



CITY OF SAN MATEO

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Agenda Report

Agenda Number: {{item.number}} Section Name: {{section.name}} File ID: {{item.tracking_number}}

TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: Community Development Department
MEETING DATE: June 15, 2020

SUBJECT:
Below Market Rate Program Rental Rates, Sales Prices, and Unit Community Priorities – 2020 Revisions

RECOMMENDATION:

Adopt a Resolution to establish 2020 maximum rental rates and sales prices for affordable housing as required by the City of San Mateo's Below Market Rate (BMR) housing program; and establish Community Priority for units containing three or more bedrooms, which may allow a developer to provide fewer BMR units in exchange for units with more bedrooms as long as all other BMR program provisions are followed.

BACKGROUND:

In November 1992, the City Council established the BMR housing program that requires new housing developments of 11 or more units include a certain percentage of the units as "affordable". The affordable housing targets have been revised from time to time. As of February 2020, a rental project must include 15% of the units that are affordable to Lower Income households, whose incomes do not exceed 80% of the median income (\$97,000 -139,400, depending upon family size). For owner occupied housing, 15% of the units must be affordable to Moderate Income households, whose incomes do not exceed 120% of the area median income (\$120,000-171,000, depending upon family size).

The City receives updated median income figures from the U. S. Department of Housing and Urban Development and the State Housing and Community Development offices each spring. All BMR units are subject to maximum rental rates and sales prices that are revised by the City Council on an annual basis to reflect changes in the area median income (AMI) as well as average interest rates for mortgages. This year the median income increased 5.0%. However, in 2019 the City Council adopted a 4% cap on BMR rental increases to address the significant median income increases over the past few years.

Rental Rates

Maximum rental rates are determined by calculating 30% of 50% of the Area Median figure adjusted by family size for Very Low Income and 30% of 60% of the Area Median figure for Low Income adjusted by family size. The maximum rent figures include the cost of gas and electric utilities, garbage, and water, but excludes telephone. Calculated rents cannot exceed Fair Market Rents (FMR) as published by the San Mateo County Housing Authority.

Utilizing these formulas, the maximum rental rates after applying the 4% cap over last year for 2020 are:

	<u>Very Low Income</u>	<u>Low Income</u>	<u>Moderate Income</u>
Studio	\$1,125	\$1,341	\$2,466
1-Bedroom	\$1,276	\$1,536	\$2,823
2-Bedroom	\$1,439	\$1,731	\$3,169
3-Bedroom	\$1,601	\$1,925	\$3,526
4-Bedroom	\$1,731	\$2,077	\$3,807

Very Low and Low Income maximum rents increased approximately \$40-\$70 but are still well below the current market. Moderate rents are comparable to market rate rents for older rental housing stock.

Sales Prices

Maximum sales prices for condominiums and townhouses are established by first determining an affordable monthly housing payment, which is defined as 30% of 100% of AMI adjusted by family size for Moderate Income and 30% of 70% of AMI for Low Income. An allowance for property taxes, insurance, and homeowners' association dues is factored into the monthly payment. The sales price is then calculated assuming a 5% down payment and a 4.7% interest rate (15-year average as published by Freddie Mac). Sales prices for single family detached houses are calculated using the above mentioned methodology except that the formula for the monthly payment for detached single family houses is 35% times 110% of the monthly median income.

Utilizing these formulas, the maximum sales prices for 2020 are:

	<u>Low Income</u> <u>Condo/Townhome</u>	<u>Moderate Income</u> <u>Condo/Townhome</u>	<u>Single Family</u> <u>Detached</u>
Studio	\$231,000	\$361,000	n/a
1-Bedroom	\$271,000	\$419,000	\$559,000
2-Bedroom	\$312,000	\$478,000	\$636,000
3-Bedroom	\$353,000	\$538,000	\$713,000
4-Bedroom	\$385,000	\$585,000	\$774,000

The sales prices increased this year by approximately 7%. The Council reserves the right to change the prices at any time in the event of significant changes in the market, interest rates, or other conditions.

Community Priority

BMR program revisions effective January 1, 2010 included flexibility in the bedroom count of the BMR units based on Council adoption of community priorities. An applicant may propose a different bedroom mix in the BMR units other than a straight pro rata of the market rate units as long as the total bedroom count is the same or more, and that the total number of BMR units equal at least 10% of the project.

For 2020, staff recommends that Council continue to adopt a Community Priority for large bedroom units, consisting of 3 or more bedrooms, based on the shortage of those units currently in the BMR inventory compared to the families on the waiting lists. For example, a 40-unit complex consisting of all 2-bedroom units could provide the City four 3-bedroom units (10%) instead of the standard requirement of six 2-bedroom (15%) units. The City Council has the ability to change this priority each year to respond to different needs in the future.

BUDGET IMPACT:

There is no budget impact to the City, as rental rates and sales prices affect developers' costs by restricting income from rent and sales proceeds.

ENVIRONMENTAL DETERMINATION:

In accordance with CEQA Guidelines section 15061(b)(3), this action is not a project subject to CEQA in that it can be seen with certainty that it will not have a significant effect on the environment.

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – Proposed Resolution

STAFF CONTACT

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