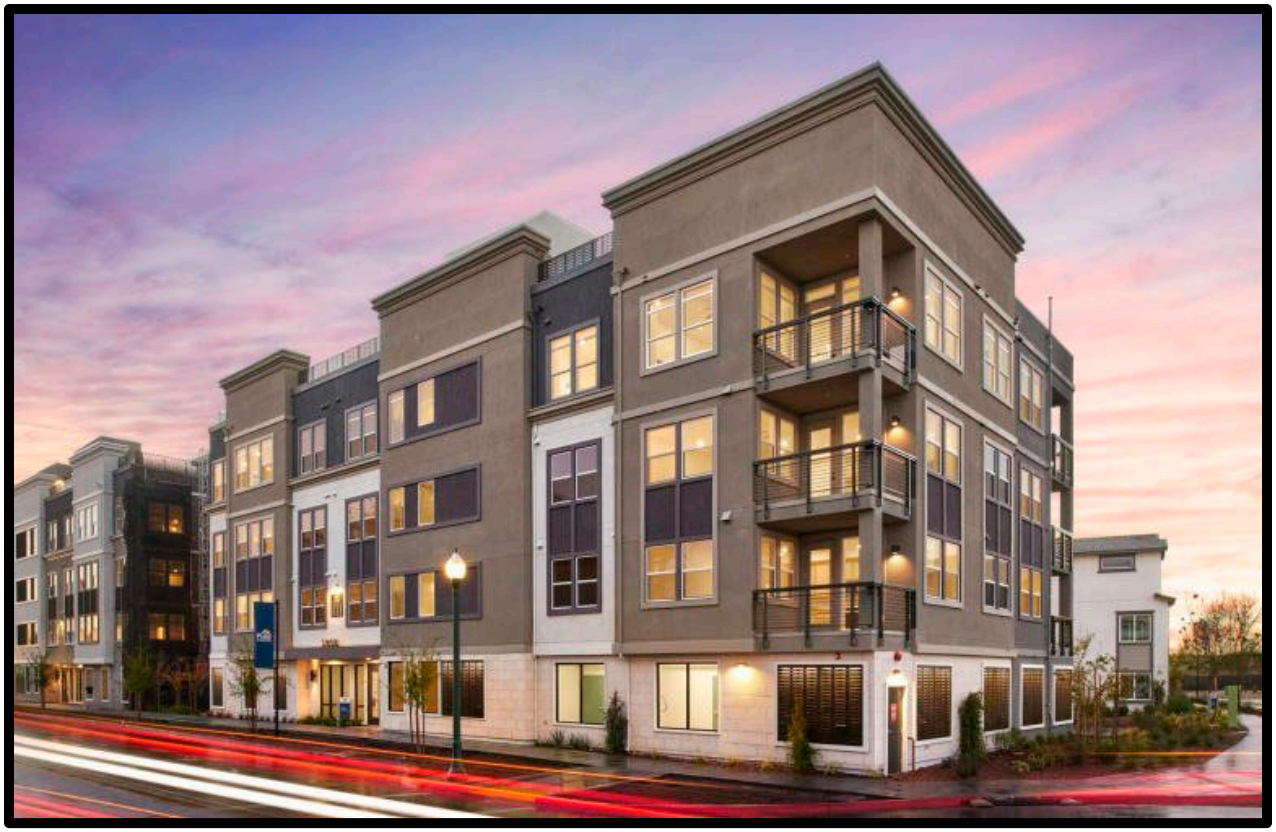
Exhibit 2



Bay 37 by Pulte Homes

Inclusionary Housing Policy Review and Recommendations

September 2025

Completed for:

ALAMEDA

City of Alameda, CA Planning Division

By:

STREET LEVEL

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Introduction

In 2025, the City of Alameda, with support from Street Level Advisors, reviewed the inclusionary housing program, with a focus on household incomes targeted by the program and consideration of in lieu fees. The Planning Division convened a working group including representatives from the Planning Division, the Housing Authority, Housing and Human Services, the City Attorney's Office, the Base Reuse and Economic Development Department, and two members of the Planning Board to review the inclusionary program and inform the recommendations in this report.

This report provides recommendations for updates to the program to better match the program to local housing needs and achieving Regional Housing Needs Allocation (RHNA) targets. The City of Alameda's sixth cycle Housing Element's calls for the City to:

> *Continue to implement the required 15 percent affordable housing requirement on all projects over 5 units in size in Alameda. Consider modifications to the ordinance to lessen or eliminate the 7% moderate income units and increase the 4% requirement for low- income units and 4% very low-income units, or alter the percentages for each level or required units in some other way, given the larger need for lower income units.*

This report summarizes the existing program, describes policy issues, reviews best practices and policy trends, reviews financial impacts of alternatives and makes recommendations for program amendments to better align the program with housing needs in the City of Alameda.

Background

Inclusionary housing (IH) integrates residents from various income levels, fostering socio-economic diversity in neighborhoods that are experiencing growth. By ensuring a portion of new housing is affordable to lower income households, the policy helps to keep lower-income residents in their communities, preventing displacement, and offers an opportunity to live in a variety of neighborhoods with a diversity of resources.

Inclusionary Housing in Alameda

To address the need for affordable housing in the City of Alameda ("City"), the City adopted and implemented the Inclusionary Housing Program in 2003. The requirements for residential projects under the Inclusionary Housing Program can be found in Alameda Municipal Code ("AMC") section 30-16. The City oversees the Inclusionary Housing Program, often referred to as the Below Market Rate ("BMR") Program.

For all residential developments of five (5) or more units, at least fifteen percent (15%) of the total units must be inclusionary units restricted for occupancy by very low-income (4%), low-income (4%), and moderate-income (7%) households. These requirements are applied to both rental and ownership projects. Residential projects with nine (9) units or less may pay a per-unit fee in lieu of providing the deed-restricted units. Any project with 10 or more units must construct the deed-restricted affordable units.

Properties that are located on the former sites of the Naval Air Station Alameda/Fleet Industrial Supply Center (the Base) are subject to a higher threshold of 25% affordability.[1] This report does not address affordability requirements on the Base.

Developers are required to enter into an Affordable Housing Agreement with the City which defines the requirements, details marketing guidelines, and includes the Homeownership Guidelines and/or Rental Guidelines. Inclusionary units must be developed and made available for occupancy either prior to or concurrently with the market rate units. Inclusionary units are expected to be comparable in bedroom count and square footage as market-rate units.

The City oversees the placement of tenants into BMR rental units. Applicant households can receive preference points if they live or work in the City of Alameda (1 point) and/or if they are an employee of the Alameda Unified School District (1 point).

The City of Alameda oversees more than 330 BMR units, including units at Alameda Point. An additional 300 BMR units are in the development pipeline, however many of the development projects are on hold due to current economic circumstance. The Alameda Housing Authority (AHA) has about 1,200 affordable units under management or partnership with AHA, and 600 units in the development pipeline. Some of the AHA-

[1] On March 21, 2001, Renewed Hope Housing Advocates (RHHA) and the City of Alameda agreed to enter into a settlement agreement (Settlement Agreement) to settle litigation filed by RHHA challenging the City's certification of the environmental impact report ("EIR") for the reuse of Naval Air Station Alameda/Fleet Industrial Supply Center (what is now Alameda Landing) and the Alameda Point Improvement Plan. Under the approved Settlement Agreement (Section 4.1), twenty-five percent (25%) of all newly constructed housing units at Alameda Point must be made permanently affordable.

controlled units were developed through the City's inclusionary program and were bought, subsidized, or are managed by AHA. The City, through its inclusionary program, also has about 150 units under management and over 100 units that would fall under its deed-restrictions when development occurs.

Some of the BMR units are integrated within the market rate buildings. In other cases, the affordable units were developed by non-profit developers on improved land provided by the market rate developer adjacent to larger market rate projects. This form of compliance is often referred to as “clustered development.” In Alameda, it is somewhat common for the moderate-income units to be developed by the market rate developer, while the low and very low-income units are provided on a cluster project.

Challenges and Policy Issues

This section highlights challenges confronting inclusionary housing and the key policy issues identified by the City of Alameda for additional consideration. The discussion includes more detail on the current program requirements and areas where the program may require adjustment. The program was established roughly 20 years ago, so some of the policy issues arise from differing market conditions or affordable housing needs. Other policy issues suggest updates to align with current best practices.

The City of Alameda also has urgent needs to produce housing, especially affordable housing to meet local and regional needs. The State of California has raised the bar for jurisdictions on housing production, Housing Element implementation, and achieving RHNA targets. The City Alameda has adopted zoning, programs and practices to produce much needed housing, including various levels of affordable housing. Alameda’s 2023-2031 Housing Element established a quantified objective for the inclusionary housing ordinance: at least 803 deed restricted affordable units over the 8-year planning period of the Housing Element, equal to 15% of the 5,353 units for lower and moderate-income households.

Policy Issue 1: Income Targets

The City of Alameda’s inclusionary program requires the same percentage and levels of affordability for rental projects and ownership projects. Most jurisdictions in the Bay Area and across the nation have different affordability requirements based on tenure. Most jurisdictions require moderate income units at 80 to 120% of area median income (“AMI”) for homeownership projects, while rental projects generally target households at

50% to 80% AMI to serve lower income households. There are two main reasons most programs have these variations: household economics and real estate economics.

Household needs vary by income level. Households living in BMR rental and ownership units have different financial considerations and constraints. For Alameda, many market rate rental units are already affordable to moderate-income households (and above moderate-income households). Therefore, providing moderate income BMR rental units does not satisfy an unmet need (see Housing Element Table C-16 and a portion of C-17 below). In some cases, moderate income BMR rental units have been difficult to lease because likely residents would rather find housing on the private market to avoid the additional paperwork and restrictions associated with BMR residency. When factoring landlord incentives provided to entice leasing, such as free rent or furnished apartments, MOD units become less competitive compared to market-rate units.

Table 1. Average Rent, City of Alameda, 2021 (Housing Element Table C-16)

Unit Type	Average Rents	Fair Market Rents (HUD)
Studio	$2,175	$1,595
One bedroom	$2,775	$1,934
Two bedrooms	$3,288	$2,383
Three bedrooms	$3,878	$3,196

Source: HUD 2021, Zillow.com accessed July 9 and 12, 2021

Table 2. Housing Affordability (Housing Element Table C-17)

Income Group	HCD Income Limits	Maximum Affordable Price	
		Monthly Rental	Ownership
Moderate			
One Person	$105,500	$2,638	$669,165
Two Person	$120,550	$3,014	$764,624
Three Person	$135,650	$3,391	$860,400
Four Person	$150,700	$3,768	$955,860

Source: HCD State Income Limits, 2021 Notes:
Affordability estimates do not include utility costs.
Total affordable mortgage based on a 5 percent down payment, an annual 2.88 percent interest rate, 30-year mortgage, and monthly payment equal to 30 percent of income.

In contrast, Alameda's homeownership market is not accessible to moderate income households. Moderate income BMR ownership units offer housing affordability for households that would otherwise be priced out of homeownership. Moderate income households greatly benefit from the BMR ownership requirement.

However, accessing BMR ownership units can be difficult for low and very low-income households even with the affordable pricing. Often very low- and low-income households cannot save a downpayment and/or meet the minimum funding requirements. For example, at Bay 37, ultimately sold several BMR ownership units intended for very low- and low-income homeowners to the Housing Authority due to a lack of eligible and qualified homebuyers. For this reason, many jurisdictions target BMR ownership units to households between 80% and 120% of area median income.

Another reason programs vary income requirements is developer side economics. Development economics in Alameda varies greatly by construction type and tenure. The cost to subsidize BMR units varies across projects. For example, Alameda's current inclusionary requirements have a far greater cost for most ownership projects than the same requirements have on typical rental projects.

This report explores the financial feasibility of BMR requirements for various prototypes and recommends adjustment to AMI targeting to reflect best practices, household economics, and real estate economics.

Policy Issue 2: Alternative Compliance Options - In Lieu Fees and Clustered Units

Currently Alameda allows projects to pay in lieu fees in a limited set of circumstances. The ordinance currently establishes a per unit fee rate for these smaller projects (5 to 9 units). California law does not require jurisdictions to offer an in-lieu fee alternative for inclusionary housing. However, providing a clear and transparent in-lieu fee compliance option is widely considered best practice. Ordinances that allow a broader range of compliance pathways—such as on-site units, off-site units, land dedication, or in-lieu fees—tend to be more flexible, predictable, and legally defensible. Offering a published in-lieu fee rate gives developers certainty early in the process, supports financial feasibility, and creates a revenue stream that jurisdictions can use strategically to meet affordable housing goals.

In lieu fees can be an important component of local affordable housing programs. Larger amounts of fee revenue can be deployed as a local source to finance affordable housing developments. Because the availability of local matching funding is a key factor in the award of certain state and federal funding sources, having access to a consistent source of local funding can unlock funding for substantially more affordable housing units. Smaller amounts of in lieu fee revenue, for example in down development cycles, can also fund important affordable housing programming. For example, Alameda's Housing Element identified the following program areas that could be supported with in lieu fees:

- Acquisition/rehab program with deed restrictions
- Funding for seismic and flooding renovations for affordable buildings
- Funding for pre-development work
    - Development of affordable housing on school district surplus lands
    - Seed money to non-profit and partner agencies
    - A study of a bond measure for affordable housing development
- Funding for down payment assistance, HOA fee, or other gap funding for low-income homeownership.

In Alameda, nearly all major development projects, including Alameda Landing, Del Monte, Boatworks, RESHAPE, and Site A, comply with inclusionary requirements by providing land and resources for clustered affordable housing. The clustered compliance option relies on a developer partnership with a non-profit affordable housing developer, including often the Alameda Housing Authority. These partnerships are a powerful tool to achieve inclusionary housing outcomes, often increasing the outcomes by providing more units and/or deeper levels of affordability. Generally, non-profits receive land and some cash subsidy from the market rate developer. The developer contributions are used to leverage additional resources, such as County or State funding, to fully fund the affordable housing project.

This report recommends adjustments to the in-lieu fee and clustered project compliance process to reflect best practices and real estate economics.

Policy Issue 3: Period of Affordability

Alameda's current ordinance requires BMR units to remain affordable for 59 years. After 59 years the BMR units may convert to market rate housing. Recent trends point to jurisdictions extending requirements to 99 years or the life of the project. Extending the term of affordability can increase the life of the public good, at little to no cost to current development. In the case of rental housing, developers generally prioritize income in the near term more highly than 20 or 50 years out. In the case of ownership housing,

developers generally focus on the income from the initial sale. Extending the term of affordability would not meaningfully impact the financial feasibility of new construction for rental or ownership projects but can expand the number of households that those projects serve over the longer term.

This report recommends adjustments to the required term of affordability to reflect best practices.

Nationwide and Bay Area Policy Trends

This section provides a brief overview of national and regional inclusionary housing programs with a focus on components of the inclusionary program identified for additional consideration.

