



KEYSER MARSTON ASSOCIATES

INCLUSIONARY HOUSING:

IN-LIEU FEE ANALYSIS

Prepared for:

City of Costa Mesa

Prepared by:

Keyser Marston Associates, Inc.

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TABLE OF CONTENTS

- I. EXECUTIVE SUMMARY 1**
 - A. BACKGROUND 1
 - B. FINDINGS..... 2
- II. APPROACH..... 5**
- III. ANALYSIS ORGANIZATION 5**
- IV. APARTMENT DEVELOPMENT ANALYSIS 6**
 - A. APARTMENT RENT ESTIMATES..... 6
 - B. ESTIMATED AFFORDABILITY GAPS – APARTMENT DEVELOPMENT 7
 - C. IN-LIEU FEE CALCULATIONS – APARTMENT DEVELOPMENT..... 8
- V. OWNERSHIP HOUSING DEVELOPMENT ANALYSIS 10**
 - A. SALES PRICE ESTIMATES..... 10
 - B. ESTIMATED AFFORDABILITY GAPS – OWNERSHIP HOUSING DEVELOPMENT 11
 - C. IN-LIEU FEE CALCULATIONS – OWNERSHIP HOUSING DEVELOPMENT..... 12
- VI. CONCLUSIONS / RECOMMENDATIONS 13**
 - A. RECOMMENDED BASE IN-LIEU FEE PAYMENT AMOUNTS 13
 - B. RECOMMENDED IN-LIEU FEE SCHEDULES..... 14
 - C. RECOMMENDED INCLUSIONARY HOUSING PROGRAM UPDATES 16

ATTACHMENTS

Attachment 1: Affordable Housing Cost Calculation Methodologies

Appendix A: Affordable Rent Calculation Methodology

Appendix B: Affordable Sales Price Calculation Methodology

Attachment 2: Apartment Development

Appendix A: Rent Survey

Appendix B: Affordable Rent Calculations

Appendix C: Recommended In-Lieu Fee

Attachment 3: Ownership Housing Development

Appendix A: Home Resales Survey

Appendix B: Affordable Sales Price Calculations

Appendix C: Recommended In-Lieu Fee

I. EXECUTIVE SUMMARY

A. Background

On January 16, 2024, the City of Costa Mesa (City) City Council gave first reading to Ordinance 2024-XX (Ordinance), which would modify Title 13 (Planning, Zoning, and Development) of the Costa Mesa Municipal Code by establishing an Inclusionary Housing program. Under defined circumstances the Ordinance allows an in-lieu fee to be paid as a means of fulfilling the Inclusionary Housing obligations.

Keyser Marston Associates, Inc. (KMA) was engaged by the City to assist in creating in-lieu fee schedules for apartment and ownership housing developments that would be subject to the Ordinance requirements. The following report describes the methodology and assumptions that KMA used in preparing this Inclusionary Housing Program: In-lieu Fee Analysis (In-Lieu Fee Analysis).

The Ordinance imposes the following basic requirements on residential development:

1. Residential projects with 15 or more units are subject to the Ordinance requirements.
2. The income and affordability requirements are set as follows:
 - a. Apartment development:
 - i. Projects developed at a density level of 60 units per acre or greater must allocate 11% of the units to low income households, or 7% of the units to very low income households.
 - ii. Projects developed at a density level of less than 60 units per acre must allocate 6% of the units to low income households, or 4% of the units to very low income households.
 - iii. Projects with 50 or fewer units have the right to pay an in-lieu fee at the developer's discretion.
 - b. An incentive is provided for the developers of ownership housing developments to pay an in-lieu fee to fulfill the Inclusionary Housing requirements. The in-lieu fee calculations are based on a moderate income Inclusionary Housing requirement.

The In-Lieu Fee Analysis is based on development prototypes that were included in the Inclusionary Housing: Financial Evaluation (Financial Evaluation) report prepared by KMA in July 2023 and a supplementary analysis prepared in November 2023. In addition, this analysis was updated to reflect the utilities allowances published by the Orange County Housing Authority on October 1, 2023 and the changes in mortgage interest rates.¹

B. Findings

The results of the KMA financial analysis are summarized in the following text and tables:

BASE IN-LIEU FEE AMOUNTS

Recommended Base In-Lieu Fee Payment Amounts Per Square Foot of: Total Leasable or Saleable Area in a Residential Project	
<u>Apartment Development</u>	
Density at 60+ Units Per Acre	\$26.10
Density at Less than 60 Units Per Acre	\$13.80
Ownership Housing Development	\$17.70

The in-lieu fee payment amount should be re-evaluated at least every five years. To allow in-lieu fees to keep pace with changes in the marketplace during the intervening periods, the in-lieu fees should be adjusted each year based on the percentage change in new home prices in Orange County.

IN-LIEU FEE SCHEDULES

Inclusionary housing requirements have a disproportionate impact on smaller projects, because there are fewer market rate units available to spread the impact created by the income and affordability standards. To reflect this, KMA recommends that the City provide a discounted in-lieu fee on a sliding scale basis for residential projects that consist of between 15 and 20 units. The base in-lieu fee would be applicable for all projects that include 21 or more residential units.

¹ The mortgage interest rates are based on a 50 basis points premium applied to the Freddie Mac monthly average, between February 2023 and January 2024, for a fixed interest rate loan with a 30 year amortization period.

KMA recommends that the in-lieu payment schedules presented in the following table be applied. The recommended fees are presented in 2024 Dollars.

Recommended In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable or Saleable Area in a Residential Development			
Total Units	Apartment Development		Ownership Housing Development
	Density: 60+ Units Per Acre	Density: <60 Units Per Acre	
15	\$3.73	\$1.97	\$2.53
16	\$7.46	\$3.94	\$5.06
17	\$11.19	\$5.91	\$7.59
18	\$14.91	\$7.89	\$10.11
19	\$18.64	\$9.86	\$12.64
20	\$22.37	\$11.83	\$15.17
21+	\$26.10	\$13.80	\$17.70

KMA recommends that the following in-lieu fee schedules be applied to a fractional “Inclusionary Unit” obligation incurred by a residential development. The recommended fractional in-lieu fee amounts are presented in 2024 dollars.

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: 60+ Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.80	\$22,210
0.20	\$47.50	\$44,330
0.30	\$71.30	\$66,540
0.40	\$95.00	\$88,660
0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: <60 Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,000
Average Unit Size (Square Feet of Leasable Area)		931
In-Lieu Fee Per Square Foot of One Unit		\$237.40
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.70	\$22,060
0.20	\$47.50	\$44,220
0.30	\$71.20	\$66,280
0.40	\$95.00	\$88,440
0.50	\$118.70	\$110,500
0.60	\$142.40	\$132,560
0.70	\$166.20	\$154,720
0.80	\$189.90	\$176,780
0.90	\$213.70	\$198,930
1.00	\$237.40	\$221,000

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Ownership Housing Development Prototype		
Affordability Gap Per Inclusionary Unit		\$608,000
Average Unit Size (Square Feet of Saleable Area)		1,620
In-Lieu Fee Per Square Foot of One Unit		\$375.30
		Total Fractional In-Lieu Fee: Prototype Ownership Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$37.53	\$60,800
0.20	\$75.06	\$121,600
0.30	\$112.59	\$182,400
0.40	\$150.12	\$243,190
0.50	\$187.66	\$304,010
0.60	\$225.19	\$364,810
0.70	\$262.72	\$425,610
0.80	\$300.25	\$486,410
0.90	\$337.78	\$547,200
1.00	\$375.31	\$608,000

II. APPROACH

The purpose of the In-Lieu Fee Analysis is to estimate the in-lieu fee amounts that can be supported by apartment and ownership housing developments. The KMA In-Lieu Fee Analysis is based on the evaluation of prototype developments that were used in the Financial Evaluation and the Inclusionary Housing requirements included in the Ordinance.

The foundational premise of this analysis is that an in-lieu fee should correlate to the “Affordability Gap” associated with producing the affordable units required by the Inclusionary Housing Program. The Affordability Gap can generally be defined as the difference between the achievable market rate rents or sales prices and the allowable rents or sales prices for the designated Inclusionary Units.

III. ANALYSIS ORGANIZATION

The KMA analysis is supported by the following Attachments and Appendices:

ATTACHMENT 1: AFFORDABLE HOUSING COST CALCULATION METHODOLOGIES

Appendix A:	Affordable Rent Calculation Methodology
Appendix B:	Affordable Sales Price Calculation Methodology

ATTACHMENT 2: APARTMENT DEVELOPMENT

Appendix A:	Rent Survey 4+ Star Properties
Appendix B:	Affordable Rent Calculations
Appendix C:	In-Lieu Fee Calculations

ATTACHMENT 3: OWNERSHIP HOUSING DEVELOPMENT

Appendix A:	Home Resales Survey
Appendix B:	Affordable Sales Price Calculations
Appendix C:	In-Lieu Fee Calculations

The recommended in-lieu fee payment amounts were estimated based on the Affordability Gaps associated with the following requirements:

1. Apartment development:
 - a. Projects developed at a density level of 60 units per acre or greater must allocate 11% of the units to low income households, or 7% of the units to very low income households.
 - b. Projects developed at a density level of less than 60 units per acre must allocate 6% of the units to low income households, or 4% of the units to very low income households.
2. The Ordinance applies an 8% moderate income Inclusionary Housing production requirement to ownership housing development. To create an incentive for developers to select the in-lieu fee option, this analysis calculates the fee based on a discounted rate tied to a 5% moderate income requirement.

The imposition of Inclusionary Housing requirements creates a disproportionate impact on small development projects. To mitigate this impact, KMA created discounted in-lieu fee schedules for projects that consist of between 10 and 20 units. In -lieu fee payment schedules are provided for any fraction of an Inclusionary Unit that is required to be produced under the Ordinance requirements.

IV. APARTMENT DEVELOPMENT ANALYSIS

A. Apartment Rent Estimates

MARKET RATE RENTS

KMA surveyed apartment projects that received 4+ stars in the CoStar quality ranking system (Attachment 2: Appendix A). Based in part on this survey, the market rate apartment rents used in this analysis are presented in the following table.

Projected Market Rate Rents Apartment Development	
Number of Bedrooms	Monthly Rent
Studio	\$2,410
1	\$2,970
2	\$3,660
3	\$3,330

The weighted average rent equates to approximately \$3.52 per square foot of leasable area.

AFFORDABLE RENTS

The methodology used to calculate the Affordable Rents is described in Attachment 1: Appendix A, and the calculations are presented in Attachment 2: Appendix B. The results are summarized in the following table:

Affordable Rents Apartment Development Prototype		
Number of Bedrooms	Low Income	Very Low Income
Studio	\$1,694	\$1,023
1	\$1,934	\$1,167
2	\$2,152	\$1,290
3	\$2,373	\$1,415

B. Estimated Affordability Gaps – Apartment Development

KMA estimated the Affordability Gaps associated with apartment development using the following calculation methodology:

1. The differences between the estimated achievable market rate rents and the defined Affordable Rents were calculated for studio, one-bedroom, two-bedroom, and three-bedroom apartment units.
2. KMA assumed that the property taxes for projects that include designated affordable housing units would be based on a lower assessed value due to the reduction in net operating income that would be generated by the project. KMA deducted this lower property tax expense from the estimated rent difference.
3. The estimated “Net Annual Rent Difference Per Inclusionary Unit” represents the annual rent difference minus the estimated property tax savings.

4. The “Affordability Gap Per Inclusionary Unit” is estimated by capitalizing the Net Annual Difference Per Inclusionary Unit at the threshold return derived from a pro forma analysis of the prototype apartment development at unrestricted market rate rents.

The Affordability Gap calculations are provided in Attachment 2: Appendix C, and the results are summarized in the following table:

Estimated Affordability Gaps Per Inclusionary Unit Apartment Development		
	Density: 60+ Units Per Acre	Density: <60 Units Per Acre
Low Income Units	\$221,700	\$221,000
Very Low Income Units	\$364,300	\$363,500

C. In-Lieu Fee Calculations – Apartment Development

The Affordability Gaps Per Inclusionary Unit were converted into the in-lieu fee payment that would be required to fulfill the Inclusionary Housing requirements on site within a proposed market rate apartment development. The conversion calculations are presented in Attachment 2: Appendix C, and the recommended base in-lieu fee payment amounts are summarized in the following table.

Recommended Base In-Lieu Fee Payment Amounts Per Square Foot of Total Leasable Area in an Apartment Development	
Density at 60+ Units Per Acre	\$26.10
Density at Less than 60 Units Per Acre	\$13.80

To mitigate the disproportionate impact an Inclusionary Housing obligations creates on small projects, KMA prepared a discounted in-lieu fee schedule for apartment developments that consist of between 15 and 20 units. The recommended in-lieu fee schedules, which are presented in 2024 dollars, are provided in the following table:

Recommended In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development		
Total Units	Density: 60+ Units Per Acre	Density: <60 Units Per Acre
15	\$3.73	\$1.97
16	\$7.46	\$3.94
17	\$11.19	\$5.91
18	\$14.91	\$7.89
19	\$18.64	\$9.86
20	\$22.37	\$11.83
21+	\$26.10	\$13.80

Some developers may choose to pay a fee in lieu of fulfilling an obligation to produce a fraction of an Inclusionary Unit. The following tables provide schedules of fractional in-lieu fee payments for apartment development, presented in 2024 dollars:

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: 60+ Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee:
	Fractional In-Lieu Fee:	Prototype Apartment
<u>Fraction</u>	<u>Per Square Foot of One Unit</u>	<u>Development</u>
0.10	\$23.80	\$22,210
0.20	\$47.50	\$44,330
0.30	\$71.30	\$66,540
0.40	\$95.00	\$88,660
0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: <60 Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,000
Average Unit Size (Square Feet of Leasable Area)		931
In-Lieu Fee Per Square Foot of One Unit		\$237.40
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.70	\$22,060
0.20	\$47.50	\$44,220
0.30	\$71.20	\$66,280
0.40	\$95.00	\$88,440
0.50	\$118.70	\$110,500
0.60	\$142.40	\$132,560
0.70	\$166.20	\$154,720
0.80	\$189.90	\$176,780
0.90	\$213.70	\$198,930
1.00	\$237.40	\$221,000

V. OWNERSHIP HOUSING DEVELOPMENT ANALYSIS

A. Sales Price Estimates

MARKET RATE SALES PRICES

KMA compiled a survey of homes that were sold over the previous year (Attachment 3: Appendix A). Based in part on this survey, the projected market rate sales prices are presented in the following table.

Projected Market Rate Sales Prices Ownership Housing Development	
Number of Bedrooms	Sales Prices
2	\$890,000
3	\$1,083,000
4	\$1,211,000

The weighted average sales price equates to approximately \$651 per square foot of saleable area.

AFFORDABLE SALES PRICES

The methodology used to calculate the Affordable Sales Prices is described in Attachment 1: Appendix B, and the calculations are presented in Attachment 3: Appendix B. The results are summarized in the following table:

Affordable Sales Prices Ownership Housing Development	
Number of Bedrooms	Moderate Income
2	\$412,700
3	\$451,700
4	\$478,700

B. Estimated Affordability Gaps – Ownership Housing Development

The Affordability Gaps that were derived from the KMA analysis of ownership housing development are presented in the following table:

Estimated Affordability Gaps Per Inclusionary Unit Ownership Housing Development			
Number of Bedrooms	Market Rate Price	Moderate Income Price	Affordability Gap
2	\$890,000	\$412,700	\$477,300
3	\$1,083,000	\$451,700	\$631,300
4	\$1,211,000	\$478,700	\$732,300

C. In-Lieu Fee Calculations – Ownership Housing Development

The weighted average Affordability Gaps are translated into the in-lieu fee payment that would be required to fulfill the Inclusionary Housing requirements on site within a proposed market rate ownership housing development. These calculations are presented in Attachment 3: Appendix C, and the results are summarized in the following table:

Recommended In-Lieu Fee Payment Ownership Housing Development	
Weighted Average Affordability Gap Per Inclusionary Unit	\$608,000
In-Lieu Fee Payment Per Square Foot of Saleable Area	\$17.70

To mitigate the disproportionate impact an Inclusionary Housing obligations creates on small projects, KMA prepared a discounted in-lieu fee schedule for ownership housing developments that consist of between 15 and 20 units. The recommended in-lieu fee schedule, which is presented in 2024 dollars, is provided in the following table:

Recommended In-Lieu Fee Payment Schedule Ownership Housing Development Prototype	
Total Units	In-Lieu Fee Per Square Foot of Saleable Area
15	\$2.53
16	\$5.06
17	\$7.59
18	\$10.11
19	\$12.64
20	\$15.17
21+	\$17.70

The following table provides a schedule of fractional in-lieu fee payments for developers that choose this option for fulfilling an obligation to produce a fraction of an Inclusionary Unit. The fractional in-lieu fee schedule is presented in 2024 dollars:

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Ownership Housing Development Prototype		
Affordability Gap Per Inclusionary Unit		\$608,000
Average Unit Size (Square Feet of Saleable Area)		1,620
In-Lieu Fee Per Square Foot of One Unit		\$375.30
		Total Fractional In-Lieu Fee: Prototype Ownership Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$37.53	\$60,800
0.20	\$75.06	\$121,600
0.30	\$112.59	\$182,400
0.40	\$150.12	\$243,190
0.50	\$187.66	\$304,010
0.60	\$225.19	\$364,810
0.70	\$262.72	\$425,610
0.80	\$300.25	\$486,410
0.90	\$337.78	\$547,200
1.00	\$375.31	\$608,000

VI. CONCLUSIONS / RECOMMENDATIONS

A. Recommended Base In-Lieu Fee Payment Amounts

The in-lieu fees presented in the preceding table represent the amounts that would need to be charged to provide the City with sufficient funds to produce the same number of affordable units in similar locations and product types as the market rate residential projects that are subject to the requirements proposed to be imposed by the Ordinance.

Based on the requirements proposed to be imposed by the Ordinance, and the results of the preceding analysis, KMA recommends that the following base in-lieu fee payment amounts be applied in 2024:

Recommended Base In-Lieu Fee Payment Amounts Per Square Foot of: Total Leasable or Saleable Area in a Residential Project	
<u>Apartment Development</u>	
Density at 60+ Units Per Acre	\$26.10
Density at Less than 60 Units Per Acre	\$13.80
Ownership Housing Development	\$17.70

It is KMA’s opinion that an in-lieu fee measured against the square footages of the units corresponds more closely to the Affordability Gap than an in-lieu fee that is measured by the number of units in the development. As such, KMA recommends that the in-lieu fee be based on the leasable area for apartment developments and the saleable area for ownership housing developments.

B. Recommended In-Lieu Fee Schedules

In recognition of the disproportionate impact Inclusionary Housing requirements have on small projects, KMA recommends that the following in-lieu fee schedules be applied in 2024:

Recommended In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable or Saleable Area in a Residential Development			
Total Units	Apartment Development		Ownership Housing Development
	Density: 60+ Units Per Acre	Density: <60 Units Per Acre	
15	\$3.73	\$1.97	\$2.53
16	\$7.46	\$3.94	\$5.06
17	\$11.19	\$5.91	\$7.59
18	\$14.91	\$7.89	\$10.11
19	\$18.64	\$9.86	\$12.64
20	\$22.37	\$11.83	\$15.17
21+	\$26.10	\$13.80	\$17.70

KMA recommends that the following in-lieu fee schedules be applied in 2024 to fractional Inclusionary Unit obligations incurred by a residential development:

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: 60+ Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee: Prototype Apartment Development
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0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: <60 Units Per Acre		
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0.30	\$71.20	\$66,280
0.40	\$95.00	\$88,440
0.50	\$118.70	\$110,500
0.60	\$142.40	\$132,560
0.70	\$166.20	\$154,720
0.80	\$189.90	\$176,780
0.90	\$213.70	\$198,930
1.00	\$237.40	\$221,000

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Ownership Housing Development Prototype		
Affordability Gap Per Inclusionary Unit		\$608,000
Average Unit Size (Square Feet of Saleable Area)		1,620
In-Lieu Fee Per Square Foot of One Unit		\$375.30
		Total Fractional In-Lieu Fee: Prototype Ownership Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$37.53	\$60,800
0.20	\$75.06	\$121,600
0.30	\$112.59	\$182,400
0.40	\$150.12	\$243,190
0.50	\$187.66	\$304,010
0.60	\$225.19	\$364,810
0.70	\$262.72	\$425,610
0.80	\$300.25	\$486,410
0.90	\$337.78	\$547,200
1.00	\$375.31	\$608,000

C. Recommended Inclusionary Housing Program Updates

KMA recommends that the Inclusionary Housing Program be updated at regular intervals:

1. The entire Inclusionary Housing Program should be re-evaluated at least every five years.
2. To allow in-lieu fees to keep pace with changes in the market place during the intervening periods, the in-lieu fees should continue to be adjusted each year based on the following process:
 - a. Median sales value information for “All New Residential Development” in Orange County should be compiled annually. The Redfin Corporation currently produces and publishes this information.
 - b. The increase or decrease in the in-lieu fee should be based on the year-to-year percentage change in the median new home sales price.

ATTACHMENT 1
AFFORDABLE HOUSING COST CALCULATION METHODOLOGIES
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA

APPENDIX A

AFFORDABLE RENT CALCULATION METHODOLOGY

ASSUMPTIONS

The Affordable Rent calculations are presented in Attachment 2 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Orange County as a whole. This information is published annually by the United States Department of Housing and Urban Development (HUD) and distributed by the California Department of Housing and Community Development (HCD).
2. The household size appropriate for the unit is based on the California Health and Safety Code (H&SC) Section 50052.5 standard of the number of bedrooms in the home plus one.¹ H&SC Section 50052.5 refers to this as “the family size appropriate for the unit.” This is a benchmark that is used for calculation purposes only. It is neither an occupancy minimum nor a maximum.
3. The benchmark household incomes used in the Affordable Rent analyses are based on the following standards:
 - a. The low income rents are based on 80% of area median income (AMI). This percentage of AMI is based on the standard imposed in Assembly Bill 1505.
 - b. The very low income rents are based on 50% of AMI, which is the standard imposed by H&SC Section 50053.
 - c. The affordable rents used in the California Government Code Section 65915 et seq. density bonus analyses are based on the household income standards imposed by H&SC Section 50053.
4. Thirty percent (30%) of defined household income is allocated to housing-related expenses.
5. The following monthly utilities allowances were applied in this analysis.²

¹ For example, the imputed household size for a two-bedroom unit is three persons.

² Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; and basic electric. The allowances are based on the Orange County Housing Authority schedule effective as of October 1, 2023.

Utility Allowances Apartment Development	
Number of Bedrooms	Monthly Utilities Allowances
Studio	\$95
1	\$111
2	\$148
3	\$183

AFFORDABLE RENTS

The resulting affordable rents are presented in the following table:

Affordable Rents Apartment Development		
Number of Bedrooms	Low Income	Very Low Income
Studio	\$1,694	\$1,023
1	\$1,934	\$1,167
2	\$2,152	\$1,290
3	\$2,373	\$1,415

APPENDIX B

AFFORDABLE SALES PRICE CALCULATION METHODOLOGY

ASSUMPTIONS

The Affordable Sales Price calculations are presented in Attachment 3 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Orange County as a whole:
 - a. The household incomes for low income households are produced by HUD and distributed by HCD.
 - b. The household incomes for moderate income households are produced and distributed annually by HCD.
2. The Affordable Sales Price estimates are based on the calculation methodology imposed by H&SC Section 50052.5.

The elements included in the Affordable Sales Price calculations are described in the following sections of this Attachment.

Household Size

For the sole purposes of calculating Affordable Sales Prices, H&SC Section 50052.5 sets household sizes based on the number of bedrooms in the home plus one. As discussed previously, this is not an occupancy minimum or maximum. Rather, it is a benchmark that creates a consistent Affordable Sales Price calculation methodology.

Household Income

For calculation purposes only, H&SC Section 50052.5 applies benchmark household incomes as the standard for determining the Affordable Sales Prices. These benchmarks are based on the following percentages of the Orange County AMI:

Income Category	% of AMI
Moderate	110%
Low	70%

The identified benchmark percentages of AMI are not income caps. The household income qualification standards are set at the upper limits presented in the HCD and are based on the actual size of the homebuyer’s household.

Income Allocated to Housing-Related Expenses

H&SC Section 50052.5 allocates the following percentages of the benchmark household incomes to the payment of housing-related expenses:

Income Category	% of Benchmark Income
Moderate	35%
Low	30%

Housing-Related Expenses

Based on research undertaken by KMA, the variable housing related expense assumptions used in this analysis are presented in the following table:

Variable Housing Related Expenses Ownership Housing Development		
Number of Bedrooms	Monthly Utilities Allowances ³	Monthly HOA, Insurance & Maintenance
2	\$249	\$350
3	\$317	\$400
4	\$392	\$450

³Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; basic electric; and water, sewer and trash services. The allowances are based on the Orange County Housing Authority schedule effective as of October 1, 2023.

The property tax expense estimates are based on 1.15% of the defined Affordable Sales Prices. This assumes that the City will require the homes to be resold at an Affordable Sales Price throughout one cumulative 45-year covenant period.

Supportable Mortgage Amount

The mortgage amounts used in the Affordable Sales Price calculations are estimated using the income available after the other housing-related expenses are paid. The mortgage terms used in this Financial Evaluation were based on a 30-year fully amortizing loan at a 7.33% interest rate.⁴

Benchmark Down Payment

KMA set the benchmark down payment at 5% of the estimated Affordable Sales Price. A down payment of this magnitude is commonly allowed by affordable housing programs.

AFFORDABLE SALES PRICES

The resulting Affordable Sales Prices are estimated as follows:

Affordable Sales Prices	
Ownership Housing Development	
Number of Bedrooms	Moderate Income
2	\$412,700
3	\$451,700
4	\$478,700

⁴ Based on a 50 basis points premium applied to the Freddie Mac monthly average, between February 2023 and January 2024, for a fixed-interest rate loan with a 30-year amortization period.

ATTACHMENT 2

**APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX A

RENT SURVEY

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS

COSTA MESA, CALIFORNIA

ATTACHMENT 2: APPENDIX A

RENT SURVEY
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built	
						Total	Per SF		
I. Studio Units									
580 Anton	580 Anton Blvd	Costa Mesa	92626	5	506	\$2,365	\$4.67	2018	
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	85	539	\$2,315	\$4.29	1987	
Baker Block	123 Baker Street E	Costa Mesa	92626	31	623	\$2,346	\$3.77	2018	
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	50	505	\$1,999	\$3.96	1985	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	64	480	\$2,084	\$4.34	1979	
					Minimum	480	\$1,999	\$3.77	
					Maximum	623	\$2,365	\$4.67	
					Weighted Average	526	\$2,190	\$4.17	
II. One-Bedroom Units									
580 Anton	580 Anton Blvd	Costa Mesa	92626	165	745	\$2,879	\$3.86		
Halcyon House	585 Anton Blvd	Costa Mesa	92626	221	741	\$3,022	\$4.08		
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	349	756	\$2,637	\$3.49		
Baker Block	123 Baker Street E	Costa Mesa	92626	108	789	\$2,730	\$3.46		
Blue Sol	421 Bernard Street	Costa Mesa	92627	73	771	\$2,592	\$3.36	2014	
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	102	942	\$2,649	\$2.81		
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	459	731	\$2,787	\$3.81	2008	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	468	780	\$2,451	\$3.14		
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	132	834	\$2,559	\$3.07	2014	
					Minimum	731	\$2,451	\$2.81	
					Maximum	942	\$3,022	\$4.08	
					Weighted Average	770	\$2,687	\$3.51	

ATTACHMENT 2: APPENDIX A

RENT SURVEY
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built	
						Total	Per SF		
III. Two-Bedroom Units									
580 Anton	580 Anton Blvd	Costa Mesa	92626	80	1,144	\$3,780	\$3.30		
Halcyon House	585 Anton Blvd	Costa Mesa	92626	172	1,230	\$4,149	\$3.37		
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	336	1,228	\$3,306	\$2.69		
Baker Block	123 Baker Street E	Costa Mesa	92626	93	1,124	\$3,376	\$3.00		
Blue Sol	421 Bernard Street	Costa Mesa	92627	30	1,110	\$3,555	\$3.20		
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	92	1,146	\$2,872	\$2.51		
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	431	1,033	\$3,353	\$3.25		
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	408	1,119	\$2,972	\$2.66		
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	83	1,075	\$3,045	\$2.83		
					Minimum	1,033	\$2,872	\$2.51	
					Maximum	1,230	\$4,149	\$3.37	
					Weighted Average	1,130	\$3,317	\$2.94	
IV. Three-Bedroom Units									
321 Avocado Street	321 Avocado Street	Costa Mesa	92627	18	1,222	\$3,406	\$2.79		
Baker Block	123 Baker Street E	Costa Mesa	92626	8	1,452	\$4,540	\$3.13		
Blue Sol	421 Bernard Street	Costa Mesa	92627	10	1,448	\$4,539	\$3.13		
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	24	1,456	\$3,931	\$2.70		
					Minimum	1,222	\$3,406	\$2.70	
					Maximum	1,456	\$4,540	\$3.13	
					Weighted Average	1,384	\$3,956	\$2.86	

Source: CoStar; April 2023

ATTACHMENT 2: APPENDIX B

**AFFORDABLE RENT CALCULATIONS
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX B

**AFFORDABLE RENT CALCULATIONS
2023 INCOME STANDARDS
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA**

		Studio Units	One-Bedroom Units	Two-Bedroom Units	Three- Bedroom Units
I. <u>General Assumptions</u>					
Area Median Income (AMI)	1	\$89,450	\$102,250	\$115,000	\$127,800
Monthly Utilities Allowance	2	\$95	\$111	\$148	\$183
II. <u>Affordable Rent Calculations</u>					
A. <u>Low Income - Rent Based on 80% AMI</u>	3				
Benchmark Annual Household Income		\$71,560	\$81,800	\$92,000	\$102,240
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$21,468	\$24,540	\$27,600	\$30,672
Monthly Income Available for Housing Expenses		\$1,789	\$2,045	\$2,300	\$2,556
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
Maximum Allowable Rent		\$1,694	\$1,934	\$2,152	\$2,373
B. <u>Very Low Income - Rent Based on 50% AMI</u>	4				
Benchmark Annual Household Income		\$44,725	\$51,125	\$57,500	\$63,900
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$13,418	\$15,338	\$17,250	\$19,170
Monthly Income Available for Housing Expenses		\$1,118	\$1,278	\$1,438	\$1,598
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
Maximum Allowable Rent		\$1,023	\$1,167	\$1,290	\$1,415

¹ Based on the 2023 Orange County household incomes published by the California Department of Housing & Community Development (HCD). The benchmark household size is set at the number of bedrooms in the unit plus one.

² Based on the Orange County Housing Authority utilities allowance schedule effective as of October 1, 2023. Assumes: Electric Cooking, Electric Heating, and Electric Water Heater; and Basic Electric.

³ Based on 80% of AMI. This percentage of AMI is based on the standard identified in AB 1505.

⁴ Based on 50% of AMI. This percentage of AMI is based on the standard identified in California Health & Safety Code Section 50053.

ATTACHMENT 2: APPENDIX C

IN-LIEU FEE ANALYSES
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA

ATTACHMENT 2: APPENDIX C

SUPPORTABLE IN-LIEU FEE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
 COSTA MESA, CALIFORNIA

		60+ Units Per Acre		<60 Units Per Acre	
		Low Income	Very Low Income	Low Income	Very Low Income
I. Rent Difference					
A. Studio Units					
Market Rents	1	\$2,410	\$2,410	\$2,410	\$2,410
Affordable Rents	2	1,694	1,023	1,694	1,023
Difference		\$716	\$1,387	\$716	\$1,387
B. One-Bedroom Units					
Market Rents	1	\$2,970	\$2,970	\$2,970	\$2,970
Affordable Rents	2	1,934	1,167	1,934	1,167
Difference		\$1,036	\$1,803	\$1,036	\$1,803
C. Two-Bedroom Units					
Market Rents	1	\$3,660	\$3,660	\$3,660	\$3,660
Affordable Rents	2	2,152	1,290	2,152	1,290
Difference		\$1,508	\$2,371	\$1,508	\$2,371
D. Three-Bedroom Units					
Market Rents	1	\$4,400	\$4,400	\$4,400	\$4,400
Affordable Rents	2	2,373	1,415	2,373	1,415
Difference		\$2,027	\$2,986	\$2,027	\$2,986
II. Distribution of Total Units	3				
Studio Units		5%	5%	5%	5%
One-Bedroom Units		50%	50%	50%	50%
Two-Bedroom Units		40%	40%	40%	40%
Three-Bedroom Units		5%	5%	5%	5%
III. Annual Rent Difference/Inclusionary Unit		\$15,100	\$24,819	\$15,056	\$24,766
Less: Property Tax Difference	4	(3,656)	(6,009)	(3,645)	(5,996)
Net Annual Rent Difference/Inclusionary Unit		\$11,444	\$18,810	\$11,411	\$18,770
IV. Assumptions					
Total Units		300	300	172	172
Total Leasable Area		279,975	279,975	160,115	160,115
Weighted Average Unit Size (Sf)		933	933	931	931
Inclusionary Housing Percentage		11%	7%	6%	4%
Inclusionary Units		33	21	10	7
Affordability Gap Per Inclusionary Unit	5	\$221,700	\$364,300	\$221,000	\$363,500
V. In-Lieu Fee					
Total In-Lieu Fee	6	\$7,316,100	\$7,650,300	\$2,210,000	\$2,544,500
Per Total Unit in the Project		\$24,390	\$25,500	\$12,850	\$14,790
Per Sf of Total Leasable Area		\$26.10	\$27.30	\$13.80	\$15.90

1 The market rents are drawn from the Financial Evaluation.

2 Based on the Affordable Rent Calculations included in the Financial Evaluation.

3 Based on the unit mix distribution applied in the pro forma analyses included in the Financial Evaluation.

4 Based on the Annual Rent Difference/Inclusionary Unit capitalized at a 4.75% rate to establish the value, and a 1.15% property tax rate.

5 Based on the Net Annual Rent Difference/Inclusionary Unit capitalized at the Threshold Return on Total Investment generated by the p

6 Based on the Affordability Gap Per Inclusionary Unit multiplied times the number of Inclusionary Units.

ATTACHMENT 3

**OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
COSTA MESA, CALIFORNIA**

ATTACHMENT 3: APPENDIX A

**HOME SALES SURVEY
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
COSTA MESA, CALIFORNIA**

RESALE HOME SALES SURVEY
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 COSTA MESA, CALIFORNIA

1

Address	Unit Size (SF)	Sales Price		Year Built		
		Total	Per SF			
Two-Bedroom Units						
2152 Harmony Way	Costa Mesa	92627	1,715	\$800,000	\$466	2014
597 Seabright Cir	Costa Mesa	92627	1,559	\$875,000	\$561	2014
2109 W Place Dr	Costa Mesa	92627	1,653	\$890,000	\$538	2015
2097 W Place Dr	Costa Mesa	92627	1,653	\$940,000	\$569	2015
2170 Harmony Way	Costa Mesa	92627	1,730	\$949,000	\$549	2014
605 Seabright Cir	Costa Mesa	92627	1,559	\$975,000	\$625	2015
2162 Harmony Way	Costa Mesa	92627	1,731	\$978,000	\$565	2014
577 Donovan Ln	Costa Mesa	92627	1,705	\$1,000,000	\$587	2017
1826 Coastal Way	Costa Mesa	92627	1,785	\$1,015,000	\$569	2014
1686 Topanga #111	Costa Mesa	92627	1,972	\$1,125,000	\$570	2018
3061 Paragon	Costa Mesa	92626	1,937	\$1,175,625	\$607	2016
1675 Grand Vw	Costa Mesa	92627	2,243	\$1,395,000	\$622	2017
Minimum			1,559	\$800,000	\$466	2014
Maximum			2,243	\$1,395,000	\$625	2018
Average			1,770	\$1,009,800	\$570	2015
Three-Bedroom Units						
797 Wonder Ln	Costa Mesa	92627	1,738	\$965,000	\$555	2016
2138 Palmilla Ct	Costa Mesa	92627	1,653	\$995,000	\$602	2015
585 Victoria St	Costa Mesa	92627	1,711	\$1,005,000	\$587	2016
307 Ford Rd	Costa Mesa	92627	1,688	\$1,100,000	\$652	2020
1941 Vitae Pl	Costa Mesa	92627	1,700	\$1,135,000	\$668	2017
693 W 17th St	Costa Mesa	92627	1,904	\$1,150,000	\$604	2019
649 W 17th St	Costa Mesa	92627	1,904	\$1,169,000	\$614	2018
1000 Katama Bay Dr	Costa Mesa	92627	1,820	\$1,185,000	\$651	2017
3063 Paragon	Costa Mesa	92626	1,847	\$1,200,000	\$650	2015
2998 Lumiere	Costa Mesa	92626	2,061	\$1,225,000	\$594	2019
617 W 17th St	Costa Mesa	92627	2,101	\$1,275,000	\$607	2015
1827 Coastal Way	Costa Mesa	92627	1,611	\$1,300,000	\$807	2014
634 Port Dr	Costa Mesa	92627	2,267	\$1,360,000	\$600	2015
1686 Grand Vw	Costa Mesa	92627	2,057	\$1,375,000	\$668	2017
1809 Ocean Ct	Costa Mesa	92627	1,873	\$1,375,000	\$734	2014
636 Channel Way	Costa Mesa	92627	2,267	\$1,398,000	\$617	2016
690 Malibu	Costa Mesa	92627	2,142	\$1,448,000	\$676	2019
1679 Topanga	Costa Mesa	92627	2,057	\$1,500,000	\$729	2019
1676 Grand Vw	Costa Mesa	92627	2,057	\$1,535,000	\$746	2018
1676 Pomona Ave	Costa Mesa	92627	2,057	\$1,565,000	\$761	2019
301 Shadow Bay Dr	Costa Mesa	92627	1,913	\$1,620,000	\$847	2015
607 Trestles	Costa Mesa	92627	2,366	\$1,740,000	\$735	2018
628 Cardiff Reef	Costa Mesa	92627	2,380	\$1,775,000	\$746	2019
Minimum			1,611	\$965,000	\$555	2014
Maximum			2,380	\$1,775,000	\$847	2020
Average			1,964	\$1,321,500	\$673	2017

ATTACHMENT 3: APPENDIX A

RESALE HOME SALES SURVEY ¹
 OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION
 COSTA MESA, CALIFORNIA

Address	Unit Size (SF)	Sales Price		Year Built		
		Total	Per SF			
Four-Bedroom Units						
2120 Palmilla Ct	Costa Mesa	92627	1,763	\$1,049,000	\$595	2015
2108 Harper Way	Costa Mesa	92627	2,019	\$1,115,000	\$552	2016
2633 Clarion Ln	Costa Mesa	92626	2,230	\$1,320,000	\$592	2017
2988 Lumiere Dr	Costa Mesa	92626	2,227	\$1,335,000	\$599	2018
1648 Topanga	Costa Mesa	92627	2,142	\$1,375,000	\$642	2019
947 Tesla Ln	Costa Mesa	92626	2,453	\$1,400,000	\$571	2019
1669 Grand	Costa Mesa	92627	2,142	\$1,435,000	\$670	2018
174 Costa Mesa	Costa Mesa	92627	1,942	\$1,515,000	\$780	2019
137 Woodflower Ln	Costa Mesa	92627	2,361	\$1,515,000	\$642	2018
1034 Bridgewater Way	Costa Mesa	92627	1,869	\$1,625,000	\$869	2018
393 Latitude Pl E	Costa Mesa	92627	2,148	\$1,775,000	\$826	2016
1923 Church St	Costa Mesa	92627	2,432	\$1,860,000	\$765	2022
309 Anderson Ln	Costa Mesa	92627	2,344	\$2,000,000	\$853	2014
Minimum			1,763	\$1,049,000	\$552	2014
Maximum			2,453	\$2,000,000	\$869	2022
Average			2,159	\$1,486,100	\$688	2018

Source: Redfin; June 2023

¹ Based on a search of the Redfin data base for sales occurring between May 2022 and June 2023. The survey is limited to homes constructed within the past 10 years with a sales price of \$2 million or less.

ATTACHMENT 3: APPENDIX B

**AFFORDABLE SALES PRICE CALCULATIONS
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
COSTA MESA, CALIFORNIA**

ATTACHMENT 3: APPENDIX B

AFFORDABLE SALES PRICE CALCULATIONS 1
MODERATE INCOME UNITS - 2023 INCOME STANDARDS
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: FINANCIAL EVALUATION
COSTA MESA, CALIFORNIA

		Two-Bedroom Units	Three-Bedroom Units	Four-Bedroom Units
<u>General Assumptions</u>				
Area Median Income	2	\$115,000	\$127,800	\$138,000
Annual Utilities Allowance	3	\$2,988	\$3,804	\$4,704
HOA, Maintenance & Insurance	4	\$4,200	\$4,800	\$5,400
I. <u>Income Allotted to Housing Based on 110% AMI</u>				
Benchmark Annual Household Income		\$126,500	\$140,580	\$151,800
Income Allotted to Housing @ 35% of Income		\$44,280	\$49,200	\$53,130
II. <u>Property Taxes @ 1.15% of Affordable Sales Price</u>				
		\$4,750	\$5,200	\$5,510
III. <u>Income Available for Mortgage Debt Service</u>				
	5	\$32,342	\$35,396	\$37,516
IV. <u>Affordable Sales Price</u>				
Supportable Mtg @ 7.33% Interest	6	\$392,100	\$429,100	\$454,800
Home Buyer Down Payment @ 5% of ASP		20,600	22,600	23,900
Affordable Sales Price		\$412,700	\$451,700	\$478,700

¹ Based on 2023 Orange County household incomes published by the California Department of Housing & Community Development (HCD). The Affordable Sales Price calculations are based on the California Health and Safety Code Section 50052.5 methodology.

² Under the California Health & Safety Code Section 50052.5 calculation methodology, the benchmark household size is set at the number of bedrooms in the unit plus one. This benchmark is used solely for the purposes of calculating the Affordable Sales Price. It is neither an occupancy cap nor a floor.

³ Utilities allowances are based on the Orange County Housing Authority utilities allowance schedule effective as of October 1, 2023. Assumes: Electric Heating, Electric Cooking, Electric Water Heater, Basic Electric, Water, Sewer, and Trash.

⁴ Based in part on the HOA dues identified in the home sales survey.

⁵ Based on the Income Allotted to Housing minus the following: Annual Utilities Allowance; HOA, Maintenance & Insurance; and Property Taxes @ 1.15% of Affordable Sales Price.

⁶ Based on a 50 basis points premium applied to the Freddie Mac monthly average, between February 2023 and January 2024, for a fixed-interest rate loan with a 30-year amortization period.

ATTACHMENT 3: APPENDIX C

**IN-LIEU FEE ANALYSES
OWNERSHIP HOUSING DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA**

ATTACHMENT 3: APPENDIX C

OWNERSHIP HOUSING DEVELOPMENT
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
 COSTA MESA, CALIFORNIA

I. **Sales Price Difference**

A. **Two-Bedroom Units**

Market Rate Sales Price	1	\$890,000
Affordable Sales Price	2	412,700
Difference		\$477,300

B. **Three-Bedroom Units**

Market Rate Sales Price	1	\$1,083,000
Affordable Sales Price	2	451,700
Difference		\$631,300

C. **Four-Bedroom Units**

Market Rate Sales Price	1	\$1,211,000
Affordable Sales Price	2	478,700
Difference		\$732,300

II. **Distribution of Total Units**

Two-Bedroom Units	3	25%
Three-Bedroom Units		60%
Four-Bedroom Units		15%

III. **Assumptions**

Total Units		85
Total Saleable Area		137,750
Weighted Average Unit Size (Sf)		1,620
Inclusionary Housing Percentage		5%
Inclusionary Units		4
Affordability Gap Per Inclusionary Unit	4	\$608,000

IV. **In-Lieu Fee**

Total In-Lieu Fee	\$2,432,000
Per Total Unit in the Project	\$28,610
Per Sf of Saleable Area	\$17.70

¹ Based in part on a survey of homes in Costa Mesa that were constructed after 2014 and resold between May 2022 and June 2023. See ATTACHMENT 3: APPENDIX A.

² See ATTACHMENT 3: APPENDIX B

³ Based on the unit mix distribution applied in the pro forma analyses.

⁴ Based on the Affordability Gap Per Inclusionary Unit multiplied times the Supportable Inclusionary Housing Percentage.



KEYSER MARSTON ASSOCIATES

MEMORANDUM

ADVISORS IN:

Real Estate
Affordable Housing
Economic Development

BERKELEY

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EMERITUS

A. Jerry Keyser
Timothy C. Kelly

To: Nancy Huynh, Principal Planner
City of Costa Mesa

From: Kathleen Head

Date: January 31, 2024

Subject: Inclusionary Housing: Supplemental In-Lieu Fee Analysis

Keyser Marston Associates, Inc. (KMA) prepared an Inclusionary Housing: In-Lieu Fee Analysis (In-Lieu Fee Analysis) in a report dated January 31, 2024. The In-Lieu Fee Analysis was based on the Inclusionary Housing requirements included in Ordinance 2024-XX (Ordinance), which received its first reading on January 16, 2024.

The proposed Ordinance imposes the following Inclusionary Housing requirements on apartment developments that include 15 or more units:

1. Projects developed at a density level of 60 units per acre or greater must allocate 11% of the units to low income households, or 7% of the units to very low income households.
2. Projects developed at a density level of less than 60 units per acre must allocate 6% of the units to low income households, or 4% of the units to very low income households.

At their January 16, 2024 meeting the City Council discussed reducing the Inclusionary Housing requirements, for apartments developed at 60 units per acre or greater, to a 10% low income standard or a 5% very low income standard. The requirements for apartments developed at less than 60 units per acre were not proposed to be modified.

KMA prepared the following Inclusionary Housing: Supplemental In-Lieu Fee Analysis (Supplemental Analysis) to identify the applicable in-lieu fee payment amounts based on these alternate Inclusionary Housing requirements. The fundamental assumptions and methodology applied in this Supplemental Analysis are the same as were applied in the In-Lieu Fee Analysis.

KEY FINDINGS

If the City Council chooses to adopt the reduced Inclusionary Housing requirements for apartment developments at a density level of 60 units per acre or greater, based on the results of the Supplemental Analysis, KMA offers the following recommendations:

1. The base in-lieu fee payment amount should be set at \$19.50 per square foot of total leasable area in an apartment development that is subject to the Inclusionary Housing program requirements.
2. KMA prepared a discounted in-lieu fee schedule for apartment developments that consist of between 15 and 20 units. The recommended in-lieu fee schedule is presented below:

In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development	
Units	In-Lieu Fee
15	\$2.79
16	\$5.57
17	\$8.36
18	\$11.14
19	\$13.93
20	\$16.71
21+	\$19.50

APPROACH

The Supplemental Analysis is based on an evaluation of the prototype developments that were used in the Inclusionary Housing: Financial Evaluation report. The foundational premise is that the in-lieu fee will be based on the “Affordability Gap” associated with producing the affordable units required by the Inclusionary Housing Program.

SUPPORTING DOCUMENTS

The Supplemental Analysis is supported by the following Attachments and Appendices:

ATTACHMENT 1: AFFORDABLE HOUSING COST CALCULATION METHODOLOGY

ATTACHMENT 2: APARTMENT DEVELOPMENT

Appendix A:	Rent Survey 4+ Star Properties
Appendix B:	Affordable Rent Calculations
Appendix C:	In-Lieu Fee Calculations

ASSUMPTIONS

Apartment Rent Estimates

The apartment rents used in the Supplemental Analysis are presented in the following table:

Estimated Apartment Rents			
Number of Bedrooms	Market Rate Units	Low Income Units	Very Low Income Units
Studio	\$2,410	\$1,694	\$1,023
1	\$2,970	\$1,934	\$1,167
2	\$3,660	\$2,152	\$1,290
3	\$3,330	\$2,373	\$1,415

Affordability Gap Calculation Methodology

The Affordability Gap calculations are presented in Attachment 2: Appendix C; the calculations are based on the following assumptions:

1. The differences between the estimated achievable market rate rents and the defined Affordable Rents were calculated.

2. KMA assumed that the property taxes for projects that include designated affordable units would be based on a lower assessed value due to the reduction in net operating income that would be generated by the project. KMA deducted this lower property tax expense from the estimated rent difference.
3. The estimated “Net Annual Rent Difference Per Inclusionary Unit” represents the annual rent difference minus the estimated property tax savings.
4. The “Affordability Gap Per Inclusionary Unit” is estimated by capitalizing the Net Annual Difference Per Inclusionary Unit at the threshold return derived from a pro forma analysis of the prototype apartment development at unrestricted market rate rents.

Estimated Affordability Gaps

The Affordability Gaps derived from the analysis are estimated as follows:

Estimated Affordability Gaps Per Inclusionary Unit	
Low Income Units	\$221,700
Very Low Income Units	\$364,300

It is important to note that estimated Affordability Gaps per Inclusionary Unit do not vary from the amounts identified in the In-Lieu Fee Analysis report. The difference between the In-Lieu Fee Analysis and this Supplemental Analysis is the percentage of Inclusionary Units required to be provided in the apartment development.

In-Lieu Fee Calculations

ESTIMATED BASE IN-LIEU FEE PAYMENT AMOUNTS

The Affordability Gaps Per Inclusionary Unit were converted into the in-lieu fee payment that would be required to fulfill the Inclusionary Housing requirements on site within a proposed market rate apartment development. The conversion calculations are presented in Attachment 2: Appendix C, and the results are summarized in the following table.

Estimated Base In-Lieu Fee Payment Amounts Per Square Foot of Total Leasable Area in an Apartment Development	
Low Income Units	\$23.80
OR	
Very Low Income Units	\$19.50

Under the Ordinance terms Developers can choose between the low and very low income Inclusionary Housing requirements. As such, it is appropriate to set the in-lieu fee payment at the lower of the two amounts derived from the Affordability Gap analyses. The resulting recommended in-lieu fee payment amount is \$19.50 per square foot of total leasable area in an apartment development.

IN-LIEU FEE PAYMENT SCHEDULE

KMA prepared a discounted in-lieu fee schedule for apartment developments that consist of between 15 and 20 units. The resulting recommended in-lieu fee schedule is presented below:

In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development	
Units	In-Lieu Fee
15	\$2.79
16	\$5.57
17	\$8.36
18	\$11.14
19	\$13.93
20	\$16.71
21+	\$19.50

FRACTIONAL IN-LIEU FEE PAYMENT

Some developers may choose to pay a fee in lieu of fulfilling an obligation to produce a fraction of an Inclusionary Unit. The following table provides a recommended schedule of fractional in-lieu fee payments.

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.80	\$22,210
0.20	\$47.50	\$44,330
0.30	\$71.30	\$66,540
0.40	\$95.00	\$88,660
0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

ATTACHMENT 1
AFFORDABLE RENT CALCULATION METHODOLOGY
INCLUSIONARY HOUSING:
SUPPLEMENTAL IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA

ATTACHMENT 1

AFFORDABLE RENT CALCULATION METHODOLOGY

ASSUMPTIONS

The Affordable Rent calculations are presented in Attachment 2 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Orange County as a whole. This information is published annually by the United States Department of Housing and Urban Development (HUD) and distributed by the California Department of Housing and Community Development (HCD).
2. The household size appropriate for the unit is based on the California Health and Safety Code (H&SC) Section 50052.5 standard of the number of bedrooms in the home plus one.¹ H&SC Section 50052.5 refers to this as “the family size appropriate for the unit.” This is a benchmark that is used for calculation purposes only. It is neither an occupancy minimum nor a maximum.
3. The benchmark household incomes used in the Affordable Rent analyses are based on the following standards:
 - a. The low income rents are based on 80% of area median income (AMI). This percentage of AMI is based on the standard imposed in Assembly Bill 1505.
 - b. The very low income rents are based on 50% of AMI, which is the standard imposed by H&SC Section 50053.
 - c. The affordable rents used in the California Government Code Section 65915 et seq. density bonus analyses are based on the household income standards imposed by H&SC Section 50053.
4. Thirty percent (30%) of defined household income is allocated to housing-related expenses.
5. The following monthly utilities allowances were applied in this analysis.²

¹ For example, the imputed household size for a two-bedroom unit is three persons.

² Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; and basic electric. The allowances are based on the Orange County Housing Authority schedule effective as of October 1, 2023.

Utility Allowances Apartment Development	
Number of Bedrooms	Monthly Utilities Allowances
Studio	\$95
1	\$111
2	\$148
3	\$183

AFFORDABLE RENTS

The resulting affordable rents are presented in the following table:

Affordable Rents Apartment Development		
Number of Bedrooms	Low Income	Very Low Income
Studio	\$1,694	\$1,023
1	\$1,934	\$1,167
2	\$2,152	\$1,290
3	\$2,373	\$1,415

ATTACHMENT 2

**APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX A

RENT SURVEY

APARTMENT DEVELOPMENT

INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS

COSTA MESA, CALIFORNIA

ATTACHMENT 2: APPENDIX A

RENT SURVEY
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built	
						Total	Per SF		
I. Studio Units									
580 Anton	580 Anton Blvd	Costa Mesa	92626	5	506	\$2,365	\$4.67	2018	
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	85	539	\$2,315	\$4.29	1987	
Baker Block	123 Baker Street E	Costa Mesa	92626	31	623	\$2,346	\$3.77	2018	
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	50	505	\$1,999	\$3.96	1985	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	64	480	\$2,084	\$4.34	1979	
					Minimum	480	\$1,999	\$3.77	
					Maximum	623	\$2,365	\$4.67	
					Weighted Average	526	\$2,190	\$4.17	
II. One-Bedroom Units									
580 Anton	580 Anton Blvd	Costa Mesa	92626	165	745	\$2,879	\$3.86		
Halcyon House	585 Anton Blvd	Costa Mesa	92626	221	741	\$3,022	\$4.08		
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	349	756	\$2,637	\$3.49		
Baker Block	123 Baker Street E	Costa Mesa	92626	108	789	\$2,730	\$3.46		
Blue Sol	421 Bernard Street	Costa Mesa	92627	73	771	\$2,592	\$3.36	2014	
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	102	942	\$2,649	\$2.81		
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	459	731	\$2,787	\$3.81	2008	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	468	780	\$2,451	\$3.14		
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	132	834	\$2,559	\$3.07	2014	
					Minimum	731	\$2,451	\$2.81	
					Maximum	942	\$3,022	\$4.08	
					Weighted Average	770	\$2,687	\$3.51	

ATTACHMENT 2: APPENDIX A

RENT SURVEY
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built
						Total	Per SF	
III. Two-Bedroom Units								
580 Anton	580 Anton Blvd	Costa Mesa	92626	80	1,144	\$3,780	\$3.30	
Halcyon House	585 Anton Blvd	Costa Mesa	92626	172	1,230	\$4,149	\$3.37	
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	336	1,228	\$3,306	\$2.69	
Baker Block	123 Baker Street E	Costa Mesa	92626	93	1,124	\$3,376	\$3.00	
Blue Sol	421 Bernard Street	Costa Mesa	92627	30	1,110	\$3,555	\$3.20	
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	92	1,146	\$2,872	\$2.51	
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	431	1,033	\$3,353	\$3.25	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	408	1,119	\$2,972	\$2.66	
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	83	1,075	\$3,045	\$2.83	
					Minimum	1,033	\$2,872	\$2.51
					Maximum	1,230	\$4,149	\$3.37
					Weighted Average	1,130	\$3,317	\$2.94
IV. Three-Bedroom Units								
321 Avocado Street	321 Avocado Street	Costa Mesa	92627	18	1,222	\$3,406	\$2.79	
Baker Block	123 Baker Street E	Costa Mesa	92626	8	1,452	\$4,540	\$3.13	
Blue Sol	421 Bernard Street	Costa Mesa	92627	10	1,448	\$4,539	\$3.13	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	24	1,456	\$3,931	\$2.70	
					Minimum	1,222	\$3,406	\$2.70
					Maximum	1,456	\$4,540	\$3.13
					Weighted Average	1,384	\$3,956	\$2.86

Source: CoStar; April 2023

ATTACHMENT 2: APPENDIX B

**AFFORDABLE RENT CALCULATIONS
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX B

**AFFORDABLE RENT CALCULATIONS
2023 INCOME STANDARDS
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA**

		Studio Units	One-Bedroom Units	Two-Bedroom Units	Three- Bedroom Units
I. <u>General Assumptions</u>					
Area Median Income (AMI)	1	\$89,450	\$102,250	\$115,000	\$127,800
Monthly Utilities Allowance	2	\$95	\$111	\$148	\$183
II. <u>Affordable Rent Calculations</u>					
A. <u>Low Income - Rent Based on 80% AMI</u>	3				
Benchmark Annual Household Income		\$71,560	\$81,800	\$92,000	\$102,240
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$21,468	\$24,540	\$27,600	\$30,672
Monthly Income Available for Housing Expenses		\$1,789	\$2,045	\$2,300	\$2,556
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
Maximum Allowable Rent		\$1,694	\$1,934	\$2,152	\$2,373
B. <u>Very Low Income - Rent Based on 50% AMI</u>	4				
Benchmark Annual Household Income		\$44,725	\$51,125	\$57,500	\$63,900
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$13,418	\$15,338	\$17,250	\$19,170
Monthly Income Available for Housing Expenses		\$1,118	\$1,278	\$1,438	\$1,598
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
Maximum Allowable Rent		\$1,023	\$1,167	\$1,290	\$1,415

¹ Based on the 2023 Orange County household incomes published by the California Department of Housing & Community Development (HCD). The benchmark household size is set at the number of bedrooms in the unit plus one.

² Based on the Orange County Housing Authority utilities allowance schedule effective as of October 1, 2023. Assumes: Electric Cooking, Electric Heating, and Electric Water Heater; and Basic Electric.

³ Based on 80% of AMI. This percentage of AMI is based on the standard identified in AB 1505.

⁴ Based on 50% of AMI. This percentage of AMI is based on the standard identified in California Health & Safety Code Section 50053.

ATTACHMENT 2: APPENDIX C

IN-LIEU FEE ANALYSES
APARTMENT DEVELOPMENT
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
COSTA MESA, CALIFORNIA

ATTACHMENT 2: APPENDIX C

SUPPORTABLE IN-LIEU FEE
 APARTMENT DEVELOPMENT
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS
 COSTA MESA, CALIFORNIA

		60+ Units Per Acre		<60 Units Per Acre	
		Low Income	Very Low Income	Low Income	Very Low Income
I. Rent Difference					
A. Studio Units					
Market Rents	1	\$2,410	\$2,410	\$2,410	\$2,410
Affordable Rents	2	1,694	1,023	1,694	1,023
Difference		\$716	\$1,387	\$716	\$1,387
B. One-Bedroom Units					
Market Rents	1	\$2,970	\$2,970	\$2,970	\$2,970
Affordable Rents	2	1,934	1,167	1,934	1,167
Difference		\$1,036	\$1,803	\$1,036	\$1,803
C. Two-Bedroom Units					
Market Rents	1	\$3,660	\$3,660	\$3,660	\$3,660
Affordable Rents	2	2,152	1,290	2,152	1,290
Difference		\$1,508	\$2,371	\$1,508	\$2,371
D. Three-Bedroom Units					
Market Rents	1	\$4,400	\$4,400	\$4,400	\$4,400
Affordable Rents	2	2,373	1,415	2,373	1,415
Difference		\$2,027	\$2,986	\$2,027	\$2,986
II. Distribution of Total Units	3				
Studio Units		5%	5%	5%	5%
One-Bedroom Units		50%	50%	50%	50%
Two-Bedroom Units		40%	40%	40%	40%
Three-Bedroom Units		5%	5%	5%	5%
III. Annual Rent Difference/Inclusionary Unit		\$15,100	\$24,819	\$15,056	\$24,766
Less: Property Tax Difference	4	(3,656)	(6,009)	(3,645)	(5,996)
Net Annual Rent Difference/Inclusionary Unit		\$11,444	\$18,810	\$11,411	\$18,770
IV. Assumptions					
Total Units		300	300	172	172
Total Leasable Area		279,975	279,975	160,115	160,115
Weighted Average Unit Size (Sf)		933	933	931	931
Inclusionary Housing Percentage		10%	5%	6%	4%
Inclusionary Units		30	15	10	7
Affordability Gap Per Inclusionary Unit	5	\$221,700	\$364,300	\$221,000	\$363,500
V. In-Lieu Fee					
Total In-Lieu Fee	6	\$6,651,000	\$5,464,500	\$2,210,000	\$2,544,500
Per Total Unit in the Project		\$22,170	\$18,220	\$12,850	\$14,790
Per Sf of Total Leasable Area		\$23.80	\$19.50	\$13.80	\$15.90

1 The market rents are drawn from the Financial Evaluation.

2 Based on the Affordable Rent Calculations included in the Financial Evaluation.

3 Based on the unit mix distribution applied in the pro forma analyses included in the Financial Evaluation.

4 Based on the Annual Rent Difference/Inclusionary Unit capitalized at a 4.75% rate to establish the value, and a 1.15% property tax rate.

5 Based on the Net Annual Rent Difference/Inclusionary Unit capitalized at the Threshold Return on Total Investment generated by the p

6 Based on the Affordability Gap Per Inclusionary Unit multiplied times the number of Inclusionary Units.