



Office of the City Manager

ACTION CALENDAR

April 27, 2021

To: Honorable Mayor and Members of the City Council

From: Dee Williams-Ridley, City Manager

Submitted by: Jordan Klein, Interim Director, Planning and Development Department
Lisa Warhuus, Director, Health, Housing and Community Services
Department

Subject: City Affordable Housing Funds: Ashby and North Berkeley BART Station
Areas and Future Housing Funding Notices of Funding Availability (NOFA)

RECOMMENDATION

Adopt a Resolution to:

1. Provisionally reserve \$40 million of the City's Measure O bond funds as part of the \$53 million City subsidy needed to achieve 35% affordable housing at the Ashby and North Berkeley BART sites, and allow for a portion of funding (to be determined at a later date) to be considered for predevelopment;
2. Provisionally reserve at least \$13 million in future Affordable Housing Mitigation Fees, and/or a new source of revenue to be identified no later than 2024, in order to cover the balance of \$53 million City subsidy currently estimated to be needed for 35% affordable housing at the Ashby and North Berkeley BART sites, and allow for a portion of the funding (to be determined at a later date) to be considered for predevelopment;
3. Refer to the City Manager to investigate a new bond measure that could fund housing and/or infrastructure needs at the two BART sites and in the Adeline Corridor, or in the City as a whole, and to establish a timeline and community process for such a bond measure with a goal of maximizing affordable housing (up to 100%) at either or both BART sites; and
4. Release one or more NOFAs to support development of new affordable housing projects or rehabilitation of existing affordable projects, using Permanent Local Housing Allocation (PLHA) funds allocated for operating subsidies for homeless households and housing rehabilitation, HOME funds and the balance of City Housing Trust Funds, in combination with the balance of any remaining Measure O funds available from the second tranche; and using the Housing Trust Fund Guidelines and operating subsidy guidance established by staff, and reviewed by the Housing Advisory Commission.

SUMMARY

Spurred by the requirements of Assembly Bill 2923 and the opportunity to achieve mutual objectives of creating housing, including substantial amounts of deed-restricted affordable housing adjacent to transit to help reduce greenhouse gas emissions, the City and BART have embarked on a process to redevelop the Ashby and North Berkeley BART station areas. The City Council and BART Board unanimously adopted a Memorandum of Understanding (MOU) in December 2019 and January 2020, respectively. The MOU lays out a process for community engagement, zoning, station access and affordable housing decisions, among other things.

In June 2020, the City and BART initiated the planning process for the Ashby and North Berkeley BART stations which will result in new zoning that conforms with AB 2923, a City and BART Joint Vision and Priorities document, and other elements for inclusion in the Request for Qualifications (RFQs) for developer(s). A critical milestone in this joint planning process is a City decision to “set aside sufficient funding to assure BART, in its sole discretion, that at least 35% of the housing units proposed to be constructed at the BART properties would be deed-restricted to low, very low and/or extremely low affordable housing” (City and BART MOU, Section IV.A). The timeframe for this decision by City Council is no later than April 2021. According to the MOU, BART and the City are to confer to determine whether the City will have greater than normal level of involvement in the developer selection process following this decision.

At their respective March meetings, the Measure O Bond Oversight Committee (MOBOC) and the Housing Advisory Commission (HAC) unanimously approved the staff recommendation including a three-pronged approach to address satisfying the MOU milestone (see Recommendations #1 through #3 above) for affordable housing for the Ashby and North Berkeley BART stations and a recommendation to issue one or more Notices of Funding Availability (NOFAs) in 2021 to support development of new affordable housing projects or rehabilitation of existing affordable projects (as specified in Recommendation #4 above). Since the need for funding for affordable housing exceeds what is currently available, staff recommends that City Council reserve funding for the BART sites while retaining funds for projects that could provide much needed housing sooner, and initiate research of new sources of funding.

FISCAL IMPACTS OF RECOMMENDATION

The recommendation would reserve \$40 million of remaining Measure O funding (from the third and fourth tranches) and provisionally reserve at least \$13 million in future Affordable Housing Mitigation Fees and/or a new source of revenue to be identified no later than 2024; and allow for a portion of the funding (to be determined at a later date) to be considered for predevelopment. It is also recommended that the City Manager investigate a new bond measure that could fund housing and/or infrastructure needs at the two BART sites and in the Adeline Corridor, or in the City as a whole. Potential fiscal

impacts of a new bond measure would be researched as part of implementation of this referral.

CURRENT SITUATION AND ITS EFFECTS

The MOU to develop the Ashby and the North Berkeley BART station areas establishes a framework for how the City and BART will work together to develop the Ashby and North Berkeley BART stations. It outlines required activities and timelines for required community engagement, including a City Council-established, 15-member Community Advisory Group (CAG), development of zoning that conforms to Assembly Bill 2923, identifying City funding for affordable housing, and station access studies.¹ Specifically, the MOU states that the City will make a decision to set-aside funding “sufficient to assure BART, in its sole discretion, that at least 35% of the housing units proposed to be constructed at the BART Properties would be deed-restricted to low, very low and/or extremely low affordable housing.”²

A. Estimated City Subsidy Needed for Ashby and North Berkeley BART

The Ashby and North Berkeley BART station properties encompass 6.3 acres and 8 acres of land, respectively. Delivering a high amount of affordable housing will require a significant, long-term commitment of local funding from the City. A number of critical questions are outstanding about the physical design, parking, infrastructure, and community uses at both sites, which will have significant impacts both on how much housing can be built, how much it will cost, and how long it will take. Some of these questions will be answered by studies underway, and others won't be finally determined until after developers have been selected and actual projects have been designed. Despite these pending questions, it is possible to approximate the amount of public subsidy needed to achieve various amounts of affordable housing, in order to inform preliminary decisions and next steps to securing needed funding. It is in the City's best interest to begin allocating and planning for the City's funding contribution now given the projected subsidy needs.

The City engaged Street Level Advisors, a housing economics firm, to analyze the amount of affordable housing subsidy and likely required timing (or phasing) to achieve the MOU minimum threshold of 35% (at low, very low and/or extremely low income levels) and higher levels of affordable housing at the BART sites (**Attachment 2**). The analysis estimated how much affordable housing could be built based on the following three factors: physical design, available subsidy and timing of development. Conceptual site designs were developed to test how much housing could be accommodated on each site, given various assumptions about the building height/construction type, public

¹ BART Assembly Bill 2923 Implementation webpage: www.bart.gov/ab2923

² https://www.cityofberkeley.info/Clerk/City_Council/2019/12_Dec/Documents/2019-12-10_Item_31_Approval_of_a_Memorandum.aspx

open space and building configuration. The site concepts modeled development scenarios with buildings ranging from four to eight stories on all developable area.³

Street Level Advisors' estimates indicate that achieving the minimum goal of 35% affordable housing at each site as outlined in the MOU would require between **\$30 and \$64 million dollars** of subsidy from the City of Berkeley, depending on the overall scale of each project (**See Table 9, Attachment 2**). Because Assembly Bill 2923 requires that the zoning standards for the sites *allow* development of at least 7 stories, the conceptual site design using a 7-story building height at each BART site (estimated at 850 apartments at Ashby and 775 apartments at North Berkeley) was selected to further model potential project phasing various levels of affordability. Street Level Advisors' projections indicate development at this scale would require approximately **\$53 million** in City subsidy for 35% affordable housing (estimated at 298 affordable units at Ashby and 271 at North Berkeley).

