bae urban economics

ADMINISTRATIVE DRAFT Inclusionary Housing and In-Lieu Fee Financial Feasibility Study

Prepared for the City of Los Altos

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INTRODUCTION

The City of Los Altos has a long-standing inclusionary housing program with a strong history of creating affordable units as part of new market-rate developments. These units provide homes for lower-income and moderate-income households within the high-cost Silicon Valley housing market, where homes that are affordable to households at these income levels are in short supply. The City's current inclusionary ordinance requires that developers of new rental and for-sale developments dedicate a portion of the units to moderate-, low-, or very low-income households. While the City allows for adoption of an in-lieu fee that would provide an alternative to providing inclusionary units in a project, the City does currently have an established in-lieu fee rate.

Purpose of this Study

The purpose of this study is to evaluate the City's current inclusionary housing requirements and necessary in-lieu fees to:

1) **Determine whether the current inclusionary housing requirements are financially feasible.** This portion of the study assesses the inclusionary requirements to evaluate if developers can provide the required affordable units while achieving the financial returns that are necessary to enable residential development activity to continue. Inclusionary requirements that are too high could prevent new development from moving forward, thereby impeding the development of both market-rate projects and the associated affordable inclusionary units. Conversely, if inclusionary requirements are low, there may be potential opportunities to increase the requirements to maximize the number of affordable units in new developments.

2) **Propose potential changes to the City's inclusionary requirements.** Based on the analysis described in item (1) above, the study identifies potential changes to the existing inclusionary requirements to maximize affordable housing production and address potential feasibility challenges associated with the current requirements.

3) **Identify potential in-lieu fees as an alternative to providing inclusionary units.** This portion of the study analyzes the economic characteristics of residential development projects in Los Altos to identify options for an in-lieu fee that the City could offer as an alternative to providing inclusionary units.

Current Inclusionary Ordinance

The City of Los Altos last updated its inclusionary ordinance in September 2018. The City's current inclusionary ordinance requires that new multifamily developments include units that are affordable to lower-income or moderate-income households in accordance with the following requirements:

- **Multifamily developments with five to nine units (both rental and for sale)**: 15 percent of units must be affordable to moderate-, low-, or very low-income households.

- **Rental developments with ten units or more:** Either a) 20 percent of the units must be affordable to low-income households or b) 15 percent of units must be affordable to very low-income households.
- **For -sale developments with ten units or more**: 15 percent of units must be affordable, with a majority affordable at the moderate-income level and the remaining units at the low- and/or very low-income level.

The ordinance generally requires that affordable units are dispersed throughout the project, are constructed concurrently with market rate units, and are not significantly distinguishable from the other units in the project. The City allows for payment of an in-lieu fee but does not have a set in-lieu fee schedule and generally emphasizes the provision of inclusionary units rather than a fee payment.

Recent Los Altos Multifamily Residential Development Trends

Recent multifamily developments in Los Altos have consisted primarily of ownership developments, with limited multifamily rental development activity, though the City's multifamily development pipeline includes some rental units in addition to ownership units. According to data from Costar, the most recently-constructed multifamily rental development in Los Altos is Colonnade on El Camino Real, which was completed in 2015 and is reserved for Stanford faculty and staff. Among the remainder of the City's multifamily inventory, the most recently-constructed rental development was built in 1980. However, the City's development pipeline includes both rental and for-sale multifamily developments.

In many cases, developments that comply with the City's inclusionary ordinance are automatically eligible for some level of density bonus and other concessions and incentives under the State Density Bonus law. The Density Bonus law provides density bonuses on a sliding scale to projects that provide affordable units, with larger bonuses for projects that provide more affordable units, up to a maximum density bonus of 50 percent for mixed-income projects (80 percent for 100 percent affordable projects). The proportion of affordable units that are required to be eligible for each tier of density bonus varies based on whether a project is a rental or ownership project and on the affordability level of the affordable units. Appendix A shows the density bonuses that are allowable for projects with various affordability levels and proportions. The density bonus also provides for parking reductions and various development incentives and concessions for projects that meet designated affordability thresholds. Under State law, affordable units that are provided to satisfy an inclusionary requirement also make a project eligible for the benefits of the State Density Bonus – such as density bonuses, concessions, incentives, and waivers – provided that the affordable units align with the affordability levels and proportions identified in the State Density Bonus Law.[1]

[1] See HCD guidance to the City of West Hollywood at: https://www.hcd.ca.gov/sites/default/files/docs/planning-and-community/HAU/West-Hollywood-TA-090222.pdf

Many of the planned and proposed multifamily residential developments in Los Altos include additional affordable units, beyond the number needed to meet the City's inclusionary requirements, in order to make these developments eligible for incentives or concessions under State Density Bonus law that these projects would not be eligible for based on providing only the units required for meet the City's inclusionary requirements. The City requires that inclusionary units are maintained as affordable for 99 years, whereas additional units that are included for State Density Bonus purposes have a 55-year affordability term. In addition to the density bonuses available under State law, the City has granted additional density bonuses to some recent developments, in excess of those offered to mixed-income projects under State law, in exchange for more affordable units.

Existing Los Altos Multifamily Residential Density Standards

The City of Los Altos has a variety of zoning districts that allow for multifamily development at a range of densities, as well as mixed-use zoning districts where residential development is allowed. Among zoning districts with a density standard for residential development, the maximum density allowed in any zone is 38 dwelling units per acre. Some zoning districts that allow residential development limit development intensity based on floor area ratio rather than a density standard, and therefore have no set maximum density requirement. The number of units that can be built on these sites is limited by the total allowable FAR and other development standards such as maximum height limits, which are typically 30 to 35 feet.

The City's January 2023 Adopted 6th Cycle Housing Element identifies various changes that the City plans to make to zoning standards to facilitate the production of housing. These changes include increasing allowable densities and height limits in some areas as well as allowing residential uses in zoning districts where only nonresidential uses are currently allowed.

As indicated above, the City of Los Altos offers density bonuses and incentives and concessions, including certain on-menu concessions provided in the Los Altos Municipal Code, to projects that provide affordable housing in accordance with the State Density Bonus law.

California AB 1505 Requirements

California State Assembly Bill 1505 (AB 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 for rental developments. Inclusionary ordinances for for-sale developments were already permissible under State law prior to the adoption of AB 1505. One of the key provisions of the legislation requires that local jurisdictions with inclusionary ordinances provide developers with at least one alternative for complying with the ordinance, such as an in-lieu fee payment, land dedication, or off-site construction of affordable units.

AB 1505 Economic Feasibility Study Requirements

AB 1505 provides the State Department of Housing and Community Development (HCD) with the authority to review inclusionary ordinances in some circumstances by requesting that a local jurisdiction submit an economic feasibility study. A review by HCD would be limited to inclusionary requirements on rental developments and would not apply to inclusionary requirements on for-sale developments. A feasibility study would potentially be required only in cases where all of the following apply:

- The ordinance requires more than 15 percent of units to be affordable to households with incomes equal to 80 percent of the AMI or less.
- Either: 1) the jurisdiction did not meet at least 75 percent of its above-moderate income Regional Housing Needs Allocation (RHNA) over at least a five-year period, or 2) the jurisdiction failed to submit its annual Housing Element report for at least two consecutive years.
- Less than ten years have passed since the adoption or amendment of the ordinance.

However, meeting the criteria above does not necessarily trigger a review by HCD. Reviews are conducted only if HCD receives a complaint, and HCD has the authority to determine whether to conduct a review after receiving a complaint. To date, HCD has not required that any jurisdiction submit an economic feasibility study for an inclusionary ordinance based on AB 1505.

Nonetheless, regardless of the specific provisions of AB 1505, HCD could consider the financial feasibility of the City's inclusionary ordinance as part of its review of the City's Housing Element Update, either in the current cycle or in future cycles, in order to assess whether the requirements constitute an undue constraint on housing production.

INCLUSIONARY HOUSING FEASIBILITY ANALYSIS

This chapter details the methodology and findings from the portion of the financial feasibility analysis that evaluated the financial feasibility of the City of Los Altos' current inclusionary requirements. The financial feasibility analysis used static residential development pro-forma models for five prototype projects to evaluate the feasibility of changes to the City's inclusionary housing requirements. This chapter provides a description of the five prototype projects that were evaluated, the financial feasibility analysis methodology, the key assumptions used in the analysis, and the findings from the analysis. The following subsection also includes an overview of inclusionary requirements in nearby jurisdictions. The analysis of inclusionary housing in-lieu fees, which included a financial feasibility analysis similar to the analysis described in this chapter, is discussed in the next chapter of this report.

Inclusionary Requirements in Nearby Jurisdictions

Jurisdictions often consider inclusionary requirements in neighboring jurisdictions as one indicator of the potential feasibility of inclusionary requirements. Table 1 below shows Los Altos' current inclusionary housing requirements as well as inclusionary requirements in several nearby jurisdictions.

Requirements for For-Sale Developments

Among the jurisdictions shown in Table 1, Los Altos' inclusionary requirements for owner-occupied projects are fairly typical in terms of the percentage of overall units that must be affordable. The City of Los Altos requires 15 percent of units to be affordable in most for-sale developments, as do the Cities of Cupertino, Menlo Park, Mountain View, Santa Clara, and Sunnyvale. Similarly, Palo Alto has a 15 percent inclusionary requirement for all for-sale developments on less than five acres, which likely encompasses a significant share of new development in Palo Alto. Los Gatos has a requirement of 10 to 20 percent, depending on the number of units in the project.

Compared to the other jurisdictions shown in Table 1, Los Altos' requirements may lead to deeper affordability targeting for for-sale inclusionary units than is typical. Los Altos requires a majority of inclusionary units in a for-sale development to be targeted to moderate-income households, with the remainder affordable to low- and/or very low-income households. In contrast, Cupertino, Los Gatos, Menlo Park, Mountain View, Palo Alto, and Sunnyvale all require inclusionary units in for-sale developments to be affordable to some combination of low-income and moderate-income households. Santa Clara allows for any combination of affordability levels up to moderate income but requires that the affordability averages to 100 percent of AMI, which generally encourages the provision of low- and moderate-income units. Among these jurisdictions, Los Altos is the only one that identifies very low-income units as one of the affordability levels for for-sale inclusionary units.

Los Altos' requirements have led many developers in Los Altos to provide more very low-income units in for-sale projects than required in order to make use of the State Density Bonus, as discussed above, resulting in for-sale developments with large numbers of affordable units. In jurisdictions with a narrower band of affordability for for-sale units (e.g., 80 to 100 percent of AMI), developers may be more challenged in maximizing use of the State density bonus because a significantly larger proportion of affordable units is necessary to maximize the density bonus if the affordable units are provided to low- or moderate-income households rather than very low-income households (see Appendix A.).

Requirements for Rental Developments

Compared to the neighboring jurisdictions shown in Table 1, the inclusionary requirements in Los Altos require rental projects to provide either deeper affordability or a larger proportion of affordable units than is typical. For most rental developments, Los Altos requires either 15 percent of units affordable to very low-income households or 20 percent of units affordable to low-income households. While most jurisdictions in Table 1 have a 15-percent inclusionary requirement for rental developments, all jurisdictions shown that have a rental inclusionary requirement allow at least some of the inclusionary units in a rental development to be affordable to households with low or moderate incomes. Apart from Los Altos, the only jurisdiction with a 20 percent inclusionary requirement for some rental projects is Los Gatos, where the 20-percent requirement applies only to projects with over 100 units, and which allows inclusionary units to target moderate-income households. The information shown in Table 1 indicates that the option to provide 15 percent of units to very low-income households requires deeper affordability targeting than is required in neighboring jurisdictions, while the option to provide 20 percent of units to low-income households requires a higher proportion of affordable units than is required in neighboring jurisdictions.

