



CITY OF SAN MATEO

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Agenda Report

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TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: Community Development
MEETING DATE: July 15, 2019

SUBJECT:

Below Market Rate Program Rental Rates, Sales Prices, and Unit Community Priorities – 2019 Revisions

RECOMMENDATION:

Adopt a Resolution to amend the current Below Market Rate (BMR) Resolution 135 (2010) to include an annual rent increase cap not to exceed 4%; and adopt a Resolution to establish 2019 maximum rental rates and sales prices for BMR affordable housing and establish Community Priority for units containing 3 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 Below Market Rate (BMR) housing program that requires new housing developments with 11 or more units to include a certain percentage of the units as "affordable". For rental housing, the developer must provide 15% of the units affordable to Lower Income households, whose incomes do not exceed 80% of the median income (a range of \$90,000 - 129,000, depending upon family size), or 10% to Very Low Income households, whose incomes do not exceed 50% of the median income (a range of \$56,000 - 80,000, 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 (a range of \$115,000 - 164,000, depending upon family size), or 10% to Lower Income Households.

The City receives updated median income figures from the State Housing and Community Development office each year. 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 for a family of four in San Mateo County increased 16%, from \$118,400 to \$136,800. San Mateo County is included in the same region as Marin and San Francisco counties. It is the highest in the state, followed by Santa Clara County with a median of \$131,400.

This is an unprecedented increase for one year, likely attributable to the increase in the number of jobs with higher salaries that raised the regionwide median. In San Mateo County, the average wage increase across all sectors was 8.8%, with a range from 2.5% to 14.7%. The "Information" sector had the highest average wages (\$382,000), had the fastest wage growth (14.7%), and had the highest growth in employment, both in absolute numbers of employees and as percentage growth, though it still represents less than 10% of total employment. Over the past 20 years, the average increase in median income was 2.8%, although it has varied from 0% - 7.5% in any given year. For example, the increase was 3% in 2018, 7% in 2017, 5% in 2016, and 0% from 2013- 2015. A 16% increase equates to a rent increase of about \$160-\$250 a month depending on income group and unit size. Staff anticipates that this will be a tremendous burden to existing tenants, most of whom have lived in their units for several years and may have not benefitted from salary increases at those levels.

The regulatory agreements with developers for the BMR program refer to City Council Resolution 135 (2010) as amended from time to time, and provides a formula range to establish the annual rents for the different income categories. Staff recommends that the Resolution be revised to maintain the formulas but include a provision to cap annual increases in any given year “not to exceed” 4% in order to stabilize increases to tenants. In this situation, in a year that the increase is capped, the surplus increase above the capped percentage would be carried forward to a future year where the annual increase is less than the cap. An example is presented in the table below starting with a base rent of \$1,000:

BASE RENT: \$1,000				
	Monthly Rent-No Cap	Increase in Median Income	Monthly Rent -4% Cap	Capped Actual Increase
YEAR 1	\$1,060	6%	\$1,040	4%
YEAR 2	\$1,081	2%	\$1,081	4%
YEAR 3	\$1,157	7%	\$1,124	4%
YEAR 4	\$1,192	3%	\$1,169	4%
YEAR 5	\$1,204	1%	\$1,204	3%
Cumulative		19%		19%

A rent increase cap of 4% will result in about \$40-70 in monthly rent increases for the upcoming year.

RENTAL RATES

Maximum rental rates are determined by calculating 30% of 50% the AMI figure adjusted by family size for Very Low Income and 30% of 60% of AMI for Low Income. The current rents are calculated using the arithmetic percent of median income described above rather than using the State adjusted incomes that are published annually. 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, and the proposed cap of 4%, the maximum rental rates for 2019 are:

	<u>Very Low Income</u>	<u>Low Income</u>
Studio	\$1,080	\$1,290
1-Bedroom	\$1,230	\$1,480
2-Bedroom	\$1,380	\$1,660
3-Bedroom	\$1,540	\$1,850
4-Bedroom	\$1,660	\$1,990

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 4.8% interest rate (15-year average as published by Freddie Mac).

Sales prices for single family detached houses are calculated using the same 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 2019 are:

	<u>Low Income</u> <u>Condo/Townhome</u>	<u>Moderate Income</u> <u>Condo/Townhome</u>	<u>Single Family Detached</u>
Studio	\$216,000	\$338,000	N/A
1-Bedroom	\$252,000	\$392,000	\$525,000
2-Bedroom	\$291,000	\$449,000	\$597,000
3-Bedroom	\$330,000	\$505,000	\$670,000
4-Bedroom	\$361,000	\$550,000	\$728,000

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

For 2019, 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. Application of this community priority requires that the bedroom count remain the same and that at least 10% of the total unit count remain affordable to low-income households. 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 can change this priority each year to respond to different needs in the future.

BUDGET IMPACT:

There is no fiscal impact to the City for this action.

ENVIRONMENTAL DETERMINATION:

This Resolution is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

NOTICE PROVIDED

All meeting noticing requirements were met. A letter was sent to each property owner who has an existing BMR rental regulatory agreement explaining the proposed change utilizing the 4% cap scenario on June 26, 2019. Staff received no correspondence regarding this proposal prior to the agenda being posted.

ATTACHMENTS

Att 1- Proposed Resolution to Revise Below Market Rate Housing Program
Att 2- Proposed Resolution to Establish 2019 Rental Rates and Sales Prices

STAFF CONTACT

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