

bae urban economics

Affordable Housing Nexus Study

Prepared for the City of Campbell

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# 1. INTRODUCTION

This study provides analysis to assist the City of Campbell in considering the adoption of commercial linkage fees and changes to the City's inclusionary housing in-lieu fees. The City of Campbell is situated in one of the highest-cost regions in the country, where market-rate housing is often unaffordable for lower-income and moderate-income households. The City has sought to address these challenges through a variety of programs and actions, including a long-standing inclusionary housing ordinance that requires that some units in most new market-rate residential developments be made affordable to lower-income or moderate-income households. The City's inclusionary housing ordinance allows developers of some projects to choose to pay an in-lieu fee instead of providing inclusionary units, with revenues from the in-lieu fee directed to support affordable housing programs. As part of the City's efforts to address affordable housing needs, the City is now considering the adoption of commercial linkage fees that would apply to new non-residential development projects in the City, with revenues from commercial linkage fees providing funding to support affordable housing programs.

The City of Campbell's 2023-2031 Housing Element Update includes programs related to the adoption of commercial linkage fees, updates to the City's inclusionary housing ordinance, and updates to the City's inclusionary housing in-lieu fees. These programs include:

**Program H-1a: Inclusionary Housing Ordinance Implementation:** Amend the Inclusionary Housing Ordinance to offer developers a menu of options for achieving affordability, adjusting the percentage of units required to be affordable depending on the degree of affordability achieved (i.e., moderate-, low-, very low-, and extremely low-income).

These amendments could also include:

- Initiating a nexus study to reevaluate increasing the affordable housing in-lieu fee.
- Updating the inclusionary ordinance to require for-sale projects to provide the same allocation of units available to lower-income and very low-income units that is required for rental projects.
- Modifying the In-Lieu Fee threshold to apply only to developments of 5-9 units. Housing developments of 10 or more units would not be allowed to substitute affordable units with in-lieu fees.

**Program H-1b: Commercial Linkage Fee:** Establish an affordable housing impact fee that will apply to nonresidential development to provide an additional local source of revenue to support production of affordable housing.

The analysis presented in this report supports the City's implementation of these Housing Element programs.

## **Commercial Linkage Fee Analysis**

One of the purposes of this report is to provide the analysis needed to inform the City's consideration of the adoption of commercial linkage fees. Commercial linkage fees are considered to be development impact fees that are subject to the requirements of the California Mitigation Fee Act. Local governments have the authority to implement development impact fees for the purpose of mitigating all or some of the costs associated with addressing the impacts of new development. Under the California Mitigation Fee Act (Government Code Section 66000 et seq.), before adopting an impact fee, local governments must adopt a nexus study that demonstrates a reasonable relationship between the impacts of new development, the facilities needed to address those impacts, and the fees that the jurisdiction intends to charge.

One purpose of this study is to address this requirement by quantifying the estimated relationship between new non-residential development in Campbell, the need for workforce housing, and the public cost to construct housing that is affordable to lower-income workers. The basis for the commercial nexus analysis is that new non-residential development generates new employment and brings new worker households to the area. A portion of these workers will have wages and household incomes that are not high enough to enable them to afford market-rate housing in Campbell, and as a result new commercial development is associated with a need for additional affordable housing. The nexus analysis identifies the fees that the City of Campbell would need to charge to generate the funds necessary to support the construction of affordable units for these workers.

Nexus studies for this type of fee often find that the fee rates that are supported by the nexus analysis are relatively high, and that charging the full nexus-based fee amount would likely render most or all new non-residential development infeasible. This is because the nexus analysis estimates the revenue that would need to be collected to address the impacts that new development has on worker housing needs, which does not bear any direct relationship to the financial feasibility of new development projects. To address this, this study also includes a financial feasibility analysis to evaluate the impact that new fees could have on the feasibility of new non-residential development. While the nexus analysis identifies the maximum amount that Campbell could charge based on the relationship between new non-residential development and the need for affordable housing funds, the City can adopt lower fee rates based on financial feasibility considerations or other factors.

## **Residential Feasibility and In-Lieu Fee Analysis**

Unlike commercial linkage fee programs, which focus on the establishment of fees, inclusionary housing programs focus on the production of affordable housing units. As an alternative to providing housing units, Inclusionary Housing Programs offer an "in-lieu fee"

which is not subject to the same “nexus” standard as commercial linkage fees as developers retain the option of providing affordable housing units instead of paying the in-lieu fee. By State law, a local requirement to provide affordable housing units is also not subject to a nexus standard, provided that the required inclusionary housing percentage does not exceed 15 percent of the conforming units provided<sup>1</sup>.

This study offers two alternative methods for determining a reasonable residential in-lieu fee in Campbell, as well as recommendations for implementing an updated in-lieu fee. In addition, this study includes a residential financial feasibility analysis to evaluate the feasibility of various types of residential development in Campbell. The residential financial feasibility analysis can help to inform the consideration of potential changes to the inclusionary ordinance. In addition, the financial feasibility analysis informs recommendations related to updating the City’s inclusionary housing in-lieu fees.

## **Current Inclusionary Housing Requirements and In-Lieu Fee**

Campbell’s inclusionary housing ordinance requires that new residential developments with ten or more units provide 15 percent of the units as affordable inclusionary units. For rental developments, 40 percent of the inclusionary units (i.e., six percent of the units in the project), must be affordable to very low-income households, with the remainder affordable to lower-income households. For for-sale developments, 40 percent of the inclusionary units (i.e., six percent of the units in the project), must be affordable to lower-income households, with the remainder affordable to moderate-income households. For example, a 100-unit rental development would be required to provide a total of 15 affordable inclusionary units, six of which are affordable to very low-income households and nine of which are affordable to lower-income households. A 100-unit for-sale development would be required to provide a total of 15 affordable inclusionary units, six of which are affordable to lower-income households and nine of which are affordable to moderate-income households.

Projects with a density of six dwelling units per acre or less have the option to pay an in-lieu fee rather than providing the inclusionary units. The current in-lieu fee is \$21.50 per square foot for rental developments and \$34.50 per square foot for for-sale developments. For example, a ten unit, for sale single family development with an average home size of 2,000 sq. ft., built at a density of six dwelling units per acre or less, would have the option to pay an in-lieu fee totaling \$276,000 (10 units x .15% = 2 units; 2 units x 2,000 sq. ft. per unit x 34.50 per square foot).

Campbell’s inclusionary ordinance requires a 55-year affordability term for rental developments and a 45-year affordability term for for-sale developments. As shown in Table 1,

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<sup>1</sup> [https://www.hcd.ca.gov/community-development/housing-element/housing-element-memos/docs/ab\\_1505\\_final.pdf](https://www.hcd.ca.gov/community-development/housing-element/housing-element-memos/docs/ab_1505_final.pdf)

these affordability terms are comparable to the terms required by some nearby jurisdictions, but shorter than the required affordability terms in others. For example, Sunnyvale requires a 55-year affordability term for rental inclusionary units and a 30-year affordability term for for-sale inclusionary units, while Cupertino and San Jose require a 99-year affordability term for both rental and for-sale inclusionary units. Los Gatos and Mountain View require that inclusionary units remain affordable in perpetuity.

**Table 1: Inclusionary Housing Affordability Terms in Nearby Jurisdictions**

	Term of Affordability (Years)	
	Rental Units	For Sale Units
Campbell (a)	55	45
Cupertino	99	99
Los Gatos (b)	In Perpetuity	In Perpetuity
Mountain View	In Perpetuity	In Perpetuity
San Jose (c)	99	99
Santa Clara (d)	55	20
Sunnyvale	55	30

(a) Affordability term for for-sale units renews at change of each title for the duration of the affordability term.  
 (b) Los Gatos has an ADU Incentive Program that provides financing for ADU construction in exchange for making the ADU affordable. In the case of affordable ADUs financed through the ADU incentive program, the affordability term is 30 years.  
 (c) Affordable housing developments request a term of affordability of less than 99 years and no less than 55 years.  
 (d) For-sale units must be re-sold to a qualifying buyer if sold within 5 years; City loan is forgiven in this instance. If resold within years 6-20, the seller may sell to any buyer but is required to pay off City loan and at sale and City receives a share of the increased equity.

Source: BAE, 2024.

## Affordability of Market-Rate Housing

Table 3 below shows the average market-rate rent in Campbell as of the third quarter of 2023 as well as the maximum affordable monthly rent for households of various sizes and income levels. The U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) characterize households as “extremely low-income,” “very low-income,” “low-income,” “moderate-income,” or “above-moderate income” based on percentages of the Area Median Income (AMI). These income categories are defined below.

- Extremely Low-Income: Up to 30 percent of AMI
- Very Low- Income: 31 percent to 50 percent of AMI
- Low-Income: 51 percent to 80 percent of AMI
- Moderate-Income: 81 percent to 120 percent of AMI
- Above-Moderate Income: More than 120 percent of AMI

The household incomes that correspond to each income level varies by household size, as shown in Table 2.

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**Table 2: Household Income Limits by Household Size, Santa Clara County, 2023**

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Income Level	Number of Persons in Household							
	1	2	3	4	5	6	7	8
Acutely Low	\$19,050	\$21,750	\$24,500	\$27,200	\$29,400	\$31,550	\$33,750	\$35,900
Extremely Low	\$37,450	\$42,800	\$48,150	\$53,500	\$57,800	\$62,100	\$66,350	\$70,650
Very Low Income	\$62,450	\$71,400	\$80,300	\$89,200	\$96,350	\$103,500	\$110,650	\$117,750
Low Income	\$96,000	\$109,700	\$123,400	\$137,100	\$148,100	\$159,050	\$170,050	\$181,000
Median Income	\$126,900	\$145,050	\$163,150	\$181,300	\$195,800	\$210,300	\$224,800	\$239,300
Moderate Income	\$152,300	\$174,050	\$195,800	\$217,550	\$234,950	\$252,350	\$269,750	\$287,150

Sources: California Department of Housing and Community Development, 2023; BAE, 2024.

In accordance with guidelines established by HUD, housing costs are generally considered to be affordable if a household’s housing costs are equal to no more than 30 percent of their household income. For lower-income households, having housing costs above this threshold often signifies that a household is at risk of losing their housing and may struggle to afford housing costs while also paying for food, transportation, health care, and other basic needs.

The analysis shown in Table 3 indicates that market-rate rents in Campbell exceed the affordability threshold for extremely low- and very low-income households, as well as for most low-income households. It should be noted that the incomes shown in the table are at the top of the income range for each group. Therefore, while Table 3 indicates that some one- and two-person households with incomes equal to 80 percent of AMI can afford market-rate rents, most lower-income households have incomes that fall somewhere below 80 percent of AMI. As a result, market-rate rents exceed the affordability threshold for all but a small portion of lower-income households.

This analysis indicates that many new workers in Campbell with moderate or above moderate household incomes will generally be able to afford market-rate rental units in the City, while workers with lower household incomes will generally not be able to afford market-rate housing in Campbell. While some market-rate units in Campbell have rents that fall below the averages shown in Table 3, data from Costar indicate that the multifamily rental vacancy rate in Campbell is approximately three percent. This suggests that new housing will need to be built to accommodate an increase in worker housing demand regardless of the level of affordability needed. The market-rate rents shown in Table 3 are based on all market-rate units in Campbell, regardless of property age, and therefore are lower than the rents that would be charged at a newer development. As a result, new market-rate units are unlikely to provide housing that is affordable for worker households with extremely low, very low, and low incomes, and these households will need rent-restricted affordable housing in order to be able to afford to live locally.

Based on the calculations shown in Table 3, the nexus analysis provided in this study evaluates the extent to which new development generates a need for housing for extremely low-income, very low-income, and low-income households. As displayed below, the amounts

below market rates are reflected in negative values shown in red parentheses or positive values shown in green. The nexus analysis does not focus on the housing need for moderate or above-moderate income households because households at these income levels are more likely to be able to afford market-rate housing.

**Table 3: Affordability of Market-Rate Multifamily Rental Units, Campbell, 2023**

	Household (Unit) Size				Affordable?
	1 Person (Studio)	2 Person (1 Bedroom)	3 Person (2 Bedrooms)	4 Person (3 Bedrooms)	
Average Market-Rate Rent (a)	\$2,063	\$2,542	\$3,025	\$3,818	
Utility Costs (b)	\$168	\$179	\$217	\$253	
<b>Maximum Affordable Monthly Rent</b>					
<b>Extremely Low Income (up to 30% AMI)</b>					
Household Income (c)	\$37,450	\$42,800	\$48,150	\$53,500	
Max. Affordable Monthly Rent (d)	\$768	\$891	\$987	\$1,085	
Amount Above (Below) Market Rate Rent	<b>(\$1,295)</b>	<b>(\$1,651)</b>	<b>(\$2,038)</b>	<b>(\$2,734)</b>	<b>No</b>
<b>Very Low Income (31-50% AMI)</b>					
Household Income (c)	\$62,450	\$71,400	\$80,300	\$89,200	
Max. Affordable Monthly Rent (d)	\$1,393	\$1,606	\$1,791	\$1,977	
Amount Above (Below) Market Rate Rent	<b>(\$670)</b>	<b>(\$936)</b>	<b>(\$1,235)</b>	<b>(\$1,841)</b>	<b>No</b>
<b>Low Income (51-80% AMI)</b>					
Household Income (c)	\$96,000	\$109,700	\$123,400	\$137,100	
Max. Affordable Monthly Rent (d)	\$2,232	\$2,564	\$2,868	\$3,175	
Amount Above (Below) Market Rate Rent	<b>\$169</b>	<b>\$21</b>	<b>(\$157)</b>	<b>(\$644)</b>	<b>No</b>
<b>Median Income (81-100% AMI)</b>					
Household Income (c)	\$126,900	\$145,050	\$163,150	\$181,300	
Max. Affordable Monthly Rent (d)	\$3,005	\$3,447	\$3,862	\$4,280	
Amount Above (Below) Market Rate Rent	<b>\$942</b>	<b>\$905</b>	<b>\$837</b>	<b>\$462</b>	<b>Yes</b>
<b>Moderate Income (101-120% AMI)</b>					
Household Income (c)	\$152,300	\$174,050	\$195,800	\$217,550	
Max. Affordable Monthly Rent (d)	\$3,640	\$4,172	\$4,678	\$5,186	
Amount Above (Below) Market Rate Rent	<b>\$1,577</b>	<b>\$1,630</b>	<b>\$1,653</b>	<b>\$1,368</b>	<b>Yes</b>

**Notes:**

(a) The average asking multifamily rent by number of bedrooms in the City of Campbell at the end of the third quarter of 2023, as reported by CoStar.

(b) Housing Authority of Santa Clara County 2023 allowances for tenant-furnished utilities and other services for a multifamily unit that uses electricity for cooking, heating, and water heating, as well as electricity for lights and appliances. Figure assumes the tenant is charged for water and sewer services. The allowance is based on the number of bedrooms in the unit and a household is assumed to have one bedroom fewer than the number of people in the household.

(c) California Department of Housing and Community Development 2023 income limits for Santa Clara County.

(d) Assumes 30 percent of income spent on rent and utilities.

Sources: CoStar, 2023; California Department of Housing and Community Development, 2023; HUD OMB 2577-0169, 2022; Housing Authority of Santa Clara County, 2023; BAE, 2023.

## Input from Developers

The process for preparing this nexus study report included obtaining input from residential and non-residential developers through a series of one-on-one interviews, two developer focus group sessions, and an online developer survey. The developer interviews focused on collecting input on detailed assumptions for the financial feasibility analysis and also included

some general discussion of the impact that changes in the in-lieu fees and adoption of commercial linkage fees might have on development feasibility in Campbell.

The developer focus group sessions focused on more general discussion of development feasibility and the potential impacts of a new commercial linkage fee and changes to the inclusionary housing in-lieu fee. Attendees were also asked to provide input on ways that the City might implement any changes in a manner that would minimize any potential negative impacts on feasibility. More than 56 individuals were invited to participate in the focus groups, approximately six attended the meeting on commercial linkage fees, and approximately 17 attended the meeting on inclusionary housing in-lieu fees.

The following subsections summarize the input received during this process.

### ***Input Related to Fees on Both Non-Residential and Residential Development***

- **Input on assumptions for financial feasibility analysis.** Survey respondents and participants in one-on-one interviews provided information on detailed assumptions for the financial feasibility analysis, including but not limited to information on hard construction costs, soft costs, land costs, rents, sale prices, and capitalization rates in Campbell.
- **Transparency and predictability of requirements.** Many participants highlighted the need for transparency and predictability in the requirements that apply to new development projects, both for residential and non-residential development. Participants that provided input on commercial linkage fees expressed a need for a clear, concise, easy to understand fee structure. Similarly, participants that provided input on inclusionary requirements and in-lieu fees emphasized a need to know the requirements before purchasing land and starting to plan a project. Both residential and non-residential developers indicated that development fees and inclusionary requirements affect the price that developers will offer for a development site. As a result, developers seek to understand the requirements that apply to a particular property before purchasing the land, and changes to those requirements after the land is purchased can impact the financial feasibility of the project. Participants also requested that Campbell designate a member of City staff to be knowledgeable in all fees that apply to development projects and act as a point of contact for developers seeking information on the fees that would apply to a proposed development project.
- **Applicability to mixed-use projects.** One developer that participated in the process commented that mixed-use projects with residential and nonresidential uses should not be required to provide affordable units in the residential component of the project and pay a commercial linkage fee for the nonresidential component of the project, particularly when the non-residential component of the project provides City tax revenues, such as in the case of a hotel that generates transient occupancy tax.

### *Input Related to Fees on Non-Residential Development*

- **Financial feasibility challenges for non-residential development.** Participants cited significant financial feasibility challenges for non-residential development in Campbell and expressed concern that commercial linkage fees would add to these challenges. Participants noted that office vacancy rates remain high, and rents remain low as the office market continues to adjust to remote and hybrid work patterns following the COVID-19 pandemic. Developers noted that Campbell tends to have higher office vacancy rates and lower office rents than many nearby jurisdictions such as Cupertino and Mountain View. Meanwhile, construction costs and financing costs are comparable throughout the region and have increased substantially. Industrial developers cited similar challenges. Some developers noted that office building owners in Campbell are investors, whereas other cities have a large number of owner-occupants such as Apple and Google. One developer stated that Palo Alto will be first city in the area to experience development activity when office development activity resumes in the region, followed by cities such as Redwood City, Mountain View, and Sunnyvale, with developer interest in Campbell occurring relatively late in the market cycle. This developer noted that Campbell did not experience significant demand for new office development even during the strong office development environment that Santa Clara County experienced prior to the COVID-19 pandemic.
- **Timing of commercial linkage fee collection.** Some developers expressed a preference for having the option to pay commercial linkage fees later in the process than is typical for impact fees. For example, some focus group participants expressed a preference for a fee that would be collected when a building is sold rather than prior to project completion. Other participants stated that deferring fees to the issuance of certificate of occupancy would help with financial feasibility. Participants noted that fees that must be paid early in the development process (e.g., at building permit issuance) must be financed, adding expensive financing costs to the project.
- **Phase-in process.** One developer recommended phasing in any new commercial linkage fees by applying no fee to projects occurring in the near term until a set citywide square footage cap is met, then applying any new fees at a rate of half of the full rate until a second set citywide square footage cap is met, then applying the full fee rate. The intent of this strategy would be to encourage nonresidential development in Campbell in the near term as some developers may be incentivized to proceed before the fee comes into effect. In addition, the intent of this strategy would be to time the phase-in of the fee based on the strength of the market in Campbell, with the strength of the market being measured by the volume of citywide nonresidential construction activity.
- **Alternatives for generating revenue for affordable housing.** Some participants recommended alternatives to a commercial linkage fee to generate revenue for

affordable housing, such as using a portion of the City's transient occupancy tax revenues or instituting a transfer tax on the sale of all property.

### *Input Related to Fees on Residential Development*

- **Financial feasibility of residential development.** Some participants noted financial feasibility challenges for residential development in Campbell, though participants also indicated a continued interest in pursuing residential development projects in Campbell. Some developers cited inclusionary requirements as a factor that has a negative impact on feasibility. One developer recommended that the City reduce inclusionary requirements either permanently or temporarily to encourage development. One developer commented on the challenges associated with acquiring properties from long-term owners that have existing income-generating tenants and a low carrying cost for their property due to low property taxes. These property owners are often reluctant to take on the risk of a redevelopment project or to accept a one-time payout from a property sale, rather than continuing to collect revenue from these properties in their current condition. Other factors cited as challenges included design standards and CEQA requirements. High construction costs and interest rates were also cited as major factors that are negatively impacting the financial feasibility of residential development. High interest rates have not only made development more expensive but have also provided more profitable returns from a range of investment types, making it more difficult to attract investors to real estate development projects with lower rates of return.
- **In-lieu fee option for residential projects.** Some participants expressed support for increasing the availability of the in-lieu fee option for residential projects, which is currently available only for projects with a density of six dwelling units per acre or less in Campbell, to allow the use of an in-lieu fee for projects at higher densities. Some participants noted that the option to pay an in-lieu fee could be subject to City Council approval. Participants also requested that the City provide an option to pay an in-lieu fee to satisfy the requirements for some units and provide the remainder of the units on site. For example, a developer might have the option to pay an in-lieu fee for the requirement to provide low-income units but would provide very low-income units in the project to be eligible for the State Density Bonus. Affordable housing developers that participated in the process noted that in-lieu fees can provide an important source of funding for affordable housing developments. Funding generated by these fees helps to fill critical gaps and makes projects more competitive for state and federal funds, many of which prioritize projects that receive local funding support.
- **Flexibility in meeting inclusionary requirements.** In addition to the flexibility to pay an in-lieu fee, developers highlighted the benefits of flexibility in meeting the inclusionary requirements more generally and allowing developers to propose creative solutions. For example, one developer cited the example of a project with a mix of rental and for-

sale units that provided all affordable units as rental units rather than providing both rental units and for-sale units as affordable units.

- **Project size threshold for inclusionary ordinance.** In general, participants opposed reducing the size threshold for the City’s inclusionary requirements below the current threshold of ten units, and some recommended that the City consider increasing the size threshold. Participants stated that reducing the size threshold would have a negative impact on financial feasibility for infill projects and smaller projects that provide middle-income housing.
- **Fee calculation methodology.** Developers commented that the City method of calculating fees results in a significantly lower fee compared to other communities and should drop its current method of calculating fees (which multiplies the fee against the assumed size of the unit “not provided”) in favor of that used by other jurisdictions (which multiplies the fee based on total livable area developed in the project), including the City of Mountain View.

## AB 602 Requirements

The provisions of Assembly Bill 602 (AB 602, 2021 Legislative Cycle) came into effect in January 2022, enacting new requirements for impact fees and impact fee nexus studies. While some provisions of the legislation apply only to impact fees that apply to residential development, other provisions apply to impact fees charged on both residential and non-residential development. Key provisions of AB 602 include:

- **Level of Service.** AB 602 requires that impact fee nexus studies “identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new level of service is appropriate.” (See Government Code Section 66016.5(a)(2).)
- **Prior Nexus Study Assumptions and Fees Collected.** Pursuant to AB 602, Government Code Section 66016.5(a)(4) provides that “if a nexus study supports the increase of an existing fee, the local agency shall review the assumptions of the nexus study supporting the original fee and evaluate the amount of fees collected under the original fee.”
- **Capital Improvement Plan.** Under AB 602, Government Code Section 66016.5(6) states that “large jurisdictions shall adopt a capital improvement plan as a part of the nexus study.” For the purposes of this provision, Campbell is classified as a large jurisdiction.<sup>2</sup>
- **Residential Fees Proportional to Square Footage.** AB 602 stipulates that “if [a nexus] study is adopted after July 1, 2022, [it must] either calculate a fee levied or imposed

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<sup>2</sup> AB 602 uses the definition of a “large jurisdiction” that is contained in Section 53559.1 of the California Health and Safety Code. This section defines a large jurisdiction as a county with a population of 250,000 or more as of January 1, 2019 or any city within that county.

on a housing development project proportionately to the square footage of the proposed units, or make specified findings explaining why square footage is not an appropriate metric to calculate the fees.”

- **30-Day Noticing.** Under AB 602, “All studies shall be adopted at a public hearing with at least 30 days’ notice, and the local agency shall notify any member of the public that requests notice of intent to begin an impact fee nexus study of the date of the hearing.”
- **Updates Every Eight Years.** AB 602 stipulates that nexus studies “shall be updated at least every eight years, from the period beginning on January 1, 2022.”

Appendix A provides an analysis of AB 602 compliance for the commercial linkage fee and inclusionary in-lieu fees that are evaluated in this report.