Inclusionary housing policies and programs continue to be an important tool for cities in the United States to achieve housing affordability. A national study found 1,019 inclusionary programs in 734 jurisdictions, in 31 states and the District of Columbia as of 2019.[2] The study reports that roughly 20 new programs are adopted each year. California, New Jersey and Massachusetts jurisdictions are most likely to have inclusionary programs, however inclusionary requirements are fairly common in major metropolitan areas across the nation, excepting in states with legal limitations. Inclusionary Housing programs are more prevalent in higher cost markets and localities with strong advocacy groups. Also, Inclusionary programs cluster in regions, for example when one jurisdiction adopts a program it is more likely that adjacent jurisdictions will do so.

Inclusionary programs are producing affordable housing, especially rental housing, and in lieu fees. Most jurisdictions have completed program updates within the past five years (58%). Inclusionary programs are becoming more nuanced and complex, with varying requirements in different neighborhoods in a given city (38%), requirements that serve a mix of affordability levels (24%), and long-term affordability requirements (93%).

Every incorporated jurisdiction in Alameda County has some form of inclusionary zoning. Over 85 of the 109 jurisdictions in the Bay Area have some form of inclusionary housing requirements. As compared to the nation, regional inclusionary programs are more frequent and more sophisticated. For example, many jurisdictions have

[2] Inclusionary Housing in the United States, Grounded Solutions Network, Ruoniu Wang and Sowmya Balachandran, 2021.

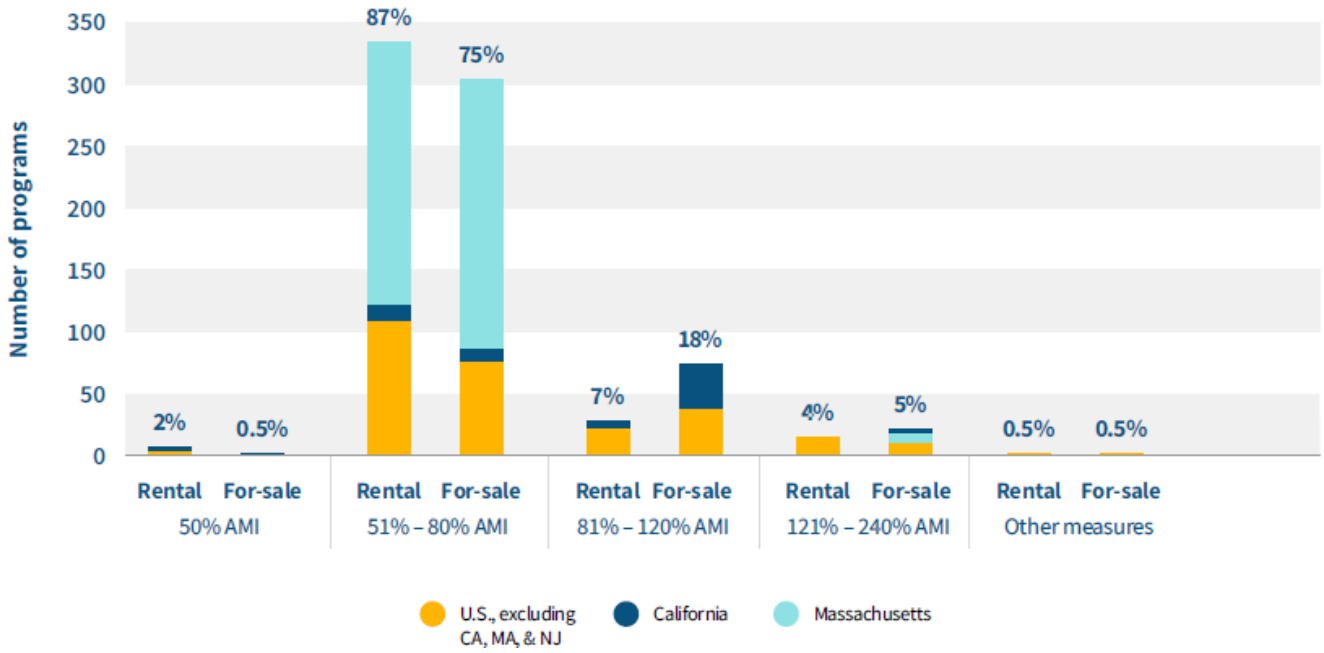
requirements that vary by salient local factors, such as geography, building type, or tenure.

Alameda's inclusionary program is similar to many regional programs. This report suggests a few key updates to bring the program into closer alignment with best practices.

Trends: Income Targeting

Nationwide most programs target affordability to households between 50 and 80% of the area median income (AMI). Nationwide, 87% of programs require rental developments to provide units that serve households earning 50 to 80% AMI. A number of jurisdictions, 24%, require projects to provide housing affordable to multiple income levels.

Figure 1. Affordability requirements, National survey of inclusionary housing programs, 2019.



Most inclusionary programs in the Bay Area require projects to provide units at a range of affordability levels. Of the 84 jurisdictions reporting data to MTC, the majority required rental units at either 50% AMI or 60% AMI and 80% AMI. A quarter of programs also required some rental units at 120% AMI. Most jurisdictions require new homeownership

projects to serve higher income households than a rental project would need to serve. The majority of programs require ownership units at 80% and 120% AMI. Some jurisdictions in Marin County allow units up to 135% AMI. Ownership AMIs are generally higher in part due to the higher development costs, and in part due to the finances necessary to market and sell affordable homeownership units.

Table 3: Alameda County Income Limits, 2025, HCD.

	1 person	**2 people**	**3 people**	**4 people**
Extremely Low (30%)	$33,600	$38,400	$43,200	$47,950
Very Low (50%)	$55,950	$63,950	$71,950	$79,900
Low Income (80%)	$87,550	$100,050	$112,550	$125,050

Alameda County jurisdictions require rental projects to provide a range of 6% to 20% BMR units, with the majority of jurisdictions requiring 15% of units in new development to be deed restricted to some level of affordability. Most Alameda County jurisdictions require multiple levels of affordability, with nearly every jurisdiction requiring rental units at 60% of AMI. The majority of jurisdictions also require rental units at 80% AMI. Only four jurisdictions in Alameda County require rental units at 120% AMI, one of which is the City of Alameda. Alameda County jurisdictions mainly require the same percentage of affordable units for ownership programs, however the affordability requirements skew to higher AMIs. The majority of the programs require units at 80% and 120% AMI. Only two jurisdictions require ownership units at less than 80% AMI, one of which is the City of Alameda.

Trends: In Lieu Fees

Nationwide nearly every inclusionary program offers an in-lieu fee option. Some jurisdictions require developers to seek approval to pay in lieu fees, or limit the in-lieu fee option to certain project types. A handful of Bay Area jurisdictions, including Napa, Burlingame, Mill Valley, and Oakland, are “fee first” programs, i.e. they require payment

of an affordable housing fee but offer the option to provide affordable units on site as an alternative.

Monitoring BMR units can be expensive and time consuming. Jurisdictions generally prefer to have units provided in larger projects that therefore have more BMR units to gain some administrative efficiency. Many jurisdictions require that fees be paid for smaller projects that would only provide a few BMR units.

There is an emerging trend for jurisdictions to require developers to pay in lieu fees for fractional units, meaning that, for example, if a developer's calculated requirement were 14.3 BMR units, they would be required to pay a proportional in lieu fee for the .3 of a unit, rather than rounding the requirement.

