



Chapter 2A Calculation of Ownership/For-Sale In-Lieu Fees - Section 18.37.050 (B)

This attachment to the Guidelines describes the method utilized in calculating the For-Sale In-Lieu Fee. The figures below reflect the In-Lieu Fee through Fiscal Year 2023-2024, effective July 18, 2023.

City of East Palo Alto	
Ownership/For-Sale Housing In-Lieu Fee Calculation*	
Affordable Price for 100% AMI Household	\$537,000**
Market Sales Price (3-Yr SMC Association of Realtors Average)	\$792,000
Gap for In-Lieu Fee (100% AMI)	\$255,000 per unit
2% Increase Due to Delay	\$5,000 per unit
Ownership/For-Sale In-Lieu Fee	\$259,600 per unit

*Figures are rounded in this chart, but not in the actual calculation. Ownership/For-Sale In-Lieu Fee rounded to nearest hundredth.

**Note change in methodology to average three-year interest rate for loan term.

Illustrative Calculation for the For-Sale In-Lieu Fee for FY 2023-24

I. Annual 100% San Mateo County Income Limit for a 2 and 3-Person Household

2-Person Household 100% AMI	3-Person Household 100% AMI
\$140,000	\$157,500

The final calculation in Section II below will reflect a household size of 2.5. This will be a weighted average, where the 1-bedroom sales price is weighted as 23% of the total and the 2-bedroom sales price is weighted as 77% of the total based on the assumed distribution of dwelling units by bedroom count in the prototype (See Table A-2 in Attachment 2, Condominium column).



II. Calculation of the Annual and Monthly 100% Affordable Payment

2-Person Household 100%AMI	3-Person Household 100%AMI	Explanation
\$140,000	\$157,500	100% of AMI for 2.5-person household
<u>X .30</u>	<u>X .30</u>	Affordable housing cost not to exceed 30% of annual income
= \$42,000	= \$47,250	Maximum affordable payment
Divided by 12	Divided by 12	
= \$3,500	= \$3,938	Maximum monthly affordable payment

III. Assumptions to Calculate the Affordable Housing Cost for the For-Sale In-Lieu Fee

After the initial adoption of In-Lieu Fees, which were effective through Fiscal Year 2021-22, the following elements of the affordable housing cost calculation will be assumed each year, based upon relevant data pertaining to each. These elements will be determined by referencing industry standard sources. For Fiscal Year 2023-24, the Housing Division has determined the following values:

ITEM	VALUE	RATIONALE/DATA SOURCE	DATE SET
Interest Rate	4.12%	Freddie Mac Primary Mortgage Market Survey (PMMS) http://www.freddiemac.com/pmms/pmms_archives.html	3-Year Average, first week of January
Down Payment	5%	Industry standard/David Rosen & Associates	NA
Property Tax/Special Assessments	1.2%	David Rosen & Associates	NA



Homeowner Associations Dues (HOA)	\$200	Average of monthly HOA dues for prototypical developments in East Palo Alto/David Rosen & Associates	Annually, first week of January
Utilities	\$230-288	Weighted average of monthly estimated utility costs for County of San Mateo Housing Authority (by bedroom count)	Annually, first week of January
Property Insurance	\$100	Includes homeowners insurance (fire, hazard, etc.)/David Rosen & Associates	NA

IV. Determination of Purchase Related Costs & Affordable Monthly Mortgage Payment (The figures used in this section are based upon the above chart)

2-Person Household 100% AMI	3-Person Household 100% AMI	Explanation
Maximum monthly affordable payment of \$3,500 less:	Maximum monthly affordable payment of \$3,938 less:	See Part II above
[-] \$788	[-] \$792	Property taxes and assessments (per month) 1.2%
[-] \$200	[-] \$200	Homeowner's association dues (per month) \$200
[-] 230	[-] \$288	Utility allowance (per month)
[-] \$100	[-] \$100	Property insurance (per month)
[-] \$1,318	[-]\$1,380	Subtract the sum of all housing related expenses
= \$2,182	=\$2,558	Remaining amount for maximum monthly mortgage payment