## AB 1505 Requirements

California State Assembly Bill 1505 (AB 1505), which was signed into law as part of the State’s 2017 housing legislation package, provides cities with the authority to adopt inclusionary ordinances for rental developments. Inclusionary ordinances for for-sale developments were already permissible under State law prior to the adoption of AB 1505. One of the key provisions of the legislation requires that local jurisdictions with inclusionary ordinances provide developers with at least one alternative for complying with the ordinance, such as an in-lieu fee payment, land dedication, or off-site construction of affordable units.

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

- **The ordinance requires more than 15 percent of units to be affordable to households with incomes equal to 80 percent of the AMI or less.**
  - Applicability to Campbell: The City of Campbell’s existing inclusionary ordinance does not require more than 15 percent of units to be affordable to households with incomes equal to 80 percent of the AMI or less and is thus not subject to HCD review per AB 1505.
- **Either: 1) the jurisdiction did not meet at least 75 percent of its above-moderate income Regional Housing Needs Allocation (RHNA) over at least a five-year period, or 2) the jurisdiction failed to submit its annual Housing Element report for at least two consecutive years.**
  - Applicability to Campbell: The City of Campbell did meet at least 75 percent of its above-moderate income RHNA over the last eight-year period (RHNA 5) and has submitted its annual Housing Element report yearly.

- **Less than ten years have passed since the adoption or amendment of the ordinance.**
  - Applicability to Campbell: The City of Campbell's ordinance has been updated in the past ten years.

Campbell's ordinance does not meet any of the above criteria and thus would not trigger a review by HCD. Nonetheless, regardless of the specific provisions of AB 1505, HCD could consider the financial feasibility of the City's inclusionary ordinance as part of its review of future City of Campbell Housing Element Updates to assess whether the requirements constitute an undue constraint on housing production.

## 2. COMMERCIAL LINKAGE FEE ANALYSIS

This chapter provides an analysis of commercial linkage fees in the City of Campbell.

The first portion of this chapter consists of the nexus analysis, which identifies the relationship between the construction of new commercial space, the need for affordable housing, and the need for City funds to construct affordable housing. The nexus analysis establishes the maximum amount that the City can charge based on the need created by new development. Local jurisdictions often charge less than the maximum amount due to financial feasibility considerations or various policy objectives.

The second portion of the chapter provides a financial feasibility analysis to evaluate how commercial linkage fees might impact the feasibility of new commercial development in Campbell. This portion of the analysis is intended to inform policy decisions regarding the implementation of commercial linkage fees, including setting fee rates.

Recommendations supported by the analysis provided in this chapter are addressed in a separate chapter of this report, along with recommendations supported by the analysis of inclusionary housing in-lieu fees.

### Commercial Linkage Fee Nexus Analysis

The nexus portion of the commercial linkage fee analysis identifies the relationship, or “nexus”, between the construction of new non-residential projects and the need for affordable housing funds. The commercial linkage fee nexus analysis is based on the premise that new commercial land uses generate new employment for workers that will have a range of household incomes. Due to high housing costs in Campbell, new workers with extremely low, very low, or low household incomes will be unable to afford most market-rate housing in the City without incurring substantial cost burdens. The resulting impact from new non-residential development is an increase in workers in Campbell that face a lack of affordable housing options. The commercial linkage fee mitigates these impacts by generating revenue to support the construction of housing affordable to the new lower-income worker households.

The process for estimating the relationship between new non-residential development and the fee revenue necessary to address the resulting affordable housing need consists of the following steps:

- Step 1: Identify land uses and employment densities.** This step consists of identifying the land uses that will be evaluated in the nexus analysis as well as the typical employment density (i.e., square feet per worker) for each use type.

**Step 2: Estimate worker households by income level for each land use type.** For each land use, the estimated number of worker households at each income level is a function of:

- The employment density for that land use (as identified in Step 1);
- The typical income distribution among workers employed in the land use (estimated as part of Step 2); and
- The typical number of workers per household among workers at each income level (estimated as part of Step 2).

This step yields an estimate of the number of lower-income worker households (i.e., those with household incomes equal to 80 percent of AMI or less) that each land use generates. This number constitutes the estimated affordable housing need associated with each land use type.

**Step 3: Calculate the affordable housing financing gap.** The financing gap is the amount of public subsidy needed to finance an affordable housing unit.

**Step 4: Calculate the maximum nexus-based fee.** The maximum nexus-based fee is equal to the number of lower-income worker households from Step 2 multiplied by the affordable housing financing gap from Step 3.

Each of these steps is discussed in more detail in the following sections.

### ***Step 1: Land Uses and Employment Densities***

This analysis evaluates the following four land uses:

- Office
- Retail/Restaurant
- Hotel
- Industrial

For each land use, this study estimated the average employment density, expressed in terms of square feet of built space per worker. The process for the Nexus Study included a review of several studies to estimate average employment densities for each land use type, including Environmental Impact Reports for projects in the region, other commercial linkage fee nexus studies, and US Energy Information Administration Commercial Buildings Energy Consumption Survey data. Actual employment density can vary depending on the specific occupants in a given use. Therefore, this study uses employment densities that may be slightly higher than is typical for some uses to avoid overestimating the impacts of new development and to provide a conservative estimate of the maximum fee rate.

For example, the office employment density shown in the table likely provides a particularly conservative estimate of the number of workers in most new office developments. This study assumes an office density of 300 square feet per worker, though many offices have

transitioned to employment densities of 200 square feet per worker or less over the past decade. Moreover, in many cases more recent increases in hybrid work arrangements have led to increased employment densities within offices that are occupied. This is because employers with hybrid workers are less likely to have individual offices, desks, or workstations for workers who do not report to the office every day, and to increase the use of shared workspaces, leading to a decrease in office square footage per worker.<sup>3</sup> While the number of people occupying an office space on any given day may shift with higher and lower densities depending on the day, the total number of workers that report to an office location, and therefore must live within the area, may be higher for a hybrid work environment compared to an environment in which all workers report to the office every day. Due to shared workspaces for hybrid workers, as well as the lack of a need to rent or purchase office space for workers that work entirely remotely, many employers have been able to decrease their office footprint, with a higher employment density within the occupied space. While these trends have generally led to increased office vacancies, these vacancies would not be expected to impact new office developments that are constructed in the future because developers will only pursue new development once they have confidence that new space will be leased up, or in a build-to-suit scenario in which a future tenant is already identified. As a result, new office space that is built in Campbell will likely be occupied at a higher employment density than is estimated in this analysis. To the extent that this analysis underestimates employment densities, this study provides a conservative estimate of the impact of new non-residential development and of the maximum fee that the City could charge based on the relationship between new development and the need for affordable housing.

As shown below, this nexus analysis assumes an employment density of 300 square feet per employee for office uses, 500 square feet per employee for retail and restaurant uses, 1,500 square feet per employee for hotel uses, and 750 square feet per employee for industrial uses.

**Table 4: Employment Densities by Land Use**

	<b>Office</b>	<b>Retail/ Restaurant</b>	<b>Hotel</b>	<b>Industrial</b>
Average Sq. Ft./Employee	300	500	1,500	750
Employees per 1,000 SF	3.33	2.00	0.67	1.33

Source: BAE, 2022.

<sup>3</sup> See [https://www.bisnow.com/national/news/office/office-occupiers-plan-to-shrink-footprints-even-attendance-mandates-rise-121624?utm\\_source=outbound\\_pub\\_7&utm\\_campaign=outbound\\_issue\\_72236&utm\\_content=outbound\\_link\\_7&utm\\_medium=email](https://www.bisnow.com/national/news/office/office-occupiers-plan-to-shrink-footprints-even-attendance-mandates-rise-121624?utm_source=outbound_pub_7&utm_campaign=outbound_issue_72236&utm_content=outbound_link_7&utm_medium=email).

### ***Step 2: Worker Households by Income Level***

Worker occupations, salaries, and associated household incomes tend to vary between industries, and therefore this analysis identifies the industry sectors that might occupy each of the four land uses as a first step in identifying affordable housing need among worker households.

Researchers in economics typically categorize business establishments based on the North American Industry Classification System (NAICS), which provides numerical codes by industry sector. NAICS codes group all industries into 20 major industry categories, each identified with a two-digit code. Within each two-digit NAICS sector, more detailed sub-categories of industries are identified by three-digit NAICS codes, which are themselves comprised of more detailed subcategories of industries, up to the six-digit NAICS code level, with more digits associated with more detailed subcategories. For example, NAICS sector 72, Accommodation and Food Services, is comprised of NAICS code sectors 721 (Accommodation) and 722 (Food Services and Drinking Places). NAICS codes 721 and 722 are comprised of more detailed industries, identified by NAICS codes with four to six digits, depending on the level of specificity of the subcategories.

BAE developed a list of representative industries using NAICS-based Census industry categories likely to occupy each of the four commercial land uses. The U.S. Census Bureau uses this classification system as a basis for their system for classifying workers by industry for the American Community Survey (ACS). Each worker surveyed is categorized by a scheme which roughly corresponds to NAICS four-digit level data. Published ACS data roll the detailed categories up into several major industry categories, but a more detailed data set, the Public Use Microdata Sample (PUMS), allows analysis at a more fine-grained level. BAE queried the PUMS data set for Santa Clara County to identify the distribution of worker households by HCD income category, using the household incomes and household size for workers in the industries identified for each of the four commercial land uses. Table 5 below presents the distribution of worker households by HCD income level.

**Table 5: Distribution of Worker Households by Income**

Land Use	Estimated Household Income as a Percent of AMI						Total
	Extremely			Above			
	Low	Very Low	Low	Median	Moderate	Moderate	
Office	2.1%	3.1%	5.0%	7.1%	7.6%	75.1%	100.0%
Retail/Restaurant	10.7%	14.4%	17.3%	13.7%	9.6%	34.4%	100.0%
Hotel	10.9%	17.8%	23.4%	13.3%	11.4%	23.3%	100.0%
Industrial	3.2%	6.5%	9.5%	10.0%	9.6%	61.1%	100.0%

**Notes:**

Based on a cross tabulation of Public Use Microdata Samples (PUMS) from the 2017-2021 American Community Survey. These incomes were compared to household income limits published by the State of CA Department of Housing and Community Development (HCD) to determine the percentage of households falling into each income category. The analysis controlled for household size, to address the varying HCD income limits for each household size.

Sources: Census, American Community Survey Public-Use Microdata Sample (PUMS) 2017-2021; HCD; BAE, 2023.

The percentages in the household income distributions were then applied to the total workers per 1,000 square feet shown above in Table 4 to estimate the number of jobs per 1,000 square feet in each income category. The analysis translates the number of jobs into households by dividing the number of jobs by the average number of workers per worker household for each income category, using PUMS data to identify the average number of workers per worker household by household income level. As shown below in Table 6, office space generates an estimated 1.81 worker households per 1,000 square feet, including 0.21 lower-income (i.e., extremely low-income, very low-income, and low-income) worker households. Retail space generates an estimated 1.16 worker households per 1,000 square feet, including 0.54 lower-income worker households. Hotels generate an estimated 0.39 worker households per 1,000 square feet, including 0.22 lower-income worker households. Industrial space generates an estimated 0.73 worker households per 1,000 square feet, including 0.16 lower-income worker households.

**Table 6: Worker Households by Income Level by Land Use**

Land Use	Estimated Household Income as a Percent of AMI (a)						Total
	Extremely Low	Very Low	Low	Median	Moderate	Above Moderate	
<b>Office</b>							
Proportion of Total Jobs (b)	2.1%	3.1%	5.0%	7.1%	7.6%	75.1%	100.0%
Estimated Jobs per 1,000 SF (c)	0.07	0.10	0.17	0.24	0.25	2.50	3.33
<b>Worker Households per 1,000 SF (d)</b>	<b>0.05</b>	<b>0.07</b>	<b>0.09</b>	<b>0.13</b>	<b>0.14</b>	<b>1.32</b>	<b>1.81</b>
<b>Retail/Restaurant</b>							
Proportion of Total Jobs (b)	10.7%	14.4%	17.3%	13.7%	9.6%	34.4%	100.0%
Estimated Jobs per 1,000 SF (c)	0.21	0.29	0.35	0.27	0.19	0.69	2.00
<b>Worker Households per 1,000 SF (d)</b>	<b>0.16</b>	<b>0.18</b>	<b>0.20</b>	<b>0.15</b>	<b>0.11</b>	<b>0.36</b>	<b>1.16</b>
<b>Hotel</b>							
Proportion of Total Jobs (b)	10.9%	17.8%	23.4%	13.3%	11.4%	23.3%	100.0%
Estimated Jobs per 1,000 SF (c)	0.07	0.12	0.16	0.09	0.08	0.16	0.67
<b>Worker Households per 1,000 SF (d)</b>	<b>0.05</b>	<b>0.08</b>	<b>0.09</b>	<b>0.05</b>	<b>0.04</b>	<b>0.08</b>	<b>0.39</b>
<b>Industrial</b>							
Proportion of Total Jobs (b)	3.2%	6.5%	9.5%	10.0%	9.6%	61.1%	100.0%
Estimated Jobs per 1,000 SF (c)	0.04	0.09	0.13	0.13	0.13	0.81	1.33
<b>Worker Households per 1,000 SF (d)</b>	<b>0.03</b>	<b>0.05</b>	<b>0.07</b>	<b>0.07</b>	<b>0.07</b>	<b>0.43</b>	<b>0.73</b>
Average # of Workers per Household (e)	1.34	1.57	1.78	1.83	1.83	1.89	

Notes:

(a) Based on income limits published by HCD.

(b) Based on a cross tabulation of Public Use Microdata Samples (PUMS) from the 2017-2021 American Community Survey. These incomes were compared to household income limits published by HCD to determine the percentage of households falling into each income category. The analysis controlled for household size, to address the varying income limits for each household size. Figures for each land use are based on a combination of NAICS sectors deemed likely to be found in each land use.

(c) Total number of jobs per 1,000 SF of each land use as shown in Table 5, multiplied by the proportion of jobs in each income category.

(d) Estimated number of jobs multiplied by the average number of workers per household in each income category.

(e) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2017-2021.

Sources: American Community Survey, 2017-2021 Public Use Microdata Sample; CA Dept. of Housing and Community Development (HCD); BAE, 2023.

**Step 3: Financing Gap**

The next step in the nexus analysis is to calculate the cost to house the extremely low-, very low-, and low-income households calculated in Step 3 by determining the per unit “financing gap” for an affordable unit. The nexus analysis defines the financing gap for an affordable unit as the difference between the cost to develop an affordable unit and the amount of permanent financing available to support the development of the unit.

**Affordable Unit Development Cost.** To estimate the average construction cost for an affordable unit, BAE reviewed cost estimates provided in applications for tax credit funding that were submitted in 2022 and 2023 for proposed affordable housing developments in Santa Clara County. Cost information from applications submitted in 2022 was inflated to

2023 estimates based on the RS Means Historical Cost Index. Based on the information from these applications, BAE estimated that the average cost to construct an affordable housing unit in Campbell is approximately \$720,000, as shown in Table 7 below.

**Permanent Financing.** To calculate the financing gap for an affordable unit, the nexus analysis assumes that an affordable housing developer is able to secure four percent LIHTC equity financing as well as a permanent loan based on the net operating income (NOI) from each unit.

This analysis assumes four percent LIHTC equity financing because this funding source is more readily available than nine percent LIHTC financing, for which there is considerable competition. However, it should be noted that four percent LIHTC financing is nonetheless limited and is unlikely to be available at the levels that would be necessary to construct all affordable units needed to address housing needs generated by new non-residential developments. In addition, inclusion of four percent tax credits as a funding source shifts some of the cost of providing affordable housing onto the public sector because the tax credits reduce the tax credit investors' tax liability. Including four percent LIHTC financing as a source of funding in the nexus model reduces the net affordability gap shown in Table 7, and therefore serves as a conservative assumption in estimating the cost associated with mitigating the housing needs generated by new non-residential development. As shown in Table 7, four percent LIHTC equity would provide an estimated \$296,549 per affordable unit, based on an average cost of approximately \$720,000 per unit and standard current four percent tax credit pricing assumptions.

The financing gap calculation does not include financing from other public funding sources because other sources are limited and typically require a heavily competitive application process. These sources are not sufficient to fully address affordable housing needs that arise due to the impacts of future non-residential development projects in Campbell.

Table 7 also shows the estimated permanent loan amount per unit, based on the NOI from each unit (i.e., gross income net of vacancy and expenses) and typical financing terms. The rental rates used in this analysis are the 2023 rent limits for a two-bedroom unit for households at each income level, as set by the Tax Credit Allocation Committee (TCAC) for LIHTC projects, net of an estimated utility allowance. The use of the two-bedroom rent limit provides a conservative assumption because units in affordable housing developments tend to have a large share of studio and one-bedroom units, which have lower rental rates. Using the higher two-bedroom rental rate results in more assumed rental income from the affordable units, which results in a lower financing gap and a lower maximum fee amount. The vacancy, miscellaneous income, and operating expense assumptions shown in Table 7 are also based on information provided in 2022 and 2023 applications for LIHTC funding for projects in Santa Clara County. Based on the NOI for units at each affordability level and standard financing assumptions, the supportable loan amount ranges from \$38,099 per unit for units serving

extremely low-income households to \$384,970 per unit for units serving low-income households.

**Net Financing Gap.** The financing gap per affordable unit is equal to the total development cost less the tax credit equity and supportable loan amount. As shown, the financing gap per affordable unit ranges from \$91,493 for low-income units to \$384,970 for extremely low-income units. The financing gap has an inverse relationship to the income levels that each unit serves because units with higher income targeting generate more NOI and can therefore support higher debt service payments on a loan. The financing gap figures shown in Table 7 represent the amount of permanent financing subsidy that the City of Campbell would need to provide to support the development of units at each income level, assuming that the City's funds are leveraged with four percent tax credits and a permanent loan.

**Table 7: Affordable Housing Financing Gaps, Campbell, 2023**

	Income Group		
	Extremely Low	Very Low	Low
Household Income Limit (a)	\$48,150	\$80,300	\$123,400
Maximum Affordable Monthly Contract Rent per Unit (b)	\$987	\$1,790	\$2,995
Annual Gross Rent per Unit	\$11,844	\$21,480	\$35,940
Less 5% Vacancy	(\$592)	(\$1,074)	(\$1,797)
Miscellaneous Income per Unit (Annual) (c)	\$153	\$153	\$153
Less 5% Vacancy	(\$8)	(\$8)	(\$8)
Total Annual Revenue per Unit	\$11,397	\$20,551	\$34,288
Less Annual Operating Expenses per Unit (c)	\$8,425	\$8,425	\$8,425
Annual Net Operating Income per Unit	\$2,972	\$12,126	\$25,863
Annual Supportable Debt Service per Unit (d)	\$2,584	\$10,544	\$22,490
Total Development Costs per Affordable Unit (e)	\$719,619	\$719,619	\$719,619
Less: Permanent Loan Amount (f)	(\$38,099)	(\$155,461)	(\$331,577)
Less: Tax Credit Financing (4% LIHTC) (g)	<u>(\$296,549)</u>	<u>(\$296,549)</u>	<u>(\$296,549)</u>
<b>Financing Gap per Affordable Unit (h)</b>	<b>\$384,970</b>	<b>\$267,608</b>	<b>\$91,493</b>

**Assumptions****Financing Terms**

Debt Coverage Ratio	1.15
Interest Rate	5.46%
Amortization of Loan	30

**Tax Credit Assumptions**

Tax Credit Price	\$0.890
Eligible Basis %	89.1%
DDA Boost (i)	130%
Tax Credit Term (years)	10
4% Tax Credit Percentage	4.00%
Equity Partner Share	99.99%

**Notes:**

- (a) Based on a 3-person household, CA Department of Housing & Community Development, 2023.
- (b) Maximum affordable rents for 2-bedroom units per TCAC rent limits, net of 2-bedroom utility costs as shown in Table 3.
- (c) Data from funding applications for recent affordable housing projects in Santa Clara County.
- (d) Net Operating Income divided by Debt Coverage Ratio.
- (e) Based on financing terms assumptions.
- (f) The financing gap calculations that are shown in this table incorporate credit financing to offset a portion of the cost of constructing an affordable unit, which reduces the estimated financing gaps. However, it should be noted that projects must compete for tax credit financing, with a limited amount of funding available from tax credit financing in each round. It is unlikely that enough tax credits would be available to fully address affordable housing needs in Campbell or in the broader region, and therefore full mitigation of housing needs would likely require affordable housing developments to be constructed without tax credit financing. Therefore, the financing gaps shown in this table likely represent an underestimate of the funding that would be needed to address the full need.
- (g) Total Development Costs less Loan Amount and tax credit financing.
- (h) Average of development costs shown in low-income housing tax credit applications submitted in 2022 and 2023 for projects in Santa Clara County.
- (i) A portion of Campbell is designated as a difficult to develop area (DDA), meaning that projects in that portion of the City would receive a tax credit boost. This analysis applies the DDA boost to the tax credit assumptions to provide a conservative analysis, as projects built in Campbell that are outside of a DDA would not receive a DDA boost and would have a larger financing gap.

Sources: California Tax Credit Allocation Committee, 2022 and 2023; California Department of Housing and Community Development, 2023; Novogradac, 2023; BAE, 2023.

***Step 4: Maximum Nexus-Based Fee***

The final step in calculating the nexus-based fee is to apply the financing gap per affordable unit for each income level to the total housing need by income level for each of the non-residential uses. This is the maximum justifiable fee amount because it is directly derived from the nexus analysis described above (i.e., new commercial development generating new jobs combined into new worker households distributed by income band, and the cost to provide new affordable rental housing units to these same households). Because these fee rates are derived from the nexus analysis, these fee rates represent the maximum amount that the City of Campbell could charge based on the relationship between new non-residential development and the need for affordable housing funds. The City can choose to charge fees that are lower than this amount based on financial feasibility considerations or other factors. The following section of this chapter evaluates commercial linkage fees in Campbell from a financial feasibility perspective.

As shown in Table 8 below, the nexus-based fees are as follows:

- Office: \$47 per square foot
- Retail/Restaurant: \$128 per square foot
- Hotel: \$49 per square foot
- Light Industrial: \$34 per square foot

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**Table 8: Maximum Legal Commercial Linkage Fees, Campbell**

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<u>Income Level</u>	<u>Affordable Housing Need Per 1,000 SF (a)</u>	<u>Financing Gap (b)</u>	<u>Maximum Fee Per 1,000 SF (c)</u>	<u>Maximum Fee Per SF (d)</u>
<b>Office</b>				
Extremely Low Income (up to 30% AMI)	0.05	\$384,970	\$20,533	\$20.53
Very Low Income (31-50% AMI)	0.07	\$267,608	\$17,774	\$17.77
Low Income (51-80% AMI)	0.09	\$91,493	\$8,546	\$8.55
<b>Total</b>	<b>0.21</b>		<b>\$46,853</b>	<b>\$46.85</b>
<b>Retail/Restaurant</b>				
Extremely Low Income (up to 30% AMI)	0.16	\$384,970	\$61,460	\$61.46
Very Low Income (31-50% AMI)	0.18	\$267,608	\$49,141	\$49.14
Low Income (51-80% AMI)	0.20	\$91,493	\$17,858	\$17.86
<b>Total</b>	<b>0.54</b>		<b>\$128,459</b>	<b>\$128.46</b>
<b>Hotel</b>				
Extremely Low Income (up to 30% AMI)	0.05	\$384,970	\$20,876	\$20.88
Very Low Income (31-50% AMI)	0.08	\$267,608	\$20,232	\$20.23
Low Income (51-80% AMI)	0.09	\$91,493	\$8,021	\$8.02
<b>Total</b>	<b>0.22</b>		<b>\$49,129</b>	<b>\$49.13</b>
<b>Industrial</b>				
Extremely Low Income (up to 30% AMI)	0.03	\$384,970	\$12,480	\$12.48
Very Low Income (31-50% AMI)	0.05	\$267,608	\$14,677	\$14.68
Low Income (51-80% AMI)	0.07	\$91,493	\$6,558	\$6.56
<b>Total</b>	<b>0.16</b>		<b>\$33,715</b>	<b>\$33.72</b>

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**Note:**

(a) See Table 6.

(b) See Table 7.

(c) Equal to the affordable housing need per 1,000 SF at each income level multiplied by the financing gap at the corresponding income level.

(d) Equal to the maximum possible nexus-based fee per 1,000 SF divided by 1,000.

Source: BAE, 2023.