In the Bay Area, jurisdictions often have varied fee rates based on tenure, neighborhood, building type or other meaningful local factors. Nearly every jurisdiction in Alameda County varies in lieu fees by project size or a similar factor. Fee rates can vary greatly in an individual jurisdiction, for example in some Alameda County jurisdictions, fees range from $10 per square foot ("sf") to $25 per sf, with some jurisdictions having as high as $35. The varied fee rates likely reflect varied feasibility for different development typologies in each jurisdiction. The Table 4 below includes recent in lieu fees schedules for a sample of neighboring jurisdictions.[3]

Table 4: In-Lieu Fee Schedule for a Sample of Jurisdictions

Jurisdiction	In Lieu Fee Schedule	Notes
Berkeley	Residential Unit Floor Fee per Square Foot Area >12,000 $56.25 11,000-11,999 $53.75 10,000-10,999 $51.25 9,000-9,999 $48.75 8,000-8,999 $46.25 7,000-7,999 $43.75 6,000-6,999 $41.25 5,000-5,999 $38.75 4,000-4,999 $36.25 3,000-3,999 $33.75 2,000-2,999 $31.25 1,000-1,999 $28.75 <1,000 $26.25	Varies by total residential square feet

[3] These fee rates were self-reported by jurisdictions in a 2024 MTC funded survey. Most jurisdictions update fees annually.

Oakland	Res Impact Fees Zone 1 (per unit): Multifamily: $32,355.73 Townhouse: $32,355.57 Single-Family: $37,746.81 Zone 2: Multifamily: $25,952.72 Townhouse: $23,254.81 Single-family: $27,637.94 Zone 3: Multifamily: $17,525.94 Townhome: $13,482.63 Single-family: $13,482.63	Varies by geographic zone and project type.
San Leandro	The fee shall be the Median Sales Price of a dwelling unit in San Leandro, (single family detached, single family attached or condominium, whichever is applicable), minus the 8 Affordable Ownership Cost, multiplied by the fractional inclusionary unit required.	Fees calculated by formula.

Many jurisdictions nationwide and the majority in the region base fees on square footage of development. This allows fee calculations to adjust to varying unit sizes and more closely track project costs, impacts and financial feasibility. A handful of jurisdictions in Alameda County continue to base fees on the number of units, regardless of size, rather than overall square footage. Best practice is to base fees on square footage. When the fee is calculated per unit it creates pressure on developers to offer larger units and disincentivizes projects with smaller (and typically less expensive) market rate units. A fee per square foot results in a fee that is the same for a given building size regardless of how the building is divided up into units.

Trends: Period of Affordability

Longer affordability terms are a meaningful affordable housing outcome. Generally, longer terms of affordability require a negligible financial concession from developers, and would not reduce the financial feasibility of development. In the case of rental housing, developers generally prioritize income in the near term more highly than 20 or 50 years out. In the case of ownership housing, developers generally focus on the

income from the initial sale. Extending the term of affordability does not meaningfully impact the financial feasibility of new construction for rental or ownership projects.

In 2019 most jurisdictions nationwide (93%) required at least 30 years of affordability, with 14% of projects requiring affordability for the life of the project or in perpetuity. More recently, jurisdictions have increased required affordability terms, moving towards 99 years or the life of the project. The City of Alameda's 59-year affordability term limit falls short of best practices.

Financial Feasibility and Cost of Compliance

This section outlines an analysis of the likely financial impacts of the City's inclusionary housing requirements on real estate projects in Alameda.

Alameda, like the rest of the Bay Area and most of the country, is currently experiencing a noticeable slowdown in the housing development market. Rapidly rising construction costs and relatively high interest rates, together with more slowly growing rents have created a temporary situation where most newly built multi-family housing is not financially feasible. Under these circumstances, it does not make sense to incur the expense of a complex financial feasibility study for this discussion that would almost certainly demonstrate that most project types are not currently feasible. Instead, we summarize the results from several recent studies completed for comparable jurisdictions in the area. While there are often significant differences between the housing that would be produced in these comparison jurisdictions and what would likely be built in Alameda, these studies paint a fairly consistent picture of the current feasibility of development in the region. With this as background, we discuss the comparable effects of various inclusionary / in lieu fee options in anticipation that other factors influencing development feasibility will eventually resolve in favor of development, with the goal of maintaining rough neutrality as to the effect of the City's inclusionary program. As discussed below, inclusionary programs, while important, are generally not the deciding factor between a feasible or infeasible development. Therefore, we do not recommend reducing the net effect of the requirements with an expectation that such a move would spur development, as it is unlikely to do so and would undermine the City's longer-term commitment to affordable housing. Alameda's requirement that 15% of new units be deed restricted as affordable units is in line with the State's guidance, that a requirement of 15% is deemed to not be an impediment to housing development.

Studies Consulted

Figure 2 lists 14 economic feasibility studies of inclusionary housing policies or affordable housing impact fees for Bay Area jurisdictions consulted in the preparation of this report. In particular, the studies completed for Berkeley, Oakland and Hayward provide relevant points of reference for Alameda.

Figure 2: Recent Inclusionary Housing Feasibility Studies Consulted

City	Study	Consultant	Date
Berkeley	**Berkeley In-Lieu Fee and Housing Policies Economic Feasibility Analysis**	**Strategic Economics and Street Level Advisors**	**Dec-24**
Oakland	**Impact Fee 5 year Review**	**Hausrath Economics Group**	**Nov-24**
Hayward	**Affordable Housing Ordinance Study**	**Strategic Economics**	**Feb-23**
San Luis Obispo	Affordable Housing Fees Inclusionary Requirements, In-lieu Fees and Commercial Linkage Fees;	EPS	Feb-22
Fremont	Financial Feasibility Analysis	Keyser Marston	Oct-20
Oakland	**Downtown Oakland Specific Plan: Incentive Program Feasibility Study**	**EPS**	**Jul-20**
Santa Rosa	Residential Impact Fee Nexus and Feasibility Study (Santa Rosa)	Strategic Economics	May-19
Richmond	Feasibility Analysis for New Affordable Housing Requirements	Keyser Marston	Sep-18
Santa Cruz	IZ Feasibiilty Analysis	Keyser Marston	Jun-18
Santa Clara County	Multi-jurisdiction Nexus Studies	Keyser Marston	Apr-18
Union City	Residential Nexus Analysis	Keyser Marston	Sep-16
Albany	Residential Nexus Analysis	Keyser Marston	Jun-16
San Mateo County	Grand Nexus Study	21 Elements	Mar-16
Emeryville	Residential Nexus Study	Keyser Marston	Jun-14

Current Market Conditions

Recent development feasibility studies from the cities of Berkeley, Oakland, and Hayward highlight a consistent and sobering trend across the Bay Area: residential real estate development is broadly challenged by high construction and financing costs, limited rent growth, and ongoing economic uncertainty. In Berkeley, analysis found that most housing types are currently financially infeasible, with only small-scale or micro-unit projects showing potential viability. Oakland's study revealed that new construction is not feasible in most sectors, including multifamily housing, which has seen declining rents, high vacancy rates, and reduced investor confidence since the pandemic. Similarly, Hayward's analysis concluded that market-rate rental projects are currently not viable, and even ownership housing types operate at the edge of feasibility, with modest changes in costs capable of rendering projects infeasible. Across all three

jurisdictions, the studies recommend cautious calibration of affordable housing requirements and development fees to avoid further discouraging much-needed housing production while market conditions remain constrained.

Feasibility Trends

There are four housing development prototypes that Alameda stakeholders indicated would be particularly relevant to Alameda:

Ownership
Small Lot Single Family
Townhomes
Rental
Infill Rental
Mid Rise Rental

Each of these types of projects has been studied in recent studies in comparable jurisdictions. Most of the building types have been studied in more than one recent study. Table 5 and Table 6 provide a summary of development costs and returns for these development prototypes.

