



KEYSER MARSTON ASSOCIATES™
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

To: Cynthia Battenberg
Town of Moraga

BERKELEY
A. JERRY KEYSER
TIMOTHY C. KELLY
DEBBIE M. KERN
DAVID DOEZEMA

From: Keyser Marston Associates, Inc.

Date: December 21, 2022

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. RABE
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMNEY
TIM BRETZ

Subject: Inclusionary In-Lieu Fee Calculations

SAN DIEGO
PAUL C. MARRA
LINNIE GAVINO

The following memorandum has been prepared for the Town of Moraga (Town) by Keyser Marston Associates, Inc. (KMA) to calculate an in-lieu fee pursuant to the Town's proposed Affordable Housing Ordinance (AHO). Moraga Municipal Code (MMC) Section 8.180.050 D (proposed) provides for adoption of in-lieu fees for fractional inclusionary unit obligations. Projects with a fractional inclusionary unit requirement are eligible to either pay an in-lieu fee for the fractional unit or provide a whole inclusionary unit.

SUMMARY OF IN-LIEU FEE CALCULATION

In-lieu fees are calculated based on the gap between market-rate and affordable sales prices and rents pursuant to MMC 8.180.050 D. In-lieu fees are expressed per habitable square foot within the project. Applying in-lieu fees on a per square foot basis is permitted under the AHO, is a well-established approach used in many jurisdictions throughout the region and allows the amount of the fee to scale with unit size.

A. Projects from Six to Nine Units

Table 1 presents calculated in-lieu fees for projects from six to nine units in size. In-lieu fees reflect the gap between market and affordable prices and rents and the schedule of fractional inclusionary unit obligations for projects with six to nine units under MMC 8.180.040 (D), which phases in requirements for smaller projects.

Table 1. In-Lieu Fees for Six to Nine-Unit Projects		
<i>Per Habitable Square Foot ⁽¹⁾ in Project</i>		
	For-Sale Units	Rental Units
6-unit projects	\$13.00 /SF	\$8.30 /SF
7-unit projects	\$22.30 /SF	\$14.30 /SF
8-unit projects	\$29.30 /SF	\$18.80 /SF
9-unit projects	\$34.70 /SF	\$22.20 /SF

(1) Excludes garages, parking area, common areas and common amenities, and other non-livable space.

B. Fractional Inclusionary Unit In-Lieu Fees for Larger Projects.

For projects with more than ten units that choose to meet fractional unit inclusionary requirements by paying an in-lieu fee, the amount is determined based on a “gross per square foot in-lieu fee” multiplied by the share of the inclusionary unit requirement to be satisfied with in-lieu fee payment, as shown in Table 2. The gross in-lieu fee reflects the full affordability gap, assuming no inclusionary units are provided within the project, and was calculated at \$39 per square foot for for-sale units and \$25 per square foot for rental units. This gross amount must be reduced to reflect the share of the inclusionary requirement to be satisfied with in-lieu fee payment, as shown in Table 2.

Table 2. Fractional Unit In-Lieu Fees, Projects with More Than Ten Units	
For-Sale Units	$\$39 \text{ PSF Gross fee} \times \frac{\text{Fractional Inclusionary Units Owed}}{\text{Total Inclusionary Units Required}} \times \text{Habitable Square Feet} = \text{Total Due}$
Rental Units	$\$25 \text{ PSF Gross fee} \times \frac{\text{Fractional Inclusionary Units Owed}}{\text{Total Inclusionary Units Required}} \times \text{Habitable Square Feet} = \text{Total Due}$

Appendix Table 1 provides an example calculation.

C. Custom Lot Subdivisions

For custom lot subdivisions, in-lieu fees are due at Final Map, while homes are built later. In this case, the in-lieu fee must be calculated based on an assumed habitable square footage. KMA recommends use of an estimated or assumed average square footage, as described in Table 3.