## **Commercial Linkage Fee Financial Feasibility Analysis**

This section evaluates the financial feasibility of Commercial Linkage Fees in Campbell. The nexus analysis provided in the previous section of this chapter identifies maximum justifiable fee rates based on the relationship between the impact that new development creates and the fees necessary to address that impact. However, jurisdictions that adopt these fees typically charge fee rates that are lower than the maximum amount identified in the nexus analysis to account for financial feasibility considerations.

To test the financial feasibility of commercial linkage fees in Campbell, BAE prepared static pro forma financial feasibility models to evaluate the economics of developing office, retail, hotel, and industrial uses in Campbell. The purpose of the financial feasibility analysis is to determine the feasibility of new non-residential development projects under current market conditions and identify commercial linkage fee rates that could potentially be applied to new non-residential development while minimizing any impacts on development feasibility.

### ***Non-Residential Development Trends in Campbell***

Since 2010, the inventory of non-residential space in the City of Campbell has remained fairly stagnant, despite significant expansion of these uses elsewhere in Santa Clara County. In terms of new development in Campbell, Costar data indicate that the city's most recent major office development was in 2017, with the delivery of a 200,000 square foot project. Although there has been limited new office space delivered since this project, there is an office project currently under construction in the city, amounting to roughly 166,000 square feet of new office space. In terms of new retail space, Campbell's most recent retail development was 12,000 square feet, delivered in 2022, with a limited amount of new retail delivered in years prior. New industrial development has also been limited in Campbell, with just one recent project delivered in 2023 amounting to 7,000 square feet. Lastly, the city's most recent new hotel development was in 2010, when a 162-room hotel (the Marriot Residences Inn) was delivered.

### ***Prototype Projects***

The financial pro forma analysis evaluated four non-residential prototypes, which are summarized in Table 9 below. These prototypes include an office prototype, a retail prototype, a hotel prototype, and a light industrial prototype. The prototypes are based on the City's land use regulations, as well as recent projects that have been constructed or are currently in the development pipeline in Campbell. These prototypes were also informed by feedback from developers during the non-residential developer focus group meeting and one-on-one meetings with local stakeholders as well as in the developer surveys.

### ***Methodology***

The methodology used for this study involved preparation of static pro forma financial feasibility models for each of the prototypes described above. The static pro forma models represent a form of financial feasibility analysis that developers often use at a conceptual level

of planning for a development project, as an initial test of financial feasibility for a development concept, to screen for viability. BAE developed the various modeling inputs and assumptions needed for the financial feasibility analysis based on interviews with non-residential developers that are active in the Campbell area, responses to the developer survey, data from industry publications and databases, and other research.

**Residual Land Value.** The pro-forma models are structured to calculate the residual land value associated with each prototype. The residual land value for a non-residential project is equal to the value of the completed project, net of total development costs. To estimate the value of the completed project (net of developer profit), the feasibility models divide the Net Operating Income (NOI) from the project (i.e., annual income from the project net of operating expenses) by the Yield-on-Cost (YOC) developers are seeking in order to consider a project feasible. The required YOC is a function of the prevailing capitalization rate in the city, plus a spread for new development to capture a margin for developer profit. The residual land value for the non-residential projects can be summarized as follows:

$$\begin{aligned} &\text{Project Value Net of Developer Profit (i.e., NOI / required YOC) - Total Development Costs} \\ &= \\ &\text{Residual Land Value} \end{aligned}$$

The residual land value approximates the maximum amount that a developer should be willing to pay for a given site, based on the value of the project that the developer would build on that site. In general, a development pro forma that shows a residual land value that is approximately equivalent to the typical sale price for land indicates a financially feasible project. A residual land value that is lower than the typical sale price for land typically indicates that there are financial feasibility challenges associated with constructing the project.

**Residual Land Value Thresholds.** Based on information provided during the developer interviews and a review of recent land transactions, this analysis assumes that land costs for the various non-residential developments range from \$2 million to \$6 million per acre. These land costs are dependent on the allowable uses on each site, as well as the overall market demand for each development typology. With a relatively flexible zoning code and ability to re-zone properties in the City, the value of land for each use can vary based on the site conditions, location, and expected entitlement process. However, the data indicate that land sold for future office and hotel uses tend to sell for modestly higher sale prices than land sold for industrial and retail uses, although all uses have examples of varying land transaction prices within the range listed above.

### ***Financial Pro Forma Analysis Findings***

Table 9 below shows a summary of the findings from the financial feasibility analysis. The full non-residential pro forma models are provided in Appendix B.

**Office Development Feasibility.** As shown in Table 9, the analysis found that office development feasibility is challenging under current market conditions. The main drivers of feasibility challenges are construction cost increases, high office vacancy rates, and uncertainty in the future demand for office space in Campbell. With increasing construction costs, rental rates and investor value expectations must adjust in order for projects to be considered feasible. Since the COVID-19 pandemic, office vacancy rates have increased significantly, leading to uncertainty in the office market from both developers and investors. During this time, rents have generally remained unchanged, indicating that rents have not kept pace with construction cost increases. Similarly, with increased interest rates and uncertainty from investors, return requirements have increased, leading to a higher required threshold to yield a feasible project. These factors combine to drive the current challenges in market feasibility for new office development in Campbell.

**Retail Development Feasibility.** Similar to office development, the retail development prototype is currently infeasible under existing market conditions. This is similarly driven by increasing construction costs and uncertainty around future demand for standalone retail space, both in Campbell and nationally. Unlike the office prototype, the retail prototype does yield a positive residual land value, though this value is not sufficient to acquire a site at the required land purchase price noted above, leading to project infeasibility.

**Industrial Development Feasibility.** While the industrial development prototype has the lowest cost per square foot, due to the single-story structure, typical rents for new industrial space are slightly below the rents needed support investment in new industrial development under current conditions. Similar to the retail prototype, the industrial development prototype does yield a positive residual land value, indicating the value of the project is greater than the cost of the vertical construction. However, the resulting residual land value of roughly \$280,000 per acre is well below the prevailing cost for industrial land in Campbell, indicating challenges to development feasibility.

**Hotel Development Feasibility.** Similar to the other non-residential prototypes, hotel development feasibility is challenging under the current construction cost and hotel demand market. While costs are relatively modest, due to the use of the cost-efficient wood-framed construction that this analysis assumes for the hotel prototype, the average daily room rental rates for hotels in Campbell are insufficient to generate the annual revenue needed to attract new developers and investors.

**Table 9: Summary of Financial Pro Forma Analysis, Current Conditions (No Commercial Linkage Fee)**

	Office	Retail	Industrial	Hotel
	3-story building with structured parking garage on 3.0 acres	Freestanding one-story retail building with surface parking on 0.5-acre site	Single story light manufacturing building with surface parking on 1.0 acres	4-story, 130 room hotel development with mostly surface parking on 2.5 acres
Lot Size (acres)	3.0 acres	0.5 acre	1.0 acres	2.5 acres
Gross Building Area	115,000 gsf	10,000 gsf	15,000 gsf	71,500 gsf
Number of Stories	3	1	1	5
Floor Area Ratio	0.88	0.46	0.34	0.66
Parking Ratio	4.44 spaces/1,000 sf	4.10 spaces/1,000 sf	2.87 spaces/1,000 sf	1.54 spaces/room
Hard Construction Costs	\$65,802,100 total \$572 per sq. ft.	\$3,652,100 total \$365 per sq. ft.	\$5,350,700 total \$357 per sq. ft.	\$32,728,000 total \$251,754 per room
Total Development Costs (excluding land & profit)	\$85,458,911 total \$743 per sq. ft.	\$4,744,001 total \$474 per sq. ft.	\$6,951,186 total \$463 per sq. ft.	\$42,507,499 total \$326,981 per room
Project Value to Investor	\$70,056,563 total \$609 per sq. ft.	\$5,062,500 total \$506 per sq. ft.	\$7,234,615 total \$482 per sq. ft.	\$36,462,689 total \$222,333 per room
Residual Land Value	(\$15,402,348) total (\$5,134,116) per acre	\$318,499 total \$636,999 per acre	\$283,429 total \$283,429 per acre	(\$6,044,810) total (\$2,417,924) per acre
Required Land Purchase Price	\$3.0 - \$6.0 Million per Acre	\$2.0 - \$5.0 Million per Acre	\$2.0 - \$4.0 Million per Acre	\$3.0 - \$6.0 Million per Acre
<b>Feasibility Gap/Surplus</b> <i>(Residual Land Value - Required Land Purchase Price)</i>	<b>(\$8.1) - (\$11.1) Million per Acre</b>	<b>(\$1.4) - (\$4.4) Million per Acre</b>	<b>(\$1.7) - (\$3.7) Million per Acre</b>	<b>(\$5.4) - (\$8.4) Million per Acre</b>
<b>Feasible?</b>	<b>No</b>	<b>No</b>	<b>No</b>	<b>No</b>

Source: BAE, 2023.

### ***Fee as Share of Development Costs***

One method for assessing the impact that commercial linkage fees would have on new non-residential development involves evaluating potential fees as a proportion of total development costs. The concept underlying this approach is that fees are unlikely to have a major impact on development feasibility if the fee rate is set to be equal to a relatively low share of total development costs.

Table 10 shows various fee rate scenarios that demonstrate the commercial linkage fee rates that would be equal to one, two, three, and four percent of the total development costs for each prototype, not including land or developer profit, with total development costs based on the financial pro forma analysis provided above. As shown, fees that are equal to one to four percent of total development costs would be equal to approximately \$7 to \$30 per square foot for the office prototype, \$5 to \$19 per square foot for the retail prototype, \$5 to \$19 per square foot for the industrial prototype, and \$6 to \$24 per square foot for the hotel prototype. All of these fee rates are lower than the maximum justifiable fee for each used that is identified in the commercial linkage fee nexus analysis presented above (see Table 8), meaning that adoption of fees at the rates shown in Table 10 would be consistent with the findings from the nexus analysis.

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**Table 10: Possible Commercial Linkage Fees as a Percent of Total Development Cost**

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	<u>Office</u>	<u>Retail</u>	<u>Industrial</u>	<u>Hotel</u>
TCD/Sq. Ft. (not including land) (a)	\$743	\$474	\$463	\$595
<b>Fee Rate Scenario</b>				
Fee Rate = 1% of Total Development Costs	\$7.43	\$4.74	\$4.63	\$5.95
Fee Rate = 2% of Total Development Costs	\$14.86	\$9.49	\$9.27	\$11.89
Fee Rate = 3% of Total Development Costs	\$22.29	\$14.23	\$13.90	\$17.84
Fee Rate = 4% of Total Development Costs	\$29.72	\$18.98	\$18.54	\$23.78

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**Notes:**

(a) Based on the financial pro formas shown in Appendix B. Does not include land or developer profit.

Sources: BAE, 2023.

### **Non-Residential Fee Benchmark Analysis**

An evaluation of the fees that are assessed by neighboring jurisdictions can help to evaluate the impact that commercial linkage fees might have on financial feasibility in Campbell.<sup>4</sup> To the extent that cities with comparable market conditions assess fees and continue to attract new non-residential development, this could serve as an indication that Campbell could potentially assess similar fees without making non-residential development infeasible.

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<sup>4</sup> There are various terms that jurisdictions use to refer to commercial linkage fees, including “housing mitigation fees” and “affordable housing fees”. For the purpose of this report, all fees in other jurisdictions are referred to as commercial linkage fees regardless of the specific terminology used in each jurisdiction.

Conversely, if Campbell were to adopt fees that are significantly higher than the fees charged in nearby jurisdictions, this could affect developers' willingness to pursue projects in Campbell if developers are able to find attractive development opportunities in nearby cities with lower fees. However, it should be noted that developers consider many factors when deciding where to pursue development opportunities, with the local market being a major factor, and City fees may have only a limited impact on the overall decision-making process.

The following subsections provide information on 1) Commercial linkage fees charged in nearby jurisdictions; and 2) Total impact fees charged on non-residential uses in nearby jurisdictions.

### ***Commercial Linkage Fees in Nearby Jurisdictions***

Table 11 below shows commercial linkage fees that apply in several nearby jurisdictions. The table also shows the average rental rates for office, retail, and industrial uses in each jurisdiction as well as average hotel room rates in each jurisdiction. This market information is shown to provide high-level contextual information regarding variations in the market between the jurisdictions in the table, and how the market in Campbell compares to the market in each of the comparison jurisdictions. It should be noted that the average rental rates shown are for all properties of each type in each jurisdiction, according to data from Costar, and are therefore lower than the rental rates that would be typical of most new development in each jurisdiction.

**Office Fees in Other Jurisdictions.** For office uses, the fee rates assessed by the jurisdictions shown in Table 11 range from \$0 to \$34 per square foot, with Cupertino at the top of this range. Cities with no fees include those with no commercial linkage fees on any uses, which are Los Gatos, Monte Sereno, and Saratoga. In addition, San Jose does not charge a commercial linkage fee on office developments measuring less than 50,000 square feet and has no fee for any office in the South and East San Jose Growth Areas. For larger projects in areas of the San Jose where office uses are subject to housing mitigation fees, the fee rate varies based on total project square footage and location, up to \$17 per square foot. The City of San Jose applies a 20 percent discount if fees are paid in full prior to Building Permit issuance, with the full fee rate applied if paid at the scheduling of the Final Building Inspection. Mountain View, Santa Clara, and Sunnyvale all charge lower fees for the first 10,000 to 25,000 square feet of office development, with the threshold for the lower fee rate varying by city.

As shown in the table, office rents in Campbell fall approximately in the middle of the range among the comparison jurisdictions, with an average rental rate of \$4.13 per square foot per month, lower than in Cupertino, Mountain View, and Sunnyvale but higher than in San Jose and Santa Clara. The two comparison jurisdictions that have average office rents that are the most similar to those in Campbell are San Jose and Sunnyvale. As noted above, commercial linkage fees in San Jose vary based on project characteristics, up to a maximum of \$17 per

square foot. In Sunnyvale, the commercial linkage fee is equal to \$23 per square foot, though the fee is charged at half of this rate for the first 25,000 square feet of a project.

**Retail Fees in Other Jurisdictions.** The jurisdictions in Table 11 tend to assess lower commercial linkage fee rates on retail uses than on office uses. Among the jurisdictions shown in the table, commercial linkage fees range from \$0 in San Jose (regardless of location and project size), as well as in cities with no commercial linkage fee program, to \$20.50 per square foot in Sunnyvale. Similar to the office fees described above, some cities have different fee rates depending on project size. For example, Mountain View applies a lower fee rate to the first 25,000 square feet of a retail project and Santa Clara does not apply a fee to retail developments measuring less than 5,000 square feet.

Campbell has the highest retail rents of all of the jurisdictions shown in the table, with an average rental rate of \$3.34 per square foot per month. The two comparison jurisdictions that have average retail rents that are the most similar to those in Campbell are Cupertino and Sunnyvale, which assess commercial linkage fees on retail uses at a rate of approximately \$14 and \$21 per square foot per month, respectively.

**Hotel Fees in Other Jurisdictions.** Among the jurisdictions in Table 11 with a commercial linkage fee program, the commercial linkage fee rates that apply to hotel uses range from \$3.50 per square foot in Mountain View (lower fees apply to the first 25,000 square feet) to \$20.50 per square foot in Sunnyvale. Among the jurisdictions with a commercial linkage fee program, commercial linkage fees for hotels are lower than commercial linkage fees for office and equal to or higher than commercial linkage fees for retail uses.

Table 11 shows that hotel income per room in Campbell is slightly higher than in cities at the low end the range among the comparison jurisdictions. For hotel uses, Table 11 provides the Revenue per Available Room, or RevPAR, for each jurisdiction shown. RevPAR is a metric used to evaluate hotel performance and is equal to the average nightly rental rate per room multiplied by the hotel occupancy rate. As shown, as of October 2023 the 12-month RevPAR in Campbell was \$109, lower than in Cupertino and Mountain View and slightly higher than in San Jose, Santa Clara, and Sunnyvale. The table does not show a relationship between cities with a low RevPAR and those with low fees for hotel uses. For example, Mountain View has the highest RevPAR of all of the cities shown (\$139) and the lowest fee for hotel uses (\$3.49 per square foot). Meanwhile, Sunnyvale is among the cities with the lowest RevPAR measures (\$101) and has the highest fee rate (\$20.50 per square foot).

**Industrial Fees in Other Jurisdictions.** The jurisdictions in Table 11 show wide variation in the commercial linkage fee rates for industrial uses, ranging from \$3.49 per square foot in San Jose to \$33.76 per square foot in Cupertino. Some cities, including Cupertino, Mountain View, and Sunnyvale, charge the same fee for industrial uses as for office uses. Other cities,

including San Jose and Santa Clara, charge a substantially lower fee for industrial uses as compared to the fee for office uses.

As shown in the table, industrial rents in Campbell fall approximately in the middle of the range among the comparison jurisdictions, with an average rental rate of \$2.02 per square foot per month, lower than in Mountain View and Sunnyvale but higher than in San Jose and Santa Clara.<sup>5</sup> The two comparison jurisdictions that have average retail rents that are the most similar to those in Campbell are Santa Clara and Sunnyvale, which assess commercial linkage fees on retail uses at a rate of approximately \$14 and \$23 per square foot per month, respectively.

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<sup>5</sup> Costar did not have data on industrial rental rates in Cupertino as of the writing of this report.

**Table 11: Commercial Linkage Fees in Other Jurisdictions (per net new square foot)**

Office	Current Fee Rate	Avg. Monthly Rent/SF (a)
Campbell	N/A	\$4.13
San Jose (c) (d)	\$17.44	\$3.96
Sunnyvale (f)	\$23.00	\$4.62
Santa Clara (e)	\$28.79	\$2.87
Mountain View (b)	\$33.00	\$5.15
Cupertino	\$33.76	\$4.76

Retail	Current Fee Rate	Avg. Monthly Rent/SF (g)
Campbell	N/A	\$3.34
San Jose (c)	\$0.00	\$2.83
Mountain View (h)	\$3.50	\$3.02
Santa Clara (i)	\$7.20	\$3.01
Cupertino	\$14.24	\$3.09
Sunnyvale	\$20.50	\$3.12

Hotel	Current Fee Rate	RevPAR (j)
Campbell	N/A	\$109
Mountain View (h)	\$3.50	\$139
San Jose (c) (k)	\$5.81	\$101
Santa Clara	\$7.20	\$104
Cupertino	\$16.88	\$120
Sunnyvale	\$20.50	\$101

Industrial	Current Fee Rate	Avg. Monthly Rent/SF (g)
Campbell	N/A	\$2.02
San Jose (c) (l)	\$3.49	\$1.37
Santa Clara (e)	\$14.39	\$1.61
Sunnyvale (f)	\$23.00	\$2.28
Mountain View (b)	\$33.00	\$2.53
Cupertino	\$33.76	N/A

**Notes:**

The Cities of Los Gatos, Monte Sereno, and Saratoga do not currently have commercial linkage fee programs. The City of Los Gatos plans to adopt commercial linkage fees by December 2024.

(a) Average office rents shown reflect average gross direct rents in each city as of the fourth quarter of 2023, according to data from Costar.

(b) Lower fee applies to first 10,000 SF.

(c) 20% discount applies if paid prior to Building Permit issuance; 100% of fee rate applies if paid at Scheduling of Final Building Inspection.

(d) Fee shown applies to developments  $\geq$ 100,000 sq. ft in the Downtown and nearby area; lower fees/no fees apply to smaller projects and in other areas. No fee for any office development in the South and East San Jose Growth Areas.

(e) Fee charged at  $\frac{1}{2}$  rate for first 20,000 SF.

(f) Fee charged at  $\frac{1}{2}$  rate for first 25,000 SF.

(g) Average retail and industrial rents shown reflect average NNN direct rents in each city as of the fourth quarter of 2023, according to data from Costar.

(h) Lower fee applies to first 25,000 SF.

(i) No fee applies to retail developments <5,000 SF.

(j) RevPAR is a metric used to evaluate hotel performance using the average revenue per room and is equal to the average nightly rental rate per room multiplied by the hotel occupancy rate. Figures shown reflect the RevPAR over the past 12 months as of October 2023.

(k) Fee does not apply to common area.

(l) No fee applies to industrial developments <100,000 sq. ft. or in the Edenvale & Monterey Corridor area.

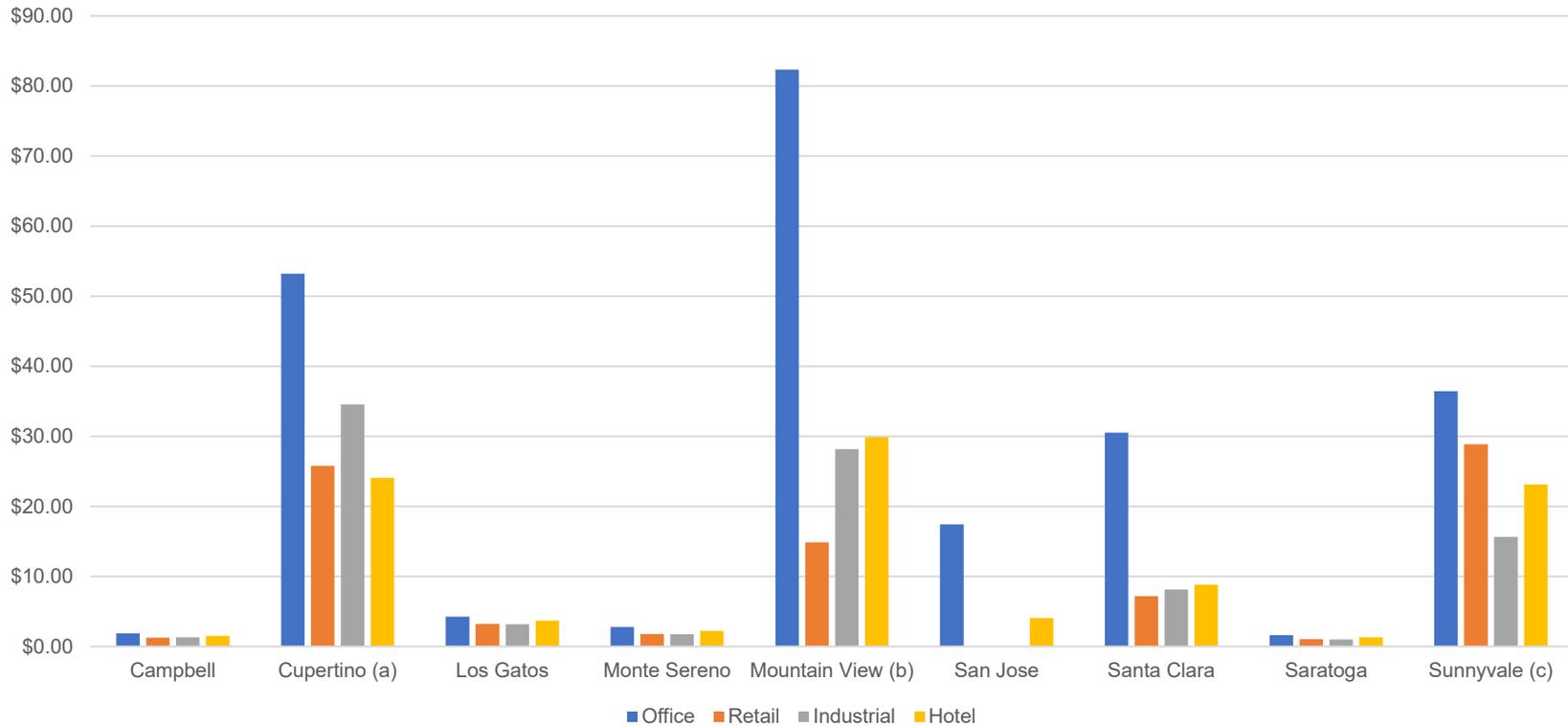
Sources: Costar, 2023; BAE, 2023.

### ***Total Impact Fees for Non-Residential Uses in Nearby Jurisdictions***

Figure 1 provides estimates of the total impact fees that would apply to each of the non-residential prototypes that are evaluated above. This analysis provides insight on how adopting commercial linkage fees in Campbell might affect the cost of impact fees in Campbell overall in relation to the cost of impact fees in neighboring jurisdictions. For example, if non-residential impact fees in Campbell were already comparable to non-residential impact fees in neighboring jurisdictions, adding commercial linkage fees could bring Campbell's total impact fee stack to a level that would exceed what is typical in nearby jurisdictions.

As shown, Campbell's impact fees are at the low end of the range for each use. Monte Sereno and Saratoga, both of which have very limited opportunities for non-residential development, have impact fees that are comparable to the fee rates in Campbell, while fees in Los Gatos are slightly higher than in Campbell. San Jose has higher impact fees for the office and hotel prototypes than Campbell but would assess no fees on the retail or industrial prototypes. The other cities shown, including Cupertino, Mountain View, Santa Clara, and Sunnyvale, would all charge significantly higher impact fees than Campbell for each of the nonresidential prototypes. This indicates that Campbell could assess commercial linkage fees on non-residential uses while keeping the total cost of non-residential impact fees in the City lower than or equivalent to the total cost of non-residential impact fees that apply in many other nearby jurisdictions.

**Figure 1: Non-Residential Impact Fees in Campbell and Comparison Jurisdictions**



**Notes:**

(a) Industrial fees do not include Transportation Impact Fees, which are calculated for industrial uses based on PM trips.

(b) Fees for office and hotel include North Bayshore Precise Plan Development Fees. These fees would not apply to developments outside of this Precise Plan Area. However, other fees apply to projects in other Precise Plan Areas.

Fees do not include Water Capacity Fees, which are calculated for non-residential uses based on number of water meters and meter size.

(c) Fee estimates for office include Moffett Park Specific Plan Fees. Fee estimates for retail and hotel include El Camino Real Specific Plan Fees.

Source: BAE, 2023.

## Summary of Findings from Commercial Linkage Fee Analysis

The analysis presented above evaluates commercial linkage fees in Campbell based on a nexus analysis, an analysis of the financial feasibility of the non-residential development, fee rates based on a share of total development costs, and fees charged in other jurisdictions.

The nexus analysis identifies the following maximum justifiable fee rates:

- Office: \$47 per square foot
- Retail/Restaurant: \$128 per square foot
- Hotel: \$49 per square foot
- Light Industrial: \$34 per square foot

The financial feasibility analysis finds that all of the non-residential prototypes that were evaluated in this analysis face financial feasibility challenges in the current market due primarily to high construction costs and interest rates, low rents relative to the cost of construction, and continuing market uncertainty due to the changes in work patterns following the COVID-19 pandemic.

The analysis presented above includes calculations showing potential commercial linkage fee rates in Campbell if the City were to base fee rates on a percent of estimated total development costs. Fees that are equal to one to four percent of total development costs would be approximately equal to the following fee rates, all of which are consistent with the maximum fee rates established by the nexus analysis:

- Office: \$7-\$30 per square foot
- Retail/Restaurant: \$5-\$19 per square foot
- Hotel: \$6-\$24 per square foot
- Light Industrial: \$5-\$19 per square foot

For office uses, fees toward the low end of the range shown above would be lower than the fees that are charged in nearby jurisdictions, with the exception of some areas of San Jose. Fees toward the top end of this range would be toward the high end of the range among nearby jurisdictions. Similarly, for retail, hotel, and industrial uses, fees toward the low end of the ranges shown above would be toward the lower end of the range of fees that are charged in nearby jurisdictions, while fees toward the top end of these ranges would be toward the high end of the range among nearby jurisdictions.

## 3. RESIDENTIAL FINANCIAL FEASIBILITY ANALYSIS

This chapter provides a financial feasibility analysis to evaluate the financial feasibility of residential development in Campbell, including an evaluation of the financial feasibility of the City's inclusionary housing requirements. This analysis evaluates the financial feasibility of five residential development prototypes ranging from single-family homes to high-density multifamily development, described in more detail below. The findings from the financial feasibility analysis are intended to inform the City of Campbell in considering potential revisions to the inclusionary housing ordinance and the in-lieu fee. The in-lieu fee is evaluated in the following chapter of this report.

### Residential Development Trends in Campbell

According to the California Department of Finance, the City's overall housing inventory expanded by roughly 1,500 units between 2010 and 2023, for a nine percent increase over that time period. Single-family detached units accounted for the largest number of new units (720 new units), followed by multifamily developments with five or more units (506 new units), and townhome developments (290 new units). In terms of multifamily developments, CoStar data indicates that the most recent rental project delivered in Campbell was built in 2018, including nearly 120 units. The City's 2021 Annual Housing Element Progress Report (APR) shows that three multifamily rental projects were issued certificates of occupancy in 2018, with 14, 112, and 16 units, respectively. The APR does not show any additional multifamily rental projects that were issued certificates of occupancy in subsequent years, though building permits have been issued for some multifamily rental projects in more recent years.

Based on a review of projects currently in the pipeline, either approved or seeking entitlements, the City has a select number of residential developments that were used to inform the residential prototypes. These pipeline projects range from lower-density single-family units, at roughly eight dwelling units per acre, to a condominium development with 36 dwelling units to the acre. The City's pipeline also includes two different developments that are proposing to include both rental apartments and for-sale townhomes, achieving a blended 20 to 35 dwelling units to the acre. As currently proposed, the higher-density projects in the pipeline are at or below five stories of construction, meaning that these projects are within the height limit for wood-frame construction and do not require more expensive construction methods that are necessary for buildings with more stories.

### Campbell Residential Development Standards

The City recently updated the General Plan to adjust the allowable densities and adopted objective standards which provides for greater certainty in the design and development of new residential development. With the updates, the highest-density residential land use

designation allows between 57 and 75 dwelling units per gross acre. This density range allows for more dense projects, likely into six- or seven-story developments that include ground-floor concrete podiums to achieve higher densities. Several other land use designations allow for projects to reach up to 25 dwelling units per gross acre (or higher), which is sufficient to accommodate dense townhomes developments. The prototypes that are evaluated in this chapter are consistent with the new land use designations that have been adopted by the City.

## Prototypes

The financial feasibility analysis evaluates five residential prototypes, consisting of two rental prototypes and three for-sale housing prototypes at various densities. The prototypes that were evaluated in this analysis are described in more below and summarized in Table 12.

**Table 12: Summary of Residential Prototype Development Programs**

	<b>Prototype 1</b> <b>Low-Density</b> <b>MFR Rental</b>	<b>Prototype 2</b> <b>High-Density</b> <b>Mixed-Use</b>	<b>Prototype 3</b> <b>For-Sale</b> <b>Condo</b>	<b>Prototype 4</b> <b>For-Sale</b> <b>Townhomes</b>	<b>Prototype 5</b> <b>Single-Family</b> <b>Subdivision</b>
<b>Development Program</b>					
Site Size (acres)	2.0	2.0	1.0	1.0	0.5
Total Units	59	132	53	22	6
Affordable Units	9	20	8	4	0
Average Unit Size (net sq. ft.)	839	840	1,200	1,800	2,600
Parking Spaces	89	132	53	44	12

Sources: City of Campbell; BAE, 2023.

**Prototype 1: Lower-Density Multifamily Rental.** Prototype 1 is a lower-density multifamily rental development on a two-acre site accommodating 59 total residential units, with a density of roughly 30 du/acre. The prototype evaluated abides by the City’s current inclusionary housing ordinance by including nine units affordable to a mix of very low-income and low-income households, which is equal to 15 percent of the total units. Parking for Prototype 1 would be provided in a surface parking lot, including 89 parking spaces, or 1.5 spaces per unit.

**Prototype 2: Higher-Density Multifamily Rental.** Prototype 2 is a multifamily rental development on a two-acre site with an assumed density of 66 du/acre, yielding a total of 132 units. The prototype includes 20 units affordable to very low-income and low-income households, which is equal to 15 percent of the total housing units. Parking for Prototype 2 would be provided in a first-floor parking podium. This prototype includes parking at a ratio of one space per unit.

**Prototype 3: Condominium.** Prototype 3 is a condominium development on a one-acre site with a density of 53 dwelling units per acre. The prototype evaluated in this analysis assumes the developer aligns with the City’s existing inclusionary housing ordinance, providing four units affordable to low-income households, or 7.5 percent of the total units, as well as four

units affordable to moderate-income households, or another 7.5 percent of the total units. Parking for Prototype 3 would be provided in a first-floor parking podium, at a ratio of one space per unit.

**Prototype 4: Townhomes.** Prototype 4 is a townhome development on a one-acre site with an assumed base land use designation allowing for 22 dwelling units per acre. The prototype evaluated in this analysis includes two units affordable to low-income households, which is equal to nine percent of the 22 total units, as well as two units affordable to moderate-income households, aligning with the City’s existing inclusionary requirements. Parking for Prototype 4 would be provided in individual garages in each unit. Parking would be provided at a ratio of 2.0 spaces per unit.

**Prototype 5: Single-Family Subdivision.** Prototype 5 is a single-family subdivision on a 0.5-acre parcel with six total single-family units, for a density of 12 du/acre. Due to the structure of the City’s existing affordable housing ordinance, which only requires projects with ten or more units to include affordable housing units, this project does not include any housing units affordable to low- or moderate-income households. Parking for Prototype 5 is provided in individual garages in each unit, at a ratio of 2.0 spaces per unit.

## Methodology for Financial Feasibility Analysis

The methodology used for this study involved preparation of static pro-forma financial feasibility models for each of the five prototypes described above. The static pro-forma models represent a form of financial feasibility analysis that developers often use at a conceptual level of planning for a development project, as an initial test of financial feasibility for a development concept to screen for viability. The detailed pro-formas that BAE prepared for this analysis are provided in Appendix C.

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

$$\begin{aligned} &\text{Project Value Net of Developer Profit (i.e., NOI / required YOC)} - \text{Total Development Costs} \\ &= \\ &\text{Residual Land Value} \end{aligned}$$

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

$$\begin{aligned} &\text{Net Sale Proceeds (total revenues less marketing costs) - Total Development Costs} \\ &= \\ &\text{Residual Land Value} \end{aligned}$$

The residual land value approximates the maximum amount that a developer should be willing to pay for a given site, based on the value of the project that the developer would build on that site. In general, a development pro-forma that shows a residual land value that is approximately equivalent to the typical sale price for land indicates a financially feasible project. If a developer is able to acquire land for a price that is lower than the residual land value associated with his or her project, the difference between the residual land value and the actual sale price essentially represents additional project profit. A project that generates a residual land value that is lower than typical site acquisition costs is generally not financially feasible and would be unlikely to be built.

## Rental Inclusionary Financial Feasibility Findings

The following section summarizes the financial feasibility of the two rental housing prototypes. This includes the estimated development cost of the project, as well as the project value upon completion, resulting in a residual land value. The residual land value is compared to prevailing land costs in the City of Campbell to determine the financial feasibility of the prototype. A summary of the financial feasibility findings is included below in Table 13.

**Prototype 1: Lower-Density Multifamily Rental.** The financial feasibility analysis indicates that the lower-density multifamily rental prototype faces development feasibility challenges in the current market. In total, the estimated total cost of the 59-unit project amounts to nearly \$27.7 million, or nearly \$470,000 per unit, excluding the cost of land acquisition. Hard costs for vertical construction account for the largest development cost, at nearly \$18.6 million, followed by soft costs (\$2.9 million), site preparation (\$1.7 million), construction financing costs (\$1.6 million), and City impact fees (\$1.3 million). The remaining costs are associated with developer fees and surface parking costs.

To estimate the value of the property to investors, this project is estimated to generate roughly \$1.3 million annually in net operating income. Based on a required yield on cost of 5.5 percent, the project value net of development profit is equal to roughly \$24.4 million. Based on the comparison between project value to investors and the estimated development cost excluding land, the feasibility models indicate a negative residual land value, indicating the project is unable to support a land acquisition cost and is therefore infeasible under current market conditions.

It should be noted that this prototype also faces feasibility challenges even with no inclusionary housing requirement. In a scenario in which all units in the prototype are market-rate units, this prototype still yields a negative residual land value. This finding indicates that changes to the City's inclusionary requirements would not make this prototype financially feasible.

**Prototype 2: Higher-Density Multifamily Rental.** Similar to the lower-density multifamily rental prototype, the higher-density prototype faces financial feasibility challenges in the current market. The 132-unit higher-density multifamily rental prototype, situated on a two-acre parcel, is estimated to have a total development cost of \$77.5 million, or \$587,000 per unit, excluding the cost of land acquisition. The per-unit cost for this prototype is higher than the per-unit cost for the lower-density multifamily rental prototype due to the inclusion of podium parking, which significantly increases the cost per parking space. Similar to the lower-density prototype, vertical hard construction costs account for the largest development cost, followed by soft costs. Due to the provision of podium parking, however, the parking costs account for the third most significant cost, at roughly \$7.2 million. The remaining costs are associated with construction financing, City impact fees, developer fees, and site preparation costs.

Based on an annual net operating income of \$3.4 million, the project value net of development profit is equal to roughly \$61.9 million. Based on the comparison between project value to investors and the estimated development cost excluding land, the feasibility models indicate a negative residual land value, indicating development feasibility challenges under existing market conditions.

Similar to the prior prototype, this prototype still faces feasibility challenges even without the inclusionary housing requirement.

## **For-Sale Residential Financial Feasibility Findings**

The following section summarizes the feasibility of the three for-sale housing prototypes. Similar to the above approach, this section summarizes the total development cost, and compares this to the total sales proceeds of the units to calculate the residual land value. To determine feasibility, the residual land value is then compared to prevailing land costs for these development typologies in the City of Campbell. A summary of the financial feasibility findings is included below in Table 13.

**Prototype 3: Condominium.** The pro-forma analysis indicates that the condominium prototype is infeasible, due to lower sale proceeds relative to the cost of building the prototype. The estimated project cost of the condominium prototype is approximately \$45.6 million, or nearly \$860,000 per unit, excluding the cost of land acquisition or developer profit. The higher development cost relative to the rental prototypes is driven by high hard costs due to higher-end finishes and more expensive construction materials in a typical condominium development, as well as the provision of larger condominium units compared to rental units.

Similar to the other prototypes, vertical hard construction costs account for the largest share of development costs, followed by parking costs and soft costs.

As noted in prior sections, the feasibility of for-sale condominium prototypes is determined through the comparison between the revenue from one-time sales of the condominium units and the cost of delivering the units. Based on the expected sale prices, this 53-unit development generates roughly \$51.8 million in gross sales proceeds. After accounting for marketing costs, the net sales proceeds amount to approximately \$49.2 million, or a blended average of roughly \$929,000 per unit.

Assuming condominium developers require a one-time 18-percent profit margin in order to attract equity investors, the residual land value of the higher-density condominium prototype is negative, indicating the prototype does not support a land acquisition and is therefore considered infeasible. Similar to the rental prototypes, the market-rate component of the condominium prototype is not feasible even without the affordable component.

**Prototype 4: Townhomes.** The pro-forma analysis indicates that the townhome prototype is financially feasible in the current market. In total, the 22-unit townhome development on one acre is estimated to cost roughly \$15.6 million, or \$710,000 per unit, excluding land acquisition costs and developer profit. While these units are somewhat larger than the condominium units, the development typology affords a more efficient cost of construction, leading to reduced costs on a per-square-foot basis. Still, vertical hard construction costs account for the largest share of development costs, followed by soft costs and site preparation costs.

This analysis uses an estimated average sale price of approximately \$1.5 million per unit for this prototype, resulting in a total of \$31.0 million in net sales revenue from the project. This total accounts for a lower sale price among the inclusionary units in the project. After allowing an 18-percent developer profit threshold, the development has an estimated residual land value of approximately \$11.6 million. Based on comparable land sales, this residual land value is sufficient to acquire land suited for townhome developments, indicating the prototype is feasible and may even be able to support a slightly higher percentage of required inclusionary housing units.

**Prototype 5: Single-Family Subdivision.** The pro-forma analysis indicates that the single-family prototype is financially feasible in the current market. In total, the six-unit single-family subdivision on 0.5 acres is estimated to have a total development cost of roughly \$5.7 million, or \$950,000 per unit, excluding land acquisition costs and developer profit. Similar to the townhome prototype, the single-family development includes larger units than the high-density condominium prototype but has a lower cost of construction on a per-square-foot basis.

Based on data on recent home sales in Campbell as reported by Redfin, as well as on input provided by developers, this analysis uses an estimated average sale price of approximately \$2.6 million per unit, resulting in a total of \$14.8 million in net sales revenue from the project. The City's inclusionary ordinance would not apply to a project of this size, and therefore this analysis assumes that all units in this development would be market-rate units. After allowing an 18-percent developer profit threshold, the development has an estimated residual land value of approximately \$7.4 million, or \$14.8 million per acre. Based on comparable land sales, this residual land value is higher than the typical price required to acquire land suited for single-family developments in Campbell, indicating the prototype is feasible and may even be able to support an inclusionary housing requirement.

### **Summary of Findings**

As outlined above, the feasibility of higher-density housing prototypes in the City of Campbell is currently challenging due to construction cost increases and other external market factors. However, lower-density prototypes including townhomes and detached single-family units are currently feasible, driven by the cheaper cost of construction for these development typologies and high sale prices. For the projects that are currently infeasible, even eliminating the city's inclusionary housing requirement is insufficient to render projects feasible, highlighting the external factors that are driving the current infeasibility. Based on the current inclusionary housing ordinance and in-lieu fee payment option, the single-family prototype is not subject to the inclusionary housing ordinance, as it provides less than ten units. However, this prototype generates the highest residual land value, due to the high sale prices.

**Table 13: Summary of Residential Development Feasibility**

	Prototype 1 Low-Density MFR Rental	Prototype 2 High-Density MFR Rental	Prototype 3 For-Sale Condo	Prototype 4 For-Sale Townhomes	Prototype 5 For-Sale Single- Family Subdivision
<b>Development Program</b>					
Site Size (acres)	2.0	2.0	1.0	1.0	0.5
Total Units	59	132	53	22	6
Affordable Units	9	20	8	4	0
Average Unit Size (net sq. ft.)	839	840	1,200	1,800	2,600
Parking Spaces	89	132	53	44	12
<b>Total Development Costs, Excluding Land and Developer Profit</b>					
Total Development Cost (TDC)					
Excl. Land & Profit	\$27,688,560	\$77,456,595	\$45,571,665	\$15,597,150	\$5,694,932
TDC per Unit	\$469,298	\$586,792	\$859,843	\$708,961	\$949,155
TDC per Gross Building SF	\$466	\$561	\$597	\$394	\$365
<b>Residual Land Value Analysis</b>					
Required Value Threshold (Rental)	\$24,394,015	\$61,937,400	n.a.	n.a.	n.a.
Net Sales Revenue (for-sale)	n.a.	n.a.	\$49,245,872	\$30,958,857	\$14,820,000
<b>Residual Land Value</b>	<b>(\$3,294,546)</b>	<b>(\$15,519,195)</b>	<b>(\$5,608,693)</b>	<b>\$11,609,220</b>	<b>\$7,379,980</b>
<b>Residual Land Value per Acre</b>	<b>(\$1,647,273)</b>	<b>(\$7,759,597)</b>	<b>(\$5,608,693)</b>	<b>\$11,609,220</b>	<b>\$14,759,960</b>
Required Land Purchase Price per Acre	\$3.0 - \$6.0 Million	\$4.0 - \$8.0 Million	\$4.0 - \$8.0 Million	\$2.5 - \$8.0 Million	\$6.0 - \$10.0 Million
<b>Feasibility Gap/Surplus per Acre</b>	<b>(\$4.6) - (\$7.6) Million</b>	<b>(\$11.8) - (\$15.8) Million</b>	<b>(\$9.6) - (\$13.6) Million</b>	<b>\$3.6 - \$9.1 Million</b>	<b>\$4.8 - \$8.8 Million</b>
<b>Feasible under current conditions?</b>	No	No	No	Yes	Yes

Source: BAE, 2023

## 4. INCLUSIONARY HOUSING IN-LIEU FEE ANALYSIS

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

As discussed in the introduction to this report, Campbell currently allows developments with a density of six dwelling units per acre or less to pay an in-lieu fee rather than provide affordable units within the development. For projects providing rental units, the in-lieu fee is equal to \$21.50 per project square foot. For projects providing owner-occupied units, the in-lieu fee is equal to \$34.50 per project SF. Based on the current ordinance, only projects with ten or more units are subject to the inclusionary housing ordinance. Due to the density limits for projects that are eligible for the in-lieu fee option and the size threshold for the inclusionary ordinance, the City has only seen a limited number of projects that are subject to the inclusionary housing ordinance and fall within the density range for projects that are eligible to pay the in-lieu fee.

This chapter includes technical analysis for calculating the in-lieu fee as well as a benchmark analysis that evaluates in-lieu fees and total residential impact fees in comparison jurisdictions. Recommendations for implementation supported by the analysis provided in this chapter are addressed in the Policy Options section of this report, along with recommendations supported by the analysis of commercial linkage fees.

## **Inclusionary Unit Construction Cost Approach**

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

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

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

For all of the development prototypes, this analysis included the required developer profit and the land acquisition. Land costs were estimated at the midpoint of the ranges for each prototype as shown in Table 13.

As shown in Table 14 Table 1 below, based on the construction cost approach calculations, the in-lieu fee amount based on the construction cost approach ranges from \$107 to \$115 per net residential square foot for the rental prototypes. The lower-density rental prototype yields the lower in-lieu fee amount, due to a lower per-unit development cost for that prototype. Using the construction cost approach, the in-lieu fee for the for-sale units is equal to \$96 per net square foot for the condominium prototypes, \$70 per net square foot for the townhouse prototype, and \$83 per net square foot for the single-family prototype.

**Table 14: Construction Cost In-Lieu Fee Amount by Prototype**

	Prototype 1 Low-Density MFR Rental	Prototype 2 High-Density MFR Rental	Prototype 3 For-Sale Condo	Prototype 4 For-Sale Townhome	Prototype 5 For-Sale Single-Family Subdivision
<b>Development Program</b>					
Site Size (acres)	2.0	2.0	1.0	1.0	0.5
Total Units	59	132	53	22	6
Affordable Units	9	20	8	4	0
Total Net Project SF	49,500	110,900	63,600	39,600	15,600
Estimated Land Cost (per unit)	\$152,542	\$90,909	\$113,208	\$238,636	\$666,667
<b>Construction Cost Approach</b>					
Total Development Cost Per Unit, Incl. Land	\$646,336	\$703,737	\$1,148,199	\$1,118,165	\$1,906,670
<b>Rental Prototypes</b>					
Average Monthly Rent per Affordable Unit (a)	\$1,738	\$1,793	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Monthly Net Operating Income per Affordable Unit	\$401	\$454	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Supportable Debt per Affordable Unit	\$58,174	\$65,787	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
<b>For-Sale Prototypes</b>					
Avg. Net Sales Revenue per Affordable Unit (b)	<i>n.a.</i>	<i>n.a.</i>	\$384,484	\$429,464	\$476,313
Development Cost minus Sale Price per Aff. Unit	<i>n.a.</i>	<i>n.a.</i>	\$763,715	\$688,701	\$1,430,357
<b>In-Lieu Fee Per Affordable Unit</b>	<b>\$588,162</b>	<b>\$637,951</b>	<b>\$763,715</b>	<b>\$688,701</b>	<b>\$1,430,357</b>
<b>Constructoin Cost In-Lieu Fee Amount</b>					
<b>Total In-Lieu Fee Amount</b>	<b>\$5,293,459</b>	<b>\$12,759,012</b>	<b>\$6,109,723</b>	<b>\$2,754,805</b>	<b>\$1,287,321</b>
<i>Fee per Net Residential Sq. Ft. (c)</i>	<i>\$107</i>	<i>\$115</i>	<i>\$96</i>	<i>\$70</i>	<i>\$83</i>

Source: BAE, 2024.

## Point of Indifference Approach

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

### *Methodology*

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

This analysis evaluated the point of indifference by determining the in-lieu fee rate for each prototype that would result in the same feasibility results as providing inclusionary units. The analysis involved creating an alternate version of the pro-forma for each prototype. The pro-formas that were used for this portion of the analysis differed from the pro-formas that were used to test the feasibility of the inclusionary requirements in that the alternate versions do not have any affordable inclusionary units and instead include an in-lieu fee as part of the total development cost. To identify the point of indifference in-lieu fee for each prototype, the analysis determined the fee that would result in the same residual land value as in the inclusionary scenario. For example, as shown in Table 13 above, with the inclusionary units Prototype 4 results in a residual land value of \$11.6 million. To identify the point of indifference fee rate for Prototype 4, an alternate version of the Prototype 4 pro-forma was created with no inclusionary units. An in-lieu fee was then added to the development costs for in this alternate version of the pro-forma, with that fee rate set such that the residual land value associated with the project would be \$11.6 million, or equal to the residual land value in the inclusionary scenario for the same prototype.

The methodology for estimating the point of indifference fee rate for the single-family prototype involved creating two alternate versions of the single-family prototype pro forma. One alternate version evaluated a prototype that is similar to the single-family prototype discussed elsewhere in this report, but with seven units rather than six and a commensurate increase in the site size, with one of the seven units as an inclusionary unit (i.e., approximately 15 percent of a seven-unit project). The second alternate version evaluated the same seven-

unit single-family prototype with an in-lieu fee rather than an inclusionary unit, following the same methodology that was used for the other prototypes as described above.

The resulting in-lieu fee rates for each prototype approximate the “point of indifference,” or the inclusionary in-lieu fee payment that would have approximately the same cost impacts as providing affordable units within the project. In other words, if all else were equal, a residential rental project that pays the “point of indifference” fee rates shown in Table 15 would generally support the same residual land value as a project that provides the affordable units on site.

**Findings**

As shown below in, the rental prototypes yield a “point of indifference” in-lieu fee amount between \$55.50 and \$63.50 per net residential square foot. The for-sale prototypes yield a “point of indifference” in-lieu fee amount of \$61.50 per net residential square foot for condominium prototypes, \$92.00 per net residential square foot for townhomes, and \$90.50 per net residential square foot for single-family homes.

**Table 15: Point of Indifference In-Lieu Fee Amount by Prototype**

	<b>Prototype 1 Low-Density MFR Rental</b>	<b>Prototype 2 High-Density MFR Rental</b>	<b>Prototype 3 For-Sale Condo</b>	<b>Prototype 4 For-Sale Townhome</b>	<b>Prototype 5 For-Sale Single-Family Subdivision</b>
Point of Indifference In-Lieu Fee Amount (a)	\$2,747,250	\$7,042,150	\$3,911,400	\$3,643,200	\$1,647,100
Existing Fee per SF	\$21.50	\$21.50	\$34.50	\$34.50	\$34.50
Additional Fee per SF	<u>\$34.00</u>	<u>\$42.00</u>	<u>\$27.00</u>	<u>\$57.50</u>	<u>\$56.00</u>
<b>Total Fee per SF</b>	<b>\$55.50</b>	<b>\$63.50</b>	<b>\$61.50</b>	<b>\$92.00</b>	<b>\$90.50</b>

Note:  
 (a) Based on proformas shown in Appendix C.  
 Source: BAE, 2024.

The “point of indifference” fee rates identified in this analysis are sensitive to the relationship between the market-rate rent and the affordable rent for rental projects and the market-rate sale price and the affordable sale price for ownership projects, as well as other assumptions used in the financial modeling. Consequently, the fee rate that represents the point of indifference will vary between projects and over time based on variations in the difference between market-rate and affordable rents and sale prices. Nonetheless, the analysis presented in this subsection provides general insight on the in-lieu fees levels that are comparable in cost to providing inclusionary units in a project.

**Residential Fee Benchmark Analysis**

The following subsections provide information on 1) Inclusionary housing in-lieu fees charged in nearby jurisdictions; and 2) Total impact fees charged on residential uses in nearby

jurisdictions. The fee information provided in this section may inform Campbell’s process for identifying an in-lieu fee. To the extent that cities with comparable market conditions assess fees and continue to attract new residential development, this could serve as an indication that Campbell could potentially assess similar fees without making residential development infeasible. Conversely, if Campbell were to adopt fees that are significantly higher than the fees charged in nearby jurisdictions, this could affect developers’ willingness to pursue projects in Campbell if developers are able to find attractive development opportunities in nearby cities with lower fees.

However, inclusionary housing in-lieu fees have little or no effect on the financial feasibility of residential development projects in jurisdictions where use of the in-lieu fee is generally restricted to specific types of projects, and therefore the information provided below should be considered within a broader policy context. As discussed in more detail below, many jurisdictions place restrictions on developers’ ability to satisfy inclusionary requirements through payment of an in-lieu fee. These restrictions may include requiring City Council approval to pay an in-lieu fee, allowing in-lieu fees only for the purpose of meeting a requirement for a fractional unit, and allowing in-lieu fees only for small projects. In cases where the use of an in-lieu fee is restricted, most projects may be required to provide inclusionary units rather than pay the fee, making the specific in-lieu fee rate irrelevant to the financial feasibility of most projects. Similarly, the cost of an in-lieu fee is often not included in the total fees that apply to a residential development project because projects often provide inclusionary units rather than pay an inclusionary in-lieu fee.

### ***Inclusionary In-Lieu Fees in Nearby Jurisdictions***

Table 16 below shows the inclusionary housing in-lieu fees that apply in several nearby jurisdictions. The table also shows the median home sale prices in each jurisdiction as well as the average rental rates for multifamily rental units in each jurisdiction. This market information is shown to provide high-level contextual information regarding variations in the market between the jurisdictions in the table, and how the market in each jurisdiction shown compares to the market in Campbell. It should be noted that the median sale prices and average rental rates shown are for all properties of each type in each jurisdiction, according to data from Costar and Redfin, and are therefore lower than the rental rates and sale prices that would be typical of most new development in each jurisdiction.

As shown, almost all of the jurisdictions shown in Table 16 have restrictions on developers’ ability to satisfy inclusionary requirements through payment of an in-lieu fee. These restrictions include requiring City Council approval to pay an in-lieu fee, allowing in-lieu fees only for the purpose of meeting a requirement for a fractional unit, and allowing in-lieu fees only for small projects. The exception is San Jose, which allows developers to choose whether to pay an in-lieu fee, provide inclusionary units, or pursue an alternative method of compliance.

Among the jurisdictions shown in Table 16 that have established in-lieu fee rates, in-lieu fees for for-sale developments generally range from \$21 per square foot (Cupertino, for some development types) to \$144 per square foot (Mountain View, for rowhouses or townhomes).<sup>6</sup> Campbell's current in-lieu fee rate for for-sale developments is higher than the current in-lieu fee rates in Cupertino and San Jose and lower than the in-lieu fee rates in Mountain View. Campbell is unique among the jurisdictions shown in that Campbell has a single in-lieu fee rate for all for-sale development rather than a fee that varies by for-sale development type.

Among the jurisdictions shown in Table 16 that have established in-lieu fee rates, in-lieu fees for rental developments generally range from approximately \$22 per square foot (San Jose, in moderate market areas) to \$111 per square foot (Mountain View).<sup>7</sup> Campbell's current fee rate is toward the low end of this range, at \$21.50 per square foot.

Rather than set fee rates, some jurisdictions set fees as a percent of building permit valuation (Los Gatos) or sale price (Sunnyvale, for for-sale developments). Some jurisdictions use a formula based on the difference between the affordable sale price and the market-rate sale price (Santa Clara, for for-sale projects).

While fee rates in nearby jurisdictions often provide insight on the fee rates that are financially feasible, in the case of an in-lieu fee the fee rates shown in Table 16 do not necessarily reflect financially feasible fee rates. As noted above, most of the jurisdictions shown place restrictions on developers' ability to pay an in-lieu fee and prefer that developers provide affordable inclusionary units. As a result, these jurisdictions may charge relatively high fee rates that would not be feasible for most projects in order to incentivize developers to provide inclusionary units rather than pay the fee. These cities may continue to experience residential development activity, with new development providing affordable units rather than paying an in-lieu fee, provided that the inclusionary requirements themselves are financially feasible.

Methodology for calculating fees: Jurisdictions in California generally determine the in-lieu by multiplying the fee by total net new livable square feet in a project. Alternatively, some jurisdictions may elect to calculate the fee by only the net new livable square feet of the affordable units that would have been included on site (the City of Campbell historically has followed this approach). The former method is recommended as it results in higher fees to support affordable housing production.

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<sup>6</sup> San Jose has a lower fee rate of \$14.54 per square foot for for-sale developments with 10-19 units that are built at 90 percent or more of the allowable density.

<sup>7</sup> San Jose and Sunnyvale have lower in-lieu fees for some specific project types.

**Table 16: Inclusionary Housing In-Lieu Fees in Nearby Jurisdictions**

For-Sale Units	Fee Rate	Median Home Sale Price (a)	Project Size Threshold for Inclusionary Req's
<b>Fee Based on Affordable Unit Square Footage</b>			
<b>Campbell (b)</b>	\$34.50 per SF	\$1,750,000	10 or more units
<b>Cupertino (c)</b>		\$3,015,000	N/A; requirements apply to all project sizes
Detached Single-Family	\$21.36 per SF		
Small Lot Single-Family or Townhome	\$23.49 per SF		
Multifamily Attached Townhome, Apartment, Condo	\$28.48 per SF		
<b>Fee Based on Total Project Square Footage</b>			
<b>Mountain View (e)</b>		\$1,830,500	N/A; requirements apply to all project sizes
Single-Family Detached and Condominiums	\$63 per SF		
Rowhomes and Townhomes	\$144 per SF		
<b>San Jose (e)</b>		\$1,350,000	10 or more units
Developments with 20+ units	\$29.07 per SF		
Developments with 10-19 units at <90% allowable density	\$29.07 per SF		
Developments with 10-19 units at >90% allowable density	\$14.54 per SF		
<b>Fee Based on Construction Cost or Sale Price</b>			
<b>Santa Clara (g)</b>	Difference b/t the market value and the affordable sale price, multiplied by the fractional amount due	\$1,505,000	N/A; requirements apply to all project sizes
<b>Los Gatos (d)</b>	6% of building permit valuation	\$2,382,875	5 or more units
<b>Sunnyvale (h)</b>	7% of contract sales price of all units in project	\$1,703,000	7 or more units
<b>Rental Units</b>			
	Fee Rate	Avg. Rent per SF (i)	Project Size Threshold for Inclusionary Req's
<b>Fee Based on Affordable Unit Square Footage</b>			
<b>Campbell (b)</b>	\$21.50 per SF	\$3.18	10 or more units
<b>Cupertino (c)</b>		\$3.74	N/A; requirements apply to all project sizes
Up to 35 du/acre	\$28.48 per SF		
Over 35 du/acre	\$35.60 per SF		
<b>Fee Based on Total Project Square Footage</b>			
<b>Mountain View (e)</b>	\$111 per SF	\$3.92	N/A; req's apply at all sizes
<b>San Jose (f)</b>		\$3.01	10 or more units
Strong Market Areas			
Developments with 20+ units	\$49.99 per SF		
Developments with 10-19 units at <90% allowable density	\$49.99 per SF		
Developments with 10-19 units at >90% allowable density	\$25.00 per SF		
Moderate Market Areas			
Developments with 20+ units	\$21.74 per SF		
Developments with 10-19 units at <90% allowable density	\$21.74 per SF		
Developments with 10-19 units at >90% allowable density	\$10.87 per SF		
Qualifying High Rises in Downtown Planned Growth Area	\$0		
<b>Santa Clara (g)</b>	\$28.79 per SF	\$3.40	N/A; req's apply at all sizes
<b>Sunnyvale (h)</b>		\$3.47	3 or more units
Projects with 3-6 units	\$15.00 per SF		
Projects with 7+ units	\$30.00 per SF		
<b>Fee Based on Construction Cost</b>			
<b>Los Gatos (d)</b>	6% of building permit valuation	\$3.17	5 or more units

Notes:

(a) Median home sale prices shown are the median home sale price in October 2023, according to data from Redfin.

- (b) In-lieu fees can be paid for projects with a density of six dwelling units per acre or less.
- (c) In-lieu fees can only be used to satisfy the inclusionary requirement for projects with fewer than 7 units or for fractional units in projects with more than 7 units if the fractional unit is less than 0.5. If the fractional unit is equal to 0.5 - 0.99 of a unit, the BMR unit requirement is rounded up and the project must provide one additional BMR unit. Projects with less than 7 units may provide one unit or pay the fee. All other alternatives to providing on-site inclusionary units are subject to City Council approval.
- (d) Inclusionary program applies to projects that include five or more residential units; Fee option is available only in limited cases and at the Town's discretion.
- (e) Fees are charged per net new livable SF. In-lieu fees can be paid for fractional units in projects with less than 7 units. In projects with 7+ units, in-lieu fees can be paid for a fractional unit that is equal to less than 0.5 of a unit. An in-lieu fee payment to satisfy the entire inclusionary requirement requires City County approval. Applicant must demonstrate that in-lieu fee payment will further the City's housing goals to a greater extent than providing units on site. Fees must be greater than the value of providing the units on site and higher than the in-lieu fees for fractional units that are cited above.
- (f) All projects may choose to pay the in-lieu fee rather than construct units. Additionally, projects can choose a mixed compliance option to provide a portion of units on-site and pay an adjusted in-lieu fee. The adjusted in-lieu fee rate varies depending on the number and affordability of the units provided. In-lieu fees provided above are for a development providing no inclusionary units on-site. Fee exemption for qualifying high-rises is set to expire.
- (g) Fees apply only to projects with fewer than 10 units or to satisfy the requirement for a fractional unit in projects with 10 units or more. All residential developments with 10 or more units are required to construct affordable units onsite. Projects with fewer than ten units may either provide one affordable unit or pay an in-lieu fee. Construction of one single-family home or duplex on a lot of record is exempt.
- (h) Inclusionary requirements apply to for-sale projects with 7 or more units or rental projects with 3 or more units. City Council approval required for in-lieu fee option for projects with 7+ units.
- (i) Average multifamily rent shown reflects the average monthly asking rent per square foot among multifamily properties in each jurisdiction as of the third quarter of 2023, according to data from Costar.

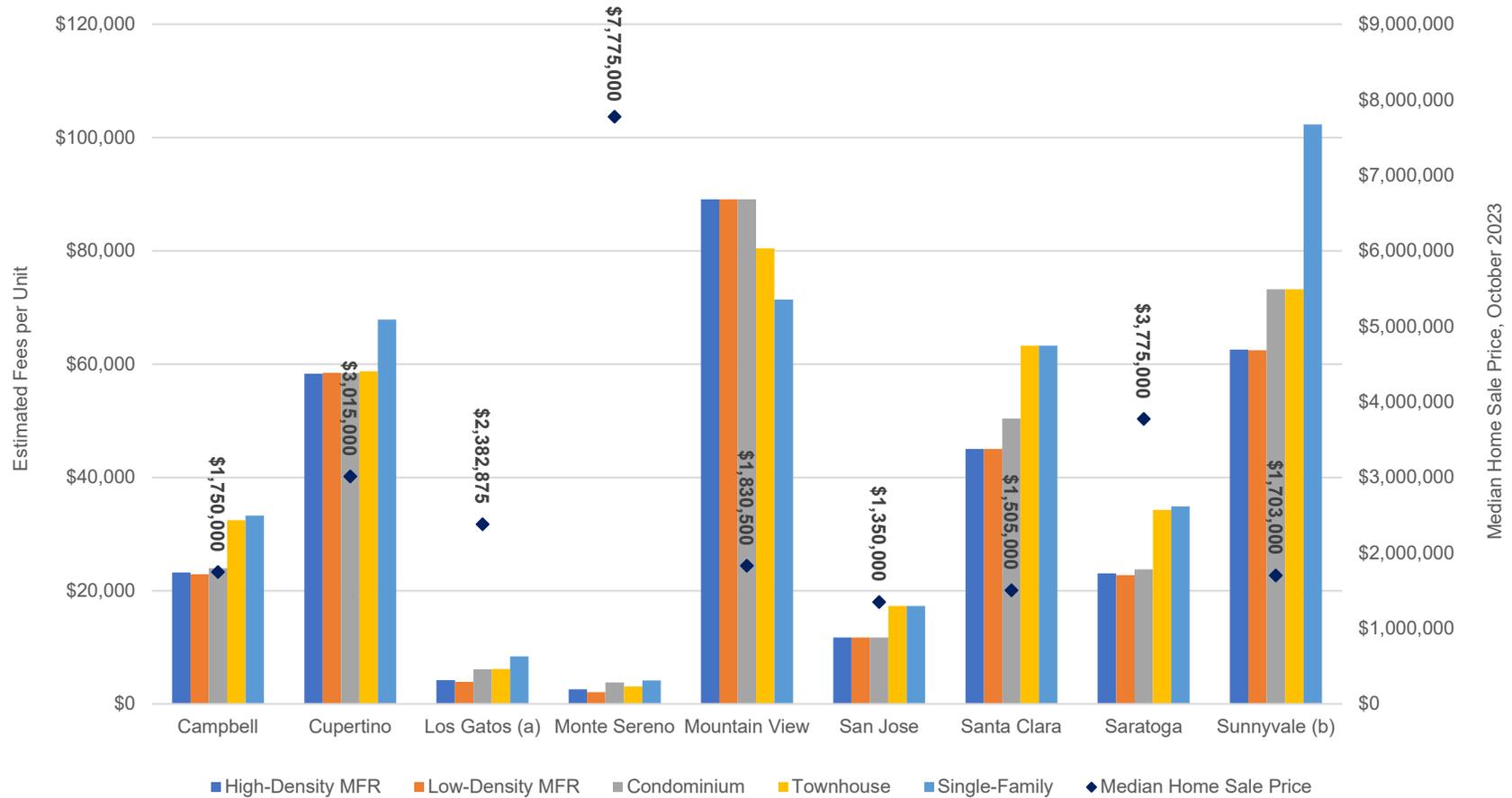
Sources: City of Campbell; City of Cupertino; City of Los Gatos; City of Mountain View; City of San Jose; City of Santa Clara; City of Sunnyvale; BAE; 2023.

### ***Total Impact Fees on Residential Uses in Nearby Jurisdictions***

Figure 2 provides estimates of the total impact fees that would apply to each of the five residential prototypes that are evaluated in this report in Cambell as well as in neighboring jurisdictions. This analysis provides insight on how Campbell compares to neighboring jurisdictions in terms of the total impact fees that apply to new residential development.

As shown, Campbell's impact fees are toward the middle of the range for each prototype. Los Gatos, Monte Sereno, and San Jose would generally assess lower impact fees than Campbell for each of the prototypes, while impact fees in Saratoga would be comparable to Campbell's impact fees. The other cities shown, including Cupertino, Mountain View, Santa Clara, and Sunnyvale, would all charge higher impact fees than Campbell for each of the residential prototypes. It should be noted that the fee estimates shown in Figure 2 do not include inclusionary housing in-lieu fees because most of the jurisdictions shown require that most projects provide inclusionary units rather than pay in-lieu fees. The information provided in Figure 2 indicates that Campbell is generally in line with neighboring jurisdictions in terms of the impact fees that apply to new residential development projects, with significantly lower residential impact fees than many nearby jurisdictions.

**Figure 2: Residential Impact Fees in Campbell and Comparison Jurisdictions**



**Notes:**

Fee calculations include park fees for Campbell, Cupertino, Mountain View, San Jose, Santa Clara, Saratoga, and Sunnyvale. These fees would be reduced to the extent that projects provide park space in accordance with each jurisdiction's requirements. Fee calculations do not include inclusionary housing in-lieu fees because most of the jurisdictions shown require that most projects provide inclusionary units rather than pay in-lieu fees.

(a) Fees do not include Traffic Impact Mitigation Fee, which are calculated based on new average daily trips generated

(b) Fee estimates do not include any Specific Plan Area fees. Some Specific Plan Areas have fees that would result in higher total fees than shown.

Source: BAE, 2023.

## Summary of Findings from Inclusionary In-Lieu Fee Analysis

The analysis presented above evaluates potential inclusionary housing in-lieu fees in Campbell based on: 1) the cost to construct an inclusionary unit; and 2) the “point of indifference” in-lieu fee rate. Table 17 summarizes the findings from the construction cost approach and the point of indifference approach.

**Table 17: Summary of Findings from In-Lieu Fee Analysis**

	<b>Prototype 1 Low-Density MFR Rental</b>	<b>Prototype 2 High-Density MFR Rental</b>	<b>Prototype 3 For-Sale Condo</b>	<b>Prototype 4 For-Sale Townhome</b>	<b>Prototype 5 For-Sale Single-Family Subdivision</b>
Construction Cost Approach (per SF)	\$106.94	\$115.05	\$96.06	\$69.57	\$82.52
Point of Indifference Approach (per SF)	\$55.50	\$63.50	\$61.50	\$92.00	\$90.50

Source: BAE, 2024.

If City decision-makers generally prefer that developers provide inclusionary units rather than pay an in-lieu fee, the City should either place limits on the circumstances under which developers may satisfy inclusionary requirements through the payment of an in-lieu fee or adopt fee rates that are higher than the fee rates established through the point of indifference approach. Restrictions on the circumstances under which developers can pay the in-lieu fees could include allowing a fee payment for small projects or for requirements resulting in fractional units, but not allowing a fee payment to meet the entire inclusionary requirement for larger projects. Campbell could also require discretionary approvals for the use of an in-lieu fee in most circumstances.

## 5. KEY FINDINGS & POLICY OPTIONS

This chapter presents key findings and policy options based on the analysis presented in the preceding chapters of this report. These policy options and recommendations include the potential adoption of a commercial linkage fee and adjustments to the inclusionary housing in-lieu fee.

### Affordable Housing Need

The potential implementation of a commercial linkage fees and adjustment to the inclusionary housing in-lieu fee are being considered in the context of significant affordable housing needs as demonstrated both by US Census Analyze the proportion of lower-income households relative to all households within the jurisdiction, using the latest data from the United States Department of Housing and Urban Development's (HUD) Comprehensive Housing Affordability Strategy (CHAS) database. According to this data, 28 percent of Campbell holds earn less than 50 percent of Median Family Income (MFI), with an additional 11 percent earning between 51 and 80 percent of MFI.

Additionally, for the 6th Housing Element Update Cycle (2023-2031), the City of Campbell has a Regional Housing Needs Allocation (RHNA) obligation totaling 2,977 units, including 1,186 units for lower-income households, or approximately 40 percent of the total. The recommended inclusionary housing set aside of 15 percent, as described further, is significantly lower than the need as documented both by HUD and the City's RHNA allocation. The AB 602 Analysis included in Appendix A below further explores the appropriateness and proportionality of the proposed commercial linkage fees and adjustment to the inclusionary housing in-lieu fees.

### Commercial Linkage Fee Policy Options

The analysis presented in this report supports the following options related to the potential adoption of commercial linkage fees in Campbell in furtherance of Housing Element Program H-1b:

**Program H-1b: Commercial Linkage Fee:** Establish an affordable housing impact fee that will apply to nonresidential development to provide an additional local source of revenue to support production of affordable housing.

#### ***Commercial Linkage Fee Policy Option 1: Do not adopt commercial linkage fees.***

City decision-makers may wish to refrain from adopting any commercial linkage fees at this time. This option is based on the non-residential financial feasibility analysis that was presented in this report, which found that office, retail, hotel, and industrial development faces financial feasibility challenges in the current market.

***Commercial Linkage Fee Policy Option 2: Charge a fixed amount for all non-residential uses.***

To simplify fee collection and make the City’s fee schedule easy to understand, Campbell could adopt a single commercial linkage fee rate that would apply to all non-residential uses. If the City pursues this approach, BAE recommends a fee that would be consistent with a fee rate that represents a low percentage of total development costs for all uses to which the commercial linkage fee would apply. For example, if the City adopts commercial linkage fees for office, retail, hotel, and light industrial uses, the recommended fee rate would be \$9 per square foot or less, which is equal to two percent of estimated total development costs (not including land or developer profit) for retail and light industrial uses.

***Commercial Linkage Fee Policy Option 3: Adopt a Tiered Commercial Linkage Fees Based on Building Type.***

Policy option 3 involves adopting commercial linkage fees with lower fees for specific uses based on various policy goals. If the City pursues this option, fees for some uses could be set at up to two percent of total development costs according to Policy Option 2, while fees for other uses would be set at lower rates, per the following maximum fee rates:

- Office: up to \$15 per square foot
- Retail/Restaurant: up to \$9 per square foot
- Hotel: up to \$12 per square foot
- Light Industrial: up to \$9 per square foot

***Implementation Consideration: Timing of Fee Payment***

- **Allow fees to be paid after building permit issuance.** Some of the developers that participated in the stakeholder focus groups highlighted the financial burden associated with paying commercial linkage fees at building permit issuance due to the high cost of financing for up-front development costs. While many jurisdictions require payment of all impact fees at building permit issuance, some allow fees to be paid at later stages in the development process, such prior to issuance of a certificate of occupancy.

***Implementation Consideration: Exemptions and Discounts***

- **Discount or exempt certain land uses and project sizes.** Some jurisdictions with commercial linkage fees choose not to charge fees or to charge low fees on specific non-residential uses and project sizes. For example, some jurisdictions take this approach with hotel and/or retail uses, often because these uses generate other revenues for the City (i.e., transient occupancy tax or sales and use tax), and as a result jurisdictions choose to incentivize these uses. It should be noted that transient occupancy tax and sales and use tax revenues accrue to a jurisdiction’s General Fund and therefore are not reserved for affordable housing.
- **Provide an exemption for the non-residential component of vertical mixed-use projects.** Some jurisdictions provide commercial linkage fee exemptions for the commercial

component of mixed-use projects, such as ground floor retail space in a residential building. For example, the City of Santa Clara provides an exemption for “Commercial square footage within a mixed-use development where the commercial space is integrated into a single building that also includes residential development at a density of thirty (30) dwelling units per acre or greater and where the commercial square footage does not exceed twenty thousand (20,000) square feet.” Jurisdictions may adopt these types of exemptions to incentivize the provision of ground-floor retail space in residential projects. In some cases, these exemptions are adopted because local codes require ground-floor commercial space in some areas, and an exemption may reflect that the jurisdiction is electing not to charge a fee on space that developers are required to build, and which is often not profitable.