Ownership

Table 5: Summary of Ownership Prototypes from Recent Studies

	Berkeley Small Lot SF	Freemont Smaller Lot SF	Berkeley Townhomes	Fremont Townhomes	Hayward Townhomes
Units	3	10	4	20	106
Lot Size (Acres)	0.1	1	0.1	1	5
Land Cost/Acre	$ 6,534,000	$ 3,900,000	$ 6,534,000	$ 4,600,000	$ 3,260,000
Parking Ratio	1.00	2.00	1.00	2.00	2.00
Parking Cost/space	$ 30,000		$ 30,000		$ 6,500
Average Unit Size	1,500	2,200	1,200	1,500	1,695
TDC/Unit	$ 1,109,480	$ 783,100	$ 882,631	$ 650,600	$ 500,943
Market Sale Price/Unit	$ 1,500,000	$ 1,400,000	$ 1,140,000	$ 1,050,000	$ 844,340
Affordable Compliance	Exempt	Fee: $57,200/unit	Exempt	Fee: $48,600/unit	10% BMR
Profit %	28%	12%	29%	36%	24%
Feasibility Threshold	8%		8%		20%
Feasible?	Yes	Yes	Yes	Yes	Yes

Small Lot Single Family

Both the City of Berkeley and City of Hayward's recent development feasibility studies include targeted analysis of small lot single family housing as a distinct development typology. In Berkeley, small lot single family homes are characterized as a "Missing Middle" housing product—multiple detached homes developed on standard single-family lot sizes—and are one of the few ownership prototypes found to be financially feasible under current market conditions. However, the study notes that this type of development is rarely built in Berkeley, primarily due to zoning limitations in low-density residential districts, few small-scale developers, and limited availability of suitable infill sites. In Hayward, small lot single family development is included within the analysis of low-density ownership housing (projects with a density of less than 35 dwelling units per acre). The study concludes that while these projects are marginally feasible in some submarkets, they are highly sensitive to increases in construction costs or affordability requirements. Based on this, the study recommends modest increases to inclusionary requirements for these projects, calibrated to maintain financial viability while advancing affordability goals.

Townhomes

Townhome development is addressed in all three reference studies, with varying levels of detail and emphasis, reflecting its role as a transitional housing type between single-family and multifamily projects. In Berkeley, townhomes are included within the "Fourplex/Townhomes" prototype, identified as part of the City's Missing Middle housing typologies. This prototype, representing townhomes on a standard single-family lot, is among the few ownership models deemed financially feasible under current market conditions. However, as with other small-scale infill projects, the Berkeley study notes that townhome development remains rare due to zoning barriers, limited developer capacity, and land availability constraints. In Hayward, townhomes fall under the category of low-density ownership housing and are similarly found to be only marginally feasible. The study recommends a calibrated increase in inclusionary requirements for this product type—raising the affordability requirement from 10 percent to 12 percent and introducing a split between low- and moderate-income households—to balance feasibility with affordable housing production goals. The Oakland study includes townhomes as one of several ownership housing prototypes but provides limited detail specific to their performance. Nonetheless, the broader findings suggest that new ownership housing, including townhomes, faces substantial feasibility challenges due to high construction costs and market uncertainty, with very limited development activity occurring in 2023.

Rental

Table 6: Summary of Rental Prototypes from Recent Studies

	Berkeley Infill Rental	Hayward Infill Rental	Berkeley 6 Story Rental Rental	DT Oakland Mid Rise Rental	Hayward 5 Story Wrap	Fremont Wrap
Units	10	20	75	39	300	65
Lot Size	0.2	0.5	0.5	0.4	4	1
Land Cost/Acre	$ 7,623,000	$ 2,000,000	$ 14,157,000		$ 1,950,000	$ 2,300,000
Parking Ratio	1	1.5	0.6	1	1.5	1.5
Parking Cost/space	$ 30,000	$ 6,500	$ 60,000	$ 60,000	$ 40,000	
TDC/Unit	$ 553,800	$ 425,000	$ 690,986	$ 585,589	$ 485,333	$ 482,000
Average Unit Size	925	950	662		800	930
Average Rent/Unit	$ 3,550	$ 2,917	$ 3,138	$ 3,200	$ 2,417	$ 3,200
Affordable Compliance	Fee: $56/foot	6% BMR		Fee: $22,000/unit	6% BMR	Fee: $13,000/unit
Yield on Cost	3.27%	3.74%	3.60%	4.50%	3.99%	5.25%
Feasibility Threshold	6%		6%			
Feasible?	No	No	No	No	No	No

Infill Rental

Infill and low-density rental housing—such as duplexes, fourplexes, and small multifamily buildings—are examined in both the Berkeley and Hayward studies, with important implications for housing policy and feasibility. In Berkeley, low-density rental prototypes are represented by the 10-unit small multifamily building, a three-story walk-up with surface parking. While this prototype is not currently financially feasible under typical market conditions, the study identifies it as an important form of Missing Middle housing that could diversify the city's housing stock. The analysis emphasizes that these projects face structural barriers beyond financial feasibility, including zoning restrictions in low-density neighborhoods and a lack of small-scale developers positioned to deliver such projects. Hayward's study similarly analyzes small-scale rental prototypes in lower-density contexts and finds that these developments are largely infeasible under current conditions, even with relatively modest inclusionary requirements.

Mid Rise Rental

Mid-rise rental development—typically defined as podium-style buildings ranging from five to eight stories—is a key focus in all three feasibility studies and is consistently identified as one of the most financially constrained housing types under current market conditions. In Berkeley, mid-rise prototypes (6- and 8-story buildings) are found to be financially infeasible, with required returns falling well below investment thresholds. While such developments are common in Berkeley due to their ability to leverage State

Density Bonus incentives and a strong market for student housing, the study concludes that rising construction and labor costs, coupled with modest rent growth, have rendered most mid-rise rental projects unviable at this time. Hayward's study similarly finds that mid-rise rental projects are not feasible in any of the city's market tiers, citing a mismatch between achievable rents and rising development costs. The report notes that no major market-rate rental proposals have come forward since adoption of the City's current inclusionary requirements, and that reducing or eliminating those requirements is unlikely to restore feasibility. In Oakland, mid-rise rental projects represent the dominant form of recent housing construction, but the study documents a post-pandemic downturn characterized by rising vacancies, declining effective rents (5–14% below 2019 levels), and stalled permitting activity. As with the other jurisdictions, the Oakland study attributes infeasibility to rising construction costs, elevated financing rates, and oversupply from the prior development cycle.

Estimating the Cost of Compliance (current requirements)

Using the prototype proformas constructed for comparable jurisdictions together with limited data we were able to collect related to recently completed projects in Alameda, we constructed a simplified project proforma for the Townhouse and Midrise Rental prototypes. These proformas reflect the regional trends in profitability (i.e. they show that the rental buildings are currently infeasible while townhomes may be feasible where prices are relatively high). But they also allow us to evaluate the cost of compliance with Alameda's current inclusionary housing ordinance, which is a critical step in the process of evaluating potential alternatives.

Townhouses

Considering a hypothetical new construction townhouse project with 60 homes on a two-acre site, we assumed that all of the homes were 2-bedroom units with an average size of 1,500 square feet. We assumed a market price of $1,000,000 for these units even though we note that some recent projects in Alameda have sold for higher prices.

If all 60 townhomes in this hypothetical project were to sell at market rate (i.e. if there were no inclusionary housing requirement) the gross sales revenue to the developer would be $60,000,000. We would expect there to be marketing and sales commissions which would reduce the net revenue to approximately $57,000,000.