Table 3. Custom Lot Subdivisions

If the total habitable square footage in the development can reasonably be estimated at the time of Final Map, such reasonable estimate shall be used for the in-lieu fee calculation. Otherwise, the total habitable square footage shall be calculated based on the average unit size used for purposes of establishing the in-lieu fee multiplied by the number of buildable lots. Average unit sizes, based on the supporting market data used for establishing in-lieu fees, are:

For-Sale:	3,040 sq ft
Rental:	1,028 sq ft

SUPPORTING ANALYSIS

The following sections walk through the calculation of in-lieu fees.

Gross In-Lieu Fee Calculation for For-Sale Projects

The AHO specifies that the in-lieu fee for for-sale units "...should represent a reasonable portion of the gap between the Affordable Sales Price at the corresponding income level and the Market-Rate sales price of For-Sale housing..." KMA calculated this gap based on a review of market rate sales and an estimate of the affordable sales prices for comparable units. The analysis is summarized below.

To estimate the market rate sales price of a new unit in Moraga, KMA calculated the average sales price of units built since 2010 and sold since January 2019, using data from CoreLogic. There were 72 units that fit these criteria in Moraga, representing a mix of single family detached and attached or duplex units. The average number of bedrooms, unit size and sales prices are shown in Table 4.

Table 4. Average Price of Newer Units in Moraga Built Since 2010, Sold Last 4 Years (1/2019 - 11/2022)

Average Sales Price, Newer Units in Moraga	\$1,798,000
Average Number of Bedrooms, Newer Units in Moraga	3.96
Average Net Square Footage, Newer Units in Moraga	3,040 sq ft

Source: CoreLogic

Average market rate sales prices for for-sale housing in Moraga is the first component of the for-sale affordability gap calculation.

KMA estimated the affordable sales price for a comparable unit based on AHO requirements. The pricing is set to be affordable to households earning the Moderate

Income Limit for Contra Costa County with 35% of income set aside for housing costs including mortgage payments, property taxes, insurance, HOA dues, and utilities. Table 5 presents the affordable sales prices. Appendix Table 4 provides the supporting calculation.

Table 5. Moderate Income Affordable Sales Price			
	3 Bedroom Aff Price	4 Bedroom Aff Price	Weighted Average ⁽¹⁾
Affordable Price	\$571,300	\$613,400	\$612,000

(1) Weighted to reflect the average of 3.96 bedrooms in the market rate unit sales data summarized in Table 4.

The for-sale affordability gap is the difference between the market rate sales price (Table 4) and the weighted average affordable sales prices (Table 5). The affordability gap represents the forgone revenue to the developer from setting aside a unit as affordable. The calculation is shown in Table 6.

Table 6. For-Sale Affordability Gap	
Market Price	\$1,798,000
Less: Affordable Price	<u>(\$612,000)</u>
Affordability Gap	\$1,186,000

Using the affordability gap, KMA calculated a per-square-foot in-lieu fee. The fee is calculated based on the onsite requirement (10% of units) and the average size of the market rate units (3,040 square feet). The calculation is shown in Table 7.

Table 7. Calculation of Gross For-Sale In-Lieu Fee, Before Phase-In				
	Affordability Gap	Inclusionary Percentage	Average Unit Square Feet	Gross In-Lieu Fee before phase-in
Gross For-Sale In-Lieu Fee Before Phase-In	\$1,186,000	x 10%	÷ 3,040 sq ft	= \$39 /SF

In-lieu fees for projects from six to nine units in size presented in Table 1 are based on the gross in-lieu fee per square foot in Table 7, adjusted for the phase in of the inclusionary unit requirement pursuant to MMC 8.180.040 (D). The supporting calculation of this phase in is provided in Appendix Table 1.

Gross In-Lieu Fee Calculation for Rental Projects

The AHO specifies that the in-lieu fee for rental units “should represent a reasonable portion of the gap between the Affordable Rent at the corresponding income level and the market-rate rent for a similar product type over the lifetime of the affordability term.” KMA calculated this gap based on a review of market rate rents and an estimate of the affordable rents for comparable units. Appendix Table 3 presents the calculations. The analysis is summarized below.

KMA reviewed current market rate rents in Moraga. Costar data indicate that nearly all Moraga apartment units were built in the 1960s and 1970s. The in-lieu fee analysis should be based on the estimated rental rates of newly built units that would be subject to the inclusionary requirement. To estimate the rent premium for new units with modern finishes and amenities, KMA compared market rents for new and old apartments in Walnut Creek, where this data is available. KMA calculated the percentage difference in rents between new and old units from the 1960s and 1970s and estimated that new units rent for approximately 50% more than the older units. KMA estimated rents for new market rate units in Moraga based on applying this 50% premium to existing rents for older units, as shown in Table 8.

Table 8. Estimated Market Rate Rents for New Units in Moraga			
	Avg Number of BRs	Avg Unit SF	Avg Effective Rent Per Month
Averages for Rental Unit in Moraga (older units)	1.83	1,028	\$2,110
Estimated Rent Premium for New Construction			50%
Estimated Market Rent for New Rental Units in Moraga	1.83	1,028	\$3,165

Source: CoStar

The estimated market rate rents for new apartments in Moraga presented in Table 8 is the first component of the rental affordability gap calculation.

KMA calculated the affordable rent for a comparable unit using the average number of bedrooms from the market data and the requirements of the AHO. The rent is set to be affordable to households earning the maximum income limit for Low Income households in Contra Costa County, with 30% of income set aside for housing costs including rent and utilities. The results are summarized in Table 9.

Table 9. Affordable Monthly Rent			
	<u>1 BR/ 2-p HH</u>	<u>2 BR/ 3-p HH</u>	<u>Weighted Average ⁽¹⁾</u>
Contra Costa County Low Income Limit, 2022	\$87,700	\$98,650	
Affordable Housing Cost per Month	\$2,193	\$2,466	\$2,420
Less: Utilities ⁽²⁾	(\$95)	(\$125)	(\$120)
Affordable Rent	\$2,098	\$2,341	\$2,300

(1) Weighted to reflect the average of 1.83 bedrooms in the market rate rental units.

(2) Assumes gas heat, hot water and cooking, air conditioning, electricity and water.

The difference between market rate rents (Table 8) and the affordable rents (Table 9) is shown in Table 10.

Table 10. Net Difference: Market vs. Affordable Rents				
	<u>Market Rent</u>	<u>Affordable Rent</u>	<u>Rent Difference Per Month</u>	<u>Rent Difference Per Year</u>
Net Difference: Market and Affordable Rents	\$3,165	\$2,300	\$865	\$10,382

The rental affordability gap is calculated based on annual difference between market rate and affordable rents in Table 10, divided by a capitalization rate of 4%, to identify forgone project value associated with setting aside a unit as affordable. The cap rate is based on the average for 2022 year-to-date for the Walnut Creek submarket, according to CoStar. The calculation is shown in Table 11.

Table 11. Rental Affordability Gap (Capitalized value of rent difference)				
	<u>Rent Difference Per Year</u>		<u>Capitalization Rate ⁽¹⁾</u>	<u>Capitalized Value of Rent Difference</u>
Affordability Gap	\$10,382	÷	4.00%	= \$260,000

(1) Costar Walnut Creek area submarket cap rate for 2022YTD.

Using the affordability gap, KMA calculated the gross in-lieu fee. The fee is calculated based on the affordability gap, the onsite requirement (10% of units), and the average size of the market rate units (1,028 square feet). The calculation is shown in Table 12.

Table 12. Calculation of Gross Rental In-Lieu Fee, Before Phase-In						
	Affordability Gap		Inclusionary Percentage		Average Unit Square Feet	Gross In-Lieu Fee Before Phase-In
Gross Rental In-Lieu Fee Before Phase-In	\$260,000	x	10%	÷	1,028 sq ft	= \$25.00 /SF

In-lieu fees for projects from six to nine units in size are based on the gross in-lieu fee per square foot in Table 12 plus an adjustment for the phase in of the inclusionary unit requirement pursuant to MMC 8.180.040 (D). The supporting calculation is provided in Appendix Table 1.

See also, Appendix Tables 1 through 4, attached, for supporting calculations.

Appendix Table 1
In-Lieu Fee Calculations
In Lieu Fee Analysis
Town of Moraga, CA

A. In-Lieu Fees for Six to Nine-Unit Projects					
	A.	B.	C.	D.	E.
	Phase-in of Inclusionary Requirement per Ordinance	Inclusionary Units With Full 10% Requirement	In-Lieu Fee Phase In Percentage	In-Lieu Fee Per Habitable Square Foot ⁽¹⁾	
Project Size	8.180.040 (D)			Rental	For-Sale
	per Ordinance	= 10% x No. units	= A. / B.		
Gross In-Lieu Fee Before Phase-In				\$25 /SF	\$39 /SF
				Appendix Table 3	Appendix Table 2
				=C x gross fee	=C x gross fee
6-unit projects	0.2	0.6	33%	\$8.30 /SF	\$13.00 /SF
7-unit projects	0.4	0.7	57%	\$14.30 /SF	\$22.30 /SF
8-unit projects	0.6	0.8	75%	\$18.80 /SF	\$29.30 /SF
9-unit projects	0.8	0.9	89%	\$22.20 /SF	\$34.70 /SF

(1) Excludes garages, parking area, common areas and common amenities, and other non-livable space.

B. Fractional Unit In-Lieu Fees for Projects of Eleven or More Units			
Formula for Fractional Unit In-lieu Fees			
= Fractional Units Owed / Total Inclusionary Unit Requirement x Gross Per Square Foot In-Lieu Fee x Total Habitable Square Footage in the Project.			
Example Fractional Unit In-Lieu Fee Calculation (For Sale Project)			
1) Habitable Square Footage in Project		92,400	
2) Total Units in Project		42	
3) Inclusionary Units Required	= 10% X Total Units	4.20	
4) Whole Inclusionary Units Due		4.00	
5) Fractional Inclusionary Units Due		0.20	
6) Gross In-Lieu Fee Before Phase In		\$39 /SF	Appendix Table 2
7) Fractional Unit In-Lieu Fee	= 0.2 fractional units / 4.2 inclusionary units x \$39/SF x 92,400 SF	\$171,600	(project either pays this amount or rounds up to five whole inclusionary units)

Appendix Table 2
For-Sale Units - Calculation of Gross In-Lieu Fee Before Phase In
In Lieu Fee Analysis
Town of Moraga, CA

A. Average Price of Newer Units in Moraga Built Since 2010, Sold Last 4 Years (1/2019 - 11/2022)	
Average Sales Price, Newer Units in Moraga	\$1,798,000
Average no. of Bedrooms, Newer Units in Moraga	3.96
Average net square footage, Newer Units in Moraga	3,040 sq ft

Source: CoreLogic

B. Moderate Income Affordable Sales Price			
	3 Bedroom Aff Price	4 Bedroom Aff Price	Weighted Average ⁽¹⁾
	Appendix Table 4	Appendix Table 4	
Affordable Price - Moderate Income	\$571,300	\$613,400	\$612,000

(1) Weighted to reflect the average of 3.96 bedrooms in the market rate unit sales data summarized in A.

C. Affordability Gap	
Market Price	\$1,798,000
Less: Affordable Price	(\$612,000)
Affordability Gap	\$1,186,000

D. Calculation of For-Sale Gross In-Lieu Fee Before Phase-In				
	Affordability Gap	Inclusionary Percentage	Average Unit Square Feet	Gross In- Lieu Fee Before Phase-In
Gross For-Sale In-Lieu Fee Before Phase-In	\$1,186,000	x 10%	÷ 3,040 sq ft	= \$39.00 /SF

Appendix Table 3
Rental Units - Calculation of Gross In-Lieu Fee Before Phase In
In Lieu Fee Analysis
Town of Moraga, CA

A. Estimated Market Rate Rents for New Units in Moraga			
	Avg Number of BRs	Avg Unit SF	Avg Effective Rent Per Month
Averages for Rental Unit in Moraga (Primarily older stock built in 1960s and 70s)	1.83	1,028	\$2,110
Estimated Rent Premium for New Construction w/ Modern Finishes and Amenities ⁽¹⁾			50%
Estimated Market Rent for New Rental Units in Moraga			\$3,165

Source: CoStar

(1) To calculate the affordability gap associated with inclusion of affordable units in a newly built rental project, it is necessary to use rents reflective of new construction. CoStar data indicate nearly all Moraga apartment units were built in the 1960s and 1970s. Therefore, KMA estimated rents for new units based on a percentage rent premium for new units over older units. The estimated 50% premium is based on comparing rents for new apartments with those built in the 1960s and 1970s in Walnut Creek, where such data was available.