Many stakeholders in both neighborhoods have expressed a strong desire for these developments to include more than 35% affordable housing. Street Level Advisors' analysis also presents estimates of the amounts of City subsidy that would be required to achieve higher levels of affordability at each site. As the share of affordable housing increases and the number of market rate units decreases, the amount of developer contribution from market rate buildings will decline. This means that the required level of City subsidy per unit will increase at the same time that the number of funded units rises, resulting in large increases in the amount of funding needed from the City. Table 1 below (**see Attachment 2 for full details**) shows estimates of the City subsidy needed to achieve higher amounts of affordable housing in the following two scenarios:

- Increasing amounts ranging from 50% to 100% affordable housing at Ashby BART and 35% at North Berkeley BART;
- The same amount of affordable housing at both BART sites at the following levels: 50%, 75% and 100%.

Table 1 below only shows City subsidy needed, based on amounts the City has invested in other recent affordable housing developments. The total project subsidy would be much greater, including state and federal sources.

³ An actual project would have variation in building height across the site (e.g. some shorter, some taller than the evaluation scenarios).

Table 1 – Street Level Advisors’ Memorandum: City Subsidy Needed

Ashby		North Berkeley		TOTAL
% Affordable	City Cost	% Affordable	City Cost	
35%	27,760,208	35%	\$ 25,018,016	\$ 52,778,224
50%	\$ 58,207,950	35%	\$ 25,018,016	\$ 83,225,966
60%	\$ 78,586,360	35%	\$ 25,018,016	\$ 103,604,376
70%	\$ 98,964,770	35%	\$ 25,018,016	\$ 123,982,786
75%	\$ 109,273,848	35%	\$ 25,018,016	\$ 134,291,864
80%	\$ 119,343,180	35%	\$ 25,018,016	\$ 144,361,196
85%	\$ 129,652,258	35%	\$ 25,018,016	\$ 154,670,274
90%	\$ 139,721,590	35%	\$ 25,018,016	\$ 164,739,606
95%	\$ 150,030,668	35%	\$ 25,018,016	\$ 175,048,684
100%	\$ 160,100,000	35%	\$ 25,018,016	\$ 185,118,016
50%	\$ 58,207,950	50%	\$ 49,967,475	\$ 108,175,425
75%	\$ 109,273,848	75%	\$ 96,418,263	\$ 205,692,111
100%	\$ 160,100,000	100%	\$ 142,869,050	\$ 302,969,050

Because of the limitations of the amount of non-City (e.g., federal, State and other funding sources) and City subsidy available and maximum project size (constrained by funding, City staff, BART staff and developer capacity), increasing the percentage/ amount of affordable housing will also increase the amount of time it takes to complete construction of all of the units. Street Level Advisors’ analysis also provides an illustrative timeframe, or phasing scenario, to achieve various levels of affordable housing, increasing from 35% to 100% at Ashby and 35% at North Berkeley, assuming 850 apartments at Ashby and 775 at North Berkeley.

BART’s goal is to complete all construction by 2031, to help fulfill the City’s Regional Housing Needs Allocation (RHNA) requirements. Due to constraints of project size and availability of different types of funding, Street Level Advisors estimates that producing the minimum MOU threshold of 35% affordable housing at both stations would require at least five separate projects and would not be completed until 11 years after developer(s) selection. For comparison purposes, scenarios with increasingly higher percentages of affordable housing at Ashby plus 35% at North Berkeley are also provided, which increases the overall timeframe. For example, building 100% affordable at Ashby is estimated to require roughly nine separate phases and at least 17 years. Table 2 summarizes the correlation between affordability levels and project phasing (see Attachment 2 for full details).

Table 2 – Street Level Advisors’ Memorandum: Phasing Estimates

Phasing Scenario

Specific phasing cannot be predicted at this stage, this simply provides an example

Ashby %	# Units	North Berkeley %	Units	Total Units	Phases	Average Size	Minimum Years to completion
35%	298	35%	271	569	5	114	11
50%	425	35%	271	696	6	116	13
75%	638	35%	271	909	7	130	14
100%	850	35%	271	1121	9	125	17

Because of the uncertainty in the timing of completion of the affordable housing projects at these BART sites, it may not be prudent for the City to commit all of its currently available funding for a period of 15 years or longer. Given that achieving 35% or higher affordable housing is estimated to take 11 to 17 years or more and over multiple phases of development to complete, the total amount of City subsidy may be phased over time. This is particularly true if the City intends to plan for exceeding the minimum 35% requirement. Exceeding 35% affordable housing at either site would require a new source of funding, possibly one which will require approval by Berkeley voters. **Table 3** below presents one scenario for the timing of funding need for a set of five separate affordable housing projects at the two sites.

Table 3 – Street Level Advisors’ Memorandum: Hypothetical Project Funding Timeline (35% Affordable at Both Sites) – City Subsidy

# Units Per Project Phase	2025	2026	2027	2028	2029	2030	2031	2032
Ashby								
Ashby #1			99					
Ashby #2				99				
Ashby #3								99
North Berkeley								
North Berkeley #1			136					
North Berkeley #2						136		
Ashby	9,253,403	9,531,005	-	-	-	10,727,230		
North Berkeley	12,509,008			13,668,931				
Total	21,762,411	9,531,005	-	13,668,931	-	10,727,230	-	-

B. Available City Affordable Housing Funding

The City’s sources of available funding for affordable housing are summarized in this section and in **Table 4** below. The largest source of funding controlled by the City comes from Measure O, which Berkeley voters passed in 2018. Out of the \$135 million in general obligation bonds that may be issued, approximately \$59 million is still available. Measure O’s affordable housing directive restricts all funding to capital costs related to affordable housing development and preservation. This includes development

hard costs (i.e. materials and construction), soft costs (i.e. architecture and legal fees) and delivery costs (i.e. project administration costs). Other important housing affordability programs, such as rent subsidies, operating reserves, or tenant legal services, are not eligible for financing with Measure O funds. Bonds will be issued in multiple series over a predetermined period.

Table 4. Current Available and Projected Affordable Housing Funding Sources

Source	Amount	Notes
Measure O	\$59M	Amount available after funds reserved for specific projects, including an allowance of \$22M for a BUSD-sponsored project. Staff anticipate \$2M in 2022, \$35M in 2025, and \$22M in 2027. All funds must be expended within five years of issuance.
Measure U1	\$2.5M	Anticipated available for HTF activities in FY 2023, pending availability of revenue. This amount could be lower if commercial tax revenue is lower than projected.
Permanent Local Housing Allocation (PLHA)	\$3M	Anticipated available for HTF rehab activities in FY 2023-2025, pending availability of revenue. These are not included in the total for the BART sites since the City's application designated them for rehabilitation. All PLHA funds must be spent by 6/30/2030. Annual allocations will not be distributed if current year's uncommitted funds exceed the following year's allocation.
HTF*	\$3.4M	Balance currently available less amounts requested by CHDC/St. Paul AME and CHDC/Ephesians for predevelopment and SBNDC rehab project.
Total	\$67.9M	

*Note: This HTF amount currently does not account for any HOME funds but City will likely receive more next fiscal year. The City historically has approximately \$650k per year in HOME HTF funds.

C. Council Referrals Related to City Affordable Housing Funding

On December 8, 2020, in their action on the Adeline Corridor Plan, the City Council referred the following Planning Commission recommendation to the HAC and Measure O Commission: *“Set-aside at least an initial allocation of \$50 million of local funds for affordable housing (e.g. Measure O, Measure U1, Measure P, Housing Trust Fund) for the Adeline Corridor, and in particular, for the Ashby BART subarea.”* The Council also

referred to the City Manager: “Develop a policy for the Affordable Housing Mitigation Fees collected from projects in the Adeline Corridor Planning Area to be placed in a fund dedicated for affordable housing at the Ashby BART site.”

D. Other Potential Requests for City Affordable Housing Funding

At this time, staff is aware of the following potential projects that may request City affordable housing funding. For projects #1 through #4 listed in Table 5 below, staff have provided preliminary estimates based on information currently available. These four projects are currently in predevelopment and will likely require a commitment of local funds in the next 12 to 24 months in order to leverage additional funding from various state and federal programs, including federal or state low income housing tax credits and the State Multifamily Housing Program. For projects #5 through #12, staff is unable to provide actual estimates since the project scope is currently unknown. Assuming City funding of \$200,000/unit, an average project’s local subsidy is estimated at \$10 million for a 50-unit project. However, this estimate could be higher based on unknown future factors including construction costs, total units and housing type. All variables are site specific and cannot be predicted with precision.

Table 5. Potential Requests City Affordable Housing Funding

Project	Sponsor	Notes
1. St. Paul AME 2024 Ashby Ave.	Community Housing Development Corporation (CHDC)/ St. Paul AME	Has requested predevelopment funds from the City. Projects a future development funding request of \$10.4M. This is a preliminary estimate and may be higher.
2. Ephesians 1708 Harmon St.	CHDC/ Ephesians ECOGIC	Has requested predevelopment funds from the City. Projects a future development funding request of \$10.6M. This is a preliminary estimate and may be higher.
3. 1740 San Pablo Avenue	BRIDGE Housing	HTF Pipeline project may request additional funds due to changes in the financing plan, including not receiving as many Project-Based Section 8 Vouchers as requested. Projects a future development funding request of \$4M.
4. People’s Park Permanent Supportive Housing	UC Berkeley / Resources for Community Development	Currently in predevelopment; HHCS has not received a funding request. Projects a future development funding request of \$11M. This is preliminary estimate and may be higher.
5. 1001-1011 University Avenue	City	City-owned site for redevelopment.

6. West Berkeley Services Center	City	City-owned site for redevelopment; pending zoning study and Council identification of priorities.
7. Oregon Park Apartments	Oregon Park Apartments	Privately owned apartment building housing low-income seniors; has outstanding housing code violations.
8. YMCA Conversion	YMCA	YMCA is exploring converting part of its facility to housing.
9. 3404 King Street		Rehabilitation needs.
10. Russell Street Residence	Berkeley Food and Housing Project	Board and Care facility; Owner is marketing rented site for \$7M.
11. Various projects in the HTF portfolio	Various	Some properties have rehabilitation needs that exceed available cash flow.

E. Measure O Bond Oversight Committee and Housing Advisory Commission

The Measure O Bond Oversight Committee (MOBOC) and the Housing Advisory Commission (HAC) each met in February and March to discuss a recommendation to Council related to City affordable housing funding under their respective purviews to satisfy the MOU milestone. The MOBOC is charged with overseeing the use of Measure O funds, while the HAC is charged with housing policy generally, the Housing Trust Fund program, and Measure U1 funds.

On March 1, 2021 the Measure O Bond Oversight Committee made the following recommendations to Council:

- Provisionally reserve \$40 million in Measure O bond funds to support affordable housing at the Ashby and North Berkeley BART sites; and
- Issue one or more Notices of Funding Availability (NOFAs) to support development of new affordable housing projects or rehabilitation of existing projects for any funds remaining in the second issuance of bond funds after funding the Maudelle Miller Shirek Community (2001 Ashby) and considering funding for a potential Berkeley Unified School District project.

On March 4, 2021 the Housing Advisory Commission made the following recommendations to Council:

- Provisionally reserve \$13 million in future Affordable Housing Mitigation Fee revenues to support affordable housing at the Ashby and North Berkeley BART sites; and

- Issue one or more NOFAs to support development of new affordable housing projects or rehabilitation of existing projects using Permanent Local Housing Allocation (PLHA) funds allocated for operating subsidies for homeless households and housing rehabilitation, HOME funds and the balance of City Housing Trust Funds; and
- Refer to the City Manager to investigate a new bond measure that could fund housing and/or infrastructure needs at the two BART sites and in the Adeline Corridor, or in the City as a whole, and to establish a timeline and community process for said bond measure dedicated to affordable housing with the recognition that 35% is a floor and there is a goal of 100% affordability.

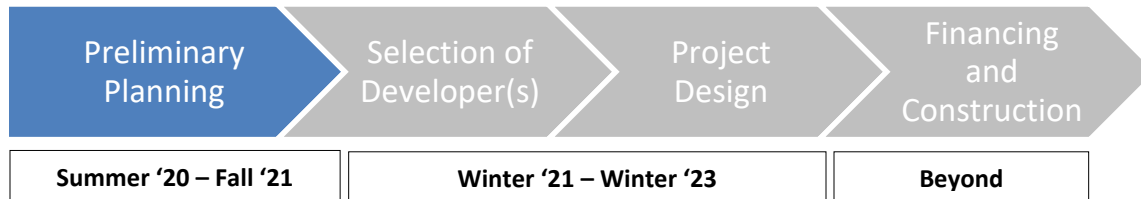
Creating transit-oriented development at the Ashby and North Berkeley BART station areas advances a Strategic Plan goal to create affordable housing and housing support service for our most vulnerable community members.

BACKGROUND

The redevelopment of the Ashby and North Berkeley BART stations provides a rare opportunity for the City of Berkeley and BART to collaborate to build new and much needed permanently affordable housing. There are no other publicly-owned sites of this size and adjacent to a regional transit station. Development of these sites can make significant progress towards the City's housing needs and also achieve City and BART objectives to reduce greenhouse gas emissions, and provide public space and other desired community amenities. In addition, in 2018, Governor Jerry Brown signed Assembly Bill 2923 (AB 2923) which requires the City of Berkeley to zone the Ashby and North Berkeley BART stations to conform with specific development standards no later than July 1, 2022. The current zoning at the Ashby BART Station and North Berkeley BART Station does not comply with AB 2923.

Many of the important details of the future BART station projects cannot be finally determined until after a developer is selected and proposals are designed. There will be continued community engagement after the selection of future developers to refine potential project(s) details related to station access, parking management, physical design, affordable housing units, affordability levels and populations served (**Figure 1**).

Figure 1. Planning Process for Berkeley Transit-Oriented Development



The City initiated meetings with the Council-appointed Community Advisory Group (CAG) in June 2020 as part of the preliminary stage to develop the Ashby and North Berkeley BART sites.⁴ The CAG has met five times to date, with discussion topics including affordable housing, public space, land use and design as they relate to the three deliverables of the preliminary planning stage: zoning that conforms to AB2923, a Joint Vision and Priorities document and other parameters for the eventual Requests for Qualifications (RFQs) to solicit potential developers.

The City has also hosted community meetings to discuss BART Station Area development on August 21, 2020 and February 8, 2021.

Over the course of 2021, the recommendations that emerge from this process will be presented to the Planning Commission and then to the City Council in early summer and fall, respectively. While recommendations have not been finalized, to date the community has expressed strong support to build as many affordable housing units as possible on both sites, in addition to the aforementioned Adeline Corridor Specific Plan goal “to strive for 100% affordable housing” at the Ashby BART station.

ENVIRONMENTAL SUSTAINABILITY

Creating new affordable housing in Berkeley that allows lower income individuals and families to live closer to transit will advance the goal of making the City more economically and racially equitable, and reduces greenhouse gas emissions by reducing vehicle-miles-traveled and decreasing reliance on personal vehicles.

RATIONALE FOR RECOMMENDATION

In addition to increasing the City’s Housing Trust Fund portfolio significantly, the recommended approach would satisfy BART’s funding threshold. It would leave \$21 million or more of Measure O funds available for other housing priorities. Because of the need to phase projects over time, the total amount of City subsidy is not needed all at

⁴ Information about the City’s planning process for the Ashby and North Berkeley BART stations, including meetings of the Community Advisory Group (CAG) and other public meetings is available on the City’s website: www.cityofberkeley.info/bartplanning

once. This approach also incorporates the City Council referral to the City Manager to develop a policy to earmark the Affordable Housing Mitigation fees (AHMF) collected from projects in the Adeline Corridor Planning Area to be placed in a fund dedicated for affordable housing at the Ashby BART site. It also gives the City time to pursue a new funding source without delaying the BART projects.

An initial commitment of \$40 million would be sufficient to fully fund the first one to two phases of affordable housing at each site. This would allow the City, BART and their future development partners to initiate affordable housing projects. Under the terms of the BART MOU, the City would have a greater than typical role in selecting the developer and shaping the project in exchange for this commitment. The City does not own either site and would not be otherwise entitled to this ability.

As stated in a letter from BART, BART supports the recommended approach as satisfying the MOU milestone related to the City decision to set-aside sufficient affordable housing funding for 35% affordable at both BART sites. The letter further acknowledges “the impracticality/challenge of setting aside currently available subsidy today for projects that will take a decade to complete” and suggests that the City and BART could “establish mutually-agreeable performance milestones for the anticipated affordable housing on BART property. Should these milestones not be met, some or all of the BART set-aside could be released for projects elsewhere.”⁵ Staff and BART will return to Council later in the year with a proposed revised MOU, which would include objective milestones for approval of the projects at the two BART sites and indicate that the City would only continue to reserve the funding in the event that the specified milestones are met.

ALTERNATIVE ACTIONS CONSIDERED

Alternative options consisting of reserving more or less affordable housing funding than recommended in this report were discussed and considered by the MOBOC and the HAC. Reserving all or higher levels of currently available funding are not recommended because that would tie up City affordable housing funds before they are needed for the BART sites, and could preclude other projects that would provide affordable housing sooner. Moreover, the City’s federal HOME funds typically include expenditure deadlines which could make using them at the BART site infeasible; these funds are difficult to administer without local funds and it is possible they would be at risk of needing to be returned if no local funds were available.

Allocating less or no funding prior to BART’s anticipated developer solicitation next winter might be interpreted as a lack of commitment to prioritizing affordable housing at

⁵ See Letter from BART (dated February 22, 2021) re: Berkeley BART Station Transit-Oriented Development – Affordable Housing Funds included in the March 1, 2021 meeting packet for the Measure O Bond Oversight Committee. Available online at: https://www.cityofberkeley.info/uploadedFiles/Housing/Commissions/0_2021-03-01_Agenda_Packet%20revised.pdf

the BART stations, and could cause developers to be uncertain about the City's support for these projects. Further, the City would not be able to take a greater than usual role in the developer(s) selection and approval process (as stipulated in the MOU), and BART could revise its 10-Year Workplan and prioritize working with other jurisdictions on TOD projects.

CONTACT PERSON

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Mike Uberti, Community Development Project Coordinator, Health Housing and Community Services Department, (510) 981-5400

Attachments:

1: Resolution

2: Estimated Need for Housing Subsidy for the Ashby and North Berkeley BART Stations – Memorandum prepared by Street Level Advisors (January 2021)

RESOLUTION NO. ##,###-N.S.

APPROVAL OF FUNDING RESERVATIONS FOR THE ASHBY AND NORTH BERKELEY BART STATIONS AND APPROVAL OF ONE OR MORE NOTICES OF FUNDING AVAILABILITY TO SUPPORT AFFORDABLE HOUSING PROJECTS

WHEREAS, the City Council and BART Board unanimously adopted a Memorandum of Understanding (MOU) in December 2019 and January 2020, respectively, related to future development at the Ashby and North Berkeley BART sites; and

WHEREAS, the MOU includes a requirement for the City to reserve sufficient funding to support at least 35% affordable housing at both sites by April 2021; and

WHEREAS, there is a great need for affordable and special needs housing in the City of Berkeley as stated in numerous City adopted plans such as the General Plan Housing Element, the Adeline Corridor Specific Plan, the North Berkeley BART Goals and Development Objectives and the City of Berkeley's Consolidated Plan; and

WHEREAS, the City determined that achieving 35% affordability will require a City subsidy of at least \$53 million; and

WHEREAS, the City recognizes that the BART projects will be phased and funded over an approximate 11-17-year period, and that there are non-BART projects in the City's affordable housing pipeline that will require funding within the next few years; and

WHEREAS, on November 6, 2018, Berkeley voters passed Measure O, a \$135 million bond measure to support the acquisition, development, and renovation of property for the creation or preservation of affordable housing; and

WHEREAS, on March 1, 2021 the Measure O Bond Oversight Committee made the following recommendations to Council:

- Provisionally reserve \$40 million in Measure O bond funds to support affordable housing at the Ashby and North Berkeley BART sites; and
- Issue one or more Notices of Funding Availability (NOFAs) to support development of new affordable housing projects or rehabilitation of existing projects for any funds remaining in the second issuance of bond funds after funding Maudelle Miller Shirek Community (2001 Ashby) and considering funding for a potential Berkeley Unified School District project; and

WHEREAS, the City Council established a Housing Trust Fund (HTF) program to assist in the development and expansion of housing affordable to low and moderate income persons who either work or reside within the City of Berkeley, and authorized the City Manager to implement the HTF program; and

WHEREAS, City Council adopted HTF guidelines (the “Guidelines”) as revised on January 19, 2021, and authorized the City Manager to implement the HTF Program in accordance with the Guidelines; and

WHEREAS, on March 4, 2021 the Housing Advisory Commission made the following recommendations to Council:

- Provisionally reserve \$13 million in future Affordable Housing Mitigation Fee revenues to support affordable housing at the Ashby and North Berkeley BART sites; and
- Issue one or more NOFAs to support development of new affordable housing projects or rehabilitation of existing projects using Permanent Local Housing Allocation (PLHA) funds allocated for operating subsidies for homeless households and housing rehabilitation, HOME funds and the balance of City Housing Trust Funds; and
- Refer to the City Manager to investigate a new bond measure that could fund housing and/or infrastructure needs at the two BART sites and in the Adeline Corridor, or in the City as a whole, and to establish a timeline and community process for said bond measure dedicated to affordable housing with 35% affordability as a minimum and 100% affordability as a goal.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the Council approves the following funding reservations:

- \$40 million in Measure O bond funds
- \$13 million in future Affordable Housing Mitigation Fees

BE IT FURTHER RESOLVED that the City’s funding reservations are conditioned on BART reaching certain development milestones, to be set by the City and BART.

BE IT FURTHER RESOLVED that if there are insufficient Affordable Housing Mitigation Fees to meet the \$13 million reservation, the City will identify an alternative source of funding by 2024.

BE IT FURTHER RESOLVED that the City Manager shall investigate a new bond measure that could fund housing and/or infrastructure needs at the two BART sites and in the Adeline Corridor, or in the City as a whole, and to establish a timeline and community process for said bond measure dedicated to affordable housing with 35% affordability as a minimum and 100% affordability as a goal.

BE IT FURTHER RESOLVED that the City Manager is hereby authorized to issue one or more NOFAs to support development of new affordable housing projects or rehabilitation of existing projects using a combination of Permanent Local Housing Allocation (PLHA) funds, HOME funds, the available HTF balance, and any remaining Measure O bond funds available from the second tranche.

BE IT FURTHER RESOLVED that the NOFA will be issued in accordance with the HTF Guidelines, with operating subsidy guidance established by staff, and proposals reviewed by the Housing Advisory Commission.

BE IT FURTHER RESOLVED the City Manager, or her designee, is hereby authorized to execute all original or amended documents or agreements to effectuate this action; a signed copy of said documents, agreements and any amendments will be kept on file in the Office of City Clerk.

**MEMO**

To: Alisa Shen, City of Berkeley
From: Rick Jacobus, Street Level Advisors
RE: Estimating the Need for Housing Subsidy for the Ashby and North Berkeley BART Stations
Date: January 21, 2021

Executive Summary

The redevelopment of the North Berkeley and Ashby BART stations provides a once in a generation opportunity for the City of Berkeley to build new and much needed permanently affordable housing. This memo summarizes the key factors in amount of affordable housing subsidy needed from the City of Berkeley in order to achieve specific levels of affordable housing at each site.

Our projections assume that affordable housing at either site will be clustered into 100% affordable housing buildings serving households below 60% of Area Median Income (AMI) including a share of units at each site serving households earning less than 30% of AMI. Street Level Advisors assumes that these projects will be financed with state and federal housing subsidies but will also require a significant amount of 'local' funding.

The amount of 'local' funding needed per unit of affordable housing is a critical assumption. In recent years, the City of Berkeley's investment per unit of affordable housing has grown rapidly. Based on recent data from Berkeley, Oakland, and the rest of Alameda County, we have assumed that \$200,000 in 'local' funding would be needed for each affordable unit at the BART sites. We anticipate that this funding will be provided from three different sources.

1. Developer contributions (internal subsidy) from market rate projects on the BART sites
2. Discounted land rent provided by BART for projects with at least 35% affordable housing, and
3. Cash subsidy from the City of Berkeley.

Street Level Advisors modeled the likely value of developer contributions and BART land discounts for various development scenarios in order to estimate the remaining amounts that would be needed from the City of Berkeley to achieve different levels of affordable housing at each site.

The Memorandum of Understanding (MOU) between the City of Berkeley and BART requires the City to set aside affordable housing funds to achieve a minimum goal of 35% affordable housing at each site. This would require between \$30 and \$64 million dollars of subsidy from the City of Berkeley depending on the overall scale of each project.

Because Assembly Bill 2923 requires that the City zone the sites to allow development of at least 7 stories, it is prudent for the City to budget for the potential of development on that scale, estimated at 850 apartments at Ashby and 775 apartments at North Berkeley. Street Level Advisors' projections indicate that achieving the minimum goal of 35% affordable housing at each site would require approximately \$53 million in City subsidy.

Many stakeholders in both neighborhoods have expressed a strong desire for these developments to include more than 35% affordable housing. The memo also presents estimates of the levels of City subsidy that would be required for various additional levels of affordability at each site. As the share of affordable housing increases and the number of market rate units decreases, the amount of developer contribution from market rate buildings will decline. This means that the required level of City subsidy per unit will increase at the same time that the number of funded units rises, resulting in large increases in the amount of funding needed from the City. Table 11 presents these estimates.

Table 11: Estimates of City Subsidy Needed

Ashby		North Berkeley		TOTAL
% Affordable	City Cost	% Affordable	City Cost	
35%	27,760,208	35%	\$ 25,018,016	\$ 52,778,224
50%	\$ 58,207,950	35%	\$ 25,018,016	\$ 83,225,966
60%	\$ 78,586,360	35%	\$ 25,018,016	\$ 103,604,376
70%	\$ 98,964,770	35%	\$ 25,018,016	\$ 123,982,786
75%	\$ 109,273,848	35%	\$ 25,018,016	\$ 134,291,864
80%	\$ 119,343,180	35%	\$ 25,018,016	\$ 144,361,196
85%	\$ 129,652,258	35%	\$ 25,018,016	\$ 154,670,274
90%	\$ 139,721,590	35%	\$ 25,018,016	\$ 164,739,606
95%	\$ 150,030,668	35%	\$ 25,018,016	\$ 175,048,684
100%	\$ 160,100,000	35%	\$ 25,018,016	\$ 185,118,016
50%	\$ 58,207,950	50%	\$ 49,967,475	\$ 108,175,425
75%	\$ 109,273,848	75%	\$ 96,418,263	\$ 205,692,111
100%	\$ 160,100,000	100%	\$ 142,869,050	\$ 302,969,050

Note: Estimates are based on hypothetical site concept using 7-story building heights on all developable area. Figures have not been adjusted for inflation.

Even at the minimum level contemplated (35% affordable), affordable housing development will need to be completed in multiple phases. Limitations in the availability of state and federal resources have the effect of limiting the size of each project to

generally less than 140 units. We have assumed that any affordable project would require roughly 5 years for development and that that these phases would need to be staggered by at least one to two years. As a result we anticipate that full build out of these affordable projects will take between 11 and 17 years depending on the number of affordable units built.

There is broad support for the goal of maximizing the number of affordable units at both sites and in particular at Ashby. There is likely to be a limit to what is possible given the magnitude of affordable housing subsidy needed and other factors. Until levels of BART patron parking and infrastructure costs can be further analyzed, and developers create more detailed plans for the sites, it will not be possible to know exactly how much overall housing can be built. But it is important to recognize that the selected developers may have an incentive to include less than the maximum number of affordable units. For this reason, Street Level Advisors recommends that the City and BART explore the potential for selecting a local affordable housing nonprofit (or a partnership led by a local nonprofit) to serve as Master Developer for one or both sites. Selecting a Master Developer with a mission focused on affordable housing and a track record of engaging the community could help community members and public officials to trust and accept a finding that it is not practical to exceed a certain (high) share of affordable housing.

I. The Opportunity for Affordable Housing

The redevelopment of the North Berkeley and Ashby BART stations provides a once in a generation opportunity for the City of Berkeley to build new and much needed permanently affordable housing. Both because they are large sites under public control and because of the potential for market rate housing on either site to cross-subsidize adjacent affordable housing, these sites are likely to provide a unique opportunity to expand the supply of permanently affordable housing in Berkeley. One of the key questions in the redevelopment of these two sites is how much affordable housing can be provided given the financial and physical constraints of the sites.

This memo summarizes the key factors influencing this outcome and provides Street Level Advisors' estimate for the amount of affordable housing subsidy that would be needed from the City of Berkeley in order to achieve specific levels of affordable housing at each site.

Since it addresses a highly technical question, this memo necessarily uses some technical jargon. We have attempted to limit the jargon and define terms as clearly as possible. We have also produced a set of videos which provides straightforward definitions as well as background and context for this decision. Many stakeholders will find it helpful to view these videos before reading this memo. The videos are available at http://streetleveladvisors.com/?avada_portfolio=berkeley-affordable-housing-videos.

II. How much affordable housing is feasible?

The amount of affordable housing that can be built at each site is a function of three factors: the physical design of the sites, the availability of subsidy, and assumptions about the timing of development.

- **Physical Design:** How many housing units (of any type) can fit on the site given design constraints such as building heights, required open space, parking requirements, etc.
- **Available Subsidy:** Deed-restricted affordable housing units require public subsidy to bring the rents down to an affordable level. While there are hundreds of potential subsidy sources, for this analysis we are concerned with three potential categories:
 - a. State and Federal Affordable Housing Subsidy Programs
 - b. Internal subsidy generated by market rate housing (if any) on the sites
 - c. City of Berkeley housing subsidy (from any source controlled by the city)

- **Timing:** Because the size of each affordable housing development is limited by financing and other factors, scenarios that involve large numbers of affordable housing units will need to be built in multiple phases which may be staged over many years. Limiting the time period for development might create a practical limit to the number of affordable housing units that can be built at either site.

Street Level Advisors collaborated with designers from Van Meter Williams Pollack (VMWP) in an exercise to more closely evaluate the potential for the sites. VMWP developed preliminary site designs to test how much housing could fit on each site given various assumptions about the building height, public open space, and building configuration. Street Level Advisors developed preliminary estimates for the cost of construction and the potential revenues for potential market rate and affordable development alternatives on each site. This memo summarizes our key findings and outlines the implications in terms of the need for subsidy and the anticipated timing requirements for various levels of affordable housing at each site.

A. What we still don't know

While the numbers presented below are based on the best information available today and are consistent with results from comparable real projects (both completed and currently under development), it is important to understand that these projects are still in the early stages and there are some critical gaps in our knowledge which limits our ability to fully forecast the need for subsidy. First, as we explain below, the real estate market in the Bay Area is experiencing a period of high uncertainty due to the impact of COVID-19. This uncertainty makes it difficult to evaluate the potential for cross subsidy from market rate residential development. Under market conditions today, market rate development of either site may not be feasible (with or without affordable housing requirements). There is every reason to believe that conditions will stabilize and that there will be high demand for housing at both sites by the time that projects could be built. However, it is not possible to predict how profitable projects will be at that point, making it difficult to evaluate how much internal subsidy (cross subsidy from market rate projects) will be possible.

Second, there are still a number of critical outstanding questions about the physical design and community uses at both sites which will have highly significant impacts on how much housing can be built and how much it will cost. For example, no decision about the level of replacement BART patron parking has yet been made. BART is working on an Access Study which will be available in the spring of 2022 and provide the information necessary to make this decision. Because parking is very expensive and takes space away from housing, this decision will have a very significant impact on how much affordable housing is possible at both sites. Similarly, as we describe in more detail below, the exact price that a developer will need to pay to lease BART's land remains unknown. Ultimately, BART will negotiate lease payments with selected developers, and this decision will have a significant impact on the projects' financial feasibility and the need for affordable housing subsidy.

In spite of these unanswered questions, we have enough information at this point to provide the City with appropriate order of magnitude estimates of the subsidy needs. Because the subsidy needs are so high, the City cannot wait until all of these questions are settled before beginning the presumably lengthy process of identifying funding sources for the City's contribution to these projects. We don't know everything, but we know enough for the city to start making plans to secure the funding it will need to take advantage of this outstanding opportunity to generate affordable housing.

B. Total Subsidy Need

The exact amount of city subsidy needed for each project will depend on the success of the projects' affordable housing developers in securing competitive outside affordable housing subsidies, particularly from the State of California. Because funding limits, funding availability, and rules of state programs are changing constantly, it would not be reliable to project any specific mix of funding for these proposed affordable housing projects years in the future. But regardless of the specific funding programs utilized, each affordable housing program requires some level of local funding from the City of Berkeley.

The projections below assume that 100% affordable projects developed at either BART site will be comparable in terms of design, unit mix, income targets and other characteristics to the other 100% affordable housing projects funded by Berkeley's Housing Trust Fund in recent years. This assumption makes it easier to estimate the need for subsidy without knowing the specifics of projects that have not been proposed yet. Fortunately, this assumption leaves plenty of room for innovation because Berkeley's affordable housing projects are quite different from one another and include many units targeting specific populations. In particular, stakeholders in the BART station community process have expressed support for development of units serving Extremely Low Income (ELI) residents and, at Ashby, for units serving residents with disabilities. While targeting these populations could increase the need for subsidy, Berkeley's recently funded projects have also served these populations.

Data on Berkeley's recent projects (see **Table 1** below) provides some indication of what would likely be possible at the BART Stations but it is important to understand that because the rules of state and federal housing programs are changing regularly, projects in the future may need to look somewhat different in order to be competitive for these funds.

Table 1: Recent City Funded Projects

Project Name	Placed in Service	Units	Affordability
Amistad House	2011	60	59 units affordable to 30-60% AMI households
Harmon Gardens	2011	16	15 units affordable to 30-50% AMI households
Harper Crossing	2017	42	41 units affordable to 30-60% AMI households
Grayson Apartments	2019	23	22 units affordable at 30-60% AMI households
Jordan Court	Expected 2021	35	34 units affordable to 30-60% AMI households
Berkeley Way Affordable	Expected 2022	89	88 units affordable to <60% AMI households
Berkeley Way Permanent Supportive	Expected 2022	53	53 units affordable to VLI households
Blake Apartments	Expected 2022	63	62 units affordable to 30-60% AMI households
Maudelle Miller Shirek Community Project	Expected 2023	87	86 units affordable to 20-60% AMI households
1740 San Pablo	Future	54	53 units affordable to 30-60% AMI

C. “Outside” Subsidy

Building new affordable housing in Berkeley currently costs roughly \$700,000 per unit on average. The vast majority of that funding will come from private lenders and state and federal government affordable housing subsidy programs. The specific mix of outside funding will vary from project to project, but the most likely sources for projects at the two BART stations include federal resources such as the Low Income Housing Tax Credit and Tax Exempt Bond financing as well as state subsidy programs like the Affordable Housing and Sustainable Communities (AHSC) program, the Multi-family Housing Program (MPH), and the Infill Infrastructure Grant Program (IIG) among many others.

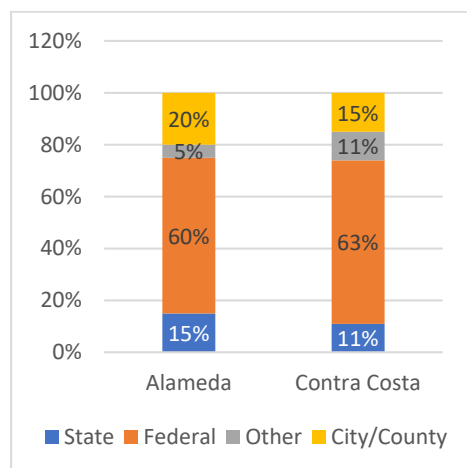
While the overall amount of state and federal affordable housing funding has been declining, the two BART stations are very well positioned to compete successfully for these outside resources. As we describe below, there is a limit to the amount of funding that can be secured in any given year which will require phasing the development of affordable projects over multiple years, but we anticipate that these project would be strongly positioned to raise state and federal funding if local resources are committed. The level of local commitment is often a criterion for award of state and federal funding.

Without sufficient local funding, it is unlikely that a developer could raise enough state and federal funding to build the projects as the scale anticipated below.

D. Local Subsidy Need

In a 2017 [report](#), Strategic Economics compiled data on the financing sources for 46 Bay Area affordable housing projects completed between 2013 and 2016. They found that Federal programs (primarily the Low Income Housing Tax Credit and Tax Exempt Bond programs) provided 60% of the cost of the typical affordable housing project in Alameda County. State and other outside programs provided an additional 20% of the typical project’s cost. Local funding from cities and the county accounted for just 20% of the total cost. **Figure 1** shows that this distribution was slightly different in Contra Costa where jurisdictions provided less subsidy which required developers to find additional non-governmental subsidies.

Figure 1: Sources of Subsidy



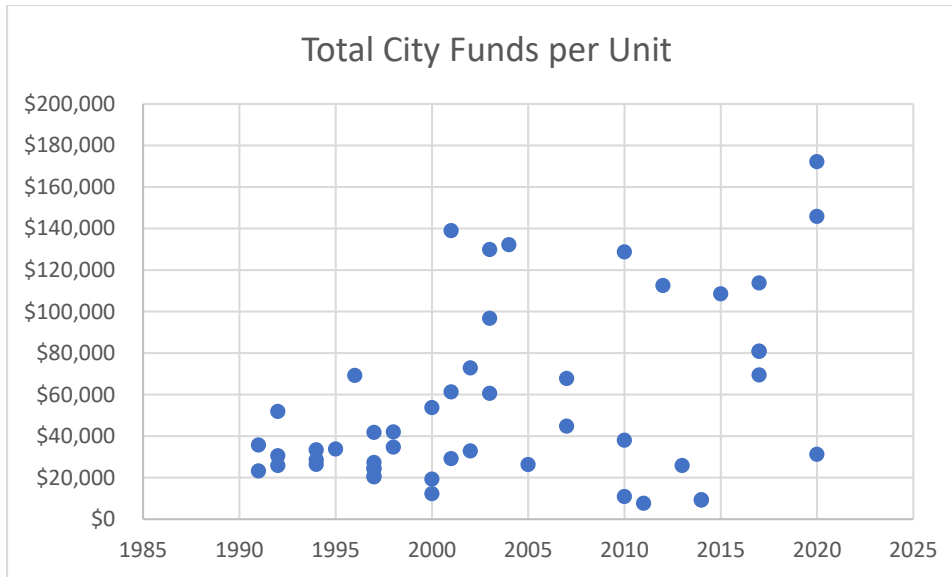
Source: Strategic Economics

In 2017, Strategic Economics found that the typical Alameda County project received \$145,000 in local subsidies including funding from cities and counties. These local funds came from the localities’ housing trust funds, affordable housing bonds, affordable/inclusionary housing mitigation fees, and the discounted sale of public land. Since 2017, the cost of building has continued to increase rapidly and, as a result, the level of local subsidy needed to support an affordable housing project has certainly increased.

Berkeley’s Recent Experience

Berkeley’s per unit contribution to affordable projects has been rising rapidly. Figure 2 shows that projects funded by the City’s Housing Trust Fund as recently as the early 2000s regularly received less than \$50,000 per unit. Projects funded between 2017 and 2020 received an average of about \$110,000. In 2020, the four projects that secured Measure O and Measure U1 funding received an average of \$183,000 per unit funded. City staff are anticipating a need for \$200,000 per unit in city funds going forward.

Figure 2: Berkeley's Investment Per Unit



Source: City of Berkeley, Health, Housing, and Community Services Department, Affordable Housing Inventory Data

Table 2: Selected City Funded Projects, 2010 - 2020

Project Name	Units	City Subsidy	City Subsidy per Unit
Amistad House	60	\$650,000	\$10,833
Harmon Gardens	16	\$1,111,000	\$69,438
Harper Crossing	42	\$2,107,303	\$50,174
Grayson Apartments	23	\$2,495,000	\$108,478
Jordan Court	35	\$6,026,927	\$172,198
Berkeley Way Affordable	89	\$2,774,925	\$31,179
Berkeley Way Permanent Supportive	53	\$7,727,630	\$145,804
Blake Apartments	63	\$11,500,000	\$182,540
Maudelle Miller Shirek Community Project	87	\$17,000,000	\$195,402
1740 San Pablo	54	\$7,500,000	\$138,889

Source: City of Berkeley, Health, Housing, and Community Services Department, Affordable Housing Inventory Data

Table 3: Selected Oakland Projects

Project Name	Units	City Subsidy	City Subsidy per Unit
285 12th Street	65	\$1,864,500	\$28,685
7th & Campbell	79	\$801,900	\$10,151
95th & International	55	\$6,859,659	\$124,885
Aurora Apartments	44	\$2,600,000	\$59,091
Brooklyn Basin: Project 3	130	\$12,442,000	\$95,708
Brooklyn Basin: Project 4	124	\$17,333,000	\$139,782
Friendship Senior Housing	50	\$6,350,000	\$127,000
Fruitvale Transit Village II-B	181	\$9,579,000	\$52,923
Nova Apartments	19	\$1,600,000	\$27,119
The Phoenix	101	\$4,350,000	\$43,069
West Grand & Brush Phase I	59	\$1,700,000	\$28,814

Source: [City of Oakland, Department of Housing and Community Development, Housing Development Division, Affordable Housing Pipeline Projects](#)

Oakland

For context, the City of Oakland funded 11 affordable housing projects from 2019 to 2020 (see **Table 3** below). The commitments ranged from \$10,000 to \$140,000 in city funding per unit. The average city subsidy was \$67,000 per unit. The lower dollar amount of some requests may have been because many of these projects were also relying on additional funding from Alameda County Measure A1, which will be discussed in more detail later in this section.

Rest of Alameda County

Street Level Advisors reviewed approved California Tax Credit Allocation Committee applications from 2017 to 2019 and found that affordable East Bay projects, excluding projects in Oakland and Berkeley, received an average of \$208,000 in local funding per housing unit. One project in Concord did not get any local funding and one project in Pleasanton received \$437,000 per unit. Removing these outliers, the average per unit local subsidy fell to \$183,000 (see **Table 4** below).

Table 4: Selected Alameda County Projects

Project Name	Application Year	Units	Total Local Subsidy	City + County Subsidy/Unit
Alameda Point Senior	2018	60	\$11,834,149	\$197,236
Chestnut Square Family Housing	2018	42	\$13,241,757	\$315,280
Clayton Villa Apartments	2018	80	\$0	\$0
City Center Apartments	2019	60	\$14,302,321	\$238,372
Parrott Street Apartments	2019	62	\$6,466,259	\$104,295
St. Paul's Commons	2017	45	\$7,467,642	\$165,948
Stevenson Place Apartments	2017	80	\$13,638,890	\$170,486
Sunflower Hill at Irby Ranch	2018	31	\$13,559,273	\$437,396
Warm Springs TOD Village Affordable #1	2018	71	\$16,561,681	\$233,263
Warm Springs TOD Village Affordable #2	2018	61	\$13,713,063	\$224,804

Source: [California Tax Credit Allocation Committee, Application Information](#)

Contribution Assumption

In order to develop a reasonable estimate of the optimal level of city contribution in various scenarios, we have assumed that projects developed in the next 3-5 years will require \$200,000 in local funding per affordable housing unit. It is entirely possible that a developer could successfully complete a project with significantly less local subsidy per unit. (Of course, it is also possible that more would prove necessary for certain kinds of projects.) But an important point to keep in mind is that the level of this local subsidy is critical to the speed with which the affordable housing is developed. With lower levels of local subsidy, the developer must assemble funding from more competitive sources. Each source requires time to apply and often projects with too little local subsidy end up waiting years as the subsidy gap funds are secured step by step. Budgeting sufficient subsidies from the City of Berkeley is essential to making these projects happen quickly.

Subsidy needed to meet 35% minimum requirement

Using the \$200,000 per unit estimate, Street Level Advisors evaluated the range of total need for different potential BART projects. The Memorandum of Understanding (MOU) between BART and the City of Berkeley sets a minimum target of at least 35% affordable housing at each station.

Table 5: shows an estimate for the local subsidy needed for the number of housing units that could be included based on different conceptual development scenarios that used buildings ranging from five to eight stories.

Table 5: Estimate of Total Local Subsidy Needed – 35% affordable

	5 Stories	6 Stories	7 Stories	8 Stories
Total Units				
Ashby	575	700	850	975
North Berkeley	540	650	775	900
Affordable Units				
Ashby	35%	201	245	298
North Berkeley	35%	189	228	271
Total Local Subsidy @ \$200,000/unit				
Ashby	40,200,000	49,000,000	59,600,000	68,200,000
North Berkeley	37,800,000	45,600,000	54,200,000	63,000,000
Total	78,000,000	94,600,000	113,800,000	131,200,000

The numbers in **Table 5** represent the total amount of local subsidy. We anticipate that this local contribution would come from three distinct sources:

1. Internal subsidy from market rate development at the BART sites
2. Discounted land from BART
3. Cash subsidy from the City of Berkeley (Housing Trust Fund, Measure O, other potential City funds)

It is worth noting two other potential sources for the 'local' share of future projects.

- Alameda County voters approved Measure A1 which is providing \$460 million for affordable rental housing development. We anticipate that Measure A