

**APPENDIX E**  
**EXECUTIVE SUMMARY**  
**JOBS HOUSING NEXUS ANALYSIS**

# Jobs Housing Nexus Analysis Report

Prepared for the City of San Mateo

Prepared by Keyser Marston Associates, Inc.

February 2003

## EXECUTIVE SUMMARY

This report is an economic nexus analysis; it demonstrates the relationships among construction of new buildings, employees, households and affordable housing demand. The report has been prepared by Keyser Marston Associates, Inc. for the City of San Mateo to assist in developing a linkage program to mitigate impacts of non-residential development on affordable housing demand. The report is a “nexus” analysis to meet the legal requirements for linking new construction of workspace buildings with an obligation for affordable housing.

The analysis of historic construction and employment and housing production in San Mateo demonstrates the relationships among buildings, employees and housing demand. Analysis of housing affordability conditions and projections of employment and housing production confirms that affordable housing production has not kept pace with job growth. Nor is there any evidence that affordable housing production will be able to meet the demand generated by new worker households in the future.

The nexus analysis concludes with coefficients expressing the number of housing units by affordability level that are linked to each square foot of building area, by building type (office/high tech, retail and hotel/other lodging). When these housing demand coefficients are multiplied by the affordability gap for each income category, the total housing nexus cost is determined, as follows:

### Total Housing Nexus Cost (Per Square Foot Building Area)

Building Type	Very-Low Income	Low Income	Moderate Income	Total
Office/High Tech	\$8.93	\$7.30	\$7.08	\$23.31
Retail	\$13.54	\$6.68	\$4.44	\$24.66
Hotel	\$11.05	\$5.20	\$3.91	\$20.17

These costs express the total linkage or nexus cost for each of the three building types. These total nexus costs represent the legal ceiling for potential fees. **Total nexus costs are not recommended fee levels**; they represent only the maximums established by this analysis, below which fees or other requirements may be set.

## Fee Setting Information

One way to evaluate the impact of alternative fee levels on commercial development is to examine total development costs. The chief concern of policy makers in deliberating housing linkage fees is whether the fee will have a negative impact on development activity. Most cities want more financial resources for affordable housing but not at the expense of driving desirable development activity outside the city borders.

Three building types were addressed in the analysis and were further expanded into subsets to reflect several different configurations or conditions in San Mateo. It was found that development costs generally fall in the range of \$300 to \$400 per square foot for each configuration. With these costs, a fee at the \$5 level would increase costs by roughly 1.5% (1.3% to 1.7%); a fee at \$10 would be roughly a 3% increase. Based on experience with other cities and an understanding of development decision-making, we do not believe that a fee in this range would alter the level of development activity in San Mateo.

When evaluating alternative fee levels, some policy makers may wish to consider the amount of fee revenues to be generated. Development activity in San Mateo has been quantified on an annual basis going back to 1985. With any time frame that incorporates both economic expansion and recession years, activity has averaged around 230,000 square feet per year. If the past, averaged over all phases of the economic cycle, is any indication of the future, each dollar of fee would therefore yield approximately \$230,000 per year, recognizing that there would be minimal revenue in the near term given current economic conditions. Most cities leverage their linkage fee revenues with other funding sources at a rate of 5 to 10 times. Finally, the housing linkage fee programs of other California jurisdictions have been examined. In the local area, there are the higher fee cities of San Francisco, Palo Alto and Menlo Park with fees in the \$10 to \$15 per sq. ft. range, moderate fee cities like Mountain View at \$6 per square foot. Then there are cities with low fees in the Central Valley and other parts of the state.

**APPENDIX F**  
**PEER REVIEW OF COMMERCIAL LINKAGE FEE**



Economic &  
Planning Systems

*Real Estate Economics*

*Regional Economics*

*Public Finance*

*Land Use Policy*

## DRAFT MEMORANDUM

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To: Sandy Council  
From: Darin Smith and Eileen Tumalad  
Subject: Peer Review Commercial Linkage Fee; EPS #16078  
Date: May 8, 2007

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In February 2003, Keyser Marston Associates, Inc. (KMA) prepared a "Jobs Housing Nexus Analysis" for the City of San Mateo that determined a fee that can be imposed on developers of new commercial projects in order to mitigate the impact of the new development on the existing housing market. At the direction of City staff, Economic & Planning Systems, Inc. (EPS) has reviewed the methodology used in the KMA analysis and determined if key assumptions and the market context have changed since 2003.

The key findings of EPS's review are as follows:

1. The KMA study used an industry standard methodology for determining the impact that employment growth will have on the need for affordable housing and the maximum nexus-based fee that could be charged to commercial developers.
2. The KMA study recommended the implementation of a fee that is much less than what could be supported by the nexus study, but would represent a less burdensome cost to commercial developers and reflects the availability of other means of producing or subsidizing affordable housing. This approach is also an industry standard, although the precise level at which the fees can be set are a matter of policy at the local level.
3. An update of key assumptions (development costs, income levels, etc.) from 2003 to 2007 would yield an even-higher maximum nexus-based fee. As such, the fees as determined in the 2003 KMA study would still be supportable in 2007.



## **METHODOLOGY**

The purpose of the analysis is to determine the link between new commercial development and the demand for affordable housing. Once the link is established, a fee that will mitigate the impact of new commercial development on the housing market is calculated. The analysis estimates the number of households created by various building types and then determines the types of jobs created and corresponding wages. This allows for the estimation of households that fall within the affordable income targets. Lastly, the nexus cost is determined by multiplying the number of households requiring affordable units by income level to the cost of subsidizing the affordable units.

The KMA study methodology is the industry-accepted approach to calculating a total housing nexus cost and appears to be sound.

## **FEE FINDINGS AND RECOMMENDATIONS**

The KMA study determined that the maximum supportable nexus-based fees would range from \$20.17 to \$24.66 per square foot, depending on the type of commercial development. At these rates, development feasibility would be severely impacted, likely resulting in major reductions in commercial development in the City of San Mateo. This result is not uncommon; in other nexus studies conducted by EPS, the maximum fee was similarly onerous. As a result, the KMA study recommends that the actual fees imposed on development be only a fraction of the maximum supportable fee, at \$7.00 to \$13.00 per square foot.

This recommendation of a lower fee is legal, as fees can be set anywhere up to the maximum nexus-based impact. The recommendation is also practical, as lower fees will have less negative impact on economic development and job growth. Finally, the lower fee appropriately reflects the availability of other means of producing and subsidizing affordable housing units, including the City's inclusionary housing requirements.

## **IMPACT OF UPDATES TO KEY ASSUMPTIONS**

There are a number of key assumptions that form the basis of a jobs housing nexus analysis. A change in any of the key assumptions can affect the resulting commercial linkage fees. EPS identified the key assumptions in the KMA analysis, determined likely adjustments as a result of changes in the market, and assessed the potential impact the changes would have on the resulting fees.

## **AFFORDABILITY GAP**

The affordability gap is the difference between the cost to construct a residential unit and the maximum allowable prices for income-restricted affordable units. The

affordability gap represents the subsidy required to construct affordable units. Therefore, the larger the affordability gap, the larger the fee required to mitigate the impact of new commercial development on the housing market will be.

The affordability gap analysis included in the nexus study assumes a two-person household in a one-bedroom unit. Smaller households result in lower affordability gaps than larger households in larger units. According to City staff, there is currently a greater need for larger units, which indicates that the affordability gap analysis underestimates the actual gap.

In addition, developers have indicated that construction costs have increased in the past few years. If there has not been a commensurate increase in allowable prices, then current affordability gaps are likely larger than those determined in 2003. According to Engineering News-Record's construction cost index, construction costs increased 18 percent between 2003 and 2006. Over the same time period the City's median income actually decreased from \$91,500 to \$91,200, or -0.33 percent. Construction costs have increased, while allowable prices have decreased, suggesting that the commercial linkage fees in 2003 remain valid and may be lower than what would be determined today.

## EMPLOYMENT DENSITY

Employment density assumptions help to determine the number of employees associated with the commercial development. The following are the employment densities by building type assumed in the nexus study:

- 250 square feet/employee for Office/High Tech/Industrial
- 500 square feet/employee for Hotel
- 350 square feet/employee for Retail/Entertainment

Current trends indicate that employment densities are increasing, resulting in more jobs for the same amount of commercial space. Therefore, higher employment densities result in a greater impact on the housing market. This suggests that the commercial linkage fees determined in the nexus study are still valid and may be understated.

**APPENDIX G**  
**BAY AREA COMMERCIAL LINKAGE FEE SURVEY**

**Table 1**  
**Bay Area Jurisdictions with Affordable Housing Linkage Fees**  
**San Mateo Inclusionary Housing; EPS #16078**

Jurisdiction	Fee Amount Per Square Foot (Unless Otherwise Noted)					
	Retail	Office	R&D	Hotel (1)	Industrial	
Petaluma (2)	\$3.59	\$2.08	\$2.15	\$1,436.00 per room	\$2.15	
Sebastopol	\$3.59	\$2.08	\$2.15	\$1,436.00 per room	\$2.15	
Rohnert Park (2)	\$3.59	\$2.08	\$2.15	\$1,436.00 per room	\$2.15	
Sonoma County	\$3.59	\$2.08	\$2.15	\$1,436.00 per room	\$2.15	
San Francisco	\$13.95	\$14.96	\$9.97	\$4,484.00 per room		
Palo Alto	\$16.01	\$16.01	\$16.01	\$6,404.00 per room	\$16.01	
Menlo Park	\$6.82	\$12.54	\$12.54	\$2,728.00 per room	\$6.82	
Mountain View	\$3.18 1st 10,000 sq. ft. \$6.34 10,000+ sq. ft.	\$1.06 1st 10,000 sq. ft. \$3.11 10,000+ sq. ft.	\$1.06 1st 10,000 sq. ft. \$3.11 10,000+ sq. ft.	\$3.18 \$6.34	\$1.06 1st 10,000 sq. ft. \$3.11 10,000+ sq. ft.	
<i>Mountain View Averages</i>	<i>\$4.76</i>	<i>\$2.09</i>	<i>\$2.09</i>	<i>\$1,904.00 per room</i>	<i>\$2.09</i>	
Sunnyvale	\$8.00 per sq. ft in excess of allowable FAR					\$12.41 per sq. ft in excess of allowable FAR
Alameda	\$1.99	\$3.92	\$3.92	\$1,007.00 per room	\$0.68	
Oakland	\$4.00 per sq. ft over 25,000 sq. ft.					\$4.00 per sq. ft over 25,000 sq. ft.
Pleasanton	\$2.44	\$2.44	\$2.44			\$2.44
Walnut Creek	\$5.00	\$5.00	\$5.00	\$2,000.00 per room	\$5.00	
Berkeley	\$5.00	\$5.00	\$2.50			\$2.50
Cupertino	\$2.00					\$2.00
Livermore	\$0.88 Retail Comm'l \$0.66 Service Retail	\$0.56		\$432.00 per room	\$0.27 Manufacturing \$0.78 Warehouse/Storage \$0.56 Business/Comm'l Park \$0.28 Industrial, high intensity \$0.18 Industrial, low intensity	
<i>Livermore Averages</i>	<i>\$0.77</i>	<i>\$0.56</i>		<i>\$432.00</i>	<i>\$0.41</i>	
<b>Bay Area Averages</b>	<b>\$5.47</b>	<b>\$5.30</b>	<b>\$5.26</b>	<b>\$2,245.73 per room</b>	<b>\$4.20</b>	

(1) Assumes room size of 400 sq. ft.

(2) Phase-in over 3 years; 50% of amount shown for projects in the redevelopment areas.

Sources: City staff and websites; Economic & Planning Systems, Inc.