B. Affordable Monthly Rent			
	<u>1 BR/ 2-p HH</u>	<u>2 BR/ 3-p HH</u>	Weighted Average ⁽¹⁾
Contra Costa County Low Income Limit, 2022	\$87,700	\$98,650	
Affordable Hsg Cost/Mo at 30% of Income Limit	\$2,193	\$2,466	\$2,420
Less: Utilities ⁽²⁾	(\$95)	(\$125)	(\$120)
Affordable Rent	\$2,098	\$2,341	\$2,300

(1) Weighted to reflect the average of 1.83 bedrooms in the market rate rental units.

(2) Assumes gas heat, hot water and cooking, air conditioning, electricity and water.

C. Net Difference: Market vs. Affordable Rents				
	Market Rent	Affordable Rent	Rent Difference Per Month	Rent Difference Per Year
Net Difference: Market and Affordable Rents	\$3,165	\$2,300	\$865	\$10,382

D. Affordability Gap (Capitalized value of rent difference)				
	Rent Difference Per Year		Capitalization Rate ⁽¹⁾	Capitalized Value of Rent Difference
Affordability Gap	\$10,382	÷	4.00%	= \$260,000

(1) Costar Walnut Creek area submarket cap rate for 2022YTD.

E. Calculation of Gross Rental In-Lieu Fee Before Phase-In					
	Affordability Gap	Inclusionary Percentage	Average Unit Square Feet		Gross In-Lieu Fee Before Phase-In
Gross Rental In-Lieu Fee Before Phase-In	\$260,000	x 10%	÷ 1,028 sq ft	=	\$25.00 /SF

Appendix Table 4
Affordable Sales Price Calculations
In Lieu Fee Analysis
Town of Moraga, CA

	Single Family Units	
Unit Size (Bedroom)	3-Bedroom	4-Bedroom
Household Size	4-person HH	5-person HH
Contra Costa County 2022 Median Income	\$142,800	\$154,200
Moderate Income Limit	\$171,350	\$185,050
% for Housing Costs	35%	35%
Available for Housing Costs	\$59,973	\$64,768
(Less) Property Taxes	(\$7,138)	(\$7,675)
(Less) Hazard Insurance	(\$634)	(\$680)
(Less) HOA	(\$3,900)	(\$4,200)
(Less) Utilities	(\$2,796)	(\$3,348)
(Less) Mortgage Insurance	(\$4,340)	(\$4,666)
Income Available for Mortgage	\$41,166	\$44,198
Supported Mortgage	\$542,700	\$582,700
Down Payment @5%	\$28,600	\$30,700
Home Price @120% AMI	\$571,300	\$613,400
<u>Monthly Expense Assumptions</u>		
- HOA	\$325	\$350
- Utilities ⁽¹⁾	\$233	\$279
<u>Common Assumptions</u>		
- Mortgage Interest Rate	6.50%	Freddie Mac 30-year fixed rate, average rate, 12/1/2022.
- Down Payment	5.00%	KMA assumption.
- Property Taxes (% of sales price)	1.25%	Estimated based on sampling of property tax bills.
- Hazard Insurance (% of sales price)	0.11%	Estimate based on sampling of estimates for Moraga homes.
- Mortgage Insurance ⁽²⁾	0.80%	loans up to \$625,500
	1.00%	loans over \$625,500

⁽¹⁾ Utility allowances per Contra Costa County Housing Authority (2022).

⁽²⁾ Based on FHA mortgage insurance premium schedule.