#### Implementation Consideration: Phasing

For projects that do not meet the exemption criteria, options for phasing in a fee include:

- **No phase-in process.** This option would consist of applying the full adopted fee rate to all non-exempt projects following adoption.
- **Phase in based on time.** For example, Campbell could charge no fee for one-year after adoption.

Note: Housing development projects submitting preliminary applications under SB 330 (Housing Crisis Act of 2019) will generally not be subject to any in-lieu fee, even for the commercial component of a mixed-use project, provided that they submit their application prior to the effective date of the new fees.

#### Implementation Consideration: Fee Calculation Methodology

Jurisdictions will typically adopt fee calculation methodologies that factor in existing commercial space in cases where a new development is replacing an existing use. For example, in the hypothetical case of a 300,000 square foot commercial development replacing an existing 100,000 square foot development, the fee would be based on the net square footage of 200,000 square feet. The following potential implementing language and formula reflects accepted practices in comparable California jurisdictions:

*The housing impact fee for nonresidential development projects shall be charged on a per-square-foot basis for all net new usable commercial floor area, including all additions where floor area is increased, with a specific per-square-foot amount set for each nonresidential land use category and amount of floor area. The amount of the fee shall be computed as follows:  
Fee = (sq. ft. of new land use \* relevant commercial linkage fee) - (sq. ft. of existing land use \* relevant commercial linkage fee).*

*"Useable Commercial Area" means the total horizontal floor area in square feet of all stories of all non-residential building areas measured to the inside surface of exterior walls as well as any covered non-residential area outside of the building envelope that is covered or partially*

covered by structures, beams, slats, or projections when viewed from above. This area specifically includes hallways, lobbies, elevators, stairwells, and mechanical rooms. This definition specifically excludes parking areas (including covered parking areas), areas shared with residential use in a mixed-use development, as well as areas covered by cornices, eaves, sills, and canopies cumulatively measuring less than 30-inches in depth as measured to the outside surface of exterior walls, as well as ground level paving, pools, spas and decks, landscape features, and light wells.

## **Inclusionary Housing In-Lieu Fee Findings and Policy Options**

As new market rate units are added to the Campbell market, the wage earners living in these units spend money for goods and services in the local economy which in turn creates demand for lower-wage retail and service sector jobs. The policy basis for establishing an inclusionary housing requirements and in-lieu fee is in part based on the need for Campbell to generate resources to serve the housing needs of lower-wage worker households related directly to new market-rate development.

The analysis presented in this report supports various policy options related to inclusionary housing in-lieu fees in Campbell in furtherance of Housing Element Program H-1a:

**Program H-1a: Inclusionary Housing Ordinance Implementation:** Amend the Inclusionary Housing Ordinance to offer developers a menu of options for achieving affordability, adjusting the percentage of units required to be affordable depending on the degree of affordability achieved (i.e., moderate-, low-, very low-, and extremely low-income).

This section also provides implementation considerations for the phasing and method of calculation fees that should be considered after selecting a preferred initial option.

### ***Inclusionary Housing Policy Option 1: Retain Existing Fees***

This policy option would entail no change in the base fees charged in-lieu of providing on-site units (i.e., 10-units; For-Sale: \$34.50; For-Rent: \$21.50). This approach would also maintain the City's existing method of calculating fees, and result in significantly less revenue than all other jurisdictions included in the benchmarking analysis.

### ***Inclusionary Housing In-Lieu Fee Policy Option 2: Increase in-lieu fees up to the point of indifference fee rate of \$60 with a threshold of five (5) units.***

Table 15 shows the in-lieu fee rates that represent the "point of indifference" for each prototype, or the point at which the cost of the fee would be approximately equivalent to the cost of providing inclusionary units in a project. These fees are approximately \$60 per net square foot for rental developments and range from approximately \$60 per net square foot to \$90 per net square foot for for-sale developments, depending on the development type. In this

policy option, the City would adopt a single in-lieu fee of \$60 for all unit types to be applied as follows:

- Threshold: would apply inclusionary ordinance requirements (i.e., 15% affordability) to all projects of five (5) or more units
- Provide option to pay fees for any fractional requirement not resulting in a whole unit
  - Exception: Projects between 5-6 units may pay in-lieu fee instead of providing units

Note: This option deviates from the possible amendments contemplated by Policy H-1a, as it would require projects of seven (7) or more units to provide an affordable housing unit, when the fractional requirement exceeds 0.5 of a unit. As a result, this policy option would result in the production of more affordable housing units, fewer fees, than initially contemplated by Policy H-1a of the Housing Element.

***Inclusionary Housing In-Lieu Fee Policy Option 3: Same as Policy Option 2 but with a threshold of seven (5-6) units***

Table 15 shows the in-lieu fee rates that represent the “point of indifference” for each prototype, or the point at which the cost of the fee would be approximately equivalent to the cost of providing inclusionary units in a project. These fees are approximately \$60 per net square foot for rental developments and range from approximately \$60 per net square foot to \$90 per net square foot for for-sale developments, depending on the development type. In this policy option, the City would adopt a single in-lieu fee of \$60 for all unit types to be applied as follows:

- Threshold: Would apply to all project of seven (7) or more units
- Provide option to pay fees for any fractional requirement not resulting in a whole unit

Note: This option also deviates from the possible amendments contemplated by Policy H-1a, as it would exempt projects under 7 units from paying fees or providing units. As a result, this policy option would result in the generation of less fees than initially contemplated by Policy H-1a of the Housing Element.

***Implementation Considerations: Phasing***

The options for phasing in the in-lieu fee rate are similar to those described under the commercial linkage fees. As deemed appropriate, the in-lieu fees could be phased in over time as follows:

- **No phase-in process.** This option would consist of applying the full adopted fee rate to all non-exempt projects following adoption.

- **Phase in based on time (staff preferred).** For example, Campbell could charge no fee for one year after adoption.

Implementation Considerations: Fractional Units

Under options 2 and 3, the City would provide the option for developers to pay a fee to address requirements for fractional units. Campbell’s current inclusionary housing ordinance requires that developers round up to the nearest whole unit when there is a requirement for a fractional inclusionary unit of 0.5 or greater and allow the developer to round down to the nearest whole unit when there is a requirement for a fractional inclusionary unit less than 0.5. The City could allow payment of an in-lieu fee to satisfy the requirement for any fractional unit (i.e., up to .99 of a unit requirement) or just for fractional unit requirements when less than 0.5. The application of the in-lieu fee to fractional unit requirements could be implemented regardless of whether the City reduces the project size threshold for inclusionary requirements as described under Inclusionary Housing In-Lieu Fee Policy Options 2 or 3.

This study support two options for addressing “fractional” units, as follows:

- Option 1: Retain the existing 15 percent inclusionary requirement as adopted, in which fractions less than .5 round down, fractions .5 and over round up to a full unit.
- Option 2: Modify the 15 percent inclusionary requirement such the following options apply when there is a fractional obligation:
  - Provide a unit to satisfy any fractional obligation (i.e., 0.1); or
  - Pay a fee to satisfy any fractional obligation when one of the following conditions apply:
    - Any fractional obligation for projects with 5 or 6 units
    - The fractional obligation is less than .5 for projects 7 units and over

The benefits of applying the in-lieu fee to fractional units include generating some fee revenue from fractional units, though the magnitude of the revenue is likely to be small. In addition, charging an in-lieu fee for fractional units would reduce the magnitude of the difference in requirements for less than 0.5 units and requirements for 0.5 units or more. Reducing this gap in requirements may reduce the extent to which developers seek to keep projects smaller to avoid a requirement for an entire new inclusionary unit.

The specific formula for determining the in-lieu fee for fractional units would be as follows:

$$\text{Total Fee} = (\$60 \text{ per square foot}) * (\text{Fractional unit/Total inclusionary units required}) * (\text{Livable Area})$$

"Livable area" means the total square footage of the interior of all dwelling units within a residential development that a tenant can occupy and use as measured from the interior face of the exterior walls. This area specifically includes all living spaces, kitchens and bathrooms, and usable closet and storage spaces within a dwelling unit. This definition specifically



# APPENDIX A: AB 602 ANALYSIS

Assembly Bill 602 (AB 602, 2021) enacted new requirements for impact fees and impact fee nexus studies. This appendix provides an analysis of commercial linkage fees in relation to AB 602 requirements. Relevant provisions of AB 602 include:

1. **Level of Service.** AB 602 requires that impact fee nexus studies “identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new level of service is appropriate.” (See Government Code Section 66016.5(a)(2).)
2. **Prior Nexus Study Assumptions and Fees Collected.** Pursuant to AB 602, Government Code Section 66016.5(a)(4) provides that “if a nexus study supports the increase of an existing fee, the local agency shall review the assumptions of the nexus study supporting the original fee and evaluate the amount of fees collected under the original fee.”
3. **Capital Improvement Plan.** Under AB 602, Government Code Section 66016.5(6) states that “large jurisdictions shall adopt a capital improvement plan as a part of the nexus study.” For the purposes of this provision, Campbell is classified as a large jurisdiction.<sup>8</sup>

## Commercial Linkage Fee AB 602 Analysis

This section provides discussion and analysis related to the commercial linkage fee analysis to comply with the provisions of AB 602 as described above. The subsections below are numbered to correspond to the four provisions described above.

### *1. Level of Service*

A commercial linkage would generate the funding necessary to finance the construction of new publicly-assisted affordable housing units to serve new workers in Campbell as the City’s employment base grows. Therefore, in the context of the commercial linkage fee, the level of service can be defined in terms of the number of publicly-assisted affordable housing units in Campbell per worker employed in Campbell.

**Existing Level of Service.** According to the City of Campbell’s 2023-2031 Housing Element, there are 617 publicly-assisted affordable housing units in Campbell. This total consists of units that received public funding in exchange for providing affordable housing with a deed restriction of maintain units as affordable for a set time period. In addition to these units, the Housing Element identifies three deed-restricted affordable housing units that were created

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<sup>8</sup> AB 602 uses the definition of a “large jurisdiction” that is contained in Section 53559.1 of the California Health and Safety Code. This section defines a large jurisdiction as a county with a population of 250,000 or more as of January 1, 2019 or any city within that county.

through the City’s inclusionary housing program. These units did not receive public funding and therefore are not factored into this analysis. According to US Census American Community Survey (ACS) data collected between 2018 and 2022, there are an estimated 24,377 people that work in Campbell. Based on these figures, there are currently approximately 0.025 publicly-assisted affordable housing units per worker in Campbell, as shown in Table A-1 below.

**Proposed New Level of Service.** Table A-1 shows an analysis of the level of service that would be supported by commercial linkage fees, assuming fee rates equal to two percent of total development costs as shown in Table 10 (fees shown in Table A-1 are rounded to the nearest dollar). As shown, commercial linkage fee rates at that level would support the construction of an estimated 0.020 units of publicly-assisted affordable housing per new worker in office space, 0.019 units of publicly-assisted affordable housing per new worker in retail space, 0.060 units of publicly-assisted affordable housing per new worker in hotel space, and 0.042 units of publicly-assisted affordable housing per new worker in industrial space.

**Table A-1: Level of Service Analysis, Commercial Linkage Fee**

<b>Existing Level of Service</b>					
Workers in Campbell (a)	24,377				
Publicly-Supported Affordable Housing Units	617				
Publicly-Supported Affordable Housing Units per Worker	0.025				
<b>Proposed New Level of Service</b>		<b>Office</b>	<b>Retail/ Restaurant</b>	<b>Hotel</b>	<b>Industrial</b>
Fee Necessary to Address Full Housing Need	\$46.85	\$128.46	\$49.13	\$33.72	
Possible Fee Rate	\$15.00	\$9.00	\$9.00	\$12.00	
% of Full Need Mitigated by Possible Fee Rate	32%	7%	18%	36%	
Estimated Number of Workers per 1,000 SF (b)	3.33	2.00	0.67	1.33	
Affordable Housing Need per 1,000 SF (c)	0.21	0.54	0.22	0.16	
Affordable Housing Need per 1,000 SF Mitigated by Possible Fee Rate (d)	0.07	0.04	0.04	0.06	
Affordable Housing Units Funded per Worker (e)	0.020	0.019	0.060	0.042	

**Notes:**

- (a) Based on ACS data collected between 2018 and 2022.
- (b) See Table 4.
- (c) See Table 6.
- (d) Equal to the affordable housing need per 1,000 SF multiplied by the percentage of the full need mitigated by the fee rate shown.
- (e) Equal to the affordable housing need per 1,000 SF mitigated by the fee rate shown divided by the estimated number of workers per 1,000 SF.

Sources: US Census American Community Survey, 2018-2022; City of Campbell Housing Element Update, 2023; BAE, 2023.

**Appropriateness of New Level of Service.** Table A-1 above indicates that commercial linkage fees for some uses could support a higher level of service than currently exists in Campbell, depending on whether the Campbell City Council adopts commercial linkage fees and, if so, what the adopted fee rates are. While the current level of service is 0.025 publicly-assisted affordable housing unit per worker, the hotel and industrial fees shown in Table A-1 would

support larger numbers of publicly-assisted affordable housing units per worker. A higher level of service would be appropriate in part because the current level of service is insufficient to provide enough affordable housing for Campbell's workforce. There is a persistent shortage of available affordable housing units throughout the region, and affordable housing developments consistently have long waiting lists for any available units.

The existing shortage of affordable units is also apparent in the number of households that are overpaying for housing in Campbell.<sup>9</sup> As discussed in Campbell's 2023-2031 Housing Element, approximately 85 percent of extremely low-income households, 71 percent of very low-income households, and 59 percent of low-income households are overpaying for housing. These data indicate a significant gap in the number of lower-income households living in Campbell and the availability of affordable housing.

Commercial linkage fees will not address these existing deficiencies in the affordable housing inventory. However, supporting a higher level of service through commercial linkage fees could help to prevent new non-residential development in Campbell from continuing to replicate the same gaps in affordable housing delivery that exist under the current level of service. Even at a higher level of service, the City is unlikely to charge commercial linkage fees that would fully mitigate the need for affordable housing that new non-residential development is anticipated to create. As a result, some gaps in affordable housing delivery would remain unless mitigated through other means.

Furthermore, the higher level of service is appropriate based on the City of Campbell's Regional Housing Needs Allocation (RHNA). The RHNA is the number of housing units that the City is required to plan to accommodate during each eight-year Housing Element cycle. Prior to the start of each Housing Element cycle, the State determines the total RHNA for each region in California. Each region then goes through a process to distribute the RHNA among each of the cities and counties in the region. Under California law, each city and county in California is required to prepare a Housing Element every eight years and must demonstrate through the Housing Element that the jurisdiction has the ability to accommodate its RHNA during the eight-year Housing Element period. The RHNA for each city and county includes an allocation of units that will be affordable to low-income and moderate-income households, and the Housing Element must demonstrate that the jurisdiction has the ability to accommodate units at each affordability level.

For the 6<sup>th</sup> Housing Element Update Cycle (2023-2031), the City of Campbell has a RHNA obligation totaling 2,977 units, including 1,186 units for lower-income households. This a significant increase from the 5<sup>th</sup> Housing Element Update Cycle (2015-2023), when the City's RHNA obligation totaled 933 units, including 391 units for lower-income households.

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<sup>9</sup> A household is typically considered to be overpaying for housing if it spends more than 30 percent of its gross income on housing-related expenses, such as rent, utilities, or mortgage payments.

Campbell's 2023-2031 Housing Element reports that the City permitted 15 housing units that are affordable to lower-income households during the 5<sup>th</sup> Housing Element cycle. This suggests that Campbell will need to issue building permits for significantly more affordable housing units during the 6<sup>th</sup> Housing Element Cycle to address the City's RHNA. While a commercial linkage fee would not be intended to fully address the City's RHNA and would not be sufficient to do so, these figures demonstrate a need for the City of Campbell to enhance the level of service provided by the City's affordable housing inventory relative to existing conditions.

### ***2. Prior Nexus Study Assumptions and Fees Collected***

The City of Campbell does not have an existing commercial linkage fee, and therefore this nexus study does not relate to the increase of an existing fee. As a result, the provisions of AB 602 that relate to reviewing the assumptions of a prior nexus study and evaluating the amount of fees collected under the original fee do not apply to the commercial linkage fee analysis.

### ***3. Capital Improvement Plan***

Under AB 602, Government Code Section 66016.5(6) states that "large jurisdictions shall adopt a capital improvement plan as a part of the nexus study." For the purposes of this provision, Campbell is classified as a large jurisdiction. Government Code Section 66002 further states that "any local agency which levies a fee subject to [the California Mitigation Fee Act] may adopt a capital improvement plan, which shall indicate the approximate location, size, time of availability, and estimates of cost for all facilities or improvements to be financed with the fees."

A jurisdiction's capital improvement plan identifies infrastructure improvements and public facilities projects that the jurisdiction intends to implement, though some portions of the capital improvement plan may be unfunded and would be implemented only if funding becomes available in the future. Affordable housing developments are not typically included in a jurisdiction's capital improvement plan, in part because local jurisdictions do not typically have a direct role in constructing affordable housing. Instead, local jurisdictions with access to affordable housing funds typically provide these funds to affordable housing developers or operators. These affordable housing developers or operators then use the funds to construct new affordable housing units, acquire existing housing units for the purpose of creating or maintaining affordable housing, or rehabilitate existing affordable units.

Although affordable housing developments are not included in a formal capital improvement plan, the City of Campbell's 2023-2031 Housing Element Update provides a plan to accommodate the City's RHNA. This plan includes an identification of sites where all 1,186 lower-income units in the City's RHNA could be built over the eight-year Housing Element period. These units would be located within Campbell City limits, and will likely generally correspond to the approved, under construction, and pipeline projects identified in the Housing Element, as well as projects that could be constructed on the opportunity sites that

the Housing Element identifies. Projects with affordable units will vary in size based on the specific opportunities for affordable housing development that could occur during the planning period and may range from ten units to over 100 units (or from five units to over 100 units under possible policy options).

Information provided in recent applications for tax credit financing for new affordable housing developments in Santa Clara County indicates that the cost to build a publicly-assisted affordable housing unit currently averages an estimated \$720,000 per unit. Funds from commercial linkage fees would help to finance a portion of the cost to construct these units but are not anticipated to be sufficient to fund the construction of all of the lower-income units in the City's RHNA. The total cost that will be financed through the fees will depend on the amount of revenue generated by commercial linkage fees during the Housing Element cycle. In addition to commercial linkage fees, construction of these units will be financed by other public and private funding sources, including but not limited to low-income housing tax credits. A portion of the RHNA will also be met through other City housing programs, including the City's inclusionary ordinance.

## APPENDIX B: NON-RESIDENTIAL PRO FORMAS

This appendix provides the detailed pro formas for non-residential uses that were used for the commercial linkage fee analysis provided in this report. This appendix also includes a description of the key assumptions used in the non-residential pro formas.

### Key Assumptions

**Hard Costs:** Hard costs are the costs associated with the physical construction of a building, including all construction materials and labor. The hard cost assumptions are primarily based on information provided by developers that were interviewed for this study. The study also relies on published sources and BAE's experience with recent projects in the Bay Area to cross-check the information provided by developers and to fill gaps in the information that developers were able to provide.

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

**Financing Costs:** This analysis assumes a 6.5 percent interest rate on construction loans and loan fees equal to 1.0 percent of the loan amount. These assumptions are consistent with information provided by developers interviewed for this study as well as BAE's experience with recent projects in the region.

**Impact Fees:** BAE calculated impact fees for each prototype based on the City's impact fee schedule, which includes storm drain impact fees and roadway maintenance impact fees.

**Commercial Rental Rates:** For the office, retail, and industrial prototypes, this analysis uses rental rates that are based on information provided by developers during the developer interviews and cross-checked against data from Costar.

**Hotel Operating Revenues and Expenses.** This analysis uses data from Costar to estimate hotel room rates and occupancy rates. The hotel market continues to be impacted by the COVID-19 pandemic, with lower room rates and occupancy rates than in 2019, but has demonstrated a significant recovery from the most severe impacts of the pandemic. This analysis uses the 2019 average occupancy and room rates for hotel properties in Campbell on the basis that developers would likely need to anticipate a return to pre-pandemic conditions in order to pursue future hotel development.

**Capitalization Rate and Yield on Cost:** The capitalization rate (or cap rate) is defined as the net operating income that a property generates divided by the estimated sale price of a stabilized building. To support new development, investors require a spread between the capitalization rate and the project's Yield on Cost, calculated as the project's net operating income divided by the total development costs. To inform the current cap rates and required yield on cost metrics to support new development, this analysis uses information from developer interviews, Costar, and the CBRE United States Cap Rate Survey for the first half of 2023 to estimate cap rates for each of the prototypes.

**Table B-1: Financial Pro Forma – Office Prototype**

Development Program Assumptions		Development Cost Analysis	
<b>Site</b>		<b>Hard Costs</b>	
Site area (acres)	3.0	Site work	\$2,613,600
Site area (sq. ft.)	130,680	Hard construction costs	\$34,500,000
<b>Structure</b>		TI allowance costs	\$10,925,000
Building Size - Gross SF	115,000	Parking - surface	\$1,163,500
Common Area SF	5,750	Parking - structured	\$16,600,000
Net Rentable SF	109,250	Parking - underground	\$0
Common Area as a % of Gross	5%	<b>Total Hard Costs</b>	<b>\$65,802,100</b>
<b>Parking (spaces)</b>		<i>Hard Costs per Built Sq. Ft.</i>	<i>\$572</i>
Surface	511	<b>Soft Costs</b>	
Structured	179	Soft costs	\$13,160,420
Underground	332	Impact fees	\$260,630
	0	Commercial Linkage Fee	\$0
<b>Development Cost &amp; Income Assumptions</b>		Developer Fee	\$2,632,084
<b>Hard Costs</b>		<b>Total Soft Costs</b>	<b>\$16,053,134</b>
Site Work, per site SF	\$20	<b>Construction Financing Costs</b>	
Construction hard costs, per SF	\$300	Construction Period Interest	\$3,112,545
Tenant improvements, per rentable SF	\$100	Loan Fees	\$491,131
Parking - surface, per space	\$6,500	<b>Total Financing Costs</b>	<b>\$3,603,677</b>
Parking - structured, per space	\$50,000	<b>Total Development Costs</b>	
Parking - underground, per space	\$90,000	<b>excl. Land Value</b>	<b>\$85,458,911</b>
<b>Soft Costs</b>		Cost per built sq. ft.	\$743
Soft Costs as a % of Hard Costs	20%	<b>Feasibility Analysis</b>	
Developer Fee as % of Hard Costs	4%	<b>Projected Income</b>	
<b>Impact Fees &amp; Extractions</b>		Gross Annual Revenue	\$6,227,250
Impact Fees (per SF)	\$2.27	Less Vacancy	(\$622,725)
<b>Operating Revenues &amp; Expenses</b>		<b>Net Operating Income (NOI)</b>	<b>\$5,604,525</b>
Rental Rate (per SF per month, NNN)	\$4.75	Project Value to Investor	\$70,056,563
Vacancy rate	10%	Less Development Costs	(\$85,458,911)
<b>Construction Financing</b>		<b>Residual Land Value</b>	<b>(\$15,402,348)</b>
Loan to cost ratio	60%	<b>Residual Land Value/Acre</b>	<b>(\$5,134,116)</b>
Interest rate	6.5%		
Loan fees (points)	1%		
Loan period (months)	18		
Draw down factor	65%		
<b>Capitalization Rate</b>			
Developer Profit Spread	7.00%		
<b>Required Yield on Cost</b>	1.00%		
	8.00%		

Sources: BAE, 2023.

**Table B-2: Financial Pro Forma – Retail Prototype**

<b>Development Program Assumptions</b>		<b>Development Cost Analysis</b>	
<b>Site</b>		<b>Hard Costs</b>	
Site area (acres)	0.5	Site work	\$435,600
Site area (sq. ft.)	21,780	Hard construction costs	\$2,300,000
<b>Structure</b>		TI allowance costs	\$650,000
Building Size - Gross SF	10,000	Parking - surface	\$266,500
<b>Parking (spaces)</b>		Parking - structured	\$0
Surface	41	Parking - underground	\$0
Structured	0	<b>Total Hard Costs</b>	<b>\$3,652,100</b>
Underground	0	<i>Hard Costs per Built Sq. Ft.</i>	<i>\$365</i>
<b>Development Cost &amp; Income Assumptions</b>		<b>Soft Costs</b>	
<b>Hard Costs</b>		Soft costs	\$730,420
Site Work, per site SF	\$20	Impact fees	\$15,349
Construction hard costs, per SF	\$230	Commercial Linkage Fee	\$0
Tenant improvements, per rentable SF	\$65	Developer Fee	\$146,084
Parking - surface, per space	\$6,500	<b>Total Soft Costs</b>	<b>\$891,853</b>
Parking - structured, per space	\$50,000	<b>Construction Financing Costs</b>	
Parking - underground, per space	\$90,000	Construction Period Interest	\$172,784
<b>Soft Costs</b>		Loan Fees	\$27,264
Soft Costs as a % of Hard Costs	20%	<b>Total Financing Costs</b>	<b>\$200,048</b>
Developer Fee as % of Hard Costs	4%	<b>Total Development Costs</b>	
Developer Profit as % of Total Project Costs	0%	<b>excl. Land Value</b>	<b>\$4,744,001</b>
<b>Impact Fees &amp; Extractions</b>		Cost per built sq. ft.	\$474
Misc. Impact Fees, not including CLF (per SF)	\$1.53	<b>Feasibility Analysis</b>	
<b>Operating Revenues &amp; Expenses</b>		<b>Projected Income</b>	
Rental Rate (per SF per month, NNN)	\$3.75	Gross Annual Revenue	\$450,000
Vacancy rate	10%	Less Vacancy	(\$45,000)
<b>Construction Financing</b>		<b>Net Operating Income (NOI)</b>	<b>\$405,000</b>
Loan to cost ratio	60%	Project Value to Investor	\$5,062,500
Interest rate	7%	Less Development Costs	(\$4,744,001)
Loan fees (points)	1%	<b>Residual Land Value</b>	<b>\$318,499</b>
Loan period (months)	18	<b>Residual Land Value/Acre</b>	<b>\$636,999</b>
Draw down factor	65%		
<b>Capitalization Rate</b>			
Developer Profit Spread	6.50%		
<b>Required Yield on Cost</b>	<b>8.00%</b>		

Sources: BAE, 2023.

**Table B-4: Financial Pro Forma – Industrial Prototype**

Development Program Assumptions		Development Cost Analysis	
<b>Site</b>		<b>Hard Costs</b>	
Site area (acres)	1.0	Site work	\$871,200
Site area (sq. ft.)	43,560	Hard construction costs	\$4,200,000
<b>Structure</b>		Parking - surface	\$279,500
Building Size - Gross SF	15,000	Parking - structured	\$0
<b>Parking (spaces)</b>		Parking - underground	\$0
Surface	43	<b>Total Hard Costs</b>	<b>\$5,350,700</b>
Structured	0	<i>Hard Costs per Built Sq. Ft.</i>	<i>\$357</i>
Underground	0	<b>Soft Costs</b>	
<b>Development Cost &amp; Income Assumptions</b>		Soft costs	\$1,070,140
<b>Hard Costs</b>		Impact fees	\$23,197
Site Work, per site SF	\$20	Commercial Linkage Fee	\$0
Construction hard costs, per SF	\$280	Developer Fee	\$214,028
Tenant improvements, per rentable SF	\$0	<b>Total Soft Costs</b>	<b>\$1,307,365</b>
Parking - surface, per space	\$6,500	<b>Construction Financing Costs</b>	
Parking - structured, per space	\$50,000	Construction Period Interest	\$253,173
Parking - underground, per space	\$90,000	Loan Fees	\$39,948
<b>Soft Costs</b>		<b>Total Financing Costs</b>	<b>\$293,121</b>
Soft Costs as a % of Hard Costs	20%	<b>Total Development Costs</b>	
Developer Fee as % of Hard Costs	4%	<b>excl. Land Value</b>	<b>\$6,951,186</b>
<b>Impact Fees &amp; Extractions</b>		Cost per built sq. ft.	\$463
Misc. Impact Fees, not including CLF (per SF)	\$1.55	<b>Feasibility Analysis</b>	
<b>Operating Revenues &amp; Expenses</b>		<b>Projected Income</b>	
Rental Rate (per SF per month, NNN)	\$2.75	Gross Annual Revenue	\$495,000
Vacancy rate	5%	Less Vacancy	(\$24,750)
<b>Construction Financing</b>		<b>Net Operating Income (NOI)</b>	<b>\$470,250</b>
Loan to cost ratio	60%	Project Value to Investor	\$7,234,615
Interest rate	7%	Less Development Costs	(\$6,951,186)
Loan fees (points)	1%	<b>Residual Land Value</b>	<b>\$283,429</b>
Loan period (months)	18	<b>Residual Land Value/Acre</b>	<b>\$283,429</b>
Draw down factor	65%		
<b>Capitalization Rate</b>			
Developer Profit Spread	1.50%		
<b>Required Yield on Cost</b>	<b>6.50%</b>		

Sources: BAE, 2023.

**Table B-5: Financial Pro Forma – Hotel Prototype**

Development Program Assumptions		Development Cost Analysis	
<b>Site</b>		<b>Hard Costs</b>	
Site area (acres)	2.5	Site work	\$2,178,000
Site area (sq. ft.)	108,900	Hard construction costs	\$26,000,000
<b>Structure</b>		FF&E	\$3,250,000
Building Size - Gross SF	71,500	Parking - surface	\$1,300,000
Number of Hotel Rooms	130	Parking - structured	\$0
<b>Parking (spaces)</b>		Parking - underground	\$0
Surface	200	<b>Total Hard Costs</b>	<b>\$32,728,000</b>
Structured	0	<i>Hard Costs per Room</i>	<i>\$251,754</i>
Underground	0	<b>Soft Costs</b>	
<b>Development Cost &amp; Income Assumptions</b>		Soft costs	\$6,545,600
<b>Hard Costs</b>		Impact fees	\$132,301
Site Work, per site SF	\$20	Commercial Linkage Fee	\$0
Construction hard costs, per room	\$200,000	Developer Fee	\$1,309,120
FF&E, per room	\$25,000	<b>Total Soft Costs</b>	<b>\$7,987,021</b>
Parking - surface, per space	\$6,500	<b>Construction Financing Costs</b>	
Parking - structured, per space	\$50,000	Construction Period Interest	\$1,548,189
Parking - underground, per space	\$90,000	Loan Fees	\$244,290
<b>Soft Costs</b>		<b>Total Financing Costs</b>	<b>\$1,792,479</b>
Soft Costs as a % of Hard Costs	20%	<b>Total Development Costs</b>	
Developer Fee as % of Hard Costs	4%	<b>excl. Land Value</b>	<b>\$42,507,499</b>
Developer Profit as % of Total Project Costs	0%	Cost per room	\$326,981
<b>Impact Fees &amp; Extractions</b>		Cost per built sq. ft.	\$595
Misc. Impact Fees, not including CLF (per SF)	\$1.85	<b>Feasibility Analysis</b>	
<b>Operating Revenues &amp; Expenses</b>		<b>Projected Income</b>	
Room Revenue (per occupied room night)	\$215	Gross Revenue	\$9,376,120
Other Revenue (per occupied room night)	\$32	Less Expenses	(\$6,094,478)
Expenses (as a % of operating revenue)	65%	<b>Net Operating Income (NOI)</b>	<b>\$3,281,642</b>
Occupancy Rate	80%	Project Value to Investor	\$36,462,689
<b>Construction Financing</b>		Less Development Costs	(\$42,507,499)
Loan to cost ratio	60%	<b>Residual Land Value</b>	<b>(\$6,044,810)</b>
Interest rate	7%	<b>Residual Land Value/Acre</b>	<b>(\$2,417,924)</b>
Loan fees (points)	1%		
Loan period (months)	18		
Draw down factor	65%		
<b>Capitalization Rate</b>			
Developer Profit Spread	1.00%		
<b>Required Yield on Cost</b>	<b>9.00%</b>		

Sources: BAE, 2023.

## APPENDIX C: RESIDENTIAL PRO FORMAS

This appendix provides the detailed pro formas for residential developments that were used for the inclusionary feasibility and inclusionary in-lieu analysis provided in this report. This appendix also includes a description of the key assumptions used in the residential pro formas.

### Key Assumptions

BAE developed the various modeling inputs and assumptions needed for the financial feasibility analysis based on interviews with residential developers who are active in the local area, data from industry publications and databases, experience with recent development projects in the local area, and other research. Developers vary somewhat in the categorization of various project costs, and therefore may show different cost figures for individual cost items even for projects with similar overall development costs. Any variation in the specific cost items described below would not affect the findings of this analysis provided that the total development costs for the prototype projects are consistent with total development costs for similar projects.

**Hard Costs:** Hard costs are the costs associated with the physical construction of a building, including all construction materials and labor. This analysis uses a hard cost assumption of \$375 per leasable square foot of residential space for the lower-density multifamily rental prototype, \$425 per leasable square foot of residential space for the high-density multifamily rental prototype, \$475 per leasable square foot of residential space for the condominium prototype, \$275 per square foot of residential space for the townhome prototype, and \$250 per square foot of residential space for the single-family prototype.

**Parking Costs:** BAE included parking as a separate cost item in order to estimate the specific cost of building parking in these projects. Based on stakeholder interviews, BAE estimates the cost of a podium parking space at \$55,000 per space. For prototypes including surface parking, BAE assumes a cost of \$5,000 per surface parking space.

**Soft Costs:** This analysis assumes that soft costs are equal to between 12.5 and 17 percent of hard costs. This soft cost estimate includes engineering, architecture, financing, and CEQA costs, as well as City cost-recovery fees for planning, permitting, and entitlements, but does not include impact fees. Impact fees are included as a separate line item, discussed below.

**Impact Fees:** BAE calculated impact fees for each prototype based on the City's impact fee schedule, including park in-lieu fees, storm drain area fees, and roadway maintenance fees.

**Market-Rate Residential Rents:** This analysis assumes that rental rates for market-rate units for the lower-density apartments will average approximately \$4.30 per net residential square foot, with some variation in rent per square foot based on unit size. Assuming slightly higher rents for the high-density prototype, BAE estimates rents are equal to \$4.55 per square foot, with some variation between units. These assumption is based on information provided by developers that were interviewed as part of this study as well as data from Costar on current multifamily rental rates in the Campbell area.

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

**Market-Rate Residential Sale Prices:** This analysis assumes that sale prices for market-rate units will average approximately \$900 per net residential square foot for condominiums, \$950 per residential square foot for townhomes, and \$1,000 per square foot for single-family homes. This assumption is based on information provided by developers that were interviewed as part of this study as well as data from Redfin on sale prices among recently-sold condominiums and townhouses in Campbell.

**Affordable Residential Sale Prices:** The affordable sale prices used in this analysis are based on the published City of Campbell below-market rate sale prices.

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

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

**Yield on Cost (rental prototypes):** In order to meet developer and investor return thresholds, BAE assumes the project must reach a 5.5 percent Yield on Cost (YOC). This is roughly 75 basis points above the current capitalization rate. While this is a relatively small spread between the capitalization rate and the YOC, developers noted a willingness to proceed with projects yielding a 5.5 percent YOC due to the perceived strength of the Santa Clara County rental market.

**Developer Profit Margin (for sale prototypes):** This metric divides total developer profit by total development cost, to judge overall project feasibility. It can be considered as a

simple profit margin, irrespective of how a project is financed between debt and equity. Real estate development has higher risk inherent to many other types of investment activity, such as corporate bonds, so developers tend to seek higher profit threshold on real estate projects than these other investment options as a requirement for deciding whether to pursue a project. This study assumes an 18 percent profit threshold for the for-sale prototypes.

**Residual Land Value Threshold:** This analysis uses a land cost of approximately \$3 million to \$10 million per acre to assess the financial feasibility of each of the prototypes. The land costs vary by prototype in the City, with the single-family prototypes paying the highest in land costs due to the high sale prices of new single-family units. The land costs for the other prototypes tend to fall within the lower end of the range identified. This is generally consistent with input from the development community, however developers did note that site conditions and location greatly influence the site costs.

**Table C-1: Low-Density Multifamily Rental Prototype Pro Forma, Inclusionary Scenario**

Development Program Assumptions						Cost Assumptions				Development Cost Analysis				
Site Size - acres / square feet	2.00					<b>Construction</b>				<b>Mixed-Income Development</b>				
Total Units	59					Site Prep Costs (per site. sq.ft)	\$20			Affordable	Market Rate	Total Project		
Affordable (% - count)	15%					Hard Cost per net residential sf	\$375							
Market Rate (% - count)	85%					Parking cost per space, Surface	\$5,000			<b>\$244,640</b>	<b>\$1,497,760</b>	<b>\$1,742,400</b>		
Leasable sq.ft.	49,500					Soft Costs (% of hard costs)	15%							
<b>Total Project sq.ft</b>	<b>59,400</b>					Impact Fees (per unit) (a)	\$22,821							
Total Parking Spaces	89					Inclusionary Housing In-Lieu Fee (per SF)	\$21.50							
Parking spaces per du	1.5					Developer Fee (% of hard and soft)	4%							
<b>Base Density Units</b>						<b>Rental Revenue</b>								
		Units by AMI Level				All	Monthly Rent by AMI Level							
Unit Mix	Sq. Ft.	50%	60%	80%	MR	Units	50%	60%	80%	MR				
Studio	600	1	1	0	4	6	Unit Type							
1-BR	750	2	3	0	27	32	Studio	\$1,419	\$1,714	\$2,304	\$2,940			
2-BR	1,000	1	1	0	16	18	1-BR	\$1,514	\$1,830	\$2,462	\$3,300			
3-BR	1,300	0	0	0	3	3	2-BR	\$1,806	\$2,185	\$2,944	\$4,000			
<b>All Units</b>		<b>4</b>	<b>5</b>	<b>0</b>	<b>50</b>	<b>59</b>	3-BR	\$2,079	\$2,517	\$3,394	\$4,940			
<b>Summary</b>						<b>Operating Costs</b>								
		Affordable	Market-Rate		Total									
Number of Units (# - %)	9	15%	50	85%	59	Annual op. cost - per Affordable du	\$15,000							
Avg. Affordability (% AMI)	56%					Annual op. cost - per Market Rate du	\$15,000							
Leasable Sq. Ft.	6,950		42,550		49,500	Vacancy Rate, Residential	5.0%							
Total Sq. Ft.	8,340		51,060		59,400	Market Rate Cap Rate	4.75%							
Parking Spaces	14		75		89	Required Yield-on-Cost	5.50%							
<b>Financing</b>										<b>Feasibility Analysis</b>				
Construction-Period										<b>Mixed-Income Development</b>				
MR Loan-to-Cost						65%				Affordable	Market Rate	Total Project		
Loan Fees						1%				<b>Project Income</b>				
Drawdown Factor						65%				Gross Scheduled Rents	\$187,704	\$2,156,160	\$2,343,864	
Interest rate						7.50%				Less Vacancy	(\$9,385)	(\$107,808)	(\$117,193)	
Loan Term (months)						24				Less Operating Expenses	(\$135,000)	(\$750,000)	(\$885,000)	
										<b>Net Operating Income</b>	<b>\$43,319</b>	<b>\$1,298,352</b>	<b>\$1,341,671</b>	
										<b>Feasibility</b>				
										<b>Total Development Costs (ex. Land)</b>	<b>\$3,915,323</b>	<b>\$23,773,237</b>	<b>\$27,688,560</b>	
										Per Unit (ex. Land)	\$435,036	\$475,465	\$469,298	
										Required Yield on Cost	5.50%	5.50%	5.50%	
										<b>Project Value Net of Dev. Profit</b>	<b>\$787,615</b>	<b>\$23,606,400</b>	<b>\$24,394,015</b>	
										<b>Residual Land Value</b>	<b>(\$3,127,709)</b>	<b>(\$166,837)</b>	<b>(\$3,294,546)</b>	
										RLV per unit	(\$347,523)	(\$3,337)	(\$55,840)	
										RLV per Acre	(\$1,563,854)	(\$83,418)	(\$1,647,273)	

Sources: BAE, 2023.

**Table C-2: High-Density Mixed-Use Rental Prototype Pro Forma, Inclusionary Scenario**

Development Program Assumptions						Cost Assumptions					Development Cost Analysis				
Site Size - acres / square feet	2.00					<b>Construction</b>					<b>Mixed-Income Development</b>				
Total Units	132					Site Prep Costs (per site, sq.ft)				\$20	Affordable	Market Rate	Total Project		
Affordable (% - count)	15%					Hard Cost per net sf				\$425					
Market Rate (% - count)	85%					Parking cost per space, Podium				\$55,000	<b>Site Preparation</b>	<b>\$245,309</b>	<b>\$1,497,091</b>	<b>\$1,742,400</b>	
Leasable sq.ft.	110,900					Soft Costs (% of hard costs)				15%	<b>Vertical Construction</b>				
<b>Total Project sq.ft</b>	<b>138,080</b>					Impact Fees (per unit) (a)				\$23,114	Hard Cost	\$6,885,000	\$42,372,500	\$49,257,500	
Total Parking Spaces	132					Inclusionary Housing In-Lieu Fee (per SF)				\$21.50	Parking Cost	\$1,100,000	\$6,160,000	\$7,260,000	
Parking spaces per du	1.0					Developer Fee (% of hard and soft)				4%	Soft Costs	\$1,197,750	\$7,279,875	\$8,477,625	
											Impact Fees	\$462,280	\$2,588,770	\$3,051,050	
											Inclusionary Housing In-Lieu Fee	\$0	\$0	\$0	
											<b>Subtotal</b>	<b>\$9,645,030</b>	<b>\$58,401,145</b>	<b>\$68,046,175</b>	
<b>Base Density Units</b>						<b>Rental Revenue</b>									
Unit Mix	Sq. Ft.	Units by AMI Level				All Units	Unit Type	Monthly Rent by AMI Level				<b>Construction Financing</b>			
		50%	60%	80%	MR			50%	60%	80%	MR	Const. Loan Fees	\$64,287	\$389,339	\$453,626
Studio	600	1	1	0	11	13	Studio	\$1,419	\$1,714	\$2,304	\$3,090	Const. Loan Interest	\$626,800	\$3,796,051	\$4,422,851
1-BR	750	5	7	0	60	72	1-BR	\$1,514	\$1,830	\$2,462	\$3,488	<b>Developer Fee</b>	<b>\$395,614</b>	<b>\$2,395,929</b>	<b>\$2,791,543</b>
2-BR	1,000	2	4	0	34	40	2-BR	\$1,806	\$2,185	\$2,944	\$4,250	<b>Total Dev. Cost (excl. Land)</b>	<b>\$10,977,040</b>	<b>\$66,479,555</b>	<b>\$77,456,595</b>
3-BR	1,300	0	0	0	7	7	3-BR	\$2,079	\$2,517	\$3,394	\$5,200	Per Unit	\$548,852	\$593,567	\$586,792
<b>All Units</b>		<b>8</b>	<b>12</b>	<b>0</b>	<b>112</b>	<b>132</b>						Per Net SF	\$678	\$702	\$698
												Per Gross SF	\$565	\$585	\$561
<b>Summary</b>										<b>Feasibility Analysis</b>					
	Affordable	Market-Rate	Total			Commercial Rent (NNN)				\$2.50	<b>Mixed-Income Development</b>				
Number of Units (# - %)	20	15%	112	85%	132	<b>Operating Costs</b>					Affordable	Market Rate	Total Project		
Avg. Affordability (% AMI)	56%				n.a.	Annual op. cost - per Affordable du				\$15,000	Gross Scheduled Rents	\$430,380	\$5,239,680	\$5,670,060	
Leasable Sq. Ft.	16,200		94,700		110,900	Annual op. cost - per Market Rate du				\$15,000	Less Vacancy	(\$21,519)	(\$261,984)	(\$283,503)	
Total Sq. Ft.	19,440		113,640		133,080	Vacancy Rate, Residential				5.0%	Less Operating Expenses	(\$300,000)	(\$1,680,000)	(\$1,980,000)	
Parking Spaces	20		112		132	Market Rate Cap Rate				4.75%	<b>Net Operating Income</b>	<b>\$108,861</b>	<b>\$3,297,696</b>	<b>\$3,406,557</b>	
Ground Floor Commercial Space					5,000	Required Yield-on-Cost				5.50%	<b>Feasibility</b>				
						<b>Financing</b>					<b>Project Income</b>				
						Construction-Period					<b>Total Development Costs (ex. Land)</b>				
						MR Loan-to-Cost				65%	Per Unit (ex. Land)	\$548,852	\$593,567	\$586,792	
						Loan Fees				1%	Required Yield on Cost	5.50%	5.50%	5.50%	
						Drawdown Factor				65%	<b>Project Value Net of Dev. Profit</b>	<b>\$1,979,291</b>	<b>\$59,958,109</b>	<b>\$61,937,400</b>	
						Interest rate				7.50%	<b>Residual Land Value</b>	<b>(\$8,997,749)</b>	<b>(\$6,521,445)</b>	<b>(\$15,519,195)</b>	
						Loan Term (months)				24	RLV per unit	(\$449,887)	(\$58,227)	(\$117,570)	
											RLV per Acre	(\$4,498,875)	(\$3,260,723)	(\$7,759,597)	

Sources: BAE, 2023.



**Table C-4: For-Sale Townhome Prototype Pro Forma, Inclusionary Scenario**

Development Program Assumptions						Cost Assumptions				Development Cost Analysis			
Site Size (acres)	1.00					<b>Construction</b>				<b>Mixed-Income Development</b>			
Total Units	22					Site Prep Costs (per site, sq.ft)	\$25			Affordable	Market Rate	Total Project	
Affordable (% - count)	18%					Hard Cost per gross residential sf	\$275						
Market Rate (% - count)	82%					Soft Costs (% of hard costs)	13%						
Leasable sq.ft.	39,600					Impact Fees (per unit) (a)	\$32,401			<b>Site Preparation</b>	<b>\$198,000</b>	<b>\$891,000</b>	<b>\$1,089,000</b>
<b>Total Project sq.ft</b>	<b>39,600</b>					Inclusionary Housing In-Lieu Fee (per SF)	\$34.50			<b>Vertical Construction</b>			
Total Parking Spaces	44					Developer Fee (% of hard and soft)	4%			Hard Cost	\$1,980,000	\$8,910,000	\$10,890,000
Parking spaces per du	2.00									Soft Costs	\$247,500	\$1,113,750	\$1,361,250
										Impact Fees	\$129,603	\$583,215	\$712,819
										Inclusionary Housing In-Lieu Fee	\$0	\$0	\$0
										<b>Subtotal</b>	<b>\$2,357,103</b>	<b>\$10,606,965</b>	<b>\$12,964,069</b>
<b>Base Density Units</b>						<b>Sale Revenue</b>							
	AMI-Level					All	Sale Price by AMI Level						
Unit Mix	Sq. Ft.	50%	70%	110%	MR	Units	Unit Type	50%	70%	110%	MR		
3-BR	1,800	0	2	2	18	22	3-BR	\$212,778	\$330,841	\$573,294	\$1,710,000		
										<b>Construction Financing</b>			
										Const. Loan Fees	\$16,608	\$74,737	\$91,345
										Const. Loan Interest	\$161,930	\$728,684	\$890,613
										<b>Developer Fee</b>	<b>\$102,204</b>	<b>\$459,919</b>	<b>\$562,123</b>
										<b>Total Development Cost</b>	<b>\$2,835,845</b>	<b>\$12,761,304</b>	<b>\$15,597,150</b>
										Per Unit	\$708,961	\$708,961	\$708,961
										Per Net SF	\$394	\$394	\$394
										Per Gross SF	\$394	\$394	\$394
										<b>Feasibility Analysis</b>			
										<b>Mixed-Income Development</b>			
										Affordable	Market Rate	Total Project	
										<b>Project Income</b>			
										Gross Sale Revenue	\$1,808,270	\$30,780,000	\$32,588,270
										Less Marketing Costs	(\$90,414)	(\$1,539,000)	(\$1,629,414)
										<b>Net Sales Revenue</b>	<b>\$1,717,857</b>	<b>\$29,241,000</b>	<b>\$30,958,857</b>
										<b>Total Development Costs (ex. Land)</b>	<b>\$2,835,845</b>	<b>\$12,761,304</b>	<b>\$15,597,150</b>
										Per Unit (ex. Land)	\$708,961	\$708,961	\$708,961
										Developer Profit Margin (% of Total Cost)	18%	18%	18%
										<b>Developer Profit Threshold</b>	<b>\$682,270</b>	<b>\$3,070,217</b>	<b>\$3,752,487</b>
										<b>Residual Land Value</b>	<b>(\$1,800,259)</b>	<b>\$13,409,479</b>	<b>\$11,609,220</b>
										RLV per unit	(\$450,065)	\$744,971	\$527,692
										RLV per Acre	(\$1,800,259)	\$13,409,479	\$11,609,220

Sources: BAE, 2023.

**Table C-5: For-Sale Single-Family Subdivision Prototype Pro Forma, Inclusionary Scenario**

Development Program Assumptions						Cost Assumptions				Development Cost Analysis		
Site Size (acres)	0.50					<b>Construction</b>					<b>Project Total</b>	
Total Units	6					Site Prep Costs (per site. sq.ft)	\$25					
Affordable (% - count)	0%					Hard Cost per gross residential sf	\$250				<b>Site Preparation</b>	
Market Rate (% - count)	100%					Soft Costs (% of hard costs)	13%				<b>\$544,500</b>	
Leasable sq.ft.	15,600					Impact Fees (per unit) (a)	\$33,191				<b>Vertical Construction</b>	
<b>Total Project sq.ft</b>	<b>15,600</b>					Inclusionary Housing In-Lieu Fee (per SF)	\$0.00				Hard Cost	
Total Parking Spaces	12					Developer Fee (% of hard and soft)	4%				Soft Costs	
Parking spaces per du	2.00										Impact Fees	
											Inclusionary Housing In-Lieu Fee	
											<b>Subtotal</b>	
											<b>\$4,586,647</b>	
<b>Base Density Units</b>						<b>Sale Revenue</b>						
	AMI-Level					Sale Price by AMI Level						
<u>Unit Mix</u>	<u>Sq. Ft.</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>	<u>All Units</u>	<u>Unit Type</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>	
3-BR	2,600	0	0	0	6	6	3-BR	\$212,778	\$330,841	\$573,294	\$2,600,000	Const. Loan Fees
												\$33,352
												<b>Developer Fee</b>
												<b>\$205,246</b>
												<b>Total Development Cost</b>
												<i>Per Unit</i>
												\$949,155
												<i>Per Net SF</i>
												\$365
												<i>Per Gross SF</i>
												\$365
<b>Summary</b>	<b>Affordable</b>	<b>Market-Rate</b>		<b>Total</b>		<b>Financing</b>						
Number of Units (# - %)	0	0%	6	100%	6	Construction-Period	n.a.					
Avg. Affordability (% AMI)	n.a.					MR Loan-to-Cost	65%					
Leasable Sq. Ft.	0		15,600		15,600	Loan Fees	1%					
Total Sq. Ft.	0		15,600		15,600	Drawdown Factor	65%					
Parking Spaces	0		12		12	Interest rate	7.50%					
						Loan Term (months)	24					
												<b>Feasibility Analysis</b>
												<b>Project Total</b>
												<b>Project Income</b>
												Gross Sale Revenue
												\$15,600,000
												Less Marketing Costs
												<b>(\$780,000)</b>
												<b>Net Sales Revenue</b>
												<b>\$14,820,000</b>
												<b>Total Development Costs (ex. Land)</b>
												<i>Per Unit (ex. Land)</i>
												\$949,155
												Developer Profit Margin (% of Total Cost)
												18%
												<b>Developer Profit Threshold</b>
												<b>\$1,745,088</b>
												<b>Residual Land Value</b>
												<i>RLV per unit</i>
												\$1,229,997
												<i>RLV per Acre</i>
												\$14,759,960

Sources: BAE, 2023.

**Table C-6: For-Sale Single-Family Subdivision Prototype Pro Forma, Seven-Unit Inclusionary Scenario**

Development Program Assumptions						Cost Assumptions				Development Cost Analysis				
Site Size (acres)	0.58					<b>Construction</b>				Affordable	Market Rate	Project Total		
Total Units	7					Site Prep Costs (per site. sq.ft)	\$25							
Affordable (% - count)	14%					Hard Cost per gross residential sf	\$250			<b>Site Preparation</b>	\$90,750	\$544,500	\$635,250	
Market Rate (% - count)	86%					Soft Costs (% of hard costs)	13%			<b>Vertical Construction</b>				
Leasable sq.ft.	18,200					Impact Fees (per unit) (a)	\$33,191			Hard Cost	\$650,000	\$3,900,000	\$4,550,000	
<b>Total Project sq.ft</b>	<b>18,200</b>					Inclusionary Housing In-Lieu Fee (per SF)	\$0.00			Soft Costs	\$81,250	\$487,500	\$568,750	
Total Parking Spaces	14					Developer Fee (% of hard and soft)	4%			Impact Fees	\$33,191	\$199,147	\$232,339	
Parking spaces per du	2.00									Inclusionary Housing In-Lieu Fee	\$0	\$0	\$0	
<b>Base Density Units</b>						<b>Sale Revenue</b>				<b>Subtotal</b>				
						Sale Price by AMI Level				\$764,441	\$4,586,647	\$5,351,089		
Unit Mix	Sq. Ft.	AMI-Level			All	Unit Type	50%	70%	110%	MR	Const. Loan Fees	\$5,559	\$33,352	\$38,911
3-BR	2,600	0	1.0	0.0	6	3-BR	\$212,778	\$330,841	\$573,294	\$2,600,000	<b>Developer Fee</b>	\$34,208	\$205,246	\$239,454
<b>Summary</b>						<b>Marketing Costs</b>				<b>Total Development Cost</b>				
	Affordable	Market-Rate		Total			5.00%				<i>Per Unit</i>	\$949,155	\$949,155	\$949,155
Number of Units (# - %)	1	14%	6	86%	7	<b>Financing</b>				<i>Per Net SF</i>	\$365	\$365	\$365	
Avg. Affordability (% AMI)	70%				n.a.	Construction-Period	65%			<i>Per Gross SF</i>	\$365	\$365	\$365	
Leasable Sq. Ft.	2,600		15,600		18,200	MR Loan-to-Cost	1%			<b>Feasibility Analysis</b>				
Total Sq. Ft.	2,600		15,600		18,200	Loan Fees	65%							
Parking Spaces	2		12		14	Drawdown Factor	7.50%							
						Interest rate	24							
						Loan Term (months)								
										<b>Project Income</b>				
										Affordable	Market Rate	Project Total		
										Gross Sale Revenue	\$330,841	\$15,600,000	\$15,930,841	
										Less Marketing Costs	(\$16,542)	(\$780,000)	(\$796,542)	
										<b>Net Sales Revenue</b>	<b>\$314,299</b>	<b>\$14,820,000</b>	<b>\$15,134,299</b>	
										<b>Total Development Costs (ex. Land)</b>	<b>\$949,155</b>	<b>\$5,694,932</b>	<b>\$6,644,088</b>	
										<i>Per Unit (ex. Land)</i>	\$949,155	\$949,155	\$949,155	
										Developer Profit Margin (% of Total Cost)	18%	18%	18%	
										<b>Developer Profit Threshold</b>	<b>\$290,848</b>	<b>\$1,745,088</b>	<b>\$2,035,936</b>	
										<b>Residual Land Value</b>	<b>(\$925,704)</b>	<b>\$7,379,980</b>	<b>\$6,454,276</b>	
										<i>RLV per unit</i>	(\$925,704)	\$1,229,997	\$922,039	
										<i>RLV per Acre</i>	(\$11,108,453)	\$14,759,960	\$11,064,472	

Source: BAE, 2024.

**Table C-7: Low-Density Multifamily Rental Prototype Pro Forma, Point of Indifference In-Lieu Fee Scenario**

Development Program Assumptions						Cost Assumptions				Development Cost Analysis			
Site Size - acres / square feet	2.0		2.00		<b>Construction</b>				<b>Total Project</b>				
Total Units	59		59		Site Prep Costs (per site. sq.ft)	\$20							
Affordable (% - count)	0%		0%		Hard Cost per net residential sf	\$375							
Market Rate (% - count)	100%		100%		Parking cost per space, Surface	\$5,000		<b>Site Preparation</b>					
Leasable sq.ft.	49,500		49,500		Soft Costs (% of hard costs)	15%		<b>\$1,742,400</b>					
<b>Total Project sq.ft</b>	<b>59,400</b>		<b>59,400</b>		Impact Fees (per unit) (a)	\$22,821		<b>Vertical Construction</b>					
Total Parking Spaces	89		89		Inclusionary Housing In-Lieu Fee (per SF)	<b>\$55.50</b>		Hard Cost					
Parking spaces per du	1.5		1.5		Developer Fee (% of hard and soft)	4%		Parking Cost					
<b>Base Density Units</b>						<b>Rental Revenue</b>				Soft Costs			
										Impact Fees			
										Inclusionary Housing In-Lieu Fee			
										<b>Subtotal</b>			
										<b>\$25,952,308</b>			
										<b>Construction Financing</b>			
										Const. Loan Fees			
										Const. Loan Interest			
										<b>Developer Fee</b>			
										<b>\$1,107,788</b>			
										<b>Total Dev. Cost (excl. Land)</b>			
										<b>\$30,737,664</b>			
										<i>Per Unit</i>			
										<i>Per Net SF</i>			
										<i>Per Gross SF</i>			
										<b>\$520,977</b>			
										<b>\$621</b>			
										<b>\$517</b>			
										<b>\$1,509,684</b>			
										<b>Feasibility</b>			
										<b>Total Development Costs (ex. Land)</b>			
										<b>\$30,737,664</b>			
										<i>Per Unit (ex. Land)</i>			
										5.50%			
										<b>Project Value Net of Dev. Profit</b>			
										<b>\$27,448,800</b>			
										<b>Residual Land Value</b>			
										<b>(\$3,288,864)</b>			
										<i>RLV per unit</i>			
										<b>(\$55,743)</b>			
										<i>RLV per Acre</i>			
										<b>(\$1,644,432)</b>			

Source: BAE, 2024.



**Table C-9: For-Sale Condominium Prototype Pro Forma, Point of Indifference In-Lieu Fee Scenario**

Development Program Assumptions						Cost Assumptions					Development Cost Analysis	
Site Size - acres / square feet	1.00					<b>Construction</b>						<b>Total Project</b>
Total Units	53					Site Prep Costs (per site. sq.ft)	\$20					
Affordable (% - count)	0%					Hard Cost per net residential sf	\$475					
Market Rate (% - count)	100%					Parking cost per space, Podium	\$55,000					<b>Site Preparation</b>
Leasable sq.ft.	63,600					Soft Costs (% of hard costs)	17.5%					<b>\$871,200</b>
<b>Total Project sq.ft</b>	<b>76,320</b>					Impact Fees (per unit) (a)	\$23,908					<b>Vertical Construction</b>
Total Parking Spaces	53					Inclusionary Housing In-Lieu Fee (per SF)	<b>\$61.50</b>					Hard Cost
Parking spaces per du	1.00					Developer Fee (% of hard and soft)	4%					Parking Cost
<b>Base Density Units</b>						<b>Sale Revenue</b>					Soft Costs	
											Impact Fees	
											Inclusionary In-Lieu Fee	
<u>Unit Mix</u>	<u>Sq. Ft.</u>	<u>AMI-Level</u>			<u>All</u>	<u>Sale Price by AMI Level</u>				<b>Subtotal</b>	<b>\$44,100,378</b>	
		<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>Units</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>			
2-BR	1,200				53	2-BR	\$188,601	\$297,056	\$512,384	\$1,080,000		
						Marketing Costs					5.00%	<b>Construction Financing</b>
<u>Summary</u>	<u>Affordable</u>	<u>Market-Rate</u>			<u>Total</u>	<b>Financing</b>					Const. Loan Fees	
Number of Units (# - %)	0	0%	53	100%	53	Construction-Period					Const. Loan Interest	
Avg. Affordability (% AMI)	n.a.				n.a.	MR Loan-to-Cost					\$292,315	
Leasable Sq. Ft.	0	63,600			63,600	65%					\$2,850,074	
Total Sq. Ft.	0	76,320			76,320	Loan Fees					<b>Developer Fee</b>	
Parking Spaces	0	53			53	Drawdown Factor					<b>\$1,798,863</b>	
						Interest rate					7.50%	<b>Total Development Cost</b>
						Loan Term (months)					24	<b>\$49,912,830</b>
											Per Unit	\$941,752
											Per Net SF	\$785
											Per Gross SF	\$654
<b>Feasibility Analysis</b>												
											<b>Total Project</b>	
<b>Project Income</b>												
Gross Sale Revenue											\$57,240,000	
Less Marketing Costs											(\$2,862,000)	
<b>Net Sales Revenue</b>											<b>\$54,378,000</b>	
<b>Total Development Costs (ex. Land)</b>											<b>\$49,912,830</b>	
Per Unit (ex. Land)											\$941,752	
Developer Profit Margin (% of Total Cost)											18%	
<b>Developer Profit Threshold</b>											<b>\$10,064,309</b>	
<b>Residual Land Value</b>											<b>(\$5,599,139)</b>	
RLV per unit											(\$105,644)	
RLV per Acre											(\$5,599,139)	

Source: BAE, 2024.



**Table C-11: For-Sale Single-Family Subdivision Prototype Pro Forma, Seven-Unit Point of Indifference In-Lieu Fee Scenario**

Development Program Assumptions						Cost Assumptions				Development Cost Analysis			
Site Size (acres)	0.50					<b>Construction</b>					<u>Total Project</u>		
Total Units	6					Site Prep Costs (per site. sq.ft)	\$25						
Affordable (% - count)	0%					Hard Cost per gross residential sf	\$250						
Market Rate (% - count)	100%					Soft Costs (% of hard costs)	13%						
Leasable sq.ft.	15,600					Impact Fees (per unit) (a)	\$33,191				<b>Site Preparation</b>		
<b>Total Project sq.ft</b>	<b>15,600</b>					Inclusionary Housing In-Lieu Fee (per SF)	<b>\$98.50</b>				<b>\$544,500</b>		
Total Parking Spaces	12					Developer Fee (% of hard and soft)	4%				<b>Vertical Construction</b>		
Parking spaces per du	2.00										Hard Cost		
											\$3,900,000		
											Soft Costs		
											\$487,500		
											Impact Fees		
											\$199,147		
											Inclusionary Housing In-Lieu Fee		
											\$1,536,600		
											<b>Subtotal</b>		
											<b>\$6,123,247</b>		
<b>Base Density Units</b>						<b>Sale Revenue</b>							
	AMI-Level					Sale Price by AMI Level							
<u>Unit Mix</u>	<u>Sq. Ft.</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>	<u>All Units</u>	<u>Unit Type</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>		
3-BR	2,600	0	0	0	6	6	3-BR	\$212,778	\$330,841	\$573,294	\$2,600,000		
											<b>Construction Financing</b>		
											Const. Loan Fees	\$43,340	
											Const. Loan Interest	\$422,568	
											<b>Developer Fee</b>	<b>\$266,710</b>	
											<b>Total Development Cost</b>	<b>\$7,400,366</b>	
											<i>Per Unit</i>	\$1,233,394	
											<i>Per Net SF</i>	\$474	
											<i>Per Gross SF</i>	\$474	
											<b>Feasibility Analysis</b>		
											<u>Total Project</u>		
											<b>Project Income</b>		
											Gross Sale Revenue	\$15,600,000	
											Less Marketing Costs	(\$780,000)	
											<b>Net Sales Revenue</b>	<b>\$14,820,000</b>	
											<b>Total Development Costs (ex. Land)</b>	<b>\$7,400,366</b>	
											<i>Per Unit (ex. Land)</i>	\$1,233,394	
											Developer Profit Margin (% of Total Cost)	18%	
											<b>Developer Profit Threshold</b>	<b>\$2,052,066</b>	
											<b>Residual Land Value</b>	<b>\$5,367,568</b>	
											<i>RLV per unit</i>	\$894,595	
											<i>RLV per Acre</i>	\$10,735,136	

Source: BAE, 2024.

**Table C-12: For-Sale Townhome Prototype Pro Forma, Six-Unit Project, \$60 per Sq. Ft. Fee Scenario**

Development Program Assumptions						Cost Assumptions				Development Cost Analysis			
Site Size (acres)	0.27					<b>Construction</b>					<b>Project Total</b>		
Total Units	6					Site Prep Costs (per site. sq.ft)	\$25						
Affordable (% - count)	0%					Hard Cost per gross residential sf	\$275				<b>Site Preparation</b>		
Market Rate (% - count)	100%					Soft Costs (% of hard costs)	13%						
Leasable sq.ft.	10,800					Impact Fees (per unit) (a)	\$32,401				<b>Vertical Construction</b>		
<b>Total Project sq.ft</b>	<b>10,800</b>					Inclusionary Housing In-Lieu Fee (per SF)	\$60.00				Hard Cost		
Total Parking Spaces	12					Developer Fee (% of hard and soft)	4%				Soft Costs		
Parking spaces per du	2.00										Impact Fees		
											Inclusionary Housing In-Lieu Fee		
											<b>Subtotal</b>		
											<b>\$4,183,655</b>		
Base Density Units						Sale Revenue							
	AMI-Level					<b>All</b>	Sale Price by AMI Level						
<u>Unit Mix</u>	<u>Sq. Ft.</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>	<u>Units</u>	<u>Unit Type</u>	<u>50%</u>	<u>70%</u>	<u>110%</u>	<u>MR</u>		
3-BR	1,800	0	0	0	6	6	3-BR	\$212,778	\$330,841	\$573,294	\$1,710,000		
							Marketing Costs				5.00%		
<u>Summary</u>		<u>Affordable</u>	<u>Market-Rate</u>	<u>Total</u>			<b>Financing</b>						
Number of Units (# - %)		0	0%	6	100%	6	Construction-Period						
Avg. Affordability (% AMI)		n.a.		n.a.			MR Loan-to-Cost				65%	<b>Total Development Cost</b>	
Leasable Sq. Ft.		0		10,800		10,800	Loan Fees				1%	<i>Per Unit</i>	
Total Sq. Ft.		0		10,800		10,800	Drawdown Factor				65%	<i>Per Net SF</i>	
Parking Spaces		0		12		12	Interest rate				7.50%	<i>Per Gross SF</i>	
							Loan Term (months)				24		
												<b>Feasibility Analysis</b>	
												<b>Project Total</b>	
												<b>Project Income</b>	
												Gross Sale Revenue	
												Less Marketing Costs	
												<b>Net Sales Revenue</b>	
												<b>Total Development Costs (ex. Land)</b>	
												<i>Per Unit (ex. Land)</i>	
												Developer Profit Margin (% of Total Cost)	
												<b>Developer Profit Threshold</b>	
												<b>Residual Land Value</b>	
												<i>RLV per unit</i>	
												<i>RLV per Acre</i>	

Source: BAE, 2024.



## APPENDIX D: OVERVIEW OF IMPLAN

This appendix provides additional clarification of the workings of the IMPLAN input-output model. It provides a step-by-step account of how IMPLAN estimates economic impacts. This section begins with an overview of the data that IMPLAN uses internally and moves forward through the process of how the model estimates the impacts of new commercial and housing projects.

### ***What is IMPLAN?***

IMPLAN is an input-output model that estimates the total economic implications of new economic activity within a specified geography. The model uses national industry data and county-level economic data to generate a series of multipliers, which in turn estimate the total economic implications of economic activity.

At the heart of the model is a national input-output dollar flow table called the Social Accounting Matrix (SAM). Unlike other static input-output models, which just measure the purchasing relationships between industry and household sectors, SAM also measures the economic relationships between government, industry, and household sectors, allowing IMPLAN to model transfer payments such as unemployment insurance. Thus, for the specified region, the input-output table accounts for all the dollar flows between the different sectors within the economy.

***National Industry Data.*** The model uses national production functions for 546 sectors to determine how an industry spends its operating receipts to produce its commodities. The model also uses a national matrix to determine the *byproducts*<sup>10</sup> that each industry generates. To analyze the impacts of household spending, the model treats households as an “industry” to determine their expenditure patterns. IMPLAN couples the national production functions with a variety of county-level economic data to determine the impacts for our example.

***County-Level Economic Data.*** In order to estimate the county-level impacts, IMPLAN combines national industry production functions with county-level economic data. IMPLAN collects data from a variety of economic data sources to generate average output, employment, and productivity for each of the industries in a given county. It also collects data on average prices for all of the goods sold in the local economy. In this analysis, IMPLAN uses economic data for Santa Clara County. IMPLAN gathers data on the types and amount of output that each industry generates within the County. In addition, the IMPLAN model uses county-level data on the prices of goods and household expenditures to determine the consumption functions of regional households and local government, taking into account the availability of each commodity within the specified geography.

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<sup>10</sup> The byproducts refer to any secondary commodities that the industry creates.

**Multipliers.** IMPLAN combines these data to generate a series of SAM-type multipliers for the local economy. The multiplier measures the amount of total economic activity that results from an industry (or household) spending an additional dollar in the local economy. Based on these multipliers, IMPLAN generates a series of tables to show the economic event's *direct*, *indirect*, and *induced* impacts to gross receipts, or output, within each of the model's 546 sectors. These outputs have been described above, and also are described here:

- **Direct Impacts.** Direct impacts refer to the dollar value of economic activity available to circulate through the economy and the jobs associated with that economic activity. In the case of new residential development, the direct impacts are equal to the new households' discretionary spending. The direct impacts do not include household savings and payments to federal, state, and local taxes, as these payments do not circulate through the economy.

It should be noted that impacts from retail expenditures differ significantly between the total economic value of retail and the amount available to circulate through the local economy. The nature of retail expenditures accounts for this difference. The model assumes that only the retail markup impacts the local economy, particularly for industries heavily populated with national firms such as gas stations and grocery stores. Since local stores buy goods from wholesalers and manufacturers outside of the area, and corporate profits also leave the local economy, only the retail markup will be available for distribution within the local economy. To the extent that retailers' headquarters are located within the county or region, the model allocates their portions of the impacts to the local economy.

- **Indirect Impacts.** The indirect impacts refer to the impact of local industries buying goods and services from other local industries, and to the jobs supported by those purchases. The cycle of spending works its way backward through the supply chain until all money leaks from the local economy, either through imports or by payments to income and taxes. For capital projects this would include payments for construction inputs such as wood, steel, office supplies, and any other non-labor payments that a construction firm would purchase in the building process.
- **Induced Impacts.** The induced impacts refer to the dollar and employment impacts of household spending by the employees generated by the direct and indirect impacts. In other words, induced impacts result from the household spending of employees of business establishments that the new households patronize (direct) and their suppliers (indirect). The model accounts for local commute patterns in the geography. For example, if 20 percent of construction workers who work in the region live outside of the region, the model will allocate 80 percent of labor's disposable income into the model to generate induced impact estimates. The model excludes payments to federal and state taxes and savings based on the geography's average local tax and savings rates. Thus, only the disposable incomes from local workers are included in the model.

### ***Specifying the “Event” and Running the Model***

Once the model is built for the specified geographies, it is time to specify the “event” that the model will analyze and run the model.

*Specifying the “Event.”* The “event” refers to the total economic value of industry output that the analyst is considering. For example, in the case of the ongoing economic impacts of a new institutional development such as a school, the “event” would be the operations of a school, including the resulting new jobs and the worker compensation.

*Running the Model.* Once the event is specified, IMPLAN runs the event through the model to generate the results. By default, IMPLAN applies the local data on average output per worker and compensation per worker to determine the direct impacts. The model then applies the value of the event to the national production functions and runs a number of iterations of this value through the production functions for the local economy to determine the indirect and induced impacts. For each iteration, the model removes expenditures to government, savings, and for goods bought outside of the local economy so that the results only include those dollars that impact the local economy.

### ***Summarizing the Impacts***

Once the model is run, IMPLAN generates a series of output tables to show the direct, indirect, and induced impacts within each of the model’s 546 sectors. IMPLAN generates these tables for three types of impacts: employment, output, and value added. The IMPLAN analysis of this study is focused on the employment impacts.

- *Employment* shows the number of employees needed to support the economic activity in the local economy. It should be noted that for annual impacts of ongoing operations, the employment figure shown represents the amount of employment needed to support that activity for a year. Furthermore, IMPLAN reports the number of jobs based on average output per employee for a given industry within the geography. This is not necessarily the same as the number of full-time positions.
- *Output* refers to the total economic value of the project in the local economy.
- *Value Added* shows the total income that the event generates in the local economy. This income includes:
  - *Employee Compensation* – total payroll costs, including benefits
  - *Proprietary Income* – payments received by self-employed individuals as income
  - *Other Property Type Income* – payments for rents, royalties, and dividends
  - *Indirect Business Taxes* – excise taxes, property taxes, fees, and sales taxes paid by businesses. These taxes occur during the normal operation of businesses, but do not include taxes on profits or income.