



MEMORANDUM

TO: Karen Roney, Director of Community Services Department

FROM: Kathy L. Fedler, Housing and Community Investment Manager

DATE: December 5, 2018

RE: Inclusionary Housing Program Payment-in-Lieu methodology and Calculation

The Inclusionary Housing Program requires that new residential developments provide 12% of total residential for-sale units as affordable for purchase by households with incomes at or below 80% of the Area Median Income (AMI). This quantity may be achieved either by providing the units directly, by provision of land to support such quantity, or by payment of a fee in lieu of constructing the units. This memorandum explains the quantification of the fee in lieu.

**For-Sale Product Methodology and Fee in Lieu:**

The methodology for this fee, known as the Market-Affordability Gap approach, is based on the difference between the market price of for sale housing in Longmont and the price that would be affordable with an income level of 80% AMI, as defined in the Sales Price methodology used in Housing and Community Investment, and using a guideline of 33% of income being spent on housing. This approach is a comparable substitute for the provision of affordable units because it would provide the means necessary for the City to purchase a market priced unit and resell the unit at an affordable price. The “gap” in those two prices is distilled, based on property records from the Boulder County Assessor’s Office, into a proportionate amount per square foot of housing. Because it is applied on this square footage basis, this fundamental methodology applies equally well to single- and multi-family units, as well as to for-sale and rental units.

The market price for for-sale housing in Longmont is defined as the median price of homes built in the last 15 years and sold in the last eighteen months. These parameters were chosen because homes built in the last 15 years are likely not to require capital investment that would add significantly to the cost of home ownership, and because an 18-month time period would allow at least two active buying seasons to be considered in the data set. This set of home sales provides Median Home Price (line 1 below), Number of Units (line 2), and the Median Home Size (line 5). These home sales are divided into two categories: single-family homes (both detached and townhomes), and condominiums. These



were the most common datapoints in the available record and the least likely to allow anomalies to skew the results.

For the eighteen months from January 1, 2017 through July 31, 2018, 285 single-family homes built in 2003 or later were sold in Longmont. The median price for which these homes sold was \$458,000, and the median size was 2,043 square feet. In the same time period, 121 condominiums were sold, with a median price of \$310,000, and a median size of 1,276 square feet.

The 2018 Affordable Sales Price (line 3) used by Housing and Community Investment is \$315,320 for single-family homes, and \$238,101 for condominiums. Subtracting the Affordable Sales Price from the Median Home Price yields the Gap (line 4), which is \$142,680 for single-family homes and \$71,899 for condominiums. Dividing the Gap by the Median Home Size (line 5) yields the Cost per Square Foot (line 6). This amount, which is \$69.84 for single-family homes and \$56.35 for condominiums, represents the additional cost per square foot over the Affordable Sales Price.

As mentioned above, the requirement of the Inclusionary Housing Program is that 12% of the units be provided as affordable housing. This fee, provided in lieu of that housing, only needs to cover 12% of the total units. However, for ease of calculation, the fee has been calculated so that it applies to the total finished square footage, based on the median finished square feet of units in the dataset. This is accomplished through application of the associative property of multiplication, wherein the cost per square foot multiplied by 12% of the total finished square feet is equivalent to 12% of the cost per square foot multiplied by the total finished square feet. For this reason, line 7 below is calculated as 12% of the cost per square foot in line 6. This yields \$8.38 for single-family homes and \$6.76 for condominiums. These costs are combined by use of a weighted average to establish a single fee that is applicable to both housing types, to be applied to the total finished square footage for the unit or development.

For further background on the Market-Affordability Gap approach, please see the attached Affordable Housing Fee Methodology of the City of Aspen/Pitkin County/APCHA of December 2012.

