

Methodology for Moderate-income Unit Analysis – 2019 Housing Element Annual Report

The purpose of this analysis is to determine if market rate apartments can reasonably be categorized as moderate income for RHNA reporting purposes. Our hypothesis is that some class A rental units that pulled building permits in 2019 will be affordable to moderate-income households in approximately 2021 when they are completed and occupied. The analysis consists of the following steps:

Method A: Trending

- 1. Determine what rent ranges will be affordable to 110% AMI households when buildings are completed:**
 - a. Calculate rent ranges that would be affordable to moderate-income households using current (2019) HCD Income Limits and assuming a rent of no more than 30% of 110% of Area Median Income as the affordability standard for rent plus a reasonable utility allowance, per the California Health and Safety Code.
 - b. Convert rent range from household size to rents by # bedrooms, using HCD Occupancy Guidelines of one per bedroom plus one. Assign rent maximum by unit type (studio, 1BR, 2 BR etc.)
 - c. Survey a small number of new apartment buildings in a variety of zip codes, including those in areas with building permits issued in the current year. Determine set of utilities typically paid by tenants. Using the Santa Clara County Housing Authority current (2019) utility allowance schedule for multifamily buildings, determine the cost of the typical set of utilities for each unit size by bedroom, and deduct it from the allowable maximum rent plus utility payments for each unit size determined in step 1b, per HCD guidance, to get the maximum rent payment for each unit size.
 - d. Adjust these rent ranges to approximate what they would be in 2 years when these units are built and occupied by applying the average % change that HCD Income limits have experienced over the last 2 annual cycles (2017 to 2018 and 2018 to 2019).
- 2. Identify 2019 Permitted Housing Projects > = 10 units:**
 - a. Obtain CY2019 Residential Building Permits Issued for projects with 10 or more units. Exclude potential ownership projects and affordable projects.
 - b. Identify Zip Codes of the projects.
- 3. Identify Zip Codes where average effective rents (by unit size) are at/below the moderate-income rent range:**
 - a. Use Costar to identify Q4 2019 Class A average effective rents (by bedroom size) for market-rate projects in SJ, for the zip codes identified in #2 above.
 - b. Adjust average effective market rate rents to approximate what they will be in 2 years when these units are occupied by applying the % change in average effective rent observed in each zip code over the last 2 years.
 - c. Identify target zip codes where adjusted average effective rents, by bedroom count, are at or below the rent ranges calculated in step 1.
- 4. Collect unit mix data and identify the units affordable to moderate income households:**

- a. Identify the # of units by bedroom size, in each of the qualifying projects in the qualifying zip codes, per 3 above.
- b. Count only those units, by bedroom size, that are equal to or less than the HCD rent ranges calculated and extrapolated in step 1.

Method B: Current Rents & Incomes

Method B is similar to Method A, but without the use of any rent or income trending. Developments that today would meet moderate-income rent definitions are counted.

1. Determine rent ranges affordable to 110% AMI households:

- a. Calculate rent ranges that would be affordable to moderate-income households using current (2019) HCD Income Limits and assuming a rent of no more than 30% of 110% of Area Median Income as the affordability standard for rent plus a reasonable utility allowance, per the California Health and Safety Code.
- b. Convert rent range from household size to rents by # bedrooms, using HCD Occupancy Guidelines of one per bedroom plus one. Assign rent maximum by unit type (studio, 1BR, 2 BR etc.)
- c. Survey a small number of new apartment buildings in a variety of zip codes, including those in areas with building permits issued in the current year. Determine set of utilities typically paid by tenants. Using the Santa Clara County Housing Authority current (2019) utility allowance schedule for multifamily buildings, determine the cost of the typical set of utilities for each unit size by bedroom, and deduct it from the allowable maximum rent payments for each unit size determined in step 1b, per HCD guidance.

2. Identify 2019 Permitted Housing Projects > = 10 units:

- a. Obtain CY2019 Residential Building Permits Issued for projects with 10 or more units. Exclude potential ownership projects and affordable projects.
- b. Identify Zip Codes of the projects.

3. Identify Zip Codes where average effective rents (by unit size) are at/below the moderate-income rent range:

- a. Use Costar to identify Q4 2019 Class A average effective rents (by bedroom size) for market-rate projects in SJ, for the zip codes identified in #2 above.

4. Collect unit mix data and identify the units affordable to moderate-income households:

- a. Identify the # of units by bedroom size, in each of the qualifying projects, per 3 above.
- b. Count only those units, by bedroom size, that are equal to or less than the HCD rent ranges calculated and extrapolated in step 1.

Final Step: To be more conservative, select the lower number of units from Method A or Method B.