V. Determination of Affordable Housing Cost (aka Maximum Sales Price)

The maximum sales price is calculated by adding the maximum monthly mortgage payment amount to the assumed down payment that will be contributed by the borrower. The maximum mortgage amount will be based on a fixed rate, 5% down, fully amortizing, widely available owner-occupied loan, and the above calculated maximum monthly mortgage payment allowable. The calculation functions as follows:

2-Person Household 100% AMI	3-Person Household 100% AMI	Explanation
4.12%	4.12%	3 yr avg interest rate, 30 yr loan term
\$2,182	\$2,558	Maximum monthly mortgage payment allowed
\$450,500	\$528,100	Maximum mortgage amount
\$23,700	\$27,800	Assumed downpayment (5%)
\$474,200	\$555,900	Maximum affordable sales price
\$537,000 affordable sales price for 2.5-person household (rounded to nearest thousandth)		Weighted average based on condominium prototype

This amount is known as the “Affordable Housing Cost” for the purpose of determining the for-sale in-lieu fee amount for FY 2023-24.

VI. Calculation of the Annual Median Sales Price

The market-rate sales price is based on a weighted 3-year average of median home prices in San Mateo County provided by the San Mateo County Association of Realtors. This calculation is shown below.

- 1) First, utilize information provided by the San Mateo County Association of Realtors to determine the annual median sales price of an attached market rate unit (condominiums) for the most recent completed year and for the two prior years.
- 2) Utilizing the median sale price for each 12-month period, the Housing Department will calculate the median sale price over the past 36-month period.
- 3) Below is the current estimate based on sales from calendar years 2020-2022.



Median Home Prices		
City of East Palo Alto 2020-2022		
Year	Median Price	# Sales
Single Family		
2020	\$935,000	67
2021	\$1,021,000	122
2022	\$1,062,500	90
Weighted Average	\$1,014,000 (rounded to nearest thousandth)	
Condominium		
2020	\$826,000	13
2021	\$767,500	16
2022	\$788,000	17
Weighted Average	\$792,000 (rounded to nearest thousandth)	

This amount is known as the “Median Sales Price Calculation” for the purpose of determining the for-sale in-lieu fee amount for FY 2023-24.

VII. In Lieu Fee Additional Charges

The Ordinance also allows the Housing Department to collect an administrative fee account for the estimated costs of administration. This administrative fee may be levied as part of the In-Lieu Fee or as a separate charge. In addition, the In-Lieu Fee can account for the estimated cost of increases in the price of housing and construction between payment and the acquisition of land and construction of affordable units.

At this time, the In-Lieu Fee described in this document does not include an administrative fee in the calculation. However, the In-Lieu Fee amount shown at the beginning of this Chapter will include a 2% increase to account for the delay between payment and construction of affordable dwelling units, as illustrated in Section VIII.



VIII. Calculation of the For-Sale In-Lieu Fee

Calculate the For-Sale In-Lieu Fee by subtracting the Maximum Affordable Price (Step V) from Median Sales Price Calculation (Step VI). The In-Lieu Fee shall be collected on twenty percent (20%) of the total dwelling units in the Residential Development.

Median Sales Price Calculation (Section VI):	\$792,000		-
			-
Affordable Housing Cost (Section V):	<u>\$537,000</u>		=
			=
Difference:	\$255,000		+
			+
In-Lieu Fee Additional Charges:	<u>\$ 0</u>		+
[Administrative Fee]			+
[2% Increase Due to Delay]	<u>\$5,000</u>		=
			=
In-Lieu fee Per Inclusionary Unit	259,600		

Please see the calculation below using an example Residential Development project containing 100 dwelling units:

Total Number of Dwelling Units:	100		X
			X
Multiplied by 25%:	<u>.25</u>		=
			=
Units required to pay In-Lieu Fee:	25		X
			X
In-Lieu Fee per Inclusionary Unit:	\$ <u>259,600</u>		=
			=



In-Lieu Fee for a Residential Development of **\$ 6,490,000**
100 Dwelling Units: