



MEMORANDUM

TO: Molly O'Donnell, Housing and Community Investment Division Director

FROM: Kaileen Whaley, Affordable Housing Specialist

DATE: October 10, 2023

RE: Inclusionary Housing Program Fee-in-Lieu Methodology and Calculation

The Inclusionary Housing Program requires that new residential developments provide 12% of total residential for-sale units as affordable for purchase by households with incomes at or below 80% of the Area Median Income (AMI). This quantity may be achieved either by providing the units directly, by provision of land to support such quantity, or by payment of a fee-in-lieu of constructing the units. This memorandum explains the quantification of the fee-in-lieu.

For-Sale Product Methodology and Fee-in-Lieu:

The methodology for this fee, known as the Modified Market-Affordability Gap approach, is based on the difference between the market price of new construction for-sale housing in Longmont and the price that would be affordable new construction with an income level of 80% AMI, in accordance with the City of Longmont's maximum sales prices. This approach is a comparable substitute for the provision of affordable units because it would provide the means necessary for the City to purchase a market priced unit and resell the unit at an affordable price. The "gap" in those two prices is distilled based on property sales records into a proportionate amount per square foot of housing. Because it is applied on a square footage basis, this fundamental methodology applies equally well to single- and multi-family units, as well as to for-sale and rental units.

The market price for for-sale housing in Longmont is defined as the median price of new construction homes sold in Longmont over the prior 12 months. This set of home sales data provides Median Home Price. Median Home Size and Number of Units. Number of units is filtered to the reported total number of units purchased for the first time during the prior 12 months. In times of extraordinary economic downturn, adjust the filter to the prior 24-months if the unit count is minimal, subject to determination of need for this modified calculation by City staff. These home sales are divided into three categories: single-family, townhomes and duplexes, and condominiums. These were the most common datapoints in the available record and the least likely to allow anomalies to skew the results.

During the 12 months prior to this analysis, 40 single-family homes, 8 duplex and townhome units, and 2 condos were built in Longmont.

	Single Family	Duplex/Townhomes	Condos
Median Home Price (New Construction)	\$702,495.00	\$552,462.00	\$465,613.00
Number of Units	40	81	2
Median Home Size (sq.ft)	2167	1701	1530

The Affordable Sales Price is defined as a 3-bedroom, 80% AMI unit, in accordance with the City of Longmont's maximum sales prices. At the time of this analysis, the 2022 maximum sale prices were used. The City's maximum



sale price calculation generates sales prices based on the number of bedrooms and unit structure (attached and detached) for units of any age; therefore, an average affordable sale price was used to generate the duplex and townhome affordable sales price.

Subtracting the Affordable Sales Price from the Median Home Price yields the Gap, which is \$293,093.00 for single-family homes, \$173,765.50 for townhomes and duplexes, and \$117,622.00 for condominiums. Dividing the Gap by the Median Home Size yields the Cost per Square Foot. This amount, which is \$135.25 for single-family homes, \$102.15 for townhomes and duplexes, and \$76.88 for condominiums, represents the additional cost per square foot over the Affordable Sales Price.

As mentioned above, the requirement of the Inclusionary Housing Program is that 12% of the units be provided as affordable housing. This fee, provided in lieu of that housing, only needs to cover 12% of the total units. However, for ease of calculation, the fee has been calculated so that it applies to the total finished square footage, based on the median finished square feet of units in the dataset. This is accomplished through application of the associative property of multiplication, wherein the cost per square foot multiplied by 12% of the total finished square feet is equivalent to 12% of the cost per square foot multiplied by the total finished square feet. For this reason, line 7 below is calculated as 12% of the cost per square foot in line 6. This yields \$16.23 for single-family homes, \$12.26 for townhomes and duplexes, and \$9.23 for condominiums. These costs are combined by use of a weighted average to establish a single fee that is applicable to both housing types, to be applied to the total finished square footage for the unit or development.

TABLE 1 (Fee Calculation for For-Sale Units):

		Single Family	Townhomes Duplexes	Condos
1	Median Home Price	\$702,495	\$552,462	\$465,613
2	Number of Units	40	81	2
3	Affordable Home Sale Price 80% AMI	\$409,402	\$378,696.50	\$347,991
4	Gap	\$293,093	\$173,765.50	\$117,622
5	Median Home Size (sq. ft.)	2,167	1,701	1,530
6	Cost per sq. ft.	\$135.25	\$102.15	\$76.88
7	12% Affordable Housing Unit Requirement	\$16.23	\$12.26	\$9.23
8	Payment-in-Lieu per total finished square foot			\$13.50

Rental Product Methodology and Fee-in-Lieu:

The fee-in-lieu applicable to rental units is calculated using the same Modified Market-Affordability Gap approach but based on rental market data. Specifically, a rental rate by year built by each decade, unit size in square feet for market rate 2-bedroom units is collected. At the time of this analysis, this amount was \$1,948 per month for an average 1,100 square-foot unit.

The “Affordable Unit” is represented by converting the CHFA rent limit for a 2-bedroom unit at 60% AMI, which is the affordability target for rental units. At the time of this analysis the 2022 CHFA rent limits were used, therefore the rental limit was \$1,693.

These rental rates are converted to rental unit values using the Gross Rental Multiplier valuation method, where annualized rent is multiplied by a regionally specific Gross Rental Multiplier (GRM) to arrive at a value. The GRM is observed from recent applicable sales of multi-unit properties where the average rental rate for the property is known. Per data received from Apartment Insights, Inc., the derived GRM was 17.77. Because the costs of ownership, such as major system replacement, are not borne by the residents in rental units, the construction date of the property is not relevant in this data set.

As shown in Table 2 below, both the rental rates are multiplied by 12 to determine the annual rent. The annual rents are multiplied by the GRM to determine the value of a unit rented at the market rental rate and at the CHFA Rent limit for households at 60% AMI.

TABLE 2 (Rental Unit Valuation):

2-bedroom Rental units / All Property Construction Dates			
		Market Rental Rate	CHFA Rent Limit @ 60% AMI
1	Monthly Rent Amount	\$1,948	\$1,693
2	x Months/Year	12	12
3	Annual Rent Amount	\$23,376	\$20,316
4	x Gross Rental Multiplier	17.77	17.77
5	Rental Unit Value	\$415,312	\$360,946

Once these values are determined, the methodology is the same as for for-sale units, as shown in Table 1. The Affordable Unit Value of \$360,946 is subtracted from the Market Unit Value of \$415,312 (line 1) to determine that there is a gap of \$54,366. This is then divided by the median size of a market unit, 1100 square feet. The resulting cost per square foot is \$49.43. Multiplying this amount by 12% results in a fee of \$5.93, which is applicable to all units in a development of rental housing.

TABLE 3 (Fee Calculation for Rental Units):

1	Market Unit Value	\$415,312
2	Affordable Unit Value	\$360,946
3	Gap	\$54,366
4	Median Home Size (sq. ft.)	1,100
5	Cost per sq. ft.	\$49.43
6	12% Affordable Housing Requirement	\$5.93
7	Payment-in-Lieu per Total Finished Square Foot	\$5.93