**TABLE 1 (Fee Calculation for for-sale units):**

| <b>18 month rolling Sales Period: Jan 1, 2017 – July 31, 2018</b> |   |                      |                |
|---|---|----------------------|----------------|
| <b>Homes sold that were built in 2003 and newer</b>               |   |                      |                |
|   |   | <b>Single Family</b> | <b>Condos</b>  |
| <b>1</b>  | Median Home Price                                     | \$458,000            | \$310,000      |
| <b>2</b>  | Number of Units                                       | 285                  | 121            |
| <b>3</b>  | <i>Affordable Home Sale Price 80% AMI</i>             | \$315,320            | \$238,101      |
|   |   |                      |                |
| <b>4</b>  | Gap   | \$142,680            | \$ 71,899      |
| <b>5</b>  | Median Home Size (sq. ft.)                            | 2,043                | 1,276          |
| <b>6</b>  | Cost per sq ft  | \$ 69.84             | \$ 56.35       |
| <b>7</b>  | 12% for Affordable Housing Unit Requirement           | \$ 8.38              | \$ 6.76        |
| <b>8</b>  | <b>Payment-in-Lieu per total finished square foot</b> |                      | <b>\$ 7.90</b> |

**Rental Product Methodology and Fee-in-Lieu:**

The fee-in-lieu applicable to rental units is calculated using the same Market-Affordability Gap approach, but based on rental market data. Specifically, a current average rental rate and unit size in square feet for market-rate 2-bedroom units is collected using the Apartment Insights database. Because Apartment Insights provides separate data for 2 bedroom units with one bathroom and 2 bedroom units with more than one bathroom, a weighted average is used to determine the average rental rate for all 2-bedroom units. Currently, this amount is \$1,576 per month for an average 985 square-foot unit.

The “Affordable Unit” is represented by converting the CHFA rent limit for a 2-bedroom unit at 60% AMI, which is the affordability target for rental units. For 2018, this rental limit is \$1,467.

These rental rates are converted to rental unit values using the Gross Rental Multiplier valuation method, where annualized rent is multiplied by a regionally specific Gross Rental Multiplier (GRM) to arrive at a value. The GRM is observed from recent applicable sales of multi-unit property where the average rental rate for the property is known. Per data received from Apartment Insights, Inc., the current derived GRM is 11.9. Because the costs of ownership, such as major system replacement, are not borne by the residents in rental units, the construction date of the property is not relevant in this data set.

As shown in Table 2 below, both the rental rates (line 1) are multiplied by 12 (line 2) to determine the annual rent (line 3). The annual rents are multiplied by the GRM (line 4) to determine the value (line 5) of a unit rented at the market rental rate, and at the CHFA Rent limit for households at 60% AMI.

**TABLE 2 (Rental Unit valuation):**

| <b>2-bedroom for-rent units / All property construction dates</b> |                           |                           |                                  |
|---|---------------------------|---------------------------|----------------------------------|
|   |                           | <b>Market Rental Rate</b> | <b>CHFA Rent Limit @ 60% AMI</b> |
| <b>1</b>  | Monthly Rent Amount       | \$1,576                   | \$1,467                          |
| <b>2</b>  | x Months/Year             | 12                        | 12                               |
| <b>3</b>  | Annual Rent Amount        | \$18,912                  | \$17,604                         |
| <b>4</b>  | x Gross Rental Multiplier | 11.9                      | 11.9                             |
| <b>5</b>  | <b>Rental Unit Value</b>  | <b>\$225,053</b>          | <b>\$209,488</b>                 |

Once these values are determined, the methodology is the same as for for-sale units, as shown in Table 1. The Affordable Unit Value of \$209,488 (line 2 in Table 3) is subtracted from the Market Unit Value of \$225,053 (line 1) to determine that there is a gap of \$15,565 (line 3). This is then divided by the median size of a market unit, 985 square feet (line 4). The resulting cost per square foot is \$15.80 (line 5). Multiplying this amount by 12% results in a fee of \$1.90 (line 6), which is applicable to all units in a development of rental housing.

**TABLE 3 (Fee Calculation for rental units):**

|          |   |                |
|----------|---|----------------|
| <b>1</b> | Market Unit Value                                     | \$225,053      |
| <b>2</b> | Affordable Unit Value                                 | \$209,488      |
| <b>3</b> | Gap   | \$15,565       |
| <b>4</b> | Median Home Size                                      | 985            |
| <b>5</b> | Cost per sq ft  | \$ 15.80       |
| <b>6</b> | 12% for Affordable Housing Requirement                | \$ 1.90        |
| <b>7</b> | <b>Payment-in-Lieu per total finished square foot</b> | <b>\$ 1.90</b> |