But if, instead, the project complies with Alameda's current inclusionary housing policy and homes are sold with 15% onsite affordable units including 4% Very Low Income

(VLI), 4% Low Income (LI) and 7% Moderate Income (Mod) units, the net sales proceeds would instead be approximately $51,380,000. The sales proceeds are lower because the policy requires below market prices for some of the units. This reduction of $5.62 million amounts to an average of $624,444 less revenue per affordable unit, or $93,667 for each unit in the project. At the time of this analysis, Alameda's in lieu fee is $26,808 per unit in a building – though a project like our example project would not be eligible to pay the fee because the fee is allowed only for small projects (5 to 9 units).

On a per square foot basis the cost of including onsite BMR units in this example project is equivalent to $62.44 per net square foot in the project. In other words, including the required BMR units reduces the profitability of the project to the same degree as paying a fee of $62.44 would. Most builders would be neutral or even prefer a fee of $62.44 rather than include the BMR units.

The average cost of compliance per BMR unit masks very significant differences in the cost of units targeting different income groups. Moderate income town homes are restricted to a price of approximately $450,000 which means that for each one provided, the project forgoes $550,000 in potential gross revenue that they would have earned if they didn't have to comply with the inclusionary requirements. But, because the VLI incomes are so much lower, VLI buyers can only afford roughly $100,000 and the gross cost of providing a VLI BMR unit is almost $900,000.

Table 7: Cost of Compliance for BMR Townhomes

	Market Value	Affordable Price	Difference between Market Value and Affordable Price
50% of AMI	$1,000,000	$108,121	$891,879
80% of AMI	$1,000,000	$278,687	$721,313
110% of AMI	$1,000,000	$449,253	$550,747

Clustered Compliance

One strategy that several recent Alameda townhouse projects have used for managing the cost of compliance is to partner with an experienced nonprofit affordable housing developer to provide the required VLI and LI units. The terms of these deals vary significantly from project to project. In one example project, the market rate developer donated land with an approximate value of $50,000 per unit and made a cash contribution of $40,000 per required VLI or LI unit for a total contribution of $90,000 per affordable unit. This is dramatically lower than the cost of selling newly constructed townhomes at prices affordable to VLI or LI buyers. The nonprofit partners in these "clustered" projects are then able to leverage this contribution with state and federal

affordable housing resources to produce permanently affordable rental housing serving households that are generally even lower income than the 50% or 80% of AMI targeted by Alameda's ordinance. While this strategy may not work for a project as small as 60 units, where it has worked the result is that the cost of compliance overall falls dramatically and, somewhat counter-intuitively, the VLI and LI units end up costing the developer far less than the Moderate units. This is because there are no federal subsidy programs that target Moderate households.

These clustered projects meet (and sometimes exceed) the City's requirements in terms of the number of units and depth of affordability. And while the units that get produced are clustered into stand-alone buildings that are solely comprised of affordable units instead of integrated into market rate projects, the research on this topic supports the conclusion that as long as those affordable buildings are in the same neighborhoods as the new market rate buildings, the lower income residents benefit just as much as they would otherwise. Nearly all of the benefits from economic integration come from integrating neighborhoods with very little additional benefit coming from integrating specific buildings. One significant tradeoff is that, with this approach, the BMR units are all rental units even when the market rate projects provide ownership opportunities. Another consideration is that this strategy essentially relies on using state and federal subsidy to reduce the cost of compliance.

Midrise Rental

The cost of compliance for a typical midrise (5 to 7 story) rental project is analyzed below using a hypothetical project with 300 units on a 3.0-acre site. We assumed that the project would include a mix of unit sizes with an average size of 828 square feet and an average rent of roughly $3,200 per month.

Table 8: Midrise Rental Unit Assumptions

	Studio	**1 bedroom**	**2-bedroom**
Unis Size	600	860	1,100
# of Units	91	150	59
Market Rate Rent	$2,490	$3,422	$3,900
Rent per Square Foot	$4.15	$3.98	$3.55

In order to estimate the cost of compliance with Alameda's ordinance, we calculated the 'capitalized value' of the project with and without affordable units. The capitalized value is the expected Net Operating Income (rent minus operating expenses) divided by a capitalization rate (Cap Rate). Consistent with other recent market studies we

reviewed, we assumed a cap rate of 5.5%. This approach provides a rough estimate of what an investor would be willing to pay for a property with a given level of annual cash flow under current capital market conditions. For our hypothetical 300-unit project, we estimated a value of $164,490,000 if the building could be leased without any BMR units. Including 15% affordable units (4% VLI, 4% VLI and 7% Mod reduces the annual cash flow which, in turn, reduces the amount that an investor would likely pay for the property to roughly $159,400,000. This reduction of $5.1 million represents a cost of $113,111 per BMR unit or $16,967 per unit in the building. On a per net square foot basis the cost of compliance is $17.41.

The cost of compliance for rental projects is so much lower than ownership projects because market rents in Alameda are much closer to the affordable rents than market sale prices are to affordable sale prices. This is consistent with the idea the homebuyers are willing to pay a significant premium to live in Alameda relative to renters.

Clustered Compliance

The clustered compliance options (cooperating with a non-profit developer to provide the VLI and LI units in a separate building) also offers some financial benefit for developers of rental projects, but because the basic cost of the onsite compliance option is so much lower for rental projects, the relative savings from clustering is much lower. We estimated, again based on very limited data on recent projects in Alameda, a cost of $90,000 per affordable unit including donated land and a modest cash contribution for a clustered project. This is only slightly below our estimate of $113,111 per BMR unit for onsite compliance for rental projects.

Estimates for the Cost of Alternative Compliance Options

In order to provide recommendations for potential alternative compliance options or requirements, we used our example proformas to compare the cost of various options. Because market conditions are currently resulting in most project types being infeasible, we can’t calculate an onsite requirement or in lieu fee level that would be feasible. What we can do is consider whether potential alternatives would be more expensive, less expensive or comparable to the cost of the current requirements. The current requirements result in costs that are relatively small as a percentage of the total development cost. We assume that once market conditions improve for development more generally, the cost of the current or comparable requirements will not pose a significant barrier to financial feasibility for most projects, though it may be worth

studying that assumption further once development conditions improve. In considering alternatives at this moment, we have tried to focus on options that will be roughly comparable in cost to the current requirements for most typical projects.

Rental Projects

Income Targeting Alternatives

Several local stakeholders have pointed out that, particularly for rental projects, the moderate income BMR units are priced very close to market rate rents. This causes two significant problems. First, it becomes challenging to lease regulated units if they are not offering tenants a significant savings relative to market rents. This is because the paperwork for verifying income qualification can be challenging for both tenants and property management staff. Perhaps more importantly, it is not clear that there is a significant public benefit that results from regulating units that are serving households that can easily find unregulated units at a comparable price. There may be long term benefit from regulating these units over time if market rents eventually rise above this level. However, the City may find more public benefit from requiring fewer units but targeting them to the more deeply affordable levels (50% and 80% of AMI).

For rental projects, we tested the likely cost of compliance for four different alternatives. For projects like our example rental project the current requirements result in a cost of compliance equivalent to $17.41 per net square foot.

A. We considered an option where all of the 15% onsite rental units would be targeted at households earning 80% of AMI. A program that required 15% of units to be affordable at 80% of AMI would impose a cost slightly higher than the cost of the current program. *Estimated compliance cost: $19.72 per foot*.

B. We also tested two options that served both the LI and VLI groups for a comparable cost. We considered a policy that would require 10% affordable units with 5% at 50% of AMI and 5% at 80% of AMI. *Estimated compliance cost: $19.79 per foot*.

