



To: Dennis Martin, South Bay Government Affairs – BIA | Bay Area
From: DPFG
Date: October 20, 2023
Subject: City of Hollister – Proposed Inclusionary Housing Ordinance Comparative Analysis

Dear Mr. Martin

The Building Industry of the Bay Area (“BIA”) requested the services of DPFG in connection with a proposed Inclusionary Housing Ordinance in the City of Hollister. The proposed ordinance is in response to public feedback the city received on a previously proposed inclusionary housing ordinance drafted by Placeworks.

DPFG was asked to analyze the City of Hollister’s proposed inclusionary housing ordinance in relation to existing policies of neighboring cities. The Cities of Morgan Hill and Gilroy were selected as benchmarks due to their physical proximity, size, and growth expectations. The City of Morgan Hill considered updating its inclusionary housing policy most recently in 2021, however, no changes were adopted, and the policy exists as adopted in 2018. The City of Gilroy addresses inclusionary housing through its Neighborhood District Policy. This policy is not a standardized city ordinance and instead works as a general framework to be applied on a case-by-case basis. For this reason, Hollister’s proposed ordinance will only be examined against the housing policy of Morgan Hill. Given this context, the City of Hollister’s proposed inclusionary housing ordinance far exceeds the requirements of neighboring jurisdictions and places a substantially higher burden on developers than local markets currently dictate. The following comments evidence this:

1. Landowners will see a large reduction in land value should the proposed ordinance pass.

The proposed inclusionary housing ordinance, under a hypothetical 100-unit, 3 bedroom, 10-acre project would generate a financial burden of more than \$10.8 million dollars. This fiscal impact could jeopardize, possibly eliminate, the financial feasibility of new housing developments in the City. Immediately upon the ordinance’s adoption, local landowners would be subjected to reduced land values due to increased building costs. Using the same hypothetical scenario, land values would decrease by over \$1 million dollars per acre. As a result, land transactions could potentially cease as landowners refuse to discount their land enough for housing to become feasible, resulting in no new homes at both affordable and market rates.

In the example scenario, Hollister’s proposed ordinance burdens developers and local landowners over 160% when compared to the City of Morgan Hill. The same development in Morgan Hill only reduces land values by approximately \$400,000 per acre. This reduction assumes the worst-case scenario requiring the builder to construct all affordable units on-site. Morgan Hill permits 50% of the required affordable units to be satisfied via an in-lieu affordable housing fee which makes the prospect of development in Morgan Hill even more favorable and enables landowners to retain as much land value as possible. The table below details this comparative analysis:

**Table 1
Inclusionary Housing Ordinance (For-Sale) Comparison between
City of Hollister and Morgan Hill**

| Ordinance Impact | | Hollister | Morgan Hill | Difference |
|--|-------------|--------------------|-------------------|-------------------|
| Market Rate Unit Price | 3 Bedroom | \$ 879,750.00 | \$ 1,061,500.00 | \$ (181,750.00) |
| Affordable Unit Price | Very Low | \$ 97,188.00 | | N/A |
| | Low | \$ 175,190.00 | | N/A |
| | Moderate | \$ 279,028.00 | \$ 530,066.00 | \$ (251,038.00) |
| Price Differential (Subsidy per Unit) | Very Low | \$ (782,562.00) | | N/A |
| | Low | \$ (704,560.00) | | N/A |
| | Moderate | \$ (600,722.00) | \$ (531,434.00) | \$ (69,288.00) |
| Total Project Subsidy | 100 units | \$ (10,802,900.00) | \$ (4,047,380.00) | \$ (6,755,520.00) |
| Subsidy per MRU | 85 units | \$ (127,092.94) | \$ (47,616.24) | \$ (79,476.71) |
| Subsidy psf | 1480 sq.ft. | \$ (85.87) | \$ (32.17) | \$ (53.70) |
| Land Value Reduction per Acre | 10 Acres | \$ (1,080,290.00) | \$ (404,738.00) | \$ (675,552.00) |

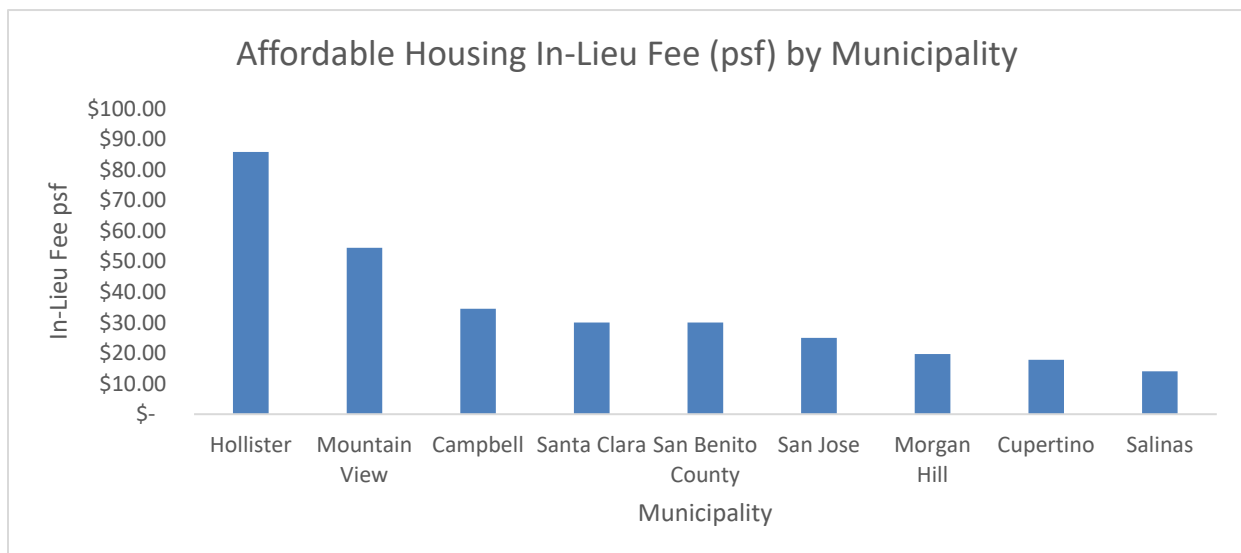
Footnotes

¹ Assumes the City of Hollister adopts a currently proposed 15% inclusionary housing policy broken out into income categories of: 7% Very Low, 5% Low, and 3% Moderate.

² City of Morgan Hill allows in-lieu fees to satisfy up to 50% of a projects required inclusionary housing. Current in-lieu fee is \$19.70.

2. If passed, Hollister will have the most restrictive inclusionary housing policy in the local area.

The City of Hollister’s proposed inclusionary housing ordinance places more restrictions than any other neighboring jurisdiction surveyed. Hollister’s proposed ordinance would be the only one in the local area requiring for-sale units be allocated to Very Low income households. Additional restrictions include prohibiting the use of any alternatives, such as off-site construction, land dedication, or in-lieu fees. The constraints proposed by this inclusionary housing policy are penal when compared to local markets. As previously mentioned, the City of Morgan Hill offers up to 50% of the required affordable units to be satisfied through in-lieu fees and allows for the other alternatives mentioned. With the exception of San Benito County, Hollister’s would be the local market to not offer any alternatives. The chart below compares the cost per square foot to developers in Hollister, due to the proposed ordinance, to the cost of in-lieu fees available to developers in other jurisdictions: *(Please note the City of Hollister cost per square foot is the theoretical cost to a developer on a 100-unit, 3 bedroom, 10-acre project)*

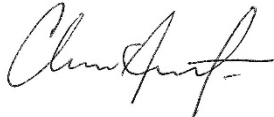


Conclusion

DPFG has analyzed the fiscal impact on local land values of the proposed inclusionary housing ordinance and benchmarked the proposed ordinance to that of other local jurisdictions. A group of tables summarizing this analysis follows this letter.

Understanding Hollister's proposed ordinance is in draft form and subject to change, these comments highlight the potential repercussions of the proposed inclusionary housing ordinance in its current state and the considerable impact it could have on local development and local land values.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Austin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Chris Austin
Managing Principal

Table 1
Inclusionary Housing Ordinance (For-Sale) Comparison between
City of Hollister and Morgan Hill

| Ordinance Requirements | | Hollister ¹ | Morgan Hill ² | Difference |
|-----------------------------|----------|------------------------|--|------------|
| Affordable Unit Requirement | | 15% | 15% | None |
| Income Category Allocation | Very Low | 7% | | 7% |
| | Low | 5% | | 5% |
| | Moderate | 3% | 15% | -12% |
| Income Category Calculation | Very Low | 50% | | 50% |
| | Low | 80% | | 80% |
| | Moderate | 120% | 120% | 0% |
| Alternatives Offered | | No | Off-site Alternatives, Land Dedication, In-lieu Fees | N/A |

| Ordinance Impact | | Hollister | Morgan Hill | Difference |
|--|-------------|--------------------|-------------------|-------------------|
| Market Rate Unit Price | 3 Bedroom | \$ 879,750.00 | \$ 1,061,500.00 | \$ (181,750.00) |
| Affordable Unit Price | Very Low | \$ 97,188.00 | | N/A |
| | Low | \$ 175,190.00 | | N/A |
| | Moderate | \$ 279,028.00 | \$ 530,066.00 | \$ (251,038.00) |
| Price Differential (Subsidy per Unit) | Very Low | \$ (782,562.00) | | N/A |
| | Low | \$ (704,560.00) | | N/A |
| | Moderate | \$ (600,722.00) | \$ (531,434.00) | \$ (69,288.00) |
| Total Project Subsidy | 100 units | \$ (10,802,900.00) | \$ (4,047,380.00) | \$ (6,755,520.00) |
| Subsidy per MRU | 85 units | \$ (127,092.94) | \$ (47,616.24) | \$ (79,476.71) |
| Subsidy psf | 1480 sq.ft. | \$ (85.87) | \$ (32.17) | \$ (53.70) |
| Land Value Reduction per Acre | 10 Acres | \$ (1,080,290.00) | \$ (404,738.00) | \$ (675,552.00) |

Footnotes

¹ Assumes the City of Hollister adopts a currently proposed 15% inclusionary housing policy broken out into income categories of: 7% Very Low, 5% Low, and 3% Moderate.

² City of Morgan Hill allows in-lieu fees to satisfy up to 50% of a projects required inclusionary housing. Current in-lieu fee is \$19.70.

**Table 2
Inclusionary Housing Ordinance (Rental) Comparison between
City of Hollister and Morgan Hill**

| Ordinance Requirements | | Hollister ¹ | Morgan Hill ² | Difference |
|-----------------------------|----------|------------------------|--|------------|
| Affordable Unit Requirement | | 15% | 15% | None |
| Income Category Allocation | Very Low | 7% | 7.5% | 0% |
| | Low | 5% | 7.5% | -3% |
| | Moderate | 3% | | 3% |
| Income Category Calculation | Very Low | 50% | 50% | 0% |
| | Low | 80% | 60% | 20% |
| | Moderate | 120% | 110% | 10% |
| Alternatives Offered | | No | Off-site Alternatives, Land Dedication, In-lieu Fees | N/A |

| Ordinance Impact | | Hollister | Morgan Hill | Difference |
|---|-------------|-------------------|--------------------|------------------|
| Market Rate Unit Rent | 3 Bedroom | \$ 2,566.00 | \$ 4,356.00 | \$ (1,790.00) |
| Affordable Unit Rent | Very Low | \$ 983.00 | \$ 2,266.00 | \$ (1,283.00) |
| | Low | \$ 1,772.00 | \$ 2,720.00 | \$ (948.00) |
| | Moderate | \$ 2,566.00 | \$ 4,356.00 | \$ (1,790.00) |
| Rent Differential (Subsidy per Unit) | Very Low | \$ (1,583.00) | \$ (2,090.00) | \$ 507.00 |
| | Low | \$ (794.00) | \$ (1,636.00) | \$ 842.00 |
| | Moderate | \$ - | \$ - | N/A |
| Total Project Subsidy | 100 units | \$ (8,127,540.00) | \$ (18,293,880.00) | \$ 10,166,340.00 |
| Subsidy per MRU | 85 units | \$ (95,618.12) | \$ (215,222.12) | \$ 119,604.00 |
| Subsidy psf | 1480 sq.ft. | \$ (64.61) | \$ (145.42) | \$ 80.81 |
| Land Value Reduction per Acre | 10 Acres | \$ (812,754.00) | \$ (1,829,388.00) | \$ 1,016,634.00 |

Footnotes

¹ Assumes the City of Hollister adopts a currently proposed 15% inclusionary housing policy broken out into income categories of: 7% Very Low, 5% Low, and 3% Moderate. Additionally assumes a 45 year affordability restriction for all units used to satisfy the projects

² City of Morgan Hill requires rental units to be deed restricted for 55 years. Additional income category allocations and restrictions would be placed on any for-sale projects that elect to rent inclusionary units, rather than sell them.

**Table 3A
Inclusionary Housing Ordinance
Multi City Comparison**

| Ordinance Requirements | | Hollister ¹ | Morgan Hill ² | Salinas ³ | Campbell | Santa Clara ⁴ | Cupertino ⁵ | San Jose | Mountain View ⁶ | San Benito County ⁷ |
|-----------------------------|----------|------------------------|--------------------------|----------------------|----------|--------------------------|------------------------|----------|----------------------------|--------------------------------|
| Affordable Unit Requirement | | 15% | 15% | 12% - 20% | 15% | 15% | 15% | 15% | 15% - 20% | 15% - 20% |
| Income Category Allocation | Very Low | X | | | | | | | | |
| | Low | X | | | X | | | | | X |
| | Median | | | X | | X | X | | X | |
| | Moderate | X | X | X | X | | X | X | X | X |
| In-lieu Fee | | \$ 85.87 | \$ 19.70 | \$ 14.05 | \$ 34.50 | \$ 30.00 | \$ 17.82 | \$ 25.00 | \$ 54.50 | \$ 30.00 |

Footnotes

¹ City of Hollister does not currently offer in-lieu fees. Included fee represents the proposed policy impact (psf) on market rate units under a hypothetical 100 unit, 10 acre, 3 bedroom product example scenario.

² City of Morgan Hill allows in-lieu fees, currently \$19.70 psf, to satisfy up to 50% of a projects required inclusionary housing.

³ City of Salinas requires affordable units for following project types: Rental 12%, For Sale 15%, Hybrid 20%. Affordable units are only required for projects creating 10 or more units.

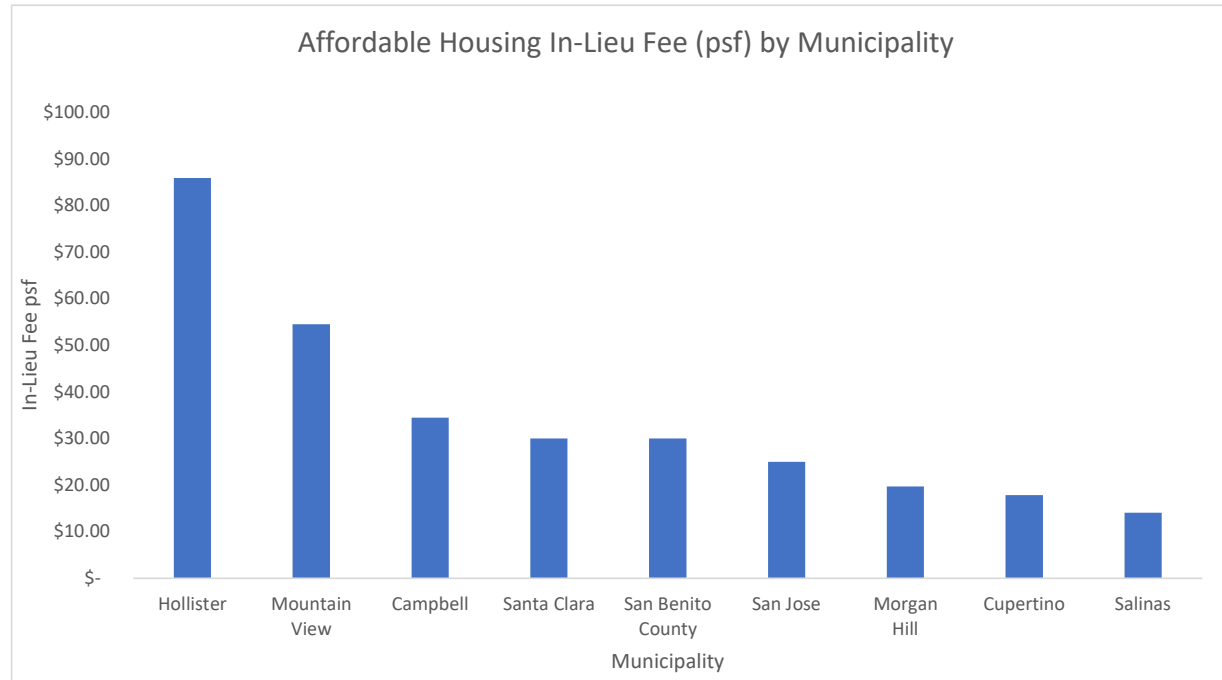
⁴ City of Santa Clara requires inclusionary units to average 100% AMI affordability. Units may pay the following in-lieu fee based on product type: Detached - \$30 psf, Townhome - \$25 psf, Condo - \$20 psf.

⁵ City of Cupertino requires 50% of affordable units to be moderate and 50% of units to be median. In-lieu fees are \$17.82 for detached units and \$19.60 for attached "small lot" units.

⁶ City of Mountain View requires projects to have 15% of units deemed affordable, unless the project consists of townhomes. Townhome projects may incur a 15% - 20% affordable unit requirement. Median affordability is required for all projects. If townhomes are involved, affordability levels may include moderate. Projects may pay an in-lieu fee of \$54.50 psf. Townhome in-lieu fees are \$125 psf.

⁷ San Benito County requires projects within 10 miles of a suburban area to have at least 15% of units available to Low and Moderate income categories, developments outside 10 miles are required to construct affordable units off-site and within 10 miles of a suburban area. In-lieu fees are only available for fractions of a required affordable unit. Applicable to projects with more than 5 units.

**Table 3B
Inclusionary Housing Ordinance
Multi City Comparison**



Footnotes

- ¹ City of Hollister does not currently offer in-lieu fees. Included fee represents the proposed policy impact (psf) on market rate units under a hypothetical 100 unit, 10 acre, 3 bedroom product example scenario.
- ² City of Morgan Hill allows in-lieu fees, currently \$19.70 psf, to satisfy up to 50% of a projects required inclusionary housing.
- ³ City of Salinas requires affordable units for following project types: Rental 12%, For Sale 15%, Hybrid 20%. Affordable units are only required for projects creating 10 or more units.
- ⁴ City of Santa Clara requires inclusionary units to average 100% AMI affordability. Units may pay the following in-lieu fee based on product type: Detached - \$30 psf, Townhome - \$25 psf, Condo - \$20 psf.
- ⁵ City of Cupertino requires 50% of affordable units to be moderate and 50% of units to be median. In-lieu fees are \$17.82 for detached units and \$19.60 for attached "small lot" units.
- ⁶ City of Mountain View requires projects to have 15% of units deemed affordable, unless the project consists of townhomes. Townhome projects may incur a 15% - 20% affordable unit requirement. Median affordability is required for all projects. If townhomes are involved, affordability levels may include moderate. Projects may pay an in-lieu fee of \$54.50 psf. Townhome in-lieu fees are \$125 psf.
- ⁷ San Benito County requires projects within 10 miles of a suburban area to have at least 15% of units available to Low and Moderate income categories, developments outside 10 miles are required to construct affordable units off-site and within 10 miles of a suburban area. In-lieu fees are only available for fractions of a required affordable unit. Applicable to projects with more than 5 units.

Table 5
City of Hollister Inclusionary Housing Ordinance
Placeworks Feasibility Prototype 1 & 2 (For-Sale) Impact on Residual Land Value

| Ordinance Impact | | Prototype 1 | | | Prototype 2 | | |
|--|-----------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | | 3 Bedroom | 4 Bedroom | 5 Bedroom | 3 Bedroom | 4 Bedroom | 5 Bedroom |
| Market Rate Unit Price | | \$ 977,500.00 | \$ 1,058,000.00 | \$ 1,150,000.00 | \$ 879,750.00 | \$ 952,000.00 | \$ 1,035,000.00 |
| Affordable Unit Price | Very Low | \$ 97,188.00 | \$ 107,695.00 | \$ 134,001.00 | \$ 97,188.00 | \$ 107,695.00 | \$ 134,001.00 |
| | Low | \$ 175,190.00 | \$ 191,878.00 | \$ 236,974.00 | \$ 175,190.00 | \$ 191,878.00 | \$ 236,974.00 |
| | Moderate | \$ 279,028.00 | \$ 303,999.00 | \$ 373,942.00 | \$ 279,028.00 | \$ 303,999.00 | \$ 373,942.00 |
| Price Differential (Subsidy per Unit) | Very Low | \$ (880,312.00) | \$ (950,305.00) | \$ (1,015,999.00) | \$ (782,562.00) | \$ (844,305.00) | \$ (900,999.00) |
| | Low | \$ (802,310.00) | \$ (866,122.00) | \$ (913,026.00) | \$ (704,560.00) | \$ (760,122.00) | \$ (798,026.00) |
| | Moderate | \$ (698,472.00) | \$ (754,001.00) | \$ (776,058.00) | \$ (600,722.00) | \$ (648,001.00) | \$ (661,058.00) |
| Total Project Subsidy | 100 units | \$ (12,269,150.00) | \$ (13,244,748.00) | \$ (14,005,297.00) | \$ (10,802,900.00) | \$ (11,654,748.00) | \$ (12,280,297.00) |
| Subsidy per MRU | 85 units | \$ (144,342.94) | \$ (155,820.56) | \$ (164,768.20) | \$ (127,092.94) | \$ (137,114.68) | \$ (144,474.08) |
| Subsidy psf | | \$ (97.53) | \$ (79.10) | \$ (72.59) | \$ (85.87) | \$ (69.60) | \$ (63.64) |
| Land Value Reduction per Acre 10 Acres | | \$ (1,226,915.00) | \$ (1,324,474.80) | \$ (1,400,529.70) | \$ (1,080,290.00) | \$ (1,165,474.80) | \$ (1,228,029.70) |