Table 1: Inclusionary Requirements in Nearby Cities

		Affordability Level	
Jurisdiction	**Percent of Units Required**	**Owner-Occupied Projects**	**Renter-Occupied Projects**
Los Altos	15% for projects with 5-9 units and all for-sale developments 15%-20% for rental developments with 10+ units	Moderate & very low for projects with 10+ units; majority must be moderate Very low, low, or moderate for projects with 5-9 units	20% at low or 15% at very low for projects with 10+ units Very low, low, or moderate for projects with 5-9 units
Cupertino	15%	Half at median income and half at moderate income Option to provide low- or very low-income rental BMR units	60% of units at very low income and 40% at low income
Los Gatos	10% x # number of market-rate units in projects with 5-19 market rate units 22.5% x total # of market rate units – 2.5 in projects with 20-100 units (increases the number of units required from 10% to 20% of market-rate units over the range of 20 to 100 market rate units 20% in projects with 101+ market rate units	50/50 split between low and moderate income	Annual household income up to 120% MFI. Priority given to applicant households whose income is less than 50% MFI. Rents may not exceed 80% of most current Fair Market Rents. Rent can be subject to increase if a tenant's income falls between 80% and 120% of MFI.
Menlo Park	1 BMR unit (preferred) or in-lieu fee for projects with 5-9 units 10% in projects with 10-19 units 15% in projects with 20+ units	Moderate income (120% of AMI)	Low income (80% of AMI); not to exceed 75% of market rent for comparable units
Mountain View	15% in rental developments and most ownership developments 25% in rowhouses and townhouses	Developments other than rowhouses and townhouses: 80-120% of AMI. Must be provided at a minimum of two income levels with a weighted average of 100% of AMI Rowhouses and Townhouses: 15% of units at 100% avg. AMI (with a range between 80%-120% AMI) and 10% of units at 135% avg. AMI (with a range between 120%-150% AMI)	Low- and moderate-income. Must be provided at a minimum of two income levels, with a resulting income level no greater than a weighted average of 65% of AMI

Jurisdiction	Percent of Units Required	Affordability Level	
		Owner-Occupied Projects	**Renter-Occupied Projects**
Palo Alto	15% in for-sale developments on <5 acres 20% in for-sale developments on 5+ acres 25% in condo conversion projects No inclusionary required for rental developments (rental developments pay a housing impact fee instead)	At least 2/3 of the units must be affordable at 80%-100% AMI, and 1/3 may be affordable at 100%-120% AMI. For condo conversion projects, at least 4/5 of the units must be affordable at 80%-100% AMI, and 1/5 may be affordable at 100%-120% AMI.	Not Applicable
Santa Clara	15% in projects with 10+ units 1 BMR unit or in-lieu fee for projects with fewer than 10 units	Any combination of income categories up to moderate income (ELI, VLI, LI, and Mod income). Must average to a maximum of 100% AMI	Any combination of income categories up to moderate income (ELI, VLI, LI, and Mod income). Must average to a maximum of 100% AMI
Saratoga	The city does not currently have an inclusionary housing ordinance/policy. A new policy is being proposed in the Housing Element Update to amend the Zoning Code to require new multi-family developments withs 5+ units to have 15% of units designated as affordable housing moderate income households		
Sunnyvale	15%	100% AMI; may be adjusted between 81% to 110% to address shifts in housing demand.	Very low- and low-income (5% VLI, 10% LI)

Residential Prototypes for Financial Feasibility Analysis

This analysis assessed five multifamily residential prototypes to evaluate the financial feasibility of inclusionary requirements in different types of developments that could occur in Los Altos. Three of the five prototypes conform to existing zoning in areas where multifamily housing is allowed in Los Altos. These prototypes consist of a multifamily rental prototype and a condominium prototype, both with base densities of 38 dwelling units per acre before accounting for any density bonuses, as well as a townhouse prototype with a base density of 14.5 dwelling units per acre before accounting for any density bonuses.

The other prototypes represent prototypes that could be built if future zoning changes allow for base densities of 70 dwelling units per acre in some areas. As noted above, anticipated zoning changes in Los Altos will include increasing allowable densities and height limits in some areas. Although the magnitude of these increases has not yet been determined, densities in the range of 70 dwelling units per acre would be somewhat consistent with the City's development pipeline, which currently includes developments with densities that exceed 70 dwelling units per acre after accounting for density bonuses and other development incentives. To evaluate financial feasibility following a potential future rezone, the prototypes include one multifamily rental prototype and one condominium prototype with base densities of 70 dwelling units per acre.

The prototypes that were evaluated in this analysis are described in more below and summarized in Table 2.

Table 2: Prototype Development Programs

	Prototype 1: Higher-Density Multifamily Rental	Prototype 2: Lower-Density Multifamily Rental	Prototype 3: Higher-Density Condominium	Prototype 4: Lower-Density Condominium	Prototype 5: Townhouse
Development Program					
Site Size (acres)	1.0	1.0	0.5	1.0	2.0
Density Before Density Bonus	70 du/acre	38 du/acre	70 du/acre	38 du/acre	14.5 du/acre
Total Units	105	57	42	57	35
Affordable Units	11	6	6	10	5
Average Unit Size (net sq. ft.)	848	854	1,157	1,175	1,571
Parking Spaces	149	82	84	114	70

Sources: City of Los Altos; BAE, 2023.

Prototype 1: Higher-Density Multifamily Rental

Prototype 1 is a multifamily rental development on a one-acre site with an assumed base zoning allowing for 70 dwelling units per acre. The prototype evaluated in this analysis includes 11 units affordable to very low-income households, which is equal to 15 percent of the 70 units that would be allowed under the base zoning. This makes the project consistent

with the City's inclusionary requirements and eligible for a 50 percent density bonus under State law. The resulting project with the density bonus consists of a total of 105 rental units. In practice the City's Local Inclusionary Requirements automatically make the project eligible for the 50 percent density bonus and additional incentives and concessions.

Parking for Prototype 1 would be provided in an underground garage due to height limits, consistent with recent multifamily developments in Los Altos, with mechanical lifts to address a portion of the parking need. Parking would be provided at a ratio of one space per bedroom, or 1.42 spaces per unit, assuming that the project would be granted a parking reduction as a development incentive under the Density Bonus ordinance.

Prototype 2: Lower-Density Multifamily Rental

Prototype 2 is a multifamily rental development on a one-acre site with an assumed base zoning allowing for 38 dwelling units per acre. The prototype evaluated in this analysis includes six units affordable to very low-income households, which is equal to 15 percent of the 38 units that would be allowed under the base zoning. This makes the project consistent with the City's inclusionary requirements and eligible for a 50 percent density bonus under State law. The resulting project with the density bonus consists of a total of 57 rental units.

Parking for Prototype 2 would be provided in an underground garage due to height limits, consistent with recent multifamily developments in Los Altos, with mechanical lifts to address a portion of the parking need. Parking would be provided at a ratio of one space per bedroom, or 1.44 spaces per unit, assuming that the project would be granted a parking reduction as a development incentive under the Density Bonus ordinance.

Prototype 3: Higher-Density Condominium

Prototype 3 is a condominium development on a half-acre site with an assumed base zoning allowing for 70 dwelling units per acre. The prototype evaluated in this analysis assumes the developer aligns with the City's existing inclusionary housing ordinance, by providing two units affordable to very-low income households, or five percent of the base units, as well as four units affordable to moderate-income households, or ten percent of the units allowed under the base zoning. This aligns with the existing inclusionary ordinance and makes the project eligible for a 20 percent density bonus under State law. Based on the expected capacity of the site under this allowed density, the project can accommodate the 20 percent density bonus, adding another seven units. The resulting project with the density bonus consists of a total of 42 condominium units.

Parking for Prototype 3 would be provided in an underground garage due to height limits, consistent with recent multifamily developments in Los Altos. Parking would be provided at a ratio of 2.0 spaces per unit.

Prototype 4: Lower-Density Condominium

Prototype 4 is a condominium development on a one-acre site with an assumed base zoning allowing for 38 dwelling units per acre. The prototype evaluated in this analysis includes six units affordable to very low-income households, which is equal to 15 percent of the 38 units that would be allowed under the base zoning, as well as four units affordable to moderate-income households. This exceeds the City's inclusionary requirements and makes the project eligible for a 50 percent density bonus under State law. The resulting project with the density bonus consists of a total of 57 condominium units.

Parking for Prototype 4 would be provided in an underground garage due to height limits, consistent with recent multifamily developments in Los Altos. Parking would be provided at a ratio of 2.0 spaces per unit.

Prototype 5: Townhomes

Prototype 5 is a townhome development on a two-acre site with an assumed base zoning allowing for 14.5 dwelling units per acre. The prototype evaluated in this analysis includes two units affordable to very low-income households, which is equal to five percent of the 29 units that would be allowed under the base zoning, as well as three units affordable to moderate-income households. This makes the project consistent with the City's inclusionary requirements and eligible for a 25 percent density bonus under State law. The resulting project with the density bonus consists of a total of 36 townhome units.

Parking for Prototype 4 would be provided in individual garages in each unit. Parking would be provided at a ratio of 2.0 spaces per unit.

Methodology for Financial Feasibility Analysis

The methodology used for this study involved preparation of static pro-forma financial feasibility models for each of the five 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. The detailed pro-formas that BAE prepared for this analysis are provided in Appendix B.

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 value of the completed project, net of total development costs. To estimate the value of the completed project (net of developer profit), the feasibility models divide the Net Operating Income (NOI) from the project (i.e., annual income from the project net of operating expenses) by the Yield-on-Cost (YOC) developers are seeking in order to consider a project feasible. The required YOC is a function of the prevailing capitalization rate in the City, plus a spread for new development to capture a margin for developer profit. The residual land value for a residential rental project can be summarized as follows:

Project Value Net of Developer Profit (i.e., NOI / required YOC) – 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 including 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 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 typical site acquisition costs could potentially absorb a higher inclusionary requirement while remaining within the necessary feasibility thresholds. A project that generates a residual land value that is lower than typical site acquisition costs is generally not financially feasible and would be unlikely to be built.

Key Assumptions

BAE developed the various modeling inputs and assumptions needed for the financial feasibility analysis based on interviews with residential developers who are active in the local area, data from industry publications and databases, experience with recent development projects in the local area, and other research. 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 for the prototype projects 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 $425 per leasable square foot of residential space for the multifamily rental prototypes, $500 per leasable square foot of residential space for the condominium prototypes, and $475 per square foot of residential space for the townhome prototypes.

Parking Costs: BAE included parking as a separate cost item in order to estimate the specific cost of building parking in these projects. Based on stakeholder interviews, BAE estimates the cost of a subterranean parking space at $85,000 per space. In the rental prototypes, BAE assumes a portion of the parking spaces are provided via parking stackers, which maximize the number of spaces within a limited parking garage. BAE assumes these stackers cost $17,000 per space.

Soft Costs: This analysis assumes that soft costs are equal to between 15 and 17 percent of hard costs. This soft cost estimate includes engineering, architecture, financing, and CEQA costs, as well as City cost-recovery fees for planning, permitting, and entitlements, but does not include impact fees. Impact fees are included as a separate line item, discussed below.

Impact Fees: BAE calculated impact fees for each prototype based on the City's impact fee schedule (for park and traffic impact fees) and the school districts' impact fee schedules, applied to the characteristics of each prototype.

Market-Rate Residential Rents: This analysis assumes that rental rates for market-rate units will average approximately $5.50 per net residential square foot, with some variation in rent per square foot based on unit size. This assumption is based on information provided by developers that were interviewed as part of this study as well as data from Costar on current multifamily rental rates in the Los Altos area.

Affordable Residential Rents: The affordable rental rates used in this analysis are based on income limits for households at each income level, as published by HCD, assuming an affordable rent equal to 30 of the total household income. The HCD rent limits were adjusted based on an estimated utility allowance to ensure that the combined cost of rent and utilities was no higher than the rent limit.

Market-Rate Residential Sale Prices: This analysis assumes that sale prices for market-rate units will average approximately $1,500 per net residential square foot for condominiums and $1,400 per residential square foot for townhomes. This assumption is based on information provided by developers that were interviewed as part of this study as well as data from Redfin on sale prices among recently-sold condominiums and townhouses in Los Altos.

Affordable Residential Sale Prices: The affordable condominium sale prices used in this analysis are based on 2022 Santa Clara County income limits for multifamily housing programs as published by HCD. BAE calculated the affordable sale price for households at each income level based on the sale price at which monthly payments for mortgage interest and principal, property taxes, homeowner's insurance, and homeowners' association fees total no more than 35 percent of gross household income.

Residential Rental Operating Expenses: This analysis uses an estimate of $15,000 per unit per year for all residential rental units.

Developer Fee: To cover staff overhead and other internal project costs, developers include a one-time developer fee, which is estimated as a percentage of both hard and soft costs. Based on interviews, the fee typically amounts to roughly four percent of hard and soft costs.

Yield on Cost (rental prototypes): In order to meet developer and investor return thresholds, BAE assumes the project must reach a 5.0 percent Yield on Cost (YOC). This is roughly 50 basis points above the current capitalization rate. While this is a relatively small spread between the capitalization rate and the YOC, developers noted a willingness to proceed with projects yielding a 5.0 percent YOC due to the strength of the Silicon Valley rental market.

Developer Profit Margin (for sale prototypes): This metric divides total developer profit by total development cost, to judge overall project feasibility. It can be considered as a simple profit margin, irrespective of how a project is financed between debt and equity. Real estate development has higher risk inherent to many other types of investment activity, such as corporate bonds, so developers tend to seek higher profit threshold on real estate projects than these other investment options as a requirement for deciding whether to pursue a project. This study assumes a 18 percent profit threshold for the for-sale prototypes.

Residual Land Value Threshold: This analysis uses a land cost of approximately $10 million to $15 million per acre to assess the financial feasibility of each of the prototypes. This is consistent with information provided during developer interviews as well as BAE's experience with residential development projects in neighboring jurisdictions.

Rental Inclusionary Financial Feasibility Findings

The following section summarizes the financial feasibility of the two rental housing prototypes. This includes the estimated development cost of the project, as well as the project value upon completion, resulting in a residual land value. To determine feasibility the residual land value is compared to prevailing land costs in the City of Los Altos to determine the financial feasibility of the prototype. A summary of the financial feasibility findings is included below in Table 3.

Prototype 1: Higher-Density Multifamily Rental

The 105-unit higher-density multifamily rental prototype, situated on a one-acre parcel, is estimated to cost roughly $66.7 million, or $635,000 per unit, excluding the cost of land acquisition. Hard costs account for the largest development cost, at nearly $38 million, followed by parking costs ($8.9 million), soft costs ($7.0 million), and City impact fees ($6.0 million). The remaining costs are associated with construction financing, developer fees, and site preparation costs.

To estimate the value of the property to investors, this project is estimated to generate roughly $3.7 million annually. Based on a required yield on cost of 5.0 percent, the project value net of development profit is equal to roughly $73.4 million. Based on the comparison between project value to investors and the estimated development cost excluding land, the feasibility models indicate a residual land value of approximately $6.7 million for the one-acre site.

Given the prevailing land values in Los Altos typically range from $12 to $15 million per acre, this analysis indicates that the higher-density multifamily rental prototype faces financial feasibility challenges in the current market. The recommendations section of this report provides recommendations regarding actions that the City should take, such as changes to development standards and fee reductions, to improve the financial feasibility of projects similar to this prototype.

It should be noted that this prototype also faces feasibility challenges even with no inclusionary housing requirement. In a scenario in which all units in the prototype are market-rate units, which would also mean that the project would not receive a density bonus, this prototype results in a $9.3 million residual land value. While this is closer to the feasibility threshold, this finding indicates that the inclusionary requirements are not the only barrier to financial feasibility for this prototype.

Prototype 2: Lower-Density Multifamily Rental

The lower-density multifamily rental prototype with a base density similar to the City's existing zoning faces development feasibility challenges due to the lower number of units included in the project. In total, the estimated total cost of the 57-unit project amounts to nearly $37 million, or nearly $650,000 per unit, excluding the cost of land acquisition. Similar to the higher-density prototype, the largest cost category is associated with hard costs, including labor and materials. Other major costs include parking costs, soft costs, and impact fees.

Based on developer yield on cost requirements, the value of the project is estimated at roughly $40.3 million. This is driven by the estimated $2.0 million in annual net operating income, divided by the required yield on cost. Based on a comparison between the development cost and project value net of developer profit, the lower-density rental prototype has an estimated residual land value of approximately $3.4 million. Given that typical land costs in Los Altos are at least three times this projected residual land value, this project is unlikely to be feasible in the current market environment.

For-Sale Residential Financial Feasibility Findings

The following section summarizes the feasibility of the three for-sale housing prototypes. Similar to the above approach, this section summarizes the total development cost, and compares this to the total sales proceeds of the units, to calculate the residual land value. To determine feasibility the residual land value is then compared to prevailing land costs for these development prototypes in the City of Los Altos to determine the financial feasibility. A summary of the financial feasibility findings is included below in Table 3.

Prototype 3: Higher-Density Condominium

The pro-forma analysis indicates that the higher-density condominium prototype is financially feasible, generating sufficient sales proceeds to cover development costs and acquire a site in the City of Los Altos. The estimated project cost of the high-density condominium project is approximately $43 million, or nearly $1.1 million per unit, excluding the cost of land acquisition. The higher development cost relative to the rental prototype is driven by a higher hard cost assumption tied to the higher-end finishes and more expensive construction materials, as well as the provision of larger condominium units compared to rental units. Similar to the other prototypes, hard costs account for the largest share of development costs, followed by parking costs and soft costs.

As noted in prior sections, the feasibility of for-sale condominium prototypes is determined through the comparison between the revenue from one-time sales of the condominium units and the cost of delivering the units. Based on the expected sale prices, this 42-unit development generates roughly $61 million in gross sales proceeds. After accounting for marketing costs, the net sales proceeds amount to approximately $59.4 million, or a blended average of roughly $1.4 million per unit.

Assuming condominium developers require a one-time 18 percent profit margin in order to attract equity investors, the residual land value of the higher-density condominium prototype is approximately $7.9 million, or roughly $15.4 million per acre. This residual land value is comparable to the typical land costs for sites that can accommodate multifamily development, driven by the increased value from the increased density over the City's existing zoning.

Prototype 4: Lower-Density Condominium

The pro-forma analysis indicates that the lower-density condominium development faces financially feasibility challenges under current market conditions. The lower-density condominium prototype yields a lower residual land value due to the smaller project size and number of units. As seen in the financial models in Appendix B, the estimated total cost to build this prototype amounts to roughly $60.3 million, or $1.1 million per unit, excluding land acquisition costs.

In total, the net revenue from the condominium sales amounts to roughly $79.2 million, after factoring in marketing costs. Allowing an 18 percent profit margin to attract developers and

investors, the project yields a residual land value of roughly $8.1 million. This residual land value is below the prevailing land prices in the City of Los Altos, suggesting this development is currently infeasible.

Prototype 5: Townhomes

The pro-forma analysis indicates that the townhome prototype is financially feasible in the current market. In total, the 36-unit townhome development on two acres is estimated to cost roughly $40.4 million, or $1.1 million per unit, excluding land acquisition costs. While these units are somewhat larger than the condominium units, the development typology affords a more efficient cost of construction, leading to reduced costs on a per-square-foot basis. Still, hard costs account for the largest share of development costs, followed by soft costs and impact fees.

In terms of sale proceeds, BAE estimates an average sale price of approximately $1.9 million per unit, or $70.4 million in net sales revenue. After allowing an 18 percent developer profit threshold, the development has an estimated residual land value of nearly $22.7 million, or $11.3 million per acre. While this is slightly lower than the residual land value threshold used for the other prototypes, these projects would occur on land that is zoned for significantly lower densities than the other prototypes. Compared to the typical land cost for the higher-density prototypes evaluated above, land costs tend to be lower for sites that accommodate densities that are similar to the density of the townhome prototype. As a result, the analysis finds that this project is likely to be financially feasible even with a residual land value that is slightly lower than the threshold used to evaluate the higher-density prototypes.

Summary of Findings

The analysis presented above demonstrates that the higher-density condominium prototype and the townhome prototype are financially feasible under current market conditions. The remaining three prototypes, which consist of the higher-density rental prototype, the lower-density rental prototype, and the lower-density condominium prototype, are not financially feasible in the current market. These three prototypes are not financially feasible even with no inclusionary requirement, meaning that there are barriers to financial feasibility for these prototypes that are unrelated to inclusionary requirements, and that changes to the City's inclusionary requirements would not make these projects feasible. The recommendations chapter of this report includes actions that the City of Los Altos should take to improve the feasibility of the higher-density residential prototype.

These findings are consistent with development trends in Los Altos. The City has seen multiple recent condominium proposals at densities that are similar to the density of the higher-density condominium prototype. The City has also seen relatively recent development of townhome projects. However, there has been a lack of recent rental development at any density as well as a lack of condominium development at lower densities. These findings are also consistent with high construction costs, which have increased substantially in recent years.

These findings do not necessarily indicate that no rental development will move forward in Los Altos, though any new rental development is likely to occur at densities that are more similar to the higher-density prototype than the lower-density prototype. At the time of this report there are no 100 percent rental developments within the City's Development Pipeline. The only project in the pipeline that includes rental units consists of both multifamily rental and townhouse units. This project is somewhat unique because it was originally conceived as a project that would include a mix of for-sale condominiums and townhomes. The site has since been sold to a developer that generally builds rental units and decided to build the condominium portion of the project as rental units rather than condominiums. Projects similar to the higher-density prototype may move forward in cases in which a developer is able to acquire land for less than the prevailing land cost in the area, is anticipating higher rents than modeled in the analysis, or is able to take advantage of lower-cost construction methods. In addition, developers that plan to hold a project for an extended period after development is completed may continue to pursue projects in anticipation of longer-term future rent increases in Los Altos, which would provide returns in future years that would not be captured in the static pro-forma models used in this analysis. Nonetheless, the findings do indicate financial feasibility challenges for these types of developments. These findings indicate that changes in City policies, in combination with changes in market conditions, will be necessary to produce new rental units in significant quantities in Los Altos.

Table 3: Financial Feasibility Summary

	Prototype 1: Higher-Density Multifamily Rental	Prototype 2: Lower-Density Multifamily Rental	Prototype 3: Higher-Density Condominium	Prototype 4: Lower-Density Condominium	Prototype 5: Townhouse
Development Program					
Site Size (acres)	1.0	1.0	0.5	1.0	2.0
Density Before Density Bonus	70 du/acre	38 du/acre	70 du/acre	38 du/acre	14.5 du/acre
Total Units	105	57	42	57	35
Affordable Units	11	6	6	10	5
Average Unit Size (net sq. ft.)	848	854	1,157	1,175	1,571
Parking Spaces	149	82	84	114	70
Total Development Costs, Excluding Land and Developer Profit					
Total Development Cost (TDC) Excl. Land	$66,666,037	$36,904,302	$43,831,661	$60,257,159	$40,365,790
TDC per Unit	$634,915	$647,444	$1,043,611	$1,057,143	$1,113,539
TDC per Gross Building SF	$614	$621	$740	$741	$697
Residual Land Value Analysis					
Project Value Net of Profit (Rental)	$73,389,006	$40,296,834	N/A	N/A	N/A
Net Sales Revenue (for-sale)	N/A	N/A	$59,389,935	$79,166,395	$70,375,635
Residual Land Value	$6,722,969	$3,392,532	$7,668,575	$8,062,947	$22,744,003
Residual Land Value per Acre	**$6,722,969**	**$3,392,532**	**$15,337,149**	**$8,062,947**	**$11,372,001**
Feasible?	**No**	**No**	**Yes**	**No**	**Yes**

Source: BAE, 2023.

IN-LIEU FEE ANALYSIS

This section of the report evaluates potential in-lieu fees that the City of Los Altos could adopt as an alternative to providing inclusionary units within a project. In-lieu fees are a common option that cities offer as an alternative, though cities differ in terms of the extent to which the in-lieu fee option is available for all projects or only in specific circumstances. In addition, cities differ in terms of the extent to which in-lieu fees are set at levels that are likely to incentivize developers to pay the fee or to provide inclusionary units on site. In general, a relatively high in-lieu fee tends to create an incentive for developers to provide inclusionary units on site, because the cost of the fee exceeds the cost to provide the inclusionary units. Conversely, a relatively low in-lieu fee tends to create an incentive for developers to pay the fee rather than provide inclusionary units.

This section provides an analysis of potential in-lieu fees based on three factors:

1) The cost to construct an affordable unit.
2) The point of indifference, or the in-lieu fee rate at which the cost of paying the fee is approximately equivalent to the cost of providing inclusionary units.
3) The in-lieu fees that are assessed in nearby jurisdictions.

Construction Cost Approach

Many cities base their inclusionary in-lieu fees on the cost to construct an affordable unit, often through a formula that applies on a project-by-project basis that is tied to the cost of construction. To inform the City's consideration of an inclusionary in-lieu fee, this subsection provides an analysis of the cost to construct the affordable units in each of the five prototypes analyzed in the previous chapter of this report.

For affordable rental units, this analysis estimates the cost to construct an affordable unit based on the construction costs shown in the pro-formas for the rental developments. The analysis then subtracts the amount of debt service that an affordable unit can support from the total construction cost to estimate the construction cost net of supportable debt. This approach recognizes that an affordable unit generates rental income to offset the cost of constructing the unit, albeit at a lower rate than needed to cover construction costs.

For affordable ownership units, this analysis estimates the cost to construct an affordable unit based on the construction costs shown in the pro-formas for the ownership developments. The analysis then subtracts the restricted sale price from the total construction cost to estimate the construction cost net of sales proceeds. Similar to the approach used for the rental units, this approach recognizes that an affordable unit generates revenue from the sale of the unit to offset the cost of constructing the unit, though this revenue is not sufficient to cover construction costs.

For all of the development prototypes, BAE includes the required developer profit and the cost of acquiring a typical site in Los Altos, at $13 million per acre.

Based on the construction cost approach calculations, shown in Table 4 below, the resulting in-lieu fee amount based on the construction cost approach ranges from $120 to $146 per gross residential square foot for the rental prototypes. The higher-density rental prototype yields the lower in-lieu fee amount, due to a lower per-unit development cost which is associated with the lower per-unit land acquisition cost. Due to the higher land acquisition cost per unit, driven by the lower density of the development program, the lower-density multifamily rental prototype yields the higher in-lieu fee, of roughly $146 per gross square foot, or nearly $967,000 per unit.

Using the construction cost approach, the in-lieu fee for the condominium units ranges from $139 to $148 per gross residential square foot. This is driven by the high cost of constructing the condominium units, at between $1.4 and $1.7 million per unit in total costs. With an average restricted sale price of approximately $315,000 per unit, the potential in-lieu fee per affordable unit amounts to between $1.1 and $1.4 million for the condominium prototypes. Due to the lower density of the townhome prototype and the larger unit sizes, the development costs of these units are nearly $2.3 million, including land acquisition costs and developer profit. However, the restricted sale prices are similar to the condominium units, leading to a higher in-lieu fee per affordable unit. As seen below, the construction cost approach yields an in-lieu fee of roughly $1.9 million per townhome unit, or approximately $211 per gross residential square footage for the townhome prototypes.

Table 4: Construction Cost In-Lieu Fee Amount by Prototype

	Prototype 1: Higher-Density Multifamily Rental	Prototype 2: Lower-Density Multifamily Rental	Prototype 3: Higher-Density Condominium	Prototype 4: Lower-Density Condominium	Prototype 5: Townhouse
Development Program					
Site Size (acres)	1.0	1.0	0.5	1.0	2.0
Total Units	70	38	35	38	29
Required Affordable Units	11	6	6	6	5
Total Project SF	72,622	39,695	49,390	54,207	45,500
Construction Cost Approach					
Development Cost Per Unit, Incl. Land and Profit	$893,078	$1,065,375	$1,455,769	$1,649,371	$2,298,192
Rental Prototypes					
Avg. Monthly Rent per Unit	$1,612	$1,596	*n.a.*	*n.a.*	*n.a.*
Monthly Net Operating Income per Unit	$698	$682	*n.a.*	*n.a.*	*n.a.*
Supportable Debt per Unit	$101,182	$98,971	*n.a.*	*n.a.*	*n.a.*
For-Sale Prototypes					
For-Sale Price	*n.a.*	*n.a.*	$314,264	$314,264	$379,212
Development Cost minus Sale Price	*n.a.*	*n.a.*	$1,141,505	$1,335,106	$1,918,980
In-Lieu Fee Per Unit	**$791,896**	**$966,403**	**$1,141,505**	**$1,335,106**	**$1,918,980**
Point of Indifference In-Lieu Fee Amount					
Total In-Lieu Fee Amount	**$8,710,851**	**$5,798,418**	**$6,849,029**	**$8,010,638**	**$9,594,898**
Fee per Affordable Unit	*$791,896*	*$966,403*	*$1,141,505*	*$1,335,106*	*$1,918,980*
Fee per Gross Residential SF	*$120*	*$146*	*$139*	*$148*	*$211*

Sources: BAE, 2023.

Point of Indifference Approach

A second factor to consider when setting an in-lieu fee is the "point of indifference", or the fee amount that is generally equivalent to the cost of providing inclusionary units in a project. Fees that are set higher than this amount will generally incentivize developers to provide affordable units instead of paying the in-lieu fee because providing the units will be more cost-effective. Conversely, fees that are set lower than this amount will generally incentivize developers to pay the in-lieu fee instead of providing the affordable units. The following section summarizes the methodology for setting this fee amount, as well as the potential fee amount for each of the prototypes.

Methodology

The cost of an in-lieu fee and the cost to provide inclusionary units on site are not directly comparable, because an in-lieu fee affects total development costs, whereas providing inclusionary units on site affects either the project's operating income and the resulting project value (for rental developments) or sale proceeds (for ownership developments). In other words, payment of an in-lieu fee affects the cost side of the residual land value calculation,

while providing inclusionary units on site affects the project value or sale proceeds side of the residual land value calculation.

This analysis evaluated the point of indifference by determining the in-lieu fee rate for each prototype that would result in the same feasibility results as providing inclusionary units. The analysis involved creating an alternate version of the pro-forma for each prototype. The pro-formas that were used for this portion of the analysis differed from the pro-formas that were used to test the feasibility of the inclusionary requirements in that the alternate versions do not have any affordable inclusionary units and instead include an in-lieu fee as part of the total development cost. Because the alternate versions do not include affordable units, these projects would not be eligible for a density bonus, and therefore the alternate pro-formas do not include any bonus units. To identify the point of indifference in-lieu fee for each prototype, the analysis determined the fee that would result in the same residual land value as in the inclusionary scenario. For example, as shown in Table 3 above, with the inclusionary units and density bonus units Prototype 1 results in a residual land value of $6.7 million. To identify the point of indifference fee rate for Prototype 1, an alternate version of the Prototype 1 pro-forma was created with no inclusionary or density bonus units. An in-lieu fee was then added to the development costs for in this alternate version of the pro-forma, with that fee rate set such that the residual land value associated with the project would be $6.7 million, or equal to the residual land value in the inclusionary scenario for the same prototype.

The resulting In-lieu fee rate represents the "point of indifference," or the inclusionary in-lieu fee payment that would have the same cost impacts as providing affordable units within the project. In other words, if all else were equal, a residential rental project that pays the "point of indifference" fee rates shown in Table 5 would generally support the same residual land value as a project that provides the affordable units on site.

Findings

As shown below in Table 5, the rental prototypes yield a "point of indifference" in-lieu fee amount between $28 and $32 per gross residential square foot. The two condominium prototypes yield a "point of indifference" in-lieu fee amount of $74 per gross residential square foot, while the townhome prototype yields a "point of indifference" in-lieu fee amount of $19 per gross residential square foot.

Table 5: Point of Indifference In-Lieu Fee Amount by Prototype

	Prototype 1: Higher-Density Multifamily Rental	Prototype 2: Lower-Density Multifamily Rental	Prototype 3: Higher-Density Condominium	Prototype 4: Lower-Density Condominium	Prototype 5: Townhouse
Point of Indifference In-Lieu Fee Amount (a)	$2,318,875	$1,109,672	$3,647,654	$3,986,752	$886,959
Fee per unit	*$33,127*	*$29,202*	*$104,219*	*$104,915*	*$30,585*
Fee per Gross Res SF	*$32*	*$28*	*$74*	*$74*	*$19*

Note:
(a) Based on proformas shown in Appendix B (Tables B-6 through B-10)
Source: BAE, 2023.

The "point of indifference" fee rates identified in this analysis are sensitive to the relationship between the market-rate rent and the affordable rent for rental projects and the market-rate sale price and the affordable sale price for ownership projects, as well as other assumptions used in the financial modeling. Consequently, the fee rate that represents the point of indifference will vary between projects and over time based on variations in the difference between market-rate and affordable rents and sale prices.

In-Lieu Fees in Nearby Jurisdictions

Table 6 below shows the inclusionary housing in-lieu fees that apply in several nearby jurisdictions, which may inform Los Altos' process for identifying an in-lieu fee. As shown, almost all of the jurisdictions shown have restrictions on developers' ability to satisfy inclusionary requirements through payment of an in-lieu fee. These restrictions include requiring City Council approval to pay an in-lieu fee, allowing in-lieu fees only for the purpose of meeting a requirement for a fractional unit, and allowing in-lieu fees only for small projects. The exception is Palo Alto, which does not have an inclusionary requirement for rental development and instead charges an affordable housing fee on new rental developments. Similar to many of the other jurisdictions shown, Palo Alto does have an inclusionary requirement for for-sale developments, with City Council approval required for developments that request to pay an in-lieu fee rather than providing units on site.

Among the jurisdictions shown in Table 6 that have established in-lieu fee rates, in-lieu fees for rental developments generally range from $22.22 per square foot (Santa Clara) to $103.88 per square foot (Mountain View).[2] In-lieu fees for for-sale developments range from $20.29 per square foot (Cupertino) to $135.25 per square foot (Mountain View). Other jurisdictions set fees as a percent of building permit valuation (Los Gatos) or sale price (Menlo Park and Sunnyvale, for for-sale developments). Some jurisdictions use a formula based on unit

[2] Sunnyvale has a lower fee rate of $14 per square foot for rental developments with three to six units.

construction costs (Menlo Park, for rental projects) or the difference between the affordable sale price and the market-rates sale price (Santa Clara, for for-sale projects).

While fee rates in nearby jurisdictions often provide insight on the fee rates that are financially feasible, in the case of an in-lieu fee the fee rates shown in Table 6 do not necessarily reflect financially feasible fee rates. As noted above, most of the jurisdictions shown place restrictions on developers' ability to pay an in-lieu fee and prefer that developers provide affordable inclusionary units. As a result, these jurisdictions may charge relatively high fee rates that would not be feasible for most projects in order to incentivize developers to provide inclusionary units rather than pay the fee. These cities may continue to experience residential development activity, with new development providing affordable units rather than paying an in-lieu fee, provided that the inclusionary requirements themselves are financially feasible.

Table 6: Inclusionary In-Lieu Fees in Nearby Cities

Jurisdiction	SFR-Detached Project Inclusionary In-Lieu Fee	SFR-Attached/Townhome Project Inclusionary In-Lieu Fee	Condominium Project Inclusionary In-Lieu Fee	Rental Project Inclusionary In-Lieu Fee
Cupertino (a)	$20.29 per sf $22.31 per sf for small lot dev	$27.05 per sf $22.31 per sf for small lot dev	$27.05 per sf	$27.05 per sf (up to 35 du/ac) $33.81 per sf (over 35 du/ac)
	In-lieu fees can only be used to satisfy the inclusionary requirement for projects with fewer than 7 units or for fractional units in projects with more than 7 units. All other alternatives to providing on-site inclusionary units are subject to City Council approval.			
Los Gatos	6% of building permit valuation	6% of building permit valuation	6% of building permit valuation	6% of building permit valuation
	Fee option is available only in limited cases and at the Town's discretion			
Menlo Park	3% of sale price for each unit for which a BMR unit has not been provided in projects with 10 units or more; lower percentages for projects with fewer than 10 units.			No fee has been adopted; The fee shall be based on the cost to develop, design, construct, and maintain a standard one-bedroom unit in Menlo Park, including a proportionate share of common area and land acquisition costs.
	City Council approval required for payment in-lieu of meeting inclusionary requirements. For ownership projects, developer must demonstrate that inclusionary units cannot be provided on site. In-lieu fee payment is allowed for fractional units or projects with fewer than 5 units but provision of an inclusionary unit is preferred.			
Mountain View (a)	$58.97 per sf	$135.25 per sf	$58.97 per sf	$103.88 per sf
	In-lieu fees can be paid for fractional units in projects with less than 7 units. In projects with 7+ units, in-lieu fees can be paid for a fractional unit that is equal to less than 0.5 of a unit. An in-lieu fee payment to satisfy the entire inclusionary requirement requires City County approval. Applicant must demonstrate that in-lieu fee payment will further the City's housing goals to a greater extent than providing units on site. Fees must be greater than the value of providing the units on site and higher than the in-lieu fees for fractional units that are cited above.			
Palo Alto (a)	$91.92 per sf	$61.28 per sf SFR attached	$61.29 per sf condo	$24.52 per sf
	In-lieu fees for for-sale units apply to fractional units or in cases in which City Council agrees to accept an in-lieu fee payment instead of building affordable units in the project. City does not have an inclusionary requirement for rental developments and instead charges a Housing Impact Fee on all rental developments.			
Santa Clara	Fees are equal to the difference between the unrestricted appraised market value ("Initial Market Value") of the unit and the Affordable Sales Price of the unit, multiplied by the fractional amount due. The Initial Market Value of the last unit sold shall be the basis for calculating the in lieu fee.			$22.22 per sf
	Fees apply only to projects with fewer than 10 units or to satisfy the requirement for a fractional unit in projects with 10 units or more.			
Saratoga	Not applicable. City does not have an inclusionary ordinance but plans to adopt one by January 2024.			
Sunnyvale (a)	7% of contract sale price	7% of contract sale price	7% of contract sale price	$14.00 per sf for projects of 3-6 units $28.50 per sf for projects of 7+ units
	City Council approval required for in-lieu fee option for projects with 7+ units.			

Note:
(a) Inclusionary in-lieu fee for rental projects applies to the net new habitable square footage.
Source: BAE, 2023.

Summary of In-Lieu Fee Analysis Findings

The analysis presented above demonstrates that the construction cost approach results in a higher in-lieu fee than the "point of indifference" approach for each of the prototypes evaluated in this study. This means that, if Los Altos were to adopt fees based on the rates identified in the construction cost approach, these fees would generally incentivize developers to provide affordable inclusionary units on site rather than pay an in-lieu fee in new developments.

The construction cost approach results in higher fee rates than have been adopted in neighboring jurisdictions, while the point of indifference approach results in fee rates that are comparable to fees adopted in some neighboring jurisdictions. However, as noted above, all of the neighboring jurisdictions with inclusionary requirements that were evaluated in this study place restrictions on developers' ability to pay an in-lieu fee in place of providing units on site. As a result, in most cases developers are unable to pay the in-lieu fee in these jurisdictions, regardless of whether the in-lieu fee is more cost effective than providing the inclusionary units.

RECOMMENDATIONS

The findings from the analysis, as described in the preceding sections of this report, support the following recommendations.

Recommendation 1: Increase residential densities, FAR standards, and/or height limits in zones that allow multifamily development to increase the allowable residential development capacity in these areas. The analysis presented above demonstrates that multifamily development is not financially feasible based on the City of Los Altos' current development standards in the zones where the City would like to see multifamily development. This finding is consistent with the lack of recent multifamily rental developments in Los Altos as well the significant density bonuses and other deviations from development standards that have been requested for recent condominium developments in Los Altos. At a base density of 70 dwelling units or more, condominium developments would be financially feasible and multifamily rental developments could be financially feasible with other changes.

Recommendation 2: Consider additional changes to development standards and permit processing procedures as well as reductions in City fees to facilitate multifamily rental development. Multifamily rental development is likely to continue to face feasibility challenges even with increases in residential development capacity in areas that allow for multifamily development. Los Altos can improve the feasibility of multifamily rental development while maintaining current inclusionary requirements though additional changes to development standards, such as parking requirements, setback and step back requirements, and height limits. Reductions in City fees for multifamily rental developments would also help to improve the feasibility of multifamily rental development while maintaining current inclusionary requirements. From a developer's perspective, any reduction in City fees, including permit fees or impact fees, would help with financial feasibility. From the City's perspective, however, permit fee revenues are critical for ensuring that the City can recover the cost of providing City services, and as a result the City may not be able to reduce permit fee rates. Similarly, impact fees ensure that new development contributes toward infrastructure and other public improvements that are needed to address the impacts created by new development, and it may not be feasible to reduce impact fees without negative impacts. Any future reductions in City fee revenues would need to be accompanied by an analysis of the appropriateness of the City's existing permit and impact fees and the feasibility of reducing fee rates. This analysis was not conducted as part of this study.

Recommendation 3: Consider reducing inclusionary requirements for rental developments, particularly if Recommendations 1 and 2 are not fully implemented. As discussed above, Los Altos has more stringent inclusionary requirements than many nearby jurisdictions. These requirements may be feasible with the changes noted in Recommendations 1 and 2 above. However, to the extent that Los Altos does not implement these recommendations, a slight

reduction in the inclusionary requirements for rental developments could help to improve feasibility. For example, the inclusionary requirements could be adjusted to require 15 percent of units to be affordable to low-income households, rather than 20 percent affordable to low-income households or 15 percent affordable to very low-income households. Los Altos could apply these changes only in cases where Recommendations 1 and 2 would not apply. For example, the City could apply lower inclusionary requirements in areas that are not upzoned while maintaining the current requirements for upzoned areas.

Recommendation 4: Adopt in-lieu fees based on City of Los Altos objectives with respect to the City's inclusionary program and the point of indifference fee calculations. The in-lieu fees that the City adopts should be based on City policy objectives related to whether the City prefers to incentivize developers to provide affordable inclusionary units within projects or to pay an in-lieu fee. If fee collection is preferred, the adopted fee rates should be lower than the point of indifference fee rates. A fee rate that is lower than the point of indifference fee rate will mean that paying the fee is less costly than providing the inclusionary units, and therefore the fee option will be more attractive to most developers. Conversely, if City policy favors incentivizing developers to provide affordable units rather than paying the in-lieu fee, the City should adopt fee rates that are higher than the point of indifference fee rates. As shown in Table 5, the point of indifference fee rates are equal to approximately $30 per square foot for multifamily rental units, $75 per square foot for condominium units, and $20 per square foot for townhouse units.

APPENDIX A: STATE DENSITY BONUS CHART

	Density Bonus if Units are Affordable to…		
Affordable Unit Percentage (a)	**Very Low Income Households**	**Low Income Households**	**Moderate Income Households (b)**
5%	20%	N/A	N/A
6%	22.50%	N/A	N/A
7%	25%	N/A	N/A
8%	27.50%	N/A	N/A
9%	30%	N/A	N/A
10%	32.50%	20%	5%
11%	35%	21.50%	6%
12%	38.75%	23%	7%
13%	42.50%	24.50%	8%
14%	46.25%	26%	9%
15%	50%	27.50%	10%
16%	50%	29%	11%
17%	50%	30.50%	12%
18%	50%	32%	13%
19%	50%	33.50%	14%
20%	50%	35%	15%
21%	50%	38.75%	16%
22%	50%	42.50%	17%
23%	50%	46.25%	18%
24%	50%	50%	19%
25%	50%	50%	20%
26%	50%	50%	21%
27%	50%	50%	22%
28%	50%	50%	23%
29%	50%	50%	24%
30%	50%	50%	25%
31%	50%	50%	26%
32%	50%	50%	27%
33%	50%	50%	28%
34%	50%	50%	29%
35%	50%	50%	30%
36%	50%	50%	31%
37%	50%	50%	32%
38%	50%	50%	33%
39%	50%	50%	34%
40%	50%	50%	35%
41%	50%	50%	38.75%
42%	50%	50%	42.50%
43%	50%	50%	46.25%
44%	50%	50%	50%
100% (c)	80%	80%	80%

Notes:
(a) Density bonuses percentages are based on the percent of units at the base density (i.e., not including density bonus units).
(b) Density bonuses based on moderate-income affordability are available to for-sale projects only.
(c) 100 percent affordable developments can meet the affordability requirement with units affordable at a mix of income levels, with a maximum of 20 percent moderate-income units.

APPENDIX B: PRO FORMAS

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Table B-1: Multifamily Rental Pro Forma, Upzoned Scenario with Inclusionary Units & Density Bonus, Los Altos

Development Program Assumptions

Site Size - acres / square feet	43,560
Total Units	105
Affordable (% - count)	*10%*
Market Rate (% - count)	*90%*
Leasable sq.ft.	89,050
Total Project sq.ft	**108,598**
Total Parking Spaces	149
Parking spaces per du	*1.4*

Base Density Units

		Units by AMI Level				All
Unit Mix	Sq. Ft.	50%	60%	80%	MR	Units
Studio	600	1			3	**4**
1-BR	750	6			33	**39**
2-BR	1,000	4			20	**24**
3-BR	1,300	0			3	**3**
All Units		**11**	**0**	**0**	**59**	**70**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	11	16%	59	84%	70
Avg. Affordability (% AMI)		*50%*			n.a.
Leasable Sq. Ft.		9,100		50,450	59,550
Total Sq. Ft.		11,098		61,524	72,622
Parking Spaces		16		83	99

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	2
1-BR	20
2-BR	12
3-BR	1
All Units	**35**
Density Bonus Percent	*50%*

Net Residential Square Feet	29,500
Internal Circulation (SF)	6,476
Circulation %	18%
Total Density Bonus Res SF	**35,976**
Podium Parking Spaces	50

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per net residential sf	$425
Parking cost per space, Underground v	$59,500
Soft Costs (% of hard costs)	15%
Impact Fees (per unit) (a)	$57,753
Developer Fee (% of hard and soft)	4%

Rental Revenue

	Monthly Rent by AMI Level			
Unit Type	50%	60%	80%	MR
Studio	$1,419	$1,714	$2,304	$3,690
1-BR	$1,514	$1,830	$2,462	$4,313
2-BR	$1,806	$2,185	$2,944	$5,250
3-BR	$2,079	$2,517	$3,394	$6,825

Operating Costs

Annual op. cost - per Affordable du	$15,000
Annual op. cost - per Market Rate du	$15,000
Vacancy Rate, Residential	5.0%
Market Rate Cap Rate	4.50%
Required Yield-on-Cost	5.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$89,028**	**$782,172**	**$871,200**
Vertical Construction			
Hard Cost	$3,867,500	$33,978,750	$37,846,250
Parking Cost	$952,000	$7,913,500	$8,865,500
Soft Costs	$722,925	$6,283,838	$7,006,763
Impact Fees	$635,279	$5,428,745	$6,064,023
Subtotal	**$6,177,704**	**$53,604,832**	**$59,782,536**
Construction Financing			
Const. Loan Fees	$34,467	$299,129	$333,596
Const. Loan Interest	$336,053	$2,916,503	$3,252,557
Developer Fee	**$250,669**	**$2,175,480**	**$2,426,149**
Total Dev. Cost (excl. Land)	**$6,887,921**	**$59,778,116**	**$66,666,037**
Per Unit	*$626,175*	*$635,937*	*$634,915*
Per Net SF	*$757*	*$748*	*$749*
Per Gross SF	$621	$613	$614

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Scheduled Rents	$212,724	$5,307,750	$5,520,474
Less Vacancy	($10,636)	($265,388)	($276,024)
Less Operating Expenses	($165,000)	($1,410,000)	($1,575,000)
Net Operating Income	**$37,088**	**$3,632,363**	**$3,669,450**
Feasibility			
Total Development Costs (ex. Land)	**$6,887,921**	**$59,778,116**	**$66,666,037**
Per Unit (ex. Land)	$626,175	$635,937	$634,915
Required Yield on Cost	5.00%	5.00%	5.00%
Project Value Net of Dev. Profit	**$741,756**	**$72,647,250**	**$73,389,006**
Residual Land Value	**($6,146,165)**	**$12,869,134**	**$6,722,969**
RLV per unit	($558,742)	$136,906	$64,028
RLV per Acre	*($6,146,165)*	*$12,869,134*	*$6,722,969*

Table B-2: Multifamily Rental Pro Forma, Existing Zoning with Inclusionary Units & Density Bonus, Los Altos

Development Program Assumptions

Site Size - acres / square feet	43,560
Total Units	57
Affordable (% - count)	*11%*
Market Rate (% - count)	*89%*
Leasable sq.ft.	48,700
Total Project sq.ft	**59,390**
Total Parking Spaces	82
Parking spaces per du	*1.4*

Base Density Units

		Units by AMI Level				All
Unit Mix	Sq. Ft.	50%	60%	80%	MR	Units
Studio	600	1			1	**2**
1-BR	750	3			18	**21**
2-BR	1,000	2			11	**13**
3-BR	1,300	0			2	**2**
All Units		**6**	**0**	**0**	**32**	**38**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	6	16%	32	84%	38
Avg. Affordability (% AMI)		*50%*			n.a.
Leasable Sq. Ft.		4,850		27,700	32,550
Total Sq. Ft.		5,915		33,780	39,695
Parking Spaces		9		46	55

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	1
1-BR	11
2-BR	6
3-BR	1
All Units	**19**
Density Bonus Percent	*50%*

Net Residential Square Feet	16,150
Internal Circulation (SF)	3,545
Circulation %	18%
Total Density Bonus Res SF	**19,695**
Podium Parking Spaces	27

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per net residential sf	$425
Parking cost per space, Underground w/	$59,500
Soft Costs (% of hard costs)	15%
Impact Fees (per unit) (a)	$57,753
Developer Fee (% of hard and soft)	4%

Rental Revenue

	Monthly Rent by AMI Level			
Unit Type	50%	60%	80%	MR
Studio	$1,419	$1,714	$2,304	$3,690
1-BR	$1,514	$1,830	$2,462	$4,313
2-BR	$1,806	$2,185	$2,944	$5,250
3-BR	$2,079	$2,517	$3,394	$6,825

Operating Costs

Annual op. cost - per Affordable du	$15,000
Annual op. cost - per Market Rate du	$15,000
Vacancy Rate, Residential	5.0%
Market Rate Cap Rate	4.50%
Required Yield-on-Cost	5.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$86,762**	**$784,438**	**$871,200**
Vertical Construction			
Hard Cost	$2,061,250	$18,636,250	$20,697,500
Parking Cost	$535,500	$4,343,500	$4,879,000
Soft Costs	$389,513	$3,446,963	$3,836,475
Impact Fees	$346,516	$2,945,383	$3,291,898
Subtotal	**$3,332,778**	**$29,372,095**	**$32,704,873**
Construction Financing			
Const. Loan Fees	$18,807	$165,861	$184,668
Const. Loan Interest	$183,373	$1,617,144	$1,800,517
Developer Fee	**$136,782**	**$1,206,261**	**$1,343,043**
Total Development Cost (excl. Land)	**$3,758,502**	**$33,145,799**	**$36,904,302**
Per Unit	*$626,417*	*$649,918*	*$647,444*
Per Net SF	*$775*	*$756*	*$758*
Per Gross SF	$635	$620	$621

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Scheduled Rents	$114,876	$2,906,010	$3,020,886
Less Vacancy	($5,744)	($145,301)	($151,044)
Less Operating Expenses	($90,000)	($765,000)	($855,000)
Net Operating Income	**$19,132**	**$1,995,710**	**$2,014,842**
Feasibility			
Total Development Costs (ex. Land)	**$3,758,502**	**$33,145,799**	**$36,904,302**
Per Unit (ex. Land)	$626,417	$649,918	$647,444
Required Yield on Cost	5.00%	5.00%	5.00%
Project Value Net of Dev. Profit	**$382,644**	**$39,914,190**	**$40,296,834**
Residual Land Value	**($3,375,858)**	**$6,768,391**	**$3,392,532**
RLV per unit	($562,643)	$132,714	$59,518
RLV per Acre	*($3,375,858)*	*$6,768,391*	*$3,392,532*

Table B-3: Condominium Pro Forma, Upzoned Scenario with Inclusionary Units & Density Bonus, Los Altos

Development Program Assumptions

Site Size - acres / square feet	0.5	21,780
Total Units		42
Affordable (% - count)		*14%*
Market Rate (% - count)		*86%*
Leasable sq.ft.		48,600
Total Project sq.ft		**59,268**
Total Parking Spaces		84
Parking spaces per du		*2.00*

Base Density Units

Unit Mix	Sq. Ft.	50%	80%	110%	120%	MR	All Units
Studio	600	0			0	0	**0**
1-BR	850	0			1	9	**10**
2-BR	1,225	1			2	17	**20**
3-BR	1,500	1			1	3	**5**
All Units		**2**	**0**	**0**	**4**	**29**	**35**
		6%			11.4%		

Summary	Affordable		Market-Rate		Total
Number of Units (# - '	6	17%	29	83%	35
Avg. Affordability (% AMI)	*97%*				n.a.
Leasable Sq. Ft.	7,525		32,975		40,500
Total Sq. Ft.	9,177		40,213		49,390
Parking Spaces	12		58		70

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	2
2-BR	4
3-BR	1
All Units	**7**
Density Bonus Percent	*20%*
Net Residential Square Feet	8,100
Internal Circulation (SF)	1,778
Circulation %	18%
Total Density Bonus Res SF	**9,878**
Podium Parking Spaces	14

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per net residential sf	$500
Parking cost per space, Underground	$85,000
Soft Costs (% of hard costs)	17.5%
Impact Fees (per unit) (a)	$59,550
Developer Fee (% of hard and soft)	4%

Sale Revenue

Unit Type	50%	120%	MR
Studio	$84,527	$422,688	$855,000
1-BR	$118,937	$505,435	$1,211,250
2-BR	$153,552	$588,388	$1,745,625
3-BR	$187,962	$671,136	$2,137,500

Marketing Costs	3.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$67,446**	**$368,154**	**$435,600**
Vertical Construction			
Hard Cost	$3,762,500	$20,537,500	$24,300,000
Parking Cost	$1,020,000	$6,120,000	$7,140,000
Soft Costs	$836,938	$4,665,063	$5,502,000
Impact Fees	$357,298	$2,143,788	$2,501,086
Subtotal	**$5,976,736**	**$33,466,351**	**$39,443,086**
Construction Financing			
Const. Loan Fees	$33,243	$186,090	$219,333
Const. Loan Interest	$324,119	$1,814,375	$2,138,495
Developer Fee	**$241,767**	**$1,353,380**	**$1,595,147**
Total Development Cost	**$6,643,311**	**$37,188,350**	**$43,831,661**
Per Unit	*$1,107,219*	*$1,033,010*	*$1,043,611*
Per Net SF	*$883*	*$905*	*$902*
Per Gross SF	$724	$742	$740

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Sale Revenue	$2,694,862	$58,531,875	$61,226,737
Less Marketing Costs	($80,846)	($1,755,956)	($1,836,802)
Net Sales Revenue	**$2,614,016**	**$56,775,919**	**$59,389,935**
Total Development Costs (ex. Land)	**$6,643,311**	**$37,188,350**	**$43,831,661**
Per Unit (ex. Land)	$1,107,219	$1,033,010	$1,043,611
Developer Profit Margin	18%	18%	18%
Developer Profit Threshold	**$1,195,796**	**$6,693,903**	**$7,889,699**
Residual Land Value	**($5,225,091)**	**$12,893,666**	**$7,668,575**
RLV per unit	*($870,849)*	*$444,609*	*$182,585*
RLV per Acre	($10,450,183)	$25,787,332	$15,337,149

Table B-4: Condominium Pro Forma, Existing Zoning with Inclusionary Units & Density Bonus, Los Altos

Development Program Assumptions

Site Size - acres / square feet	1.0	43,560
Total Units		57
Affordable (% - count)		*18%*
Market Rate (% - count)		*82%*
Leasable sq.ft.		66,675
Total Project sq.ft		**81,311**
Total Parking Spaces		114
Parking spaces per du		*2.00*

Base Density Units

Unit Mix	Sq. Ft.	50%	80%	110%	120%	MR	All Units
Studio	600	0			0	0	**0**
1-BR	850	2			1	7	**10**
2-BR	1,225	3			2	17	**22**
3-BR	1,500	1			1	4	**6**
All Units		**6**	**0**	**0**	**4**	**28**	**38**
		15.8%			10.5%		

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	10	26%	28	74%	38
Avg. Affordability (% AMI)		*78%*			n.a.
Leasable Sq. Ft.		11,675		32,775	44,450
Total Sq. Ft.		14,238		39,970	54,207
Parking Spaces		20		56	76

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	5
2-BR	11
3-BR	3
All Units	**19**
Density Bonus Percent	*50%*

Net Residential Square Feet	22,225
Internal Circulation (SF)	4,879
Circulation %	18%
Total Density Bonus Res SF	**27,104**
Podium Parking Spaces	38

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per net residential sf	$500
Parking cost per space, Underground	$85,000
Soft Costs (% of hard costs)	17.5%
Impact Fees (per unit) (a)	$59,550
Developer Fee (% of hard and soft)	4%

Sale Revenue

Unit Type	50%	120%	MR
Studio	$84,527	$422,688	$855,000
1-BR	$118,937	$505,435	$1,211,250
2-BR	$153,552	$588,388	$1,745,625
3-BR	$187,962	$671,136	$2,137,500

Marketing Costs	3.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$152,550**	**$718,650**	**$871,200**
Vertical Construction			
Hard Cost	$5,837,500	$27,500,000	$33,337,500
Parking Cost	$1,700,000	$7,990,000	$9,690,000
Soft Costs	$1,319,063	$6,210,750	$7,529,813
Impact Fees	$595,497	$2,798,835	$3,394,332
Subtotal	**$9,452,059**	**$44,499,585**	**$53,951,644**
Construction Financing			
Const. Loan Fees	$52,825	$248,700	$301,526
Const. Loan Interest	$515,047	$2,424,828	$2,939,875
Developer Fee	**$384,184**	**$1,808,729**	**$2,192,914**
Total Development Cost	**$10,556,666**	**$49,700,493**	**$60,257,159**
Per Unit	*$1,055,667*	*$1,057,457*	*$1,057,143*
Per Net SF	*$904*	*$904*	*$904*
Per Gross SF	$741	$741	$741

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Sale Revenue	$3,239,840	$78,375,000	$81,614,840
Less Marketing Costs	($97,195)	($2,351,250)	($2,448,445)
Net Sales Revenue	**$3,142,645**	**$76,023,750**	**$79,166,395**
Total Development Costs (ex. Land)	**$10,556,666**	**$49,700,493**	**$60,257,159**
Per Unit (ex. Land)	$1,055,667	$1,057,457	$1,057,143
Developer Profit Margin	18%	18%	18%
Developer Profit Threshold	**$1,900,200**	**$8,946,089**	**$10,846,289**
Residual Land Value	**($9,314,221)**	**$17,377,169**	**$8,062,947**
RLV per unit	*($931,422)*	*$620,613*	*$141,455*
RLV per Acre	($9,314,221)	$17,377,169	$8,062,947

Table B-5: Townhome Pro Forma with Inclusionary Units & Density Bonus, Los Altos

Development Program Assumptions

Site Size - acres / square feet	2.0	87,120
Total Units		36
Affordable (% - count)		*14%*
Market Rate (% - count)		*86%*
Leasable sq.ft.		57,950
Total Project sq.ft		**57,950**
Total Parking Spaces		73
Parking spaces per du		*2.00*

Base Density Units

Unit Mix	Sq. Ft.	50%	80%	110%	120%	MR	All Units
1-BR	1,100	0			0	0	**0**
2-BR	1,350	1			1	4	**6**
3-BR	1,600	1			2	16	**19**
4-BR	1,750	0			0	4	**4**
All Units		**2**	**0**	**0**	**3**	**24**	**29**

Summary	Affordable		Market-Rate		Total
Number of Units (# -	5	17%	24	83%	29
Avg. Affordability (% AMI	*92%*				n.a.
Leasable Sq. Ft.	7,500		38,000		45,500
Total Sq. Ft.	7,500		38,000		45,500
Parking Spaces	10		48		58

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	2
2-BR	5
3-BR	1
All Units	**7**
Density Bonus Percent	*25%*
Residential Square Feet	12,450
Total Density Bonus Res SF	**12,450**

Cost Assumptions

Construction

Site Prep Costs (per si	$20
Hard Cost per resident	$475
Soft Costs (% of hard costs)	15%
Impact Fees (per unit) (a)	$91,801
Developer Fee (% of hard and soft	4%

Sale Revenue

Unit Type	50%	120%	MR
1-BR	$84,527	$422,688	$1,540,000
2-BR	$118,937	$505,435	$1,957,500
3-BR	$153,552	$588,388	$2,240,000
4-BR	$187,962	$671,136	$2,362,500

Marketing Costs	3.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$225,505**	**$1,516,895**	**$1,742,400**
Vertical Construction			
Hard Cost	$3,562,500	$23,963,750	$27,526,250
Soft Costs	$534,375	$3,594,563	$4,128,938
Impact Fees	$459,007	$2,868,792	$3,327,799
Subtotal	**$4,555,882**	**$30,427,104**	**$34,982,986**
Construction Financing			
Const. Loan Fees	$26,298	$175,692	$201,990
Const. Loan Interest	$256,402	$1,712,997	$1,969,399
Developer Fee	**$191,255**	**$1,277,760**	**$1,469,015**
Total Development Cost	**$5,255,341**	**$35,110,449**	**$40,365,790**
Per Unit	*$1,051,068*	*$1,123,534*	*$1,113,539*
Per Net SF	*$701*	*$696*	*$697*
Per Gross SF	$701	$696	$697

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Sale Revenue	$1,954,701	$70,597,500	$72,552,201
Less Marketing Costs	($58,641)	($2,117,925)	($2,176,566)
Net Sales Revenue	**$1,896,060**	**$68,479,575**	**$70,375,635**
Total Development Costs (ex. Land)	**$5,255,341**	**$35,110,449**	**$40,365,790**
Per Unit (ex. Land)	$1,051,068	$1,123,534	$1,113,539
Developer Profit Margin	18%	18%	18%
Developer Profit Threshold	**$945,961**	**$6,319,881**	**$7,265,842**
Residual Land Value	**($4,305,243)**	**$27,049,246**	**$22,744,003**
RLV per unit	*($861,049)*	*$1,127,052*	*$627,421*
RLV per Acre	($2,152,622)	$13,524,623	$11,372,001

Table B-6: Multifamily Rental Pro Forma, Upzoned Scenario with In-Lieu Fee, Los Altos

Development Program Assumptions

Site Size - acres / square feet	1.0	43,560
Total Units		70
Affordable (% - count)		*0%*
Market Rate (% - count)		*100%*
Leasable sq.ft.		59,550
Total Project sq.ft		**72,622**
Total Parking Spaces		99
Parking spaces per du		*1.42*

Base Density Units

		Units by AMI Level				All
Unit Mix	Sq. Ft.	50%	60%	80%	MR	Units
Studio	600				4	**4**
1-BR	750				39	**39**
2-BR	1,000				24	**24**
3-BR	1,300				3	**3**
All Units		**0**	**0**	**0**	**70**	**70**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	0	0%	70	100%	70
Avg. Affordability (% AMI)					n.a.
Leasable Sq. Ft.	0		59,550		59,550
Total Sq. Ft.	0		72,622		72,622
Parking Spaces	0		99		99

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	0
2-BR	0
3-BR	0
All Units	**0**
Density Bonus Percent	*0%*
Net Residential Square Feet	0
Internal Circulation (SF)	0
Circulation %	18%
Total Density Bonus Res SF	**0**
Podium Parking Spaces	0

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per net residential s	$425
Parking cost per space, Under	$59,500
Soft Costs (% of hard costs)	15%
Impact Fees (per unit) (a)	$57,753
Developer Fee (% of hard and soft)	4%

Rental Revenue

	Monthly Rent by AMI Level			
Unit Type	50%	60%	80%	MR
Studio	$1,419	$1,714	$2,304	$3,690
1-BR	$1,514	$1,830	$2,462	$4,313
2-BR	$1,806	$2,185	$2,944	$5,250
3-BR	$2,079	$2,517	$3,394	$6,825

Operating Costs

Annual op. cost - per Affordable du	$15,000
Annual op. cost - per Market Rate du	$15,000
Vacancy Rate, Residential	5.0%
Market Rate Cap Rate	4.50%
Required Yield-on-Cost	5.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$0**	**$871,200**	**$871,200**
Vertical Construction			
Hard Cost	$0	$25,308,750	$25,308,750
Parking Cost	$0	$5,890,500	$5,890,500
Soft Costs	$0	$4,679,888	$4,679,888
Affordable Housing In-Lieu Fee	n.a.	$2,318,875	$2,318,875
Impact Fees	$0	$4,042,682	$4,042,682
Subtotal	**$0**	**$42,240,695**	**$42,240,695**
Construction Financing			
Const. Loan Fees	$0	$237,115	$237,115
Const. Loan Interest	$0	$2,311,875	$2,311,875
Developer Fee	**$0**	**$1,724,476**	**$1,724,476**
Total Development Cost (excl. Land)	**$0**	**$47,385,361**	**$47,385,361**
Per Unit		*$676,934*	*$676,934*
Per Net SF		*$796*	*$796*
Per Gross SF		$652	$652

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Scheduled Rents	$0	$3,953,070	$3,953,070
Less Vacancy	$0	($197,654)	($197,654)
Less Operating Expenses	$0	($1,050,000)	($1,050,000)
Net Operating Income	**$0**	**$2,705,417**	**$2,705,417**
Feasibility			
Total Development Costs (ex. Land)	**$0**	**$47,385,361**	**$47,385,361**
Per Unit (ex. Land)		$676,934	$676,934
Required Yield on Cost	5.00%	5.00%	5.00%
Project Value Net of Dev. Profit	**$0**	**$54,108,330**	**$54,108,330**
Residual Land Value	**$0**	**$6,722,969**	**$6,722,969**
RLV per unit		$96,042	$96,042
RLV per Acre		*$6,722,969*	*$6,722,969*

Table B-7: Multifamily Rental Pro Forma, Existing Zoning with In-Lieu Fee, Los Altos

Development Program Assumptions

Site Size - acres / square feet	1.0	43,560
Total Units		38
Affordable (% - count)		*0%*
Market Rate (% - count)		*100%*
Leasable sq.ft.		32,550
Total Project sq.ft		**39,695**
Total Parking Spaces		55
Parking spaces per du		*1.44*

Base Density Units

		Units by AMI Level				All
Unit Mix	Sq. Ft.	50%	60%	80%	MR	Units
Studio	600	0			2	**2**
1-BR	750	0			21	**21**
2-BR	1,000	0			13	**13**
3-BR	1,300	0			2	**2**
All Units		**0**	**0**	**0**	**38**	**38**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	0	0%	38	100%	38
Avg. Affordability (% AMI)					n.a.
Leasable Sq. Ft.	0		32,550		32,550
Total Sq. Ft.	0		39,695		39,695
Parking Spaces	0		55		55

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	0
2-BR	0
3-BR	0
All Units	**0**
Density Bonus Percent	*0%*
Net Residential Square Feet	0
Internal Circulation (SF)	0
Circulation %	18%
Total Density Bonus Res SF	**0**
Podium Parking Spaces	0

Cost Assumptions

Construction

Site Prep Costs (per site. sq.f	$20
Hard Cost per net residential	$425
Parking cost per space, Unde	$59,500
Soft Costs (% of hard costs)	15%
Impact Fees (per unit) (a)	$57,753
Developer Fee (% of hard and soft)	4%

Rental Revenue

	Monthly Rent by AMI Level			
Unit Type	50%	60%	80%	MR
Studio	$1,419	$1,714	$2,304	$3,690
1-BR	$1,514	$1,830	$2,462	$4,313
2-BR	$1,806	$2,185	$2,944	$5,250
3-BR	$2,079	$2,517	$3,394	$6,825

Operating Costs

Annual op. cost - per Affordable du	$15,000
Annual op. cost - per Market Rate du	$15,000
Vacancy Rate, Residential	5.0%
Market Rate Cap Rate	4.50%
Required Yield-on-Cost	5.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$0**	**$871,200**	**$871,200**
Vertical Construction			
Hard Cost	$0	$13,833,750	$13,833,750
Parking Cost	$0	$3,272,500	$3,272,500
Soft Costs	$0	$2,565,938	$2,565,938
Affordable Housing In-Lieu Fee	n.a.	$1,109,672	$1,109,672
Impact Fees	$0	$2,194,599	$2,194,599
Subtotal	**$0**	**$22,976,459**	**$22,976,459**
Construction Financing			
Const. Loan Fees	$0	$131,162	$131,162
Const. Loan Interest	$0	$1,278,831	$1,278,831
Developer Fee	**$0**	**$953,906**	**$953,906**
Total Development Cost (excl. Land)	**$0**	**$26,211,558**	**$26,211,558**
Per Unit		*$689,778*	*$689,778*
Per Net SF		*$805*	*$805*
Per Gross SF		$660	$660

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Scheduled Rents	$0	$2,158,110	$2,158,110
Less Vacancy	$0	($107,906)	($107,906)
Less Operating Expenses	$0	($570,000)	($570,000)
Net Operating Income	**$0**	**$1,480,205**	**$1,480,205**
Feasibility			
Total Development Costs (ex. Land)	**$0**	**$26,211,558**	**$26,211,558**
Per Unit (ex. Land)		$689,778	$689,778
Required Yield on Cost	5.00%	5.00%	5.00%
Project Value Net of Dev. Profit	**$0**	**$29,604,090**	**$29,604,090**
Residual Land Value	**$0**	**$3,392,532**	**$3,392,532**
RLV per unit		$89,277	$89,277
RLV per Acre	*$0*	*$3,392,532*	*$3,392,532*

Table B-8: Condominium Pro Forma, Upzoned Scenario with In-Lieu Fee, Los Altos

Development Program Assumptions

Site Size - acres / square feet	0.5	21,780
Total Units		35
Affordable (% - count)		*0%*
Market Rate (% - count)		*100%*
Leasable sq.ft.		40,500
Total Project sq.ft		**49,390**
Total Parking Spaces		70
Parking spaces per du		*2.00*

Base Density Units

		Units by AMI Level			All
Unit Mix	Sq. Ft.	50%	120%	MR	Units
Studio	600	0	0	0	**0**
1-BR	850	0	0	10	**10**
2-BR	1,225	0	0	20	**20**
3-BR	1,500	0	0	5	**5**
All Units		**0**	**0**	**35**	**35**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	0	0%	35	100%	35
Avg. Affordability (% AMI)					n.a.
Leasable Sq. Ft.		0		40,500	40,500
Total Sq. Ft.		0		49,390	49,390
Parking Spaces					70

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	0
2-BR	0
3-BR	0
All Units	**0**
Density Bonus Percent	*0%*

Net Residential Square Feet	0
Internal Circulation (SF)	0
Circulation %	18%
Total Density Bonus Res SF	**0**
Podium Parking Spaces	0

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per net residential sf	$500
Parking cost per space, Underground	$85,000
Soft Costs (% of hard costs)	17.5%
Impact Fees (per unit) (a)	$57,753
Developer Fee (% of hard and soft)	4%

Sale Revenue

	Sale Price by AMI Level		
Unit Type	50%	120%	MR
Studio	$84,527	$422,688	$855,000
1-BR	$118,937	$505,435	$1,211,250
2-BR	$153,552	$588,388	$1,745,625
3-BR	$187,962	$671,136	$2,137,500

Marketing Costs	3.00%

Financing

Construction-Period	
MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$0**	**$435,600**	**$435,600**
Vertical Construction			
Hard Cost	$0	$20,250,000	$20,250,000
Parking Cost	$0	$5,950,000	$5,950,000
Soft Costs	$0	$4,585,000	$4,585,000
Affordable Housing In-Lieu Fee	n.a.	$3,647,654	$3,647,654
Impact Fees	$0	$2,021,341	$2,021,341
Subtotal	**$0**	**$36,453,995**	**$36,453,995**
Construction Financing			
Const. Loan Fees	$0	$239,782	$239,782
Const. Loan Interest	$0	$2,337,878	$2,337,878
Developer Fee	**$0**	**$1,475,584**	**$1,475,584**
Total Development Cost	**$0**	**$40,942,839**	**$40,942,839**
Per Unit		*$1,169,795*	*$1,169,795*
Per Net SF		*$1,011*	*$1,011*
Per Gross SF		$829	$829

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Sale Revenue	$0	$57,712,500	$57,712,500
Less Marketing Costs	$0	($1,731,375)	($1,731,375)
Net Sales Revenue	**$0**	**$55,981,125**	**$55,981,125**
Total Development Costs (ex. Land)	**$0**	**$40,942,839**	**$40,942,839**
Per Unit (ex. Land)		$1,169,795	$1,169,795
Developer Profit Margin	18%	18%	18%
Developer Profit Threshold	**$0**	**$7,369,711**	**$7,369,711**
Residual Land Value	**$0**	**$7,668,575**	**$7,668,575**
RLV per unit		*$219,102*	*$219,102*
RLV per Acre		$15,337,149	$15,337,149

Table B-9: Condominium Pro Forma, Existing Zoning with In-Lieu Fee, Los Altos

Development Program Assumptions

Site Size - acres / square feet	1.0	43,560
Total Units		38
Affordable (% - count)		*0%*
Market Rate (% - count)		*100%*
Leasable sq.ft.		44,450
Total Project sq.ft		**54,207**
Total Parking Spaces		76
Parking spaces per du		*2.00*

Base Density Units

		Units by AMI Level			All
Unit Mix	Sq. Ft.	50%	120%	MR	Units
Studio	600	0	0	0	**0**
1-BR	850	0	0	10	**10**
2-BR	1,225	0	0	22	**22**
3-BR	1,500	0	0	6	**6**
All Units		**0**	**0**	**38**	**38**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	0	0%	38	100%	38
Avg. Affordability (% AMI)					n.a.
Leasable Sq. Ft.		0		44,450	44,450
Total Sq. Ft.		0		54,207	54,207
Parking Spaces		0		76	76

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	0
2-BR	0
3-BR	0
All Units	**0**
Density Bonus Percent	*0%*
Net Residential Square Feet	0
Internal Circulation (SF)	0
Circulation %	18%
Total Density Bonus Res SF	**0**
Podium Parking Spaces	0

Cost Assumptions

Construction	
Site Prep Costs (per site. sq.ft)	$20
Hard Cost per net residential sf	$500
Parking cost per space, Underground	$85,000
Soft Costs (% of hard costs)	17.5%
Impact Fees (per unit) (a)	$57,753
Developer Fee (% of hard and soft)	4%

Sale Revenue

	Sale Price by AMI Level		
Unit Type	50%	120%	MR
Studio	$84,527	$422,688	$855,000
1-BR	$118,937	$505,435	$1,211,250
2-BR	$153,552	$588,388	$1,745,625
3-BR	$187,962	$671,136	$2,137,500

Marketing Costs	3.00%
Financing	
Construction-Period	
MR Loan-to-Cost	65%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$0**	**$871,200**	**$871,200**
Vertical Construction			
Hard Cost	$0	$22,225,000	$22,225,000
Parking Cost	$0	$6,460,000	$6,460,000
Soft Costs	$0	$5,019,875	$5,019,875
Affordable In-Lieu Fee	n.a.	$3,986,752	$3,986,752
Impact Fees	$0	$2,194,599	$2,194,599
Subtotal	**$0**	**$39,886,226**	**$39,886,226**
Construction Financing			
Const. Loan Fees	$0	$264,923	$264,923
Const. Loan Interest	$0	$2,583,002	$2,583,002
Developer Fee	**$0**	**$1,630,297**	**$1,630,297**
Total Development Cost	**$0**	**$45,235,648**	**$45,235,648**
Per Unit		*$1,190,412*	*$1,190,412*
Per Net SF		*$1,018*	*$1,018*
Per Gross SF		$834	$834

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Sale Revenue	$0	$63,341,250	$63,341,250
Less Marketing Costs	$0	($1,900,238)	($1,900,238)
Net Sales Revenue	**$0**	**$61,441,013**	**$61,441,013**
Total Development Costs (ex. Land)	**$0**	**$45,235,648**	**$45,235,648**
Per Unit (ex. Land)		$1,190,412	$1,190,412
Developer Profit Margin	18%	18%	18%
Developer Profit Threshold	**$0**	**$8,142,417**	**$8,142,417**
Residual Land Value	**$0**	**$8,062,947**	**$8,062,947**
RLV per unit		*$212,183*	*$212,183*
RLV per Acre		$8,062,947	$8,062,947

Table B-10: Townhome Pro Forma with In-Lieu Fee, Los Altos

Development Program Assumptions

Site Size - acres / square feet	2.0	87,120
Total Units		29
Affordable (% - count)		*0%*
Market Rate (% - count)		*100%*
Leasable sq.ft.		45,500
Total Project sq.ft		**45,500**
Total Parking Spaces		58
Parking spaces per du		*2.00*

Base Density Units

		Unit by AMI Level			All
Unit Mix	Sq. Ft.	50%	120%	MR	Units
1-BR	1,100	0	0	0	**0**
2-BR	1,350	0	0	6	**6**
3-BR	1,600	0	0	19	**19**
4-BR	1,750	0	0	4	**4**
All Units		**0**	**0**	**29**	**29**

Summary	Affordable		Market-Rate		Total
Number of Units (# - %)	0	0%	29	100%	29
Avg. Affordability (% AMI)					n.a.
Leasable Sq. Ft.		0		45,500	45,500
Total Sq. Ft.		0		45,500	45,500
Parking Spaces		0		58	58

Density Bonus Units

Additional Market Rate Residential Units

Unit Mix	Market Rate
Studio	0
1-BR	0
2-BR	0
3-BR	0
All Units	**0**
Density Bonus Percent	*0%*
Residential Square Feet	0
Total Density Bonus Res SF	**0**

Cost Assumptions

Construction

Site Prep Costs (per site. sq.ft)	$20
Hard Cost per residential sf	$475
Soft Costs (% of hard costs)	15%
Impact Fees (per unit) (a)	$91,801
Developer Fee (% of hard and soft	4%

Sale Revenue

	Sale Price by AMI Level		
Unit Type	50%	120%	MR
1-BR	$84,527	$422,688	$1,540,000
2-BR	$118,937	$505,435	$1,957,500
3-BR	$153,552	$588,388	$2,240,000
4-BR	$187,962	$671,136	$2,362,500

Marketing Costs	3.00%

Financing

Construction-Period	
MR Loan-to-Cost	55%
Loan Fees	1%
Drawdown Factor	65%
Interest rate	7.50%
Loan Term (months)	24

Development Cost Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Site Preparation	**$0**	**$1,742,400**	**$1,742,400**
Vertical Construction			
Hard Cost	$0	$21,612,500	$21,612,500
Soft Costs	$0	$3,241,875	$3,241,875
In-Lieu Fee	$0	$886,959	$886,959
Impact Fees	$0	$2,662,239	$2,662,239
Subtotal	**$0**	**$28,403,573**	**$28,403,573**
Construction Financing			
Const. Loan Fees	$0	$165,803	$165,803
Const. Loan Interest	$0	$1,616,578	$1,616,578
Developer Fee	**$0**	**$1,205,839**	**$1,205,839**
Total Development Cost	**$0**	**$33,134,193**	**$33,134,193**
Per Unit		*$1,142,558*	*$1,142,558*
Per Net SF		*$728*	*$728*
Per Gross SF		$728	$728

Feasibility Analysis

	Mixed-Income Development		
	Affordable	Market Rate	Total Project
Project Income			
Gross Sale Revenue	$0	$63,755,000	$63,755,000
Less Marketing Costs	$0	($1,912,650)	($1,912,650)
Net Sales Revenue	**$0**	**$61,842,350**	**$61,842,350**
Total Development Costs (ex. Land)	**$0**	**$33,134,193**	**$33,134,193**
Per Unit (ex. Land)		$1,142,558	$1,142,558
Developer Profit Margin	18%	18%	18%
Developer Profit Threshold	**$0**	**$5,964,155**	**$5,964,155**
Residual Land Value	**$0**	**$22,744,003**	**$22,744,003**
RLV per unit		*$784,276*	*$784,276*
RLV per Acre		$11,372,001	$11,372,001