C. As a more closely comparable option, we considered a policy that required 4% of units at 50% of AMI and 6% of units at 80% of AMI (for a total of 10%) would have a cost that was only 5% higher than the current 15% option. *Estimated compliance cost: $18.23 per foot.*

D. We considered an alternative that included the same 4% VLI and 4% LI that are currently required but instead of an additional 7% at 110% of AMI we included 4% affordable at 100% of AMI. By including slightly fewer Moderate-income units, and lowering rents to the lower end of the moderate range the program would be more likely to benefit households that are currently struggling to access housing in Alameda. Capped at 100% AMI the Moderate BMRs would be more likely to be meaningfully below market. *Estimated compliance cost: $16.28 per foot.*

Table 9: Compliance Options for Rental Development Projects

Criteria	**Current Ordinance**	**Option A**	**Option B**	**Option C**	**Option D**
Affordable Unit Requirement	15%	15%	10%	10%	12%
Affordable Unit Mix	4% Very Low 4% Low 7% Moderate	*No Very Low* 15% Low *No Moderate*	5% Very Low 5% Low *No Moderate*	4% Very Low 6% Low *No Moderate*	4% Very Low 4% Low 4% Median/Mod
Targeted Income Levels	50% AMI 80% AMI 110% AMI	80% AMI only	50% AMI 80% AMI	50% AMI 80% AMI	50% AMI 80% AMI 100% AMI
Estimated Developer Cost *(per net sf)*	$17.41/sf	$19.72/sf	$19.79/sf	$18.23/sf	$16.28/sf
Key Policy Consideration	Produces some below-market units but “moderate” units are close to market rents, limiting public benefit	Focuses all affordability at 80% AMI; slightly higher cost for developers	Balanced with deeper affordability, despite fewer affordable units; costs similar to Option A and higher than Option C or D.	Balanced with deeper affordability, despite fewer affordable units; $18.23 is ~5% more expensive than current requirement, lower costs	Least expensive; shifts moderate units to 100% AMI, producing rents meaningfully below market

Criteria	Current Ordinance	Option A	Option B	Option C	Option D
				than option A or B.	

In Lieu Fees

We considered two options for potential in lieu fees. The City already has an in-lieu fee of $26,808 per unit (all units in a building), but this fee is currently only available to projects with 9 or fewer units. For the sake of comparison, we calculated the total compliance cost for a 300-unit project if it were allowed to pay an in-lieu fee at this level. For projects like our example, the current fee equates to roughly $27.50 per net square foot which is $10 per square foot above our estimate of the cost of onsite compliance with current requirements. Because the cost of onsite compliance depends on the rent level and size of market rate units and because of the logistical demands of managing BMR units, it is likely that many rental project developers would prefer to pay this fee even though it appears significantly higher in our example.

Several members of the working group expressed a desire to allow an in-lieu fee for rental projects but to design the programs so that most rental projects would select the onsite compliance option. In order to achieve that goal, it may be necessary to set the in-lieu fee for larger projects at a level significantly higher than the current small projects fee. We tested a fee that was 25% higher than the current small project fee: $35 per square foot (or $34,113 per unit for our example project). At this level the total cost of compliance for a large project selecting the fee would be nearly double the cost of onsite compliance but still well below the cost of complying with the affordable housing requirements in Oakland or Berkeley. Our experience in other jurisdictions suggests that at this level, the majority of rental project developers would choose the onsite performance option but occasionally developers would find it beneficial to pay the fee instead and having this additional option would help those more rare projects move forward. By offering the fee option, the City would be in a position to accumulate a fund that could be put toward development with partners who can access other sources of funding to develop and manage separate projects with targeted outreach, on-site services, and long-term commitments to the success of the project.

Table 10: Comparison of Compliance Cost for Rental Alternatives

	Capitalized Value	Cost of Compliance	Per Affordable Unit	Per Unit in the Building	Per NSF
All Market rate	$ 164,490,000				
Current Onsite Affordable (4%, 4%, 7%)	$ 159,400,000	$ 5,090,000	$ 113,111	$ 16,967	$ 17.41
Clustered	$ 164,490,000	$ 4,050,000	$ 90,000	$ 13,500	$ 13.85
Potential Alternatives					
15% at 80% of AMI	$ 158,723,632	$ 5,766,368	$ 128,142	$ 19,221	$ 19.72
5% AT 50% of AMI + 5% at 80%	**$ 158,703,058**	**$ 5,786,942**	**$ 192,898**	**$ 19,290**	**$ 19.79**
4% at 50% of AMI + 6% at 80%	$ 159,131,251	$ 5,358,749	$ 178,625	$ 17,862	$ 18.33
4% at 50% + 4% at 80% + 4% at 100%)	$ 159,728,686	$ 4,761,314	$ 132,259	$ 15,871	$ 16.28
Current In Lieu Fee (if allowed)	$ 164,490,000	$ 8,042,400		$ 26,808	$ 27.50
Alternative In Lieu Fee	$ 164,490,000	$ 10,234,000		$ 34,113	$ 35.00

Ownership Projects

Because the costs of compliance are so different for ownership projects, we considered a different set of alternatives for ownership projects.

Income Targeting Alternatives

Based on feedback from local stakeholders, we considered alternative requirements that would produce a greater number of affordable units but with all the units targeting moderate income households (110% of AMI, same as the current program).

A. We calculated the maximum share of Moderate-Income units that could be required for a total cost of compliance that was comparable to our estimate for the cost of the current requirements for a hypothetical 60-unit townhouse project. We found that a requirement of 18% Moderate Income had a cost closest to the cost of current requirements ($63 per foot compared with the current cost of $62 per foot for our example project).
B. We also tested 20% Moderate Income (the next largest round number) and found that at this level the cost of compliance would be $69 per foot (10% higher than the current 15% on-site inclusionary requirement).
C. Lastly, we tested an option that required 15% of units be affordable with 5% low income (80% of AMI) and 10 percent Moderate Income (110% of AMI). This option was estimated to cost $57 per foot, a slight reduction in the cost of onsite compliance.

Table 11: Compliance Options for Rental Development Projects

Criteria	Current Policy	Option A	Option B	Option C
Affordable unit requirement	15%	18%	20%	15%

Criteria	**Current Policy**	**Option A**	**Option B**	**Option C**
Affordable Unit Mix	4% VLI, 4% LI, 7% MOD	18% MOD	20% MOD	5% LI 10% MOD
Targeted Income Levels	Mix	110% AMI only	110% AMI only	5% at 80% AMI + 10% at 110%
Estimated Developer Cost *(per net sf*	$62/sf	$63/sf	$69/sf	$57/sf
Key Policy Considerations	Baseline: balanced mix, but current MI units priced close to market; moderate cost burden	Maximizes number of units at comparable cost to today; all MOD at 110% AMI, but no deeper affordability	Produces the greatest number of affordable units but cost is ~10% higher than current	Least costly option for developer; adds some LI units at 80% AMI; fewer MOD units; targets better affordability

Aside from the relative cost to the developer, the City should consider the positive and negative public policy outcomes of requiring lower income ownership opportunities. Anecdotally, we heard from the working group that the VLI and LI ownership units were potentially difficult to find qualified buyers for who could provide the necessary down payment and that some found it difficult to meet on-going costs of ownership, while it also provides a meaningful opportunity to participate in the opportunity afforded home owners to have stability and equity.

In Lieu Fees

We also considered several alternatives for potential in lieu fees for ownership projects. For townhouse projects like our example, we found that the current in lieu fee for small projects (if allowed for larger projects) would result in a cost per net square foot of $17.87. This is very far below the cost of onsite compliance for ownership projects. We also evaluated the $35 per square foot fee we considered above for rental projects as well as a fee of $50 per net square foot. Even at $50 per square foot, the fee would be more attractive to developers than the current 15% onsite option which costs the equivalent of $62.44 for our example project. While a fee at this level could generate significant revenue that the City could use to produce significantly more affordable units

than would have resulted under the onsite option, it is important to note that many recent projects have used the clustered option to achieve far lower costs and it is possible that the full cost of providing 15% BMR units in an ownership project may be large enough to impact feasibility if the clustering option is no longer available.

