Lot Detached SFR 5.7 du/acre	Prototype 2 Large Lot Detached SFR 3.3 du/acre	Prototype 3 Duplex/ Attached SFR 8.3 du/acre	Prototype 7 20-Unit Condo 20 du/acre
Affordable Housing Impact Fee Payment, per unit	$9,500	$14,725	$8,075	$6,175
Financing Costs for Construction Loan on Fee Payment (a)	$293	$455	$249	$191
Developer Profit on Fee Payment (a)	$950	$1,473	$808	$618
Total Cost of Aff. Housing Impact Fee Payment, per unit	**$10,743**	**$16,652**	**$9,132**	**$6,983**
Market Rate Sale Price Per Unit	$850,000	$1,400,000	$620,000	$605,000
Less: Marketing Costs	($51,000)	($84,000)	($37,200)	($36,300)
Net Sales Revenue per Market-Rate Unit	**$799,000**	**$1,316,000**	**$582,800**	**$568,700**
Cost to Provide One Unit at 80% of AMI				
80% of AMI Sale Price Per Unit	$277,827	$300,187	$277,827	$198,972
Less: Marketing Costs	($16,670)	($18,011)	($16,670)	($11,938)
Net Sales Revenue per Unit	$261,157	$282,176	$261,157	$187,033
Difference b/t Market Rate and 80% AMI Sales Revenues	**$537,843**	**$1,033,824**	**$321,643**	**$381,667**
On-site Equivalent to Aff. Housing Fee Payment (b)	**2.0%**	**1.6%**	**2.8%**	**1.8%**
Cost to Provide One Unit at 120% of AMI				
120% of AMI Sale Price Per Unit	$421,073	$454,753	$421,073	$331,422
Less: Marketing Costs	($25,264)	($27,285)	($25,264)	($19,885)
Net Sales Revenue per Unit	$395,808	$427,468	$395,808	$311,536
Difference b/t Market Rate and 120% AMI Sales Revenues	**$403,192**	**$888,532**	**$186,992**	**$257,164**
On-site Equivalent to Aff. Housing Fee Payment (b)	**2.7%**	**1.9%**	**4.9%**	**2.7%**
Cost to Provide One Unit at 150% of AMI				
150% of AMI Sale Price Per Unit	$526,166	$568,511	$526,166	$428,759
Less: Marketing Costs	($31,570)	($34,111)	($31,570)	($25,726)
Net Sales Revenue per Unit	$494,596	$534,400	$494,596	$403,033
Difference b/t Market Rate and 150% AMI Sales Revenues	**$304,404**	**$781,600**	**$88,204**	**$165,667**
On-site Equivalent to Aff. Housing Fee Payment (b)	**3.5%**	**2.1%**	**10.4%**	**4.2%**

Notes:
(a) Financing cost and developer profit assumptions are the same as those shown in the financial pro-formas shown in Appendix A.
(b) On-site equivalents represent the proportion of units in each prototype that would reduce the nets sales revenue from each prototype by an amount equivalent to the total cost of the paying the Affordable Housing Impact Fee payment. Equivalents calculated by dividing the total per-unit cost of the affordable housing impact fee payment by the difference in net sales revenue from a market-rate unit and the net sales revenue from an affordable unit.

Source: BAE 2019.

Table 6: On-Site Affordability Equivalents to an Affordable Housing Impact Fee Payment, Rental Prototypes, City of Napa, 2019

	Prototype 4 20-Unit Rental 20 du/acre	Prototype 5 50-Unit Rental 20 du/acre	Prototype 6 40-Unit Rental 40 du/acre
Affordable Housing Impact Fee Payment, per unit	$3,994	$3,938	$4,050
Financing Costs for Construction Loan on Fee Payment (a)	$123	$122	$125
Developer Profit on Fee Payment (a)	$399	$394	$405
Total Cost of Affordable Housing Impact Fee Payment, per unit	**$4,516**	**$4,453**	**$4,580**
Cost to Provide One Unit at 80% of AMI			
Market Rate Monthly Rent per Unit	$2,650	$2,630	$2,590
80% of AMI Monthly Rent per Unit	$1,739	$1,729	$1,709
Difference b/t Market Rate Rent and 80% AMI Rent	$911	$856	$837
Capitalized Value of Difference b/t Market Rent and 80% AMI Rent (a)	**$218,580**	**$205,360**	**$200,777**
On-site Equivalents to Affordable Housing Fee Payment (b)	2.1%	2.2%	2.3%

Notes:
(a) Based on the same capitalization rate as shown in the financial pro-formas shown in Appendix A.
(b) On-site equivalents represent the proportion of units in each prototype that would reduce the capitalized value of each prototype by an amount equivalent to the total cost of the paying the Affordable Housing Impact Fee payment. Equivalents calculated by dividing the total per-unit cost of the affordable housing impact fee payment by the difference in the capitalized value of a market-rate unit and the capitalized value of an affordable unit.

Source: BAE 2019.

The on-site affordability equivalents shown in Table 5 and Table 6 do not necessarily align with the number of units that the City could otherwise construct using Affordable Housing Impact Fee revenues. When a developer makes an Affordable Housing Impact Fee payment, the payment accrues to the City's Housing Trust Fund. The City then uses these funds to support the production and preservation of affordable housing, which often includes providing funding to support the construction of 100 percent affordable residential developments. In the case of a 100 percent affordable housing project, the City's funds are leveraged with a range of other public funding sources to fully finance the development. While the contributions that local governments make to affordable housing projects varies substantially between projects and jurisdictions, a typical local housing trust fund contribution to an affordable housing project in the Bay Area might range from $150,000 to $200,000 or more per unit.

Table 7 below shows the Affordable Housing Impact Fee that would apply to each of the prototypes evaluated in this study and provides an estimate of the number of affordable units that the City could finance using the fee revenue from each prototype project. Table 7 also calculates the number of affordable units that each prototype could provide in lieu of an Affordable Housing Impact Fee payment, based on the equivalent affordability proportions from Table 5 and Table 6, assuming that the affordable units target households with incomes equal to 80 percent of AMI. The calculations shown in the table indicate that the for-sale prototypes (Prototypes 1, 2, 3, and 7) could potentially generate more affordable units through

fee payments than through an equivalent on-site affordability requirement. These findings would change somewhat if the affordable units in the for-sale prototypes target income levels higher than 80 percent of AMI. Conversely, the rental prototypes (Prototypes 4, 5, and 6) could potentially generate more affordable units through an equivalent on-site affordability requirement than through a fee payment.

Table 7: Comparison of Affordable Units Produced from Fees to Affordable Units from Equivalent On-Site Dedication

Single-Family Prototypes	Prototype 1 Small Lot Detached SFR 5.7 du/acre	Prototype 2 Large Lot Detached SFR 3.3 du/acre	Prototype 3 Duplex/ Attached SFR 8.3 du/acre
Number of Units in Prototype	20	20	10
Applicable Affordable Housing Impact Fee (a)	$190,000	$294,500	$80,750
Est. # of Aff. Units Funded by Fee Revenues from Prototype (b)	**0.95**	**1.47**	**0.40**
Equivalent On-Site Affordable Housing Contribution (c)	2.0%	1.6%	2.8%
Total Units in Prototype x On-Site Affordability Equivalent	**0.40**	**0.32**	**0.28**
More Affordable Units from Fee or On-Site Equivalent?	**Fee**	**Fee**	**Fee**

Multifamily Prototypes	Prototype 4 20-Unit Rental 20 du/acre	Prototype 5 50-Unit Rental 20 du/acre	Prototype 6 40-Unit Rental 40 du/acre	Prototype 7 20-Unit Condo 20 du/acre
Number of Units	20	50	40	20
Applicable Affordable Housing Impact Fee (a)	$79,875	$196,875	$162,000	$123,500
Est. # of Aff. Units Funded by Fee Revenues from Prototype (b)	**0.40**	**0.98**	**0.81**	**0.62**
Equivalent On-Site Affordable Housing Contribution (c)	2.1%	2.2%	2.3%	1.8%
Total Units in Prototype x On-Site Affordability Equivalent	**0.41**	**1.08**	**0.91**	**0.37**
More Affordable Units from Fee or On-Site Equivalent?	**On Site**	**On Site**	**On Site**	**Fee**

Notes:
(a) Based on the City's current Affordable Housing Impact Fee rates and the square footage of each prototype.
(b) Based on an estimated City contribution of $200,000 per affordable unit in a 100 percent affordable project.
(c) As calculated in Table 5 and Table 6. Based on a requirement that affordable units are affordable to households with incomes equal to 80 percent of AMI.

Source: BAE, 2019.

Because the Affordable Housing Impact Fees from a single project are not sufficient to provide a meaningful contribution to a separate 100 percent affordable housing project, the City must collect funds from multiple projects to have the ability to support a separate affordable housing development. Once the City has accrued enough funding, construction of an affordable housing project requires an affordable housing developer to acquire a site, which can be challenging due to land constraints in Napa, and then plan, entitle, and construct a project. Alternatively, an on-site dedication of affordable units creates an affordable unit at the same time and as part of the same planning, entitlement, and construction process as the market-rate units in the project, on an identified site. In addition, on-site dedication creates

affordable units that are interspersed with market-rate units, which many affordable housing advocates support as a way to promote a more equitable outcome than can be achieved by providing affordable units in separate developments. Finally, provision of on-site affordable units promotes dispersal of affordable housing throughout the community while fee proceeds will tend to be directed to a more limited number of projects that will concentrate affordable units in certain locations.

Alternative Options for On-Site Affordable Housing Contributions

This section evaluates alternative options for providing affordable units on site within a market-rate development. The options presented in this section differ somewhat from a straightforward dedication of a portion of the units in the project as analyzed in the previous section of this chapter. The purpose of this section is to achieve at least some of the benefits of an on-site contribution to affordable housing, while enabling the production of more affordable units than a developer would otherwise be able to dedicate at a cost that is equivalent to the City's current Affordable Housing Impact Fee (i.e., in the proportions shown in Table 5 and Table 6).

The options presented in this section of the report focus on the two single-family detached prototypes (Prototype 1 and 2) because these prototypes offer the most physical flexibility for providing an affordable housing contribution that differs from a traditional dedication of units within a project. These are also the prototypes for which the cost of dedicating a portion of units as affordable is particularly high relative to payment of the current Affordable Housing Impact Fee (see Table 7).

Rent-Restricted Affordable Accessory Dwelling Units

Some of the stakeholders that attended the stakeholder meetings for this study expressed potential interest in providing affordable Accessory Dwelling Units (ADUs) within a project to meet affordable housing requirements. The following analysis evaluates a scenario in which a multi-lot single-family subdivision development would include rent restricted ADUs on a portion of the lots. In this scenario, the developer of the single-family subdivision would construct the ADUs at the same time as the rest of the homes in the development, then sell the lots to individual homebuyers who would be responsible for renting the affordable ADUs. Homebuyers purchasing lots with rent-restricted ADUs would be required to rent the ADUs to an income-qualified household at the designated affordable rental rate.

Table 8 evaluates the financial feasibility of constructing an affordable ADU within a market-rate project, based on the cost that the developer would incur to construct the ADU and the additional amount that a homebuyer would be willing to pay for the property compared to the same property without an ADU. Rent-restricted ADUs are relatively uncommon, and therefore data are not available on the effect that a rent-restricted ADU would have on the sale price of an individual home. While some homebuyers would presumably pay more for a home with an ADU that generates an ongoing income stream to the homeowner, the additional amount that

a homeowner would pay for a rent-restricted ADU would likely differ somewhat from the amount that a homebuyer would pay for an ADU with no restrictions.

This analysis assumes that the additional amount that a homebuyer would be willing to pay for a rent restricted ADU would be approximately equal to the additional mortgage payment that the rental income from the ADU would support. Some homebuyers might be willing to pay more than this amount to achieve the benefits of building additional equity from their property. Conversely, the overall pool of homebuyers may be smaller and/or some homebuyers might be willing to pay some amount less because of the potential complications associated with a requirement to operate a rent restricted ADU on their property. The actual increase in sale price associated with rent restricted ADUs will be highly dependent on individual buyers' decisions and priorities.

The calculations shown in Table 8 indicate that a homebuyer would pay approximately $244,000 more for a home with a rent-restricted ADU than for the same home without an ADU, exceeding the estimated additional cost to build the ADU by approximately $69,000. This indicates that the addition of affordable ADUs to a single-family development could potentially increase the developer's profit from the project, relative to a project with no ADUs. However, there is likely a limit to the number of lots with affordable ADUs that a developer can successfully market to homebuyers, as some homebuyers will prefer not to operate a rental unit on their property.

While rent-restricted ADUs could potentially provide affordable units without hampering the feasibility of market-rate units, this strategy could present challenges related to fair housing and equal access to affordable units. Homeowners renting affordable units in their own backyards or within the footprint of the home may be inclined to rent to income-qualifying households that they know, such as an adult child or elderly parents, rather than the general public. Furthermore, compared to a professional property management company or a property owner that lives off site, individual homeowners that rent a unit may have a higher likelihood of selecting tenants in a discriminatory manner that would violate fair housing laws. Finally, the responsibility to satisfy the affordable housing requirements is passed-on to the future homebuyer with only the construction of the unit left to the responsibility of the developer. These potential issues should be evaluated as part of any policy to allow developers to meet affordable housing requirements by adding rent restricted ADUs to single-family subdivisions.

Table 8: Financial Feasibility of Constructing an Affordable ADU within a Market-Rate Project

Monthly ADU Rental Income to Homeowner (a)	$1,590
Less: Monthly Utility Costs for ADU (b)	($150)
Less: 5% Vacancy	($80)
Less: Homeowners Insurance for ADU	($61)
Less: Property Taxes for ADU	($254)
Net Monthly Income to Homeowner from ADU rental	$1,046
Additional Supportable Mortgage Payment (c)	$1,046
Additional Supportable Mortgage Amount	$243,634
Less: ADU Development Costs	($175,000)
Difference Between ADU Dev. Costs and Supportable Mortgage	$68,634

Homeownership Cost Assumptions		
Down payment	20%	of home value
Annual interest rate	5.00%	fixed
Loan term	30	years
Annual homeowners insurance	0.30%	of coverage amount
Annual property tax rate	1.25%	of home value

Notes:
(a) City of Napa 2019 Affordable Rent Limits for a two-person, low-income (80% AMI) household, assuming a one-bedroom ADU unit.
(b) Based on the City of Napa Housing Authority 2019 Utility Allowance.
(c) Represents the additional monthly mortgage payment that the homeowner would be able to support using the net income to the homeowner from ADU rental.

Sources: City of Napa, 2019; BAE, 2019.

Affordable Attached Homes in Detached Single-Family Developments

The financial feasibility analysis evaluated two variations of the two detached single-family prototypes (Prototypes 1 and 2) to assess the financial feasibility of dedicating one out of the 20 lots in each prototype to create two attached affordable units, leaving the remaining 19 lots for market-rate units. In the small-lot single-family prototype (Prototype 1), the analysis evaluated the impact on feasibility from dedicating one of the 20 lots to provide two attached affordable units measuring 1,300 square feet each, in lieu of paying the City's Affordable Housing Impact Fee. In the large-lot single-family prototype with 20 lots, the analysis evaluated the impact on feasibility from dedicating one of the 20 lots to provide two attached affordable units measuring 1,500 square feet each, in lieu of paying the City's Affordable Housing Impact Fee.

As shown in Table 9, the analysis found that dedicating one lot in the single-family detached prototypes to create two affordable units would generally have either a neutral or positive impact on the financial feasibility of the prototypes. In the small lot single-family prototype, dedicating one lot to create two affordable attached units, priced to be affordable to households with incomes equal to 120 percent of AMI, results in a residual land value that is slightly (approximately two percent) higher than the residual land value associated with an analogous project in which all 20 lots have one market-rate home and the developer pays the

City's Affordable Housing Impact Fee. If the affordable units in the small lot prototype are priced to be affordable to households with incomes equal to 150 percent of AMI, the resulting residual land value would be 17 percent higher than the residual land value associated with an analogous project in which the developer pays the Affordable Housing Impact Fee rather than providing units on site. In the large lot single-family prototype, dedicating one lot to create two affordable units, priced to be affordable to households with incomes equal to 120 percent of AMI, results in a residual land value that is slightly (approximately three percent) lower than the residual land value associated with an analogous project in which all 20 lots have one market-rate home and the developer pays the City's Affordable Housing Impact Fee. If the affordable units are priced to be affordable to households with incomes equal to 150 percent of AMI, the resulting residual land value would be marginally higher than the residual land value associated with a project for which the developer pays the Affordable Housing Impact Fee rather than providing units on site.

Table 9: Financial Feasibility of Constructing Two Attached Affordable Units on One Single-Family Lot

	Prototype 1 Small Lot Detached SFR 5.7 du/acre	Prototype 2 Large Lot Detached SFR 3.3 du/acre
Affordable Housing Impact Fee Scenario		
Residual Land Value	$1,313,622	$3,495,147
On-Site Scenario, One Lot Dedicated to Two Attached Affordable Single-Family Units		
Residual Land Value, Affordable Units at 120% of AMI	$1,337,545	$3,383,680
Change in Residual Land Value Compared to Fee Scenario	1.8%	-3.2%
Residual Land Value, Affordable Units at 150% of AMI	$1,535,121	$3,517,937
Change in Residual Land Value Compared to Fee Scenario	16.9%	0.7%

Source: BAE, 2019.

The financial feasibility analysis demonstrates that providing two affordable units on one lot within the 20-unit single-family detached prototypes can potentially result in an outcome that would be attractive to a developer while advancing the City's affordable housing objectives. The analysis found that this option generally had either a positive or neutral impact on the feasibility of these prototypes compared to paying the City's Affordable Housing Impact Fee, particularly if the affordable units are priced to be affordable to households with incomes equal to 150 percent of AMI. This option would also create more affordable units than either of the detached single-family prototypes would otherwise generate though an Affordable Housing Fee payment or the equivalent on-site affordable unit dedication (see Table 7).

It should be noted that the findings related to the feasibility of this option are sensitive to the difference between market-rate sale prices and the sale prices for the affordable units, and

therefore will shift over time and between projects. In order for this option to be attractive to a developer, the price of the two affordable units plus the savings from the waiver of the City's Affordable Housing Impact Fee must be comparable to or higher than the net sales revenue that a developer could gain from the sale of a single market-rate home. An increase in the difference between the market-rate sale price and the affordable sale price could potentially shift the feasibility of this option such that paying the City's current Affordable Housing Impact Fee becomes more attractive than dedicating a single lot to two affordable units.

It should also be noted that should the City decide to permit a developer to satisfy the Affordable Housing requirements by providing units at 150 percent of AMI, these units would help address the "missing middle" housing need that many households in Napa experience; however, units sold or rented at prices affordable to households with incomes higher than 120 percent of AMI cannot be used to satisfy the City's RHNA requirements for moderate-income units, as the cap on AMI is 120 percent.

INCLUSIONARY HOUSING POLICIES IN OTHER JURISDICTIONS

This section provides an overview of existing inclusionary and affordable housing fee programs in selected Bay Area cities. Historically, affordable housing fee programs that apply to residential development have taken the form of an in-lieu fee that is rooted in an existing inclusionary housing program, which requires some amount (e.g., 10 to 15 percent) of units in market rate projects be affordable to low-income and, in some cases, moderate-income households. Although these programs were structured to achieve production of affordable units within a market-rate development, most programs also offer an option to pay an in-lieu fee instead of providing on-site affordable units, at least in some cases. With the *Palmer/Sixth Street Properties L.P. v. City of Los Angeles* court decision in 2009, mandatory inclusionary programs for rental developments were found to violate California's Costa Hawkins Act regarding rent control, and thus local governments were prohibited from requiring on-site mandatory units in rental projects. However, impact mitigation fees for market rate rental projects to generate revenue for affordable housing remained legal. AB 1505, passed in 2017 as part of a larger housing legislation package, restored the authority of cities to adopt inclusionary ordinances that require some portion of units in market rate rental developments to be affordable to lower-income households. Many California cities have responded to this change in the legislative environment by restoring prior inclusionary housing ordinances, updating existing inclusionary ordinances, or adopting new inclusionary requirements.

BAE collected information on the inclusionary housing and fee programs in eight other nearby cities in Napa, Sonoma, Marin, and Contra Costa Counties as part of this study, which is summarized in Table 10 below. These cities were selected to provide information on other cities' policies in a localized context and to highlight a range of potential options for implementing affordable housing inclusionary and fee programs in Napa. Because the method for calculating fee amounts varies by jurisdiction, BAE calculated fees for three hypothetical projects to facilitate comparisons. As shown in Table 10, inclusionary requirements in these cities generally range from ten to 20 percent. In terms of fee levels, fees are lowest in American Canyon for all residential types, at roughly $3,660 per unit for the rental project, $4,440 per unit for the condo project, and $5,710 per unit for the single-family project. However, the City of American Canyon requires that for-sale projects provide the affordable units rather than pay a fee. In the City of Napa, the affordable housing impact fees for the same projects would be roughly $4,050 per unit for the rental project, $6,650 per unit for the condo project, and $8,550 per unit for the single-family project.

Although most of the inclusionary programs shown in Table 10 set on-site construction as the baseline requirement, many also provide alternatives for compliance, such as payment of in-lieu fees, land dedication, or the preservation of existing affordable units. However, almost all of the cities with inclusionary programs outlined below would require some form of

discretionary approval for an alternative compliance option. Walnut Creek is the only jurisdiction with an inclusionary program shown in Table 5 that would allow a developer to use an alternative compliance option (i.e. payment of an in-lieu fee) without obtaining any discretionary approvals.

Table 10: Inclusionary Housing Requirements and Impact Fees in Selected Cities

	SFR Project (2,000 sf per du)		Condo Project (1,400 sf per du)		Rental Project (1,000 sf per du)	
Jurisdiction	**Inclusionary** (a)	**Fee per du**	**Inclusionary** (a)	**Fee per du**	**Inclusionary** (a)	**Fee per Unit**
City of Napa	**n.a.**	**$9,500**	**n.a.**	**$6,650**	**n.a.**	**$4,050**
American Canyon (b)	10% LI	$6,340	10% LI	$4,438	n.a.	$3,660
City of Calistoga (c)						
Option 1	20% MI	(c)	20% MI	(c)	20% MI	(c)
Option 2	10% LI	(c)	10% LI	(c)	10% LI	(c)
City of Petaluma (d)	15% MI; LI	$20,240	15% MI; LI	$14,168	15% VLI; LI	$10,120
City of San Rafael (e)						
2-10 Unit Projects	10% LI; MI	$343,969	10% LI; MI	$343,969	10% VLI; LI	$343,969
11-20 Unit Projects	15% LI; MI	$343,969	15% LI; MI	$343,969	15% VLI; LI	$343,969
21+ Unit Projects	20% LI; MI	$343,969	20% LI; MI	$343,969	20% VLI; LI	$343,969
City of Santa Rosa (f)	15% LI	(f)	15% LI	(f)	15% LI	$3,296
City of St. Helena (g)	20% MI	(g)	20% MI	(g)	20% VLI; LI; MI	(g)
City of Walnut Creek (h)						
Option 1	10% MI	$36,000	10% MI	$25,200	10% LI	$18,000
Option 2	7% LI	$36,000	7% LI	$25,200	6% VLI	$18,000
Option 3	6% VLI	$36,000	6% VLI	$25,200		
Town of Yountville (i)	15% VLI; LI; MI	n.a.	15% VLI; LI; MI	n.a.	15% VLI; LI; MI	n.a.

Notes:
(a) Key for income levels:
ELI - Extremely Low Income (30% AMI)
VLI - Very Low Income (50% AMI)
LI - Low Income (80% AMI)
MI - Moderate Income (120% AMI)
(b) City of American Canyon inclusionary requirements apply to developments of 5 or more units. Projects are required to build the inclusionary units, unless the project is found to be infeasible, in which case the payment of in-lieu fees is deemed appropriate.
(c) City of Calistoga inclusionary requirements apply to developments of 5 or more units for rental projects and 20 or more units for ownership projects. Projects are required to build the inclusionary units, unless the project is found to be infeasible, in which case payment of in-lieu fees is deemed appropriate. Ownership projects with 5-19 units meet inclusionary requirement by paying a fee. Fees are negotiated with developers.
(d) City of Petaluma inclusionary requirements apply to developments of 5 or more units. City Council has discretion to approve alternative compliance options, including payment of an in-lieu fee.
(e) Attached housing projects with 1-4 units and projects of 1-4 units under 1,800 sf are exempt.
(f) City of Santa Rosa inclusionary requirements apply to developments of 70 or more units. Projects with less than 70 units have the option of paying an impact fee or providing units on-site. The fee for for-sale units is equal to 2.5% of the unit's sale price.
(g) City of St. Helena inclusionary requirements apply to developments of 5 or more units. Projects with four or fewer units may provide one affordable unit or pay an in-lieu fee for a fractional unit. Projects are required to build inclusionary units, unless the project is found to be infeasible, in which case the payment of in-lieu fees is deemed appropriate. Fees are set at 2.5% of construction costs.
(h) City of Walnut Creek inclusionary requirements apply to developments with 2 or more units. Ownership and rental projects are permitted to pay a fee in lieu of providing inclusionary units.
(i) Town of Yountville inclusionary requirements apply to developments of 5 or more units. Projects are required to build units, but a developer may propose an alternative equivalent action under exceptional circumstances.
Sources: BAE, 2019.

Special Topics in Case Study Cities

This subsection provides a high-level overview of policies that other cities have implemented to address some of the key issues raised during the stakeholder meetings for this study. In addition to the inclusionary programs identified in Table 10 above, BAE reviewed additional

programs in jurisdictions elsewhere in California to provide insight into the range of approaches to each of these topics. The findings from this research are summarized by topic below.

Incentives and Concessions

California State law includes provisions that require cities to offer incentives to qualifying projects that provide affordable housing. The California State Density Bonus Law requires local governments to provide specific concessions and incentives for projects that provide a defined amount of affordable housing. Many jurisdictions offer additional incentives above and beyond those provided under State law, such as financial assistance, expedited processing of development approvals, fee waivers or deferrals, and relaxed development standards, among other incentives. In Santa Rosa, all developers that choose to construct units or pursue other alternatives to paying a fee are automatically entitled to one incentive or concession. To encourage the construction of inclusionary units, the City of Walnut Creek allows reduced unit sizes for inclusionary units and the use of different interior finishes for inclusionary and market-rate units.

Some jurisdictions, such as Menlo Park and Mountain View, have enacted community benefits programs that allow developers to "opt-in" to provide affordable housing or other community benefits in exchange for development incentives. These programs can apply to commercial or residential development and can be combined with mandatory inclusionary or fee requirements to encourage additional contributions from developers. The community benefits contributions can take the form of cash or in-kind benefits. While many cities use these programs to support the production of affordable housing, these programs can provide other community benefits, such as public open space.

Phase-in Period After Adoption

Many cities develop a phase-in schedule to allow time for the market to adjust to new requirements when adopting a new program. In most cases, a newly-adopted inclusionary or impact fee ordinance identifies a future date to begin implementation, and projects with applications that are deemed complete by the implementation date are typically exempt from the requirement. Some cities also assess prorated requirements during an extended phase-in period to allow the market to adjust over time. For example, when the City of Los Angeles adopted an Affordable Housing Linkage Fee, the City did not charge any fees for approximately six months after adoption. The fee rates were phased in gradually, with the full fee rates going into effect approximately one and a half years after the date that the fees were adopted. In Oakland, projects that were deemed complete within a period of approximately four months after the date of adoption of the City's Affordable Housing Impact Fee were exempt from the fee. After this four-month period, the ordinance called for fees to be phased in over almost two years in strong and medium market zones. In the weak market zone, no fees were charged for approximately two years, after which the fees are now getting phased in over two years.

Streamlined Entitlements

Some cities have adopted policies to streamline approval processes for projects that include affordable units. The City of Berkeley's Expedited Review program provides expedited processing for all permits, inspections, and City administrative processes to affordable housing projects. The City manager has the authority to expedite or prioritize processing for permits for projects in which at least 25 percent of the units are affordable, and projects receiving funds from Berkeley's Housing Trust Fund automatically receive expedited and prioritized processing. In practice, all projects receiving funds from Berkeley's Housing Trust Fund are 100 percent affordable.

The City of San Diego provides expedited permit processing for projects that include affordable units as well as certain infill and other types of projects. The City's expediting program sets defined timelines for various phases of the review process, with separate expediting programs for discretionary approvals and ministerial approvals. Projects that are eligible for streamlining include: 1) rental developments in which at least ten percent of the units are set aside for households with an income at or below 65 percent of AMI; 2) for-sale developments in which at least ten percent of the units proposed are set aside for households with an income at or below 100 percent AMI; 3) public/private partnerships with the City in which 15 percent of units are affordable to households earning 120 percent AMI or less; 4) projects subject to a Federal, State or Local governmental agreement that restricts tenancy and rents at or below 80 percent AMI; 5) urban infill housing development projects of five units or more within City Transit Priority Areas with rents or sale prices affordable to households earning 150 percent AMI. The City charges a fee of $622.45 per unit for the program plus additional fees for any non-residential square footage. Fees for the program are waived for 100 percent affordable housing projects. The City reports that this program often cuts processing times in half for qualifying projects.

In addition, the California State Legislature's 2017 Housing Package added State legislation that requires most cities in California to streamline processing for qualifying projects that provide affordable units by providing a ministerial approval process and exempting such projects from environmental review under the California Environmental Quality Act (CEQA). Developers must also commit to prevailing wage requirements to be eligible for streamlining under SB 35. As of December 2018, a project in the City of Napa is eligible for SB 35 streamlining if least 50 percent of the units in the project are affordable to households with incomes below 80 percent AMI.

Recent updates to the Housing Accountability Act (HAA) also included changes to laws regarding local project review. The new laws place limits on a local jurisdiction's ability to deny projects that are consistent with the General Plan and require them to provide a developer with a list of project inconsistencies within 30 to 60 days following application completeness.

If the jurisdiction fails to complete this task within the time limit, the application is automatically deemed consistent with the local General Plan and zoning regulations.

Rent-Restricted Accessory Dwelling Units

Rent-restricted ADUs are relatively uncommon, and public policies related to rent-restricted ADUs tend to focus on encouraging owners of existing homes to build and make ADUs affordable to lower-income households, rather than encouraging developers to construct rent-restricted ADUs in new subdivisions. The Santa Cruz County Planning Department offers a forgivable loan to help homeowners finance up to $40,000 in ADU development costs in exchange for restricting the ADU as an affordable rental unit for low income households. Participating homeowners enter into a deed restriction requiring them to rent the ADU or the main house at or below 80 percent of AMI for a period of 20 years. Financial assistance is in the form of a three percent simple interest loan, deferred for 20 years and forgiven after 20 years if the unit has been rented as required by the Program.

Los Angeles County is implementing a Second Dwelling Unit pilot program that provides incentives to homeowners that construct new ADUs or preserve existing unpermitted ADUs, in exchange for accepting homeless families or individuals. The program also expedites the review and approvals of ADUs and provides technical assistance to homeowners. The pilot program is relatively limited, providing up to $75,000 per unit to build two to three new ADUs and funding to bring two to three unpermitted ADUs into compliance. Funding will be provided in the form a soft second loan tied to a commitment to rent the ADU to a homeless family or individual. The County has selected LA-Mas to serve as technical consultants for the pilot program, manage the homeowner selection process, and guide homeowners through the permitting and construction process.

Affordable Attached Homes in Detached Single-Family Developments

Many cities that require new market-rate residential developments to pay an affordable housing fee or provide affordable units, including the City of Napa, offer developers some level of flexibility to propose alternatives for meeting the specified affordable housing requirements. Although in many cases this flexibility potentially includes an option to provide affordable units in the form of two attached homes on a single-family lot within a detached single-family subdivision, few jurisdictions explicitly include this option within their City codes and policies.

However, some cities have adopted code language that explicitly enables this option. The City of Fremont Municipal Code specifies that single-family detached developments that include on-site affordable units and that do not require a density bonus or other incentives may provide affordable units in the form of attached housing units. The City of Folsom Municipal Code specifies that modifications for inclusionary units may include modifications to planning standards such as minimum lot size, alternative housing types, lot coverage, and other requirements for approval of duplexes.

POLICY RECOMMENDATIONS

The primary purpose of this study was to evaluate the financial feasibility of inclusionary requirements for new residential development in the City of Napa. The analysis presented in this report indicates that new residential development generally is not feasible in the current real estate development environment, even with no inclusionary requirements, and therefore would not be feasible with inclusionary requirements. The current challenges with feasibility in Napa are largely attributable to recent increases in construction costs, which have created similar challenges throughout the regional real estate development market. These conditions will change over time as the relationship between construction costs and the value of new residential construction shifts in response to market conditions. However, it is not possible to know at this time when these shifts will occur in such a manner as to improve the feasibility of new residential construction projects.

Based on the finding from this study that new residential development currently faces significant feasibility challenges in Napa, this study makes the following four policy recommendations:

1) Formulate a **menu of pre-approved alternatives to payment of the City's Affordable Housing Impact Fee**, giving developers the option to pay the fee or pursue an alternative means of compliance.
2) Adopt **incentives to encourage developers to provide affordable units on-site** within market-rate projects, or to pursue any other alternative means of compliance preferred by the City, rather than pay the Affordable Housing Impact Fee.
3) Consider a **mandatory inclusionary housing ordinance when real estate development conditions improve** in Napa, potentially including a phase-in period for new requirements.
4) Continue to **explore other tools for increasing the production of affordable housing** in Napa.

Policy Recommendation 1: Formulate a Menu of Alternatives to Payment of the City's Affordable Housing Impact Fee

Because the financial analysis presented in this report indicates that mandatory inclusionary requirements are not typically feasible in the current market, the City should instead consider offering a menu of alternatives to paying the City's Affordable Housing Impact Fee to give developers options to contribute to the production of affordable housing in Napa through mechanisms other than a fee payment. Policy Recommendation 2 below describes incentives that the City can use to encourage developers to pursue options from the menu of alternatives that best achieve the City's affordable housing goals.

Recommendation 1.A: Consider modifying the definition of an Affordable Housing Project, which is exempt from paying the Housing Impact Fee, from the current definition as a residential development in which 15 percent of units are affordable to extremely low-, very low-, or low-income households. As shown in Table 5 and Table 6 in this report, it is significantly less expensive for a developer to pay the City's Affordable Housing Impact Fee than to qualify for an exemption by providing 15 percent of the units to low-income households (i.e., households with incomes equal to 80 percent of AMI). The City could modify this definition by reducing the proportion of units that are needed to be classified as an Affordable Housing Project. For for-sale projects, the City could also consider modifying this definition by increasing the income levels that the affordable units would target, from the current 80 percent of AMI affordability level to a sale price that would be affordable to households with incomes equal to 120 or 150 percent of AMI. To the extent that a reduction in the on-site affordability requirement brings the cost of providing the required affordable units on site closer to the cost of the fee, developers will become more likely to choose to provide affordable units on site than under the City's current policy structure.

In considering this policy, the City should evaluate the tradeoffs between encouraging more on-site affordable unit production and charging fees that the City can use to support off-site construction of affordable units. As shown in Table 7 of this report, in some cases the Affordable Housing Impact Fee revenue from a project may result in more total units than a developer could provide on-site at a cost that is equivalent to the fee payment. By offering incentives to projects that provide affordable units on site, as described in Policy Recommendation 2 below, the City could potentially incentivize projects to provide affordable units at slightly higher proportions than the proportions that would otherwise be equivalent in cost to paying the Affordable Housing Impact Fee.

As stated above, it should also be noted that, should the City decide to allow a project to qualify as an Affordable Housing Project by providing units affordable to households with incomes above 120 percent of AMI, these units cannot be used to meet the City's RHNA requirements for moderate-income units. Recommendation 2.D below provides a potential strategy that would enable developers to target home prices to be affordable to households with incomes equal to 150 percent of AMI while using City funds to achieve deeper affordability targeting that would better address the City's RHNA goals.

Recommendation 1.B: Develop a menu of pre-approved alternatives to an Affordable Housing Impact Fee payment. The City could facilitate the production of affordable units by expanding and clarifying the options offered to developers as alternatives to paying the Affordable Housing Impact Fee. For developers of single-family developments, the options could include an option to provide two attached affordable

units on at least one out of every 20 lots, as evaluated in the "On-Site Affordability Equivalents to the Affordable Housing Impact Fee" chapter of this report.

The City could also evaluate an option for developers to provide rent restricted ADUs within single-family subdivisions. Rent restricted ADUs could represent an opportunity to both provide additional profit to a developer and produce affordable housing. However, if the City chooses to allow developers to provide affordable housing in the form of rent-restricted ADUs, the City should consider policies to ensure equal access to these units among income-qualified households. In addition, the City could consider policies that prevent homeowners from renting their rent restricted ADU to a family member, such as an adult child, and require homeowners to participate in fair housing training. The City could also consider partnering with a nonprofit to income-qualify tenants, conduct ongoing eligibility monitoring, and place tenants in vacant units to ensure equal access.

A menu of alternatives to an affordable housing impact fee payment could include:

1) Providing affordable units on site, potentially a higher affordability level for for-sale projects (i.e. above 120 percent AMI);
2) Providing two attached affordable units on one out of every 20 lots;
3) Providing rent restricted ADUs, potentially at a higher proportion than two-units out of 20 as required under Option (1);
4) Provide funding or otherwise contribute to a separate off-site affordable housing development, including constructing off-site improvements to serve an affordable housing development;
5) Donating land for affordable housing;
6) Preserving affordable units at risk of conversion to market rate through direct purchase or other funding mechanisms;
7) Conversion of market-rate units to affordable units.

The City could choose to require that projects that provide affordable units off site must enable the creation of more affordable units than would be required on site to be eligible for an Affordable Housing Impact Fee waiver to incentivize on-site unit production over off-site production.

Options (4) through (7) above will likely vary substantially between projects and may continue to require case-by-case review. However, the City could allow Administrative or Planning Commission approval for some of these alternatives, rather than requiring approval from the City Council. Further streamlining discussion is provided in Policy Recommendation 2 below.

Recommendation 1.C: Consider partnering with Housing Land Trust of Sonoma County to facilitate inclusionary or on-site unit production. The Housing Land Trust of Sonoma

County has established a model for working with cities and developers to produce inclusionary housing units in for-sale residential developments. The City should consider partnering with the Housing Land Trust or an organization with similar capabilities to facilitate the production, marketing, and stewardship of for-sale inclusionary housing units. The Housing Land Trust works on behalf of the developer during the entitlement process, to handle the necessary regulatory agreements, to market the inclusionary units to qualified households, and to close the sales. This provides the developers with a turnkey solution to compliance with the inclusionary requirements that primarily limits the developer's obligations to building the inclusionary units, for which the developer pays the Housing Land Trust a $7,500 per unit fee at closing of the sale of the inclusionary units. A partnership like this can be very beneficial to market rate developers who may not have the experience or interest in managing the sale of below market rate units. Subsequent to the sales, the Housing Land Trust remains involved as steward of the affordable units and manages any resale transactions that occur. This also limits the City's involvement in monitoring the inclusionary units over time while also providing assurances that the units will remain affordable in perpetuity.

Policy Recommendation 2: Adopt incentives to encourage developers to provide affordable units on-site

Policy Recommendation 2 is to adopt a system of incentives to encourage developers to provide affordable units on site within market-rate projects rather than pay the City's Affordable Housing Impact Fee. The City can also choose to use these incentives to encourage developers to offer various forms of off-site affordable housing contributions, pursuant to the menu of options described under Policy Recommendation 1 above, to the extent that the City would like to encourage off-site contributions rather than a fee payment.

This policy recommendation is divided into three subsections, which correspond to the general categories of incentive-based tools that cities typically offer to encourage the production of affordable units in market-rate developments:

1) **Relaxed development standards** for projects that provide a minimum number of affordable units
2) **Streamlined development entitlement process** for projects that provide a minimum number of affordable units.
3) **Financial assistance** for projects that provide a minimum number of affordable units.

The following text describes how each of these types of incentive could potentially encourage affordable housing production in the City of Napa.

Relaxed Development Standards

Many cities have been successful with incentivizing affordable housing production through density bonuses, reductions in parking requirements, reductions in required setbacks,

additional height allowances, and other forms of relaxed development standards. Like all cities in California, the City of Napa offers density bonuses and other incentives and concessions to residential developments that provide a minimum number of affordable units pursuant to the State Density Bonus law. In addition to the incentives required under State law, the City of Napa offers a supplemental density bonus that allows for up to 100 percent additional density for projects that provide affordable units. Although these incentives can be effective for increasing affordable housing production during phases of the real estate market cycle when residential development is more feasible than in the current market, the analysis presented in this study suggests that the benefit of these types of incentives will be limited in Napa under current real estate development conditions.

The financial feasibility analysis and comments from residential developers in Napa suggest that other types of relaxed development standards beyond those that the City already offers will typically not provide enough of an incentive to encourage developers to provide affordable units in market-rate developments in Napa under current real estate development conditions. Residential developers that provided input for this study reported that they would be unlikely to take advantage of reductions in parking requirements that go further than the reductions already available to developments that provide affordable units due to the demand for parking among the residents that will occupy the new developments. The multifamily residential prototypes analyzed in this study result in negative residual land values, and therefore would not benefit from the ability to build at higher densities. Single-family developments generally target a specific price point that is somewhat sensitive to unit and lot sizes, and therefore may gain relatively little from the ability to increase densities.

> **Recommendation 2.A: Offer a clear option for developers of detached single-family developments to construct two attached affordable units on one lot.** The City of Napa could further incentivize the production of affordable units though relaxed development standards by offering a clear option for developers of detached single-family developments to construct two attached affordable units on one lot within a subdivision where this type of development might not otherwise be allowed, as discussed under Policy Recommendation 1 above.

Streamlined Development Entitlement Process

Developers that provided input for this study overwhelmingly cited streamlining and predictability in the development entitlement process as a key incentive that the City of Napa could offer to support the production of affordable housing. In 2017, the City of Napa streamlined the development review process for some residential projects. The 2017 streamlining ordinance enabled the Community Development Director to serve as the design review approval authority for projects with up to ten units, whereas the City had previously required a higher level of review for projects with more than three units. In addition, the 2017 ordinance granted design review authority to the Planning Commission for all residential projects with 11 to 30 units and all 100 percent affordable residential projects. Prior to the

2017 ordinance, residential projects with 11 units or more required City Council approval of design review permits.

Recommendation 2.B: Reduce discretionary approval requirements for projects that provide affordable units. The City can build on these efforts by further reducing discretionary approval requirements for projects that provide affordable units, but which are not necessarily 100 percent affordable. One such program could include a sliding scale whereby: 1) if 15 percent of the units in a project are affordable, the project is approved "By Right"; or, 2) if ten percent of the units in a project are affordable, the project is approved Administratively; or, 3) if five percent of the units in a project are affordable, the project is approved by the Planning Commission. The required affordability levels could potentially vary between for-sale and rental projects, with affordable units in rental projects targeting lower income levels than affordable units in for-sale projects. The City could require projects that provide affordable units off site provide more affordable units to be eligible for each level of streamlining. The City could also set a cap (e.g., 50 units) on the size of a project that would be eligible for by-right approvals.

Recommendation 2.C: Explore CEQA exemptions for projects that provide affordable units. Beyond the current exemptions provided by the State of California for affordable housing and infill projects, the City of Napa should explore providing additional CEQA exemptions for projects that provide affordable units.

Financial Assistance

While some developers have commented that financial assistance would improve the feasibility of providing affordable units, financial assistance from the City would typically trigger prevailing wage requirements, which many developers reported would serve as a disincentive. While some developers report that the increase in cost due to prevailing wage requirements is significant, others report that prevailing wage has little to no impact on costs because construction cost increases have led to costs that are already at prevailing wage levels, regardless of prevailing wage requirements. In general, the impact that prevailing wage has on construction costs tends to be less significant for higher-density projects in markets with high construction costs, while the impact that prevailing wage has on costs tends to be more significant for projects that would typically have lower construction costs. Regardless of the effect of prevailing wage requirements on cost, developers further reported that the monitoring associated with prevailing wage compliance, as well as the potential for unintentionally violating prevailing wage law, created an administrative burden that could serve as a disincentive. Therefore, if the City chooses to provide financial incentives to projects that provide affordable units, these incentives are most likely to be effective if used in a manner that does not trigger prevailing wage requirements.

Recommendation 2.D: Consider providing down payment assistance to "buy down" the cost of price-restricted units to target lower income levels. Providing down payment assistance directly to homebuyers that purchase affordable units would not trigger prevailing wage requirements, because the funds would go to the homebuyer rather than the developer. The City currently provides down payment assistance to households with incomes equal to 80 percent of AMI or below. Recommendation 1.A above includes an option to allow new for-sale projects to qualify as Affordable Housing Projects by providing units affordable to households with incomes equal to 120 percent of AMI or up to 150 percent of AMI. To the extent that the City chooses to allow projects to qualify as Affordable Housing Projects by providing units affordable to households with incomes equal to 150 percent of AMI, the City could also provide down payment assistance to make these units affordable to households with incomes equal to 120 percent of AMI. Because State law defines moderate-income households as those with incomes equal to 81 to 120 percent of AMI, buying down the affordability of these homes would enable the City to use these units to receive credit toward its State-mandated moderate-income RHNA obligations.

The City could also use down payment assistance to enable low-income households to afford units that are priced to be affordable at 120 percent or 150 percent of AMI. This would be allowed under the City's current down payment assistance program, subject to some limitations depending on the funding source used to provide the down payment assistance.

Recommendation 2.E: Facilitate partnerships that would allow developers to make direct contributions to projects that provide affordable units. The City of Napa could facilitate partnerships between market-rate developers and affordable housing developers to enable the market rate developers to contribute directly to projects that provide affordable housing, rather than making a fee payment to the City that the City would then use to finance an affordable housing project. For example, the City could facilitate a partnership between a hotel developer and a residential developer in which, instead of paying the Affordable Housing Impact Fee, the hotel developer would make a direct contribution to a residential project that provides affordable units. This direct contribution from one developer to another would not require the use of City funds, and therefore would not trigger prevailing wage requirements. If the City chooses to implement such a policy, the City should review the resulting affordable housing proposals to ensure that the agreements result in at least as many units as the sum of the units that each project would have generated individually.

Policy Recommendation 3: Re-evaluate implementation of mandatory inclusionary requirements as market conditions improve

As development costs, market rate rents, and market rate sale prices change over time, these changes will affect the economics of new residential construction.

Recommendation 3.A: Continue to monitor the market to assess if mandatory inclusionary requirements might be feasible. The City of Napa should monitor residential rents and sale prices, construction costs indices, and the pace of new residential development activity to assess the feasibility of new residential development and determine when mandatory inclusionary requirements might become feasible.

Recommendation 3.B: Consider a phase-in process for any future mandatory inclusionary requirements. If the City chooses to implement mandatory inclusionary requirements in the future, the City should consider a gradual phase-in schedule to offset any negative effects that inclusionary requirements might have on the feasibility of new development. For example, the City could exempt projects for which a complete application is submitted within six months of adoption of an inclusionary ordinance. After an initial six-month period, for-sale developments could be subject to a five percent moderate-income requirement and rental developments could be subject to a five percent low-income requirement. The City could then increase these requirements to ten percent in another six to 12 months. Setting a clear, predictable phase-in schedule will allow developers to anticipate the effects that future requirements will have on their projects and plan to accommodate upcoming changes.

Policy Recommendation 4: Continue to evaluate other tools for increasing affordable housing production in Napa

In addition to strategies to increase production of affordable units in market-rate residential developments, the City of Napa should continue to explore other tools to increase the production of affordable housing in the City. In addition to polices that apply to new residential development, the City of Napa recently elected to expand on the analysis presented in this report to evaluate policies related to non-residential uses to support the production of affordable housing in Napa. Additional analysis of policies related to non-residential uses will include:

- Assessing the degree to which existing policies in the City of Napa, including Affordable Housing Impact Fees and the transient occupancy tax for affordable and workforce housing, currently address ongoing workforce housing needs;
- Updating the City's Affordable Housing Impact Fee rates for new non-residential development based on financial feasibility and/or the affordable housing needs generated by new development; and
- Evaluating options for requiring that employers provide housing to accommodate their workforce.

The proposed study of non-residential affordable housing mitigation mechanisms will yield valuable information regarding the impact of non-residential development on local affordable

housing demand. It will also evaluate the extent to which the existing residential and non-residential affordable housing mitigation mechanisms address the needs and identify the remaining gap in mitigation that new non-residential housing mitigation mechanisms could address. This will then position the City to make decisions about whether to modify the existing non-residential affordable housing mitigation requirements or establish new non-residential affordable housing mitigation policies to compliment those already in place.

The City should also continue to explore other strategies for producing affordable housing in Napa. This could include exploring the potential for more innovative housing models, such as co-housing developments, to address a portion of the City's housing needs.

APPENDIX A: DETAILED PRO-FORMAS

This appendix includes a description of the key assumptions used in the financial pro-formas used in this study as well as the detailed pro-formas.

Key Assumptions

The information on key assumptions provided below provides detail on the methodology used for this study to derive total development costs and project values. Developers vary somewhat in the categorization of various project costs, and therefore may show different cost figures for individual cost items even for projects with similar overall development costs. Any variation in the specific cost items described below would not affect the findings of this analysis provided that the total development costs shown each of the following pro-formas are consistent with total development costs for similar projects.

Hard Costs: Hard costs are the costs associated with the physical construction of a building, including all construction materials and labor. This analysis uses a hard cost assumption of $190 per square foot for each of the single-family prototypes, $300 per square foot for the higher-density (40 d.u./acre) multifamily rental prototype, $250 per square foot for the two lower-density (20 d.u./acre) multifamily rental prototypes, and $275 per square foot for the townhouse prototype. This analysis uses a parking hard cost assumption of $5,000 per surface space, $11,000 per carport space, and $50,000 per podium space.

All hard cost assumptions used in this analysis are consistent with current hard cost estimates provided by developers that BAE interviewed for this project as well as with BAE's experience with recent projects in the area. However, it should be noted that hard costs are subject to variation, even among projects that are relatively similar, and the sources that BAE used to estimate hard costs for this study reflected this variation. For this study, BAE prepared a preliminary set of pro-formas with construction cost assumptions and provided these preliminary pro-formas to stakeholders for discussion during the second stakeholder meeting. In general, the stakeholders indicated that the preliminary hard cost assumptions for the single-family residential prototypes were lower than actual single-family construction costs. Based on this input, BAE increased the single-family construction hard cost assumptions, resulting in the figure cited above. This hard cost assumption is lower than the cost reported by some of developers and stakeholders, but is relatively high compared to developer survey feedback on single-family residential construction costs in Sonoma County, which BAE conducted concurrently with this analysis.

Conversely, at least one developer that participated in the second stakeholder meeting indicated that the preliminary construction hard cost assumption for multifamily rental development was lower than actual multifamily rental construction hard costs. BAE did not adjust the multifamily rental hard construction cost downward based on this input, in order to

avoid potentially overstating the feasibility of new multifamily rental development. The higher construction hard cost assumption cited above is consistent with input provided by at least one developer that is active in Napa that BAE interviewed for this analysis separately from the stakeholder meetings.

Soft Costs: This analysis assumes that soft costs are equal to 20 percent of hard costs. This soft cost estimate includes engineering, architecture, and CEQA costs, as well as City cost-recovery fees for planning, permitting, and entitlements, but does not include financing costs or impact fees. Financing costs and impact fees were calculated separately and included in total development costs as separate line items.

Financing Costs: This analysis assumes a 5.0 percent interest rate on construction loans and loan fees equal to 1.0 percent of the loan amount. These assumptions are consistent with information provided by developers interviewed for this study as well as BAE's experience with recent projects in the region.

Impact Fees: BAE calculated impact fees for each prototype based on the City's impact fee schedule, Napa Sanitation District's fee schedule, and the applicable Napa Valley Unified School District impact fee schedules, applied to the characteristics of each prototype. The impact fee calculations do not include the City's current Affordable Housing Impact Fee, which developers currently pay on most residential developments, on the basis that any future inclusionary requirement would replace the requirement to pay an Affordable Housing Impact Fee. The impact fee calculations for each project are shown in Appendix B.

Market-Rate Residential Rents: This analysis assumes that rental rates for market-rate units in the multifamily prototypes with surface parking (Prototype 4 and Prototype 5) will be comparable to the current rental rates for recently-constructed multifamily rental developments in Napa. The analysis assumes that market-rate rents for these prototypes will average $2,350 per month for one-bedroom units and $2,750 per month for two-bedroom units. The developers interviewed for this study reported that a higher-density infill project in the downtown area consistent with Prototype 6 would likely be able to achieve higher rents than existing multifamily rental developments in Napa. Thus, the analysis assumes that market-rate rents in Prototype 6 will average $2,450 per month for one-bedroom units and $2,850 per month for two-bedroom units.

Affordable Residential Rents: The affordable rental rates used in this analysis are based on the City of Napa 2019 rental rates for inclusionary units, adjusted for income level and unit size.

Market-Rate Residential Sale Prices: Sale prices assumptions for townhomes and detached single-family homes were based on recent sales of relatively new homes in Napa and conversations with developers familiar with single-family residential development in Napa.

The analysis uses an average sale price of $850,000 for single-family homes in the small lot detached (Prototype 1) and $1.4 million for the single-family homes in the large lot detached (Prototype 2). The sale prices for Prototype 1 and 2 are slightly higher than the sale price among similarly-sized homes on similarly-sized lots that were recently sold in Napa, to reflect information provided by stakeholders familiar with the local market. The analysis uses an average sale price of $620,000 per unit for the homes in the duplex (Prototype 3), which is based on the average sale price among similarly-sized homes on small lots sold in Napa within the past year. The analysis uses an average market-rate sale price estimate of $605,000 for the condominium units (Prototype 7), based on the average sale price per square foot among relatively new condominium units in Napa that sold in the past year, applied to the average square footage of the units in the prototype.

Affordable Residential Sale Prices: The affordable residential sale prices used in this analysis are based on the sale prices affordable to households at each income level, using 2019 income limits published by the California Department of Housing and Community Development. BAE calculated the affordable sale prices based on the monthly affordable payment for households at each size and income level, assuming a 3.5 percent down payment and 30 percent of gross household income spent on homeowners' association fees (for townhouse units only), principal, interest, insurance, mortgage insurance, and property tax. The affordable sale price calculations are based on a household size equal to the number of bedrooms in each unit plus one.

Capitalization Rate: The capitalization rate is defined as the net operating income that a property generates divided by the estimated value of the property. Capitalization rates are a common metric used to estimate the value of a property based on its net operating income, and vary by property type, location, and other property-specific characteristics. This analysis uses a 4.75 percent capitalization rate to value the multifamily rental properties. This capitalization rate is based on typical capitalization rates for stabilized multifamily rental properties, as reported in the CBRE North America Cap Rate Survey for the second half of 2018. The CBRE Cap Rate Survey does not include capitalization rates that are specific to Napa. Therefore, the capitalization rates used in this study reflect the highest end of the range among Bay Area cities that are included in the Survey, which consist of cities that generally have a stronger multifamily rental housing market than Napa and consequently tend to have lower capitalization rates than Napa. The capitalization rate used in this analysis is also toward the high end of the reported capitalization rates in other markets in California outside of the Bay Area.

Pro-forma for Small-Lot Single Family Detached Prototype (Prototype 1), City of Napa, 2019

Development Program Assumptions

Site Size (acres)		3.5
Site Size (sf)		152,460
Total Lots		20
Average Lot Size (sf)		5,500
Total Lot Square Footage		110,000
Built Project Density (units per acre)		5.7
Average Living Area Per Unit (sf)		2,000
Gross Living Area (sf)		40,000
Unit Mix		
Market	100%	20
Affordable	0%	0
Affordable Unit Mix		
80% of AMI	0%	0
100% of AMI	0%	0
120% of AMI	0%	0
150% of AMI	0%	0

Cost and Income Assumptions

Development Costs	
Construction Hard Costs	
Site Work, per site sf	$15
Residential (wood frame), per sf	$190
Soft Costs (as a % of hard costs)	20%
Impact Fees (per unit)	$43,973
Sale Price	
Market-Rate (a)	$850,000
80% of AMI (b)	$277,827
100% of AMI (b)	$350,777
120% of AMI (b)	$421,073
150% of AMI (b)	$526,166
Marketing and Sales Costs (% of Sale Price)	6.0%
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	1.0%
Construction Period (months)	18
Avg. Outstanding Balance During Construction	50%
Developer Profit (as % of total project costs)	10%

Development Cost Analysis

Hard Costs	
Site Work	$2,286,900
Residential	$7,600,000
Total Hard Costs	**$9,886,900**
Hard Costs per Unit	*$494,345*
Hard Costs per Gross Building sf	*$247*
Soft costs	$1,977,380
Impact fees	$879,462
Total Soft Costs	**$2,856,842**
Financing Costs	
Total Loan Amount	$8,283,432
Interest	$310,629
Points	$82,834
Total Financing Costs	**$393,463**
Total Development Costs (Excl. Land)	**$13,137,205**
Cost per residential sf	$328
Cost per residential unit	$656,860

Valuation Analysis

Projected Revenue	
Market Rate Units	$17,000,000
80% of AMI Units	$0
100% of AMI Units	$0
120% of AMI Units	$0
150% of AMI Units	$0
Total Revenue	**$17,000,000**
Less Marketing Costs	($1,020,000)
Less Total Development Costs	($13,137,205)
Less Developer Profit	($1,313,721)
Residual Land Value	$1,529,074
Value per Unit	*$76,454*
Value per Site sf	*$10*

Notes:
(a) Market-rate sale price based on the sale price for single-family homes sold in Napa between May 2018 and May 2019 with similar lot size and total unit size.
(b) Affordable sale based on the sale prices affordable to households at each income level, using 2019 HCD income limits, assuming a 3.5 percent down payment and 30 percent of gross household income spent on housing costs. Based on a three-bedroom unit.

Pro-forma for Large-Lot Single Family Detached Prototype (Prototype 2), City of Napa, 2019

Development Program Assumptions

Site Size (acres)		6.0
Site Size (sf)		261,360
Total Lots		20
Average Lot Size (sf)		10,000
Total Lot Square Footage		200,000
Built Project Density (units per acre)		3.3
Average Living Area Per Unit (sf)		3,100
Gross Living Area (sf)		62,000
Unit Mix		
Market	100%	20
Affordable	0%	0
Affordable Unit Mix		
80% of AMI	0%	0
100% of AMI	0%	0
120% of AMI	0%	0
150% of AMI	0%	0

Cost and Income Assumptions

Development Costs	
Construction Hard Costs	
Site Work, per site sf	$15
Residential (wood frame), per sf	$190
Soft Costs (as a % of hard costs)	20%
Impact Fees (per unit)	$49,671
Sale Price	
Market-Rate (a)	$1,400,000
80% of AMI (b)	$300,187
100% of AMI (b)	$378,867
120% of AMI (b)	$454,753
150% of AMI (b)	$526,166
Marketing and Sales Costs (% of Sale Price)	6.0%
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	1.0%
Construction Period (months)	18
Avg. Outstanding Balance During Construction	50%
Developer Profit (as % of total project costs)	10%

Development Cost Analysis

Hard Costs	
Site Work	$3,920,400
Residential	$11,780,000
Total Hard Costs	**$15,700,400**
Hard Costs per Unit	*$785,020*
Hard Costs per Gross Building sf	*$253*
Soft costs	$3,140,080
Impact fees	$993,422
Total Soft Costs	**$4,133,502**
Financing Costs	
Total Loan Amount	$12,892,036
Interest	$483,451
Points	$128,920
Total Financing Costs	**$612,372**
Total Development Costs (Excl. Land)	$20,446,274
Cost per residential sf	$330
Cost per residential unit	$1,022,314

Valuation Analysis

Projected Revenue	
Market Rate Units	$28,000,000
80% of AMI Units	$0
100% of AMI Units	$0
120% of AMI Units	$0
150% of AMI Units	$0
Total Revenue	**$28,000,000**
Less Marketing Costs	($1,680,000)
Less Total Development Costs	($20,446,274)
Less Developer Profit	($2,044,627)
Residual Land Value	$3,829,099
Value per Unit	*$191,455*
Value per Site sf	*$15*

Notes:
(a) Market-rate sale price based on the sale price for single-family homes sold in Napa between May 2018 and May 2019 with similar lot size and total unit size.
(b) Affordable sale based on the sale prices affordable to households at each income level, using 2019 HCD income limits, assuming a 3.5 percent down payment and 30 percent of gross household income spent on housing costs. Based on a four-bedroom unit.

Pro-forma for Single Family Attached / Duplex Prototype (Prototype 3), City of Napa, 2019

Development Program Assumptions

Site Size (acres)		1.20
Site Size (sf)		52,272
Total Lots		5
Total Units		10
Average Lot Size (sf)		7,500
Total Lot Square Footage		37,500
Built Project Density (units per acre)		8.3
Average Living Area Per Unit (sf)		1,700
Gross Living Area (sf)		17,000
Unit Mix		
Market	100%	10
Affordable	0%	0
Affordable Unit Mix		
80% of AMI	0%	0
100% of AMI	0%	0
120% of AMI	0%	0

Cost and Income Assumptions

Development Costs	
Construction Hard Costs	
Site Work, per site sf	$15
Residential (wood frame), per sf	$190
Soft Costs (as a % of hard costs)	20%
Impact Fees (per unit)	$39,301
Sale Price	
Market-Rate (a)	$620,000
80% of AMI (b)	$277,827
100% of AMI (b)	$350,777
120% of AMI (b)	$421,073
Marketing and Sales Costs (% of Sale Price)	6.0%
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	1.0%
Construction Period (months)	18
Avg. Outstanding Balance During Construction	50%
Developer Profit (as % of total project costs)	10%

Development Cost Analysis

Hard Costs	
Site Work	$784,080
Residential	$3,230,000
Total Hard Costs	**$4,014,080**
Hard Costs per Unit	*$401,408*
Hard Costs per Gross Building sf	*$236*
Soft costs	$802,816
Impact fees	$393,013
Total Soft Costs	**$1,195,829**
Financing Costs	
Total Loan Amount	$3,386,441
Interest	$126,992
Points	$33,864
Total Financing Costs	**$160,856**
Total Development Costs (Excl. Land)	$5,370,765
Cost per residential sf	$316
Cost per residential unit	$537,076

Valuation Analysis

Projected Revenue	
Market Rate Units	$6,200,000
80% of AMI Units	$0
100% of AMI Units	$0
120% of AMI Units	$0
Total Revenue	**$6,200,000**
Less Marketing Costs	($372,000)
Less Total Development Costs	($5,370,765)
Less Developer Profit	($537,076)
Residual Land Value	($79,841)
Value per Unit	*($7,984)*
Value per Site sf	*($1.53)*

Notes:
(a) Market-rate sale price based on the sale price for single-family homes sold in Napa between May 2018 and May 2019 with similar lot size and total unit size.
(b) Affordable sale based on the sale prices affordable to households at each income level, using 2019 HCD income limits, assuming a 3.5 percent down payment and 30 percent of gross household income spent on housing costs. Based on a three-bedroom unit.

Pro-forma for 20-Unit Multifamily Rental Prototype, 20 d.u./acre Density, (Prototype 4), City of Napa, 2019

Development Program Assumptions

Site Size (acres)		1.0
Site Size (sf)		43,560
Total Dwelling Units		20
Built Project Density (units per acre)		20
Built Project FAR (excluding parking)		0.45
Gross Building Area (sf)		19,722
Net Rentable (% of gross res. area)		90%
Net Rentable (sf)		17,750
Total Parking Spaces		36
Surface Spaces (Uncovered)		16
Carport Spaces		20
Parking Ratio (spaces per unit)		1.8
Unit Mix	**%**	**#**
One-Bedroom	25%	5
Two-Bedrooms	75%	15
Market	100%	20
Very Low (50% AMI)	0%	0
Low (80% AMI)	0%	0
Moderate (120% AMI)	0%	0

Cost and Income Assumptions

Development Costs	
Construction Hard Costs	
Site Work, per site sf	$10
Residential (wood frame), per sf	$250
Surface Parking, per space	$5,000
Carport Parking, per space	$11,000
Soft Costs (as a % of hard costs)	20%
Impact Fees (per unit)	$23,634
Operating Revenues & Expenses	
Average Market Rent, per Month (a)	$2,650
Very Low Income Rent, per Month (b)	$1,099
Low Income Rent, per Month (b)	$1,739
Moderate Income Rent, per Month (b)	$2,637
Vacancy	5%
Operating Expenses (per unit/year)	$11,000
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	1.0%
Construction Period (months)	18
Avg. Outstanding Balance During Construction	50%
Developer Profit (as % of total project costs)	10%
Capitalization Rate	4.75%

Development Cost Analysis

Hard Costs	
Site Work	$435,600
Residential	$4,930,556
Surface Parking	$80,000
Carport Parking	$220,000
Total Hard Costs	**$5,666,156**
Hard Costs per Unit	*$283,308*
Hard Costs per Gross Building sf	*$287*
Soft costs	$1,133,231
Impact fees	$472,670
Total Soft Costs	**$1,605,901**
Financing Costs	
Total Loan Amount	$4,726,837
Interest	$177,256
Points	$47,268
Total Financing Costs	**$224,525**
Total Development Costs (Excl. Land)	**$7,496,582**
Cost per residential sf	*$380*
Cost per residential unit	*$374,829*

Valuation Analysis

Projected Revenue	
Gross Annual Income	$636,000
Less: Vacancy	($31,800)
Less: Operating Expenses	($220,000)
Net Operating Income (NOI)	**$384,200**
Capitalized Project Value	$8,088,421
Less Total Development Costs	($7,496,582)
Less Developer Profit	($749,658)
Residual Land Value	**($157,819)**
Value per Unit	*($7,891)*
Value per Site sf	*($4)*

Notes:
(a) Market-rate rents based on rents for market-rate units in recently-constructed multifamily rental developments in the City of Napa, according to data from CoStar. Rental rate shown is weighted based on the unit mix in the prototype.
(b) Affordable rental rates reflect City of Napa 2018 rent limits for inclusionary units at each affordability level. Rental rates shown are weighted based on the unit mix in the prototype.

Pro-forma for 50-Unit Multifamily Rental Prototype, 20 d.u./acre Density, (Prototype 5), City of Napa, 2019

Development Program Assumptions

Site Size (acres)	2.5
Site Size (sf)	108,900
Total Dwelling Units	50
Built Project Density (units per acre)	20
Built Project FAR (excluding parking)	0.45
Gross Building Area (sf)	48,611
Net Rentable (% of gross res. area)	90%
Net Rentable (sf)	43,750
Total Parking Spaces	84
Surface Spaces (Uncovered)	34
Carport Spaces	50
Parking Ratio (spaces per unit)	1.7

Unit Mix	**%**	**#**
One-Bedroom	30%	15
Two-Bedrooms	70%	35
Market	100%	50
Very Low (50% AMI)	0%	0
Low (80% AMI)	0%	0
Moderate (120% AMI)	0%	0

Cost and Income Assumptions

Development Costs	
Construction Hard Costs	
Site Work, per site sf	$10
Residential (wood frame), per sf	$250
Surface Parking, per space	$5,000
Carport Parking, per space	$11,000
Soft Costs (as a % of hard costs)	20%
Impact Fees (per unit)	$22,544
Operating Revenues & Expenses	
Average Market Rent, per Month (a)	$2,630
Very Low Income Rent, per Month (b)	$1,093
Low Income Rent, per Month (b)	$1,729
Moderate Income Rent, per Month (b)	$2,622
Vacancy	5%
Operating Expenses (per unit/year)	$11,000
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	1.0%
Construction Period (months)	18
Avg. Outstanding Balance During Construction	50%
Developer Profit (as % of total project costs)	10%
Capitalization Rate	4.75%

Development Cost Analysis

Hard Costs	**Baseline**
Site Work	$1,089,000
Residential	$12,152,778
Surface Parking	$170,000
Carport Parking	$550,000
Total Hard Costs	**$13,961,778**
Hard Costs per Unit	*$279,236*
Hard Costs per Gross Building sf	*$287*
Soft costs	$2,792,356
Impact fees	$1,127,218
Total Soft Costs	**$3,919,573**
Financing Costs	
Total Loan Amount	$11,622,878
Interest	$435,858
Points	$116,229
Total Financing Costs	**$552,087**
Total Development Costs (Excl. Land)	**$18,433,438**
Cost per residential sf	$379
Cost per residential unit	$368,669

Valuation Analysis

Projected Revenue	**Baseline**
Gross Annual Income	$1,578,000
Less: Vacancy	($78,900)
Less: Operating Expenses	($550,000)
Net Operating Income (NOI)	**$949,100**
Capitalized Project Value	$19,981,053
Less Total Development Costs	($18,433,438)
Less Developer Profit	($1,843,344)
Residual Land Value	**($295,729)**
Value per Unit	*($5,915)*
Value per Site sf	*($3)*

Notes:
(a) Market-rate rents based on rents for market-rate units in recently-constructed multifamily rental developments in the City of Napa, according to data from CoStar. Rental rate shown is weighted based on the unit mix in the prototype.
(b) Affordable rental rates reflect City of Napa 2018 rent limits for inclusionary units at each affordability level. Rental rates shown are weighted based on the unit mix in the prototype.

Pro-forma for 40-Unit Multifamily Rental Prototype, 40 d.u./acre Density, (Prototype 6), City of Napa, 2019

Development Program Assumptions

Site Size (acres)		1.0
Site Size (sf)		43,560
Total Dwelling Units		40
Built Project Density (units per acre)		40
Built Project FAR (excluding parking)		0.9
Gross Building Area (sf)		40,000
Net Rentable (% of gross res. area)		85%
Net Rentable (sf)		34,000
Total Parking Spaces		56
Surface Spaces (Uncovered)		8
Podium Spaces		48
Parking Ratio (spaces per unit)		1.4
Unit Mix	**%**	**#**
One-Bedroom	40%	16
Two-Bedrooms	60%	24
Market	100%	40
Very Low (50% AMI)	0%	0
Low (80% AMI)	0%	0
Moderate (120% AMI)	0%	0

Cost and Income Assumptions

Development Costs	
Construction Hard Costs	
Site Work, per site sf	$10
Residential (wood frame), per sf	$300
Surface Parking, per space	$5,000
Podium Parking, per space	$50,000
Soft Costs (as a % of hard costs)	20%
Impact Fees (per unit)	$21,954
Operating Revenues & Expenses	
Average Market Rent, per Month (a)	$2,590
Very Low Income Rent, per Month (b)	$1,080
Low Income Rent, per Month (b)	$1,709
Moderate Income Rent, per Month (b)	$2,592
Vacancy	5%
Operating Expenses (per unit/year)	$11,000
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	1.0%
Construction Period (months)	18
Avg. Outstanding Balance During Construction	50%
Developer Profit (as % of total project costs)	10%
Capitalization Rate	4.75%

Development Cost Analysis

Hard Costs	
Site Work	$435,600
Residential	$12,000,000
Surface Parking	$40,000
Podium Parking	$2,400,000
Total Hard Costs	**$14,875,600**
Hard Costs per Unit	*$371,890*
Hard Costs per Gross Building sf	*$372*
Soft costs	$2,975,120
Impact fees	$878,144
Total Soft Costs	**$3,853,264**
Financing Costs	
Total Loan Amount	$12,173,762
Interest	$456,516
Points	$121,738
Total Financing Costs	**$578,254**
Total Development Costs (Excl. Land)	**$19,307,118**
Cost per residential sf	$483
Cost per residential unit	$482,678

Valuation Analysis

Projected Revenue	
Gross Annual Income	$1,243,200
Less: Vacancy	($62,160)
Less: Operating Expenses	($440,000)
Net Operating Income (NOI)	**$741,040**
Capitalized Project Value	$15,600,842
Less Total Development Costs	($19,307,118)
Less Developer Profit	($1,930,712)
Residual Land Value	**($5,636,987)**
Value per Unit	*($140,925)*
Value per Site sf	*($129)*

Notes:
(a) Market-rate rents based on rents for market-rate units in recently-constructed multifamily rental developments in the City of Napa, according to data from CoStar. Rental rate shown is weighted based on the unit mix in the prototype.
(b) Affordable rental rates reflect City of Napa 2018 rent limits for inclusionary units at each affordability level. Rental rates shown are weighted based on the unit mix in the prototype.

Pro-forma for 20-Unit Townhome Prototype, 20 d.u./acre Density (Prototype 7), City of Napa, 2019

Development Program Assumptions

Site Size (acres)		1.0
Site Size (sf)		43,560
Total Dwelling Units		20
Built Project Density (units per acre)		20
Built Project FAR (excluding parking)		0.6
Gross Building Area (sf)		26,000
Total Parking Spaces		48
Surface Spaces (Uncovered)		28
Private Garage Spaces		20
Parking Ratio (spaces per unit)		2.4
Unit Mix	**%**	**#**
Two-Bedrooms	75%	15
Three-Bedrooms	25%	5
Market	100%	20
80% of AMI	0%	0
100% of AMI	0%	0
120% of AMI	0%	0

Cost and Income Assumptions

Development Costs	
Construction Hard Costs	
Site Work, per site sf	$10
Residential, per sf	$275
Surface Spaces, per space	$5,000
Soft Costs (as a % of hard costs)	20%
Impact Fees (per unit)	$35,300
Sale Prices	
Average Market Sale Price (a)	$605,000
80% AMI Sale Price (b)	$198,972
100% AMI Sale Price (b)	$266,472
120% AMI Sale Price (b)	$331,422
Marketing & Sales Cost (as % of sale price)	6.0%
Construction Financing	
Loan to Cost Ratio	65%
Interest Rate	5.0%
Loan Fees	1.0%
Construction Period (months)	18
Avg. Outstanding Balance During Construction	50%
Developer Profit (as % of total project costs)	10%

Development Cost Analysis

Hard Costs	
Site Work	$435,600
Residential	$7,150,000
Surface Parking	$140,000
Total Hard Costs	**$7,725,600**
Hard Costs per Unit	*$386,280*
Hard Costs per Gross Building sf	*$297*
Soft costs	$1,545,120
Impact fees	$705,991
Total Soft Costs	**$2,251,111**
Financing Costs	
Total Loan Amount	$6,484,862.15
Interest	$243,182
Points	$64,849
Total Financing Costs	**$308,031**
Total Development Costs (Excl. Land)	$10,284,742
Cost per residential sf	$396
Cost per residential unit	$514,237

Valuation Analysis

Projected Revenue	
Market Rate Units	$12,100,000
Very Low-Income Units	$0
Low-Income Units	$0
Moderate-Income Units	$0
Total Revenue	**$12,100,000**
Less Marketing Costs	($726,000)
Less Total Development Costs	($10,284,742)
Less Developer Profit	($1,028,474)
Residual Land Value	$60,784
Value per Unit	*$3,039*
Value per Site sf	*$1*

Notes:
(a) Market-rate sale price based on the sale price for condominiums in Napa built since 2000 and sold between May 2018 and May 2019 with similar unit square footage.
(b) Affordable sale based on the sale prices affordable to households at each income level, using 2019 HCD income limits, assuming a 3.5 percent down payment and 30 percent of gross household income spent on housing costs. Sale prices shown are weighted based on the unit mix in the prototype.

APPENDIX B: IMPACT FEE CALCULATIONS

Table B-1: 2019 Impact Fee Calculations, Single-Family Prototype Projects, City of Napa

Fee	Rate	Prototype 1: Small Lot Detached SFR 5.7 du/acre		Prototype 2: Large Lot Detached SFR 3.3 du/acre		Prototype 3: Duplex Attached SFR 8.3 du/acre	
		Net New	Total Fee	Net New	Total Fee	Net New	Total Fee
Napa Sanitation Capacity Charge	$9,520 per unit	20	$190,400	20	$190,400	10	$95,200
Napa Valley Unified School District	$5.18 per SF	40,000	$207,200	62,000	$321,160	17,000	$88,060
Domestic Water Service Water Capacity Fee	Based on meter size	4"	$103,623	4"	$103,623	2"	$33,216
Domestic Water Service Meter Set and Service Pipe/Hot Tap	Based on meter size	4"	$25,948	4"	$25,948	2"	$12,417
Fire Water Service Water Capacity Fee	Based on meter size	8"	$33,141	8"	$33,141	6"	$20,716
Fire Water Service Meter Set and Service Pipe/Hot Tap	Based on meter size	8"	$14,257	8"	$14,257	6"	$18,431
Irrigation Water Service Water Capacity Fee	Based on meter size	2"	$33,216	2"	$33,216	1.5"	$20,792
Irrigation Water Service Meter Set and Service Pipe/Hot Tap	Based on meter size	2"	$12,417	2"	$12,417	1.5"	$12,301
Street Improvement Fees (SFR Detached)	$4,723 per unit	20	$94,460	20	$94,460	0	$0
Street Improvement Fees (Apartment)	$3,198 per unit	0	$0	0	$0	0	$0
Street Improvement Fees (Condominium)	$2,904 per unit	0	$0	0	$0	10	$29,040
Park Dedication Fees (SFR Detached)	$6,581 per unit	20	$131,620	20	$131,620	0	$0
Park Dedication Fees (Duplex)	$4,884 per unit	0	$0	0	$0	10	$48,840
Park Dedication Fees (Multifamily)	$4,196 per unit	0	$0	0	$0	0	$0
Development Fees (SFR Detached)	$1,003 per unit	20	$20,060	20	$20,060	0	$0
Development Fees (Duplex)	$744 per unit	0	$0	0	$0	10	$7,440
Development Fees (Multifamily)	$639 per unit	0	$0	0	$0	0	$0
Fire and Paramedic Development Impact Fee (SFR)	$656 per unit	20	$13,120	20	$13,120	10	$6,560
Fire and Paramedic Development Impact Fee (Multifamily)	$589 per unit	0	$0	0	$0	0	$0
Total			**$879,462**		**$993,422**		**$393,013**
Impact Fees per Unit			***$43,973***		***$49,671***		***$39,301***

Note:
The impact fee calculations do not include the City's current Affordable Housing Impact Fee on the basis that any future inclusionary requirement would replace the requirement to pay an Affordable Housing Impact Fee.
Source: City of Napa; Napa Valley School District; Napa Sanitation District; BAE, 2019.

Table B-2: 2019 Impact Fee Calculations, Multifamily Prototype Projects, City of Napa

Fee	Rate	Prototype 4: 20-Unit Rental 20 du/acre		Prototype 5: 50-Unit Rental 20 du/acre		Prototype 6: 40-Unit Rental 40 du/acre		Prototype 7: 20-Unit Condo 20 du/acre	
		Net New	Total Fee	Net New	Total Fee	Net New	Total Fee	Net New	Total Fee
Napa Sanitation Capacity Charge	$9,520 per unit	20	$190,400	50	$476,000	40	$380,800	20	$190,400
Napa Valley Unified School District	$5.18 per SF	19,722	$102,161	48,611	$251,806	40,000	$207,200	26,000	$134,680
Domestic Water Service Water Capacity Fee	Based on meter size	2"	$33,216	4"	$103,623	2"	$33,216	4"	$103,623
Domestic Water Service Meter Set and Service Pipe/Hot Tap	Based on meter size	2"	$12,417	4"	$25,948	2"	$12,417	4"	$25,948
Fire Water Service Water Capacity Fee	Based on meter size	6"	$20,716	8"	$33,141	8"	$33,141	6"	$20,716
Fire Water Service Meter Set and Service Pipe/Hot Tap	Based on meter size	6"	$18,431	8"	$14,257	8"	$14,257	6"	$18,431
Irrigation Water Service Water Capacity Fee	Based on meter size	1"	$10,438	1.5"	$20,792	2"	$33,216	2"	$33,216
Irrigation Water Service Meter Set and Service Pipe/Hot Tap	Based on meter size	1"	$9,151	1.5"	$12,301	2"	$12,417	2"	$12,417
Street Improvement Fees (SFR Detached)	$4,723 per unit	0	$0	0	$0	0	$0	0	$0
Street Improvement Fees (Apartment)	$3,198 per unit	20	$63,960	50	$159,900	40	$127,920	0	$0
Street Improvement Fees (Condominium)	$2,904 per unit	0	$0	0	$0	0	$0	20	$58,080
Park Dedication Fees (SFR Detached)	$6,581 per unit	0	$0	0	$0	0	$0	0	$0
Park Dedication Fees (Duplex)	$4,884 per unit	0	$0	0	$0	0	$0	0	$0
Park Dedication Fees (Multifamily)	$4,196 per unit	0	$0	0	$0	0	$0	20	$83,920
Development Fees (SFR Detached)	$1,003 per unit	0	$0	0	$0	0	$0	0	$0
Development Fees (Duplex)	$744 per unit	0	$0	0	$0	0	$0	0	$0
Development Fees (Multifamily)	$639 per unit	0	$0	0	$0	0	$0	20	$12,780
Fire and Paramedic Development Impact Fee (SFR)	$656 per unit	0	$0	0	$0	0	$0	0	$0
Fire and Paramedic Development Impact Fee (Multifamily)	$589 per unit	20	$11,780	50	$29,450	40	$23,560	20	$11,780
Total			**$472,670**		**$1,127,218**		**$878,144**		**$705,991**
Impact Fees per Unit			***$23,634***		***$22,544***		***$21,954***		***$35,300***

Note:
The impact fee calculations do not include the City's current Affordable Housing Impact Fee on the basis that any future inclusionary requirement would replace the requirement to pay an Affordable Housing Impact Fee.
Source: City of Napa; Napa Valley School District; Napa Sanitation District; BAE, 2019