Table 11: Comparison of Compliance Cost for Ownership Alternatives

	Capitalized Value	Cost of Compliance	Per Affordable Unit	Per Market Unit	Per NSF
All Market rate	$ 57,000,000				
Onsite Affordable (4%, 4%, 7%)	$ 51,380,000	$ 5,620,000	$ 624,444	$ 93,667	$ 62.44
Clustered	$ 57,000,000	$ 810,000	$ 90,000	$ 13,500	$ 9.00
Potential Alternatives					
18% at 110% of AMI	$ 51,318,894	$ 5,681,106	$ 631,234	$ 94,685	$ 63.12
20% at 110% of AMI	$ 50,802,430	$ 6,197,570	$ 688,619	$ 103,293	$ 68.86
15% (5% at 80%, 10% at 110%)	**$ 51,865,708**	**$ 5,134,292**	**$ 570,477**	**$ 85,572**	**$ 57.05**
Current Fee (if allowed)	$ 57,000,000	$ 1,608,480	$ 178,720	$ 26,808	$ 17.87
Alternative In Lieu Fee ($35/foot)	$ 57,000,000	$ 3,150,000	$ 350,000	$ 52,500	$ 35.00
Alternative In Lieu Fee ($50/foot)	$ 57,000,000	$ 4,500,000	$ 500,000	$ 75,000	$ 50.00

Recommendations

This section summarizes recommendations for four key updates to the City of Alameda's inclusionary housing program. These recommendations are intended to address the policy issues identified by the Housing Element and the interdepartmental working group. The recommendations are informed by best practices, policy trends and financial analysis of development.

RECOMMENDATION ONE. Adjust Income Requirements Based on Current Housing Needs and Market Conditions.

Rental on site compliance:

Focus rental onsite compliance options on low and very low-income households to ensure that BMR units offer meaningful affordability opportunities.

As discussed above, most moderate-income households can afford housing in the private market today. Therefore, moderate income BMRs, if permitted should be limited to 100% AMI.

Rental compliance options should maximize the number of required BMR units, while ensuring the overall requirements do not significantly increase the costs of compliance.

Program 7 of the Housing Element stated an intention to both maintain a 15% BMR requirement and eliminate the 7% moderate income requirement. It is not possible to achieve both of these objectives and keep the cost of compliance fairly constant with the current program. This is because the developer subsidy necessary to provide moderate income BMR units is fairly low, because moderate (120% AMI) rents are close to market. The subsidy for 4% moderate units (120% AMI) is roughly equivalent to the subsidy for only 2% low-income units.

Requiring 15% of units at VLI and LI income levels would significantly increase the cost of compliance for the typical rental project, potentially halting new rental development.

Ownership on site compliance.

Focus ownership onsite compliance options on households that can more readily qualify for homeownership – including downpayment savings, HOA fees and ongoing property maintenance. Most programs in the Bay Area have ownership programs with 80% and/or 120% AMI.

Regulatory guidelines should require that affordable units always be priced to be at least 15% below market prices for comparable units in the project.

Ownership compliance options should be both financially feasible and also most able to meet the needs of households in Alameda.

RECOMMENDATION TWO. Expand the availability of the in-lieu fee option but continue to encourage on site production.

Continue to offer a ‘small projects in lieu fee’ at the current level for projects with 9 or fewer units.

Add two new in lieu fee options for projects with 10 or more units. Consider feasibility when setting in lieu fee rates. Consider any transaction cost savings developers may realize when designing an in lieu fee option. Note that a project’s tenure meaningful impacts feasibility. Establish unique in lieu fees for rental and ownership projects.

Allow projects that select the on-site option to pay the fee for any fraction of the onsite requirement that is not satisfied with onsite affordable units. Adjust all the fees annually based on the annual rate of change in the Construction Cost Index published by Engineering News Record for the San Francisco Bay Area.

Setting the fees at the proposed levels will effectively encourage rental housing developers to favor the onsite option, which would be less expensive for most typical rental projects. But even with a higher per square foot fee for ownership, the proposed fee levels would encourage many ownership projects to pay the fee, enabling the City to reinvest these funds to leverage state and federal funding and construct substantially more affordable housing units serving deeper affordability levels than would be provided if ownership projects chose the onsite option.

Allowing mixed compliance would make it possible for developers to pay a fee rather than rounding up for fractional units (i.e. 10% of a 22-unit project would be 2.2 units and a developer could provide 2 units and pay the fee equivalent to 0.2%). Developers could also choose to provide 5% of units onsite and pay a fee equivalent to 5% of the project.

Adjusting fees based on the Construction Cost Index ensures that over time the fee option keeps up with the cost of providing units onsite and for funding the replacement units in off-site clustered development.

RECOMMENDATION THREE: Establish clear and objective criteria to guide approval of each project developer's election to provide clustered units.

This recommendation intends to continue and strengthen the clustered compliance option but gives the City more direct control over when this option is allowed. There is a risk that if too many projects select this option, Alameda could end up with more sites that are set aside for 100% affordable housing than the level of state and federal funding could realistically support. Before approving new clustered projects, the City needs to ensure that necessary outside sources of subsidy are likely to be available to complete the proposed project.

The Planning Board or City Manager should have the authority to approve a cluster project with consideration of the following criteria:

- Input from Housing and Human Services on the affordable housing plan.
- Input from the Alameda Housing Authority on the affordable housing plan.

- Consider the likely competitiveness of the clustered project to secure state and federal funding, including the pipeline of proposed affordable housing projects in the City that are currently planning to pursue these funding sources.
- Require the combined value of donated land and cash contribution be equivalent in value to the in-lieu fee that would otherwise be required.
- Ensure that an equal or greater number of affordable units are feasible on the site.
- Limit cluster options to projects that will enable at least 75 units of affordable housing to ensure the resulting project is reasonably cost efficient.

RECOMMENDATION FOUR: Increase the required period of affordability to 99 years or the life of the project.

This recommendation intends to ensure that the BMR units provide maximum public benefit with extended affordability requirements. This requirement does not meaningfully increase the cost of compliance but does meaningfully increase the public benefits of the BMR program.

The Planning Department should consult with the City Attorney's Office before selecting between 99 years and the life of the project. If 99 years is selected, deed restrictions should indicate that the 99-year timeline would reset each time a project is sold or otherwise transferred.

Appendix. Summary of Compliance Options

Compliance Option	Ownership	Rental
Onsite Inclusionary Units	Focus program on affordability levels where households can readily achieve other homeownership qualifications. Remove VLI homeownership. Focus on households ranging from 80% to 120% of AMI. Pursue options that are thought to have cost of compliance relatively similar to the current requirements.	Focus the program on households that can not otherwise find affordable housing on the private market. Specifically prioritize households at 80% AMI or below. If moderate income households are included, limit housing to 100% AMI. Pursue options that are thought to have cost of compliance relatively similar to the current requirements.
In Lieu Fee	Maintain the current requirements for smaller projects (5 – 9 units). Establish an in-lieu fee option for larger rental projects that is close but not equal or lower than the costs of providing onsite affordable rental units.	Maintain the current requirements for smaller projects (5 – 9 units). Establish an in-lieu fee option for larger rental projects that is close but not equal or lower than the costs of providing onsite affordable rental units.
Clustered Option	Establish standard procedures. ● Require approval by the City manager, with advice from HHS and AHA. ● Consider land and competitiveness for leveraged dollars. ● Require equivalency (land plus cash, as necessary, to match in lieu fee amount).	
Period of Affordability	99 years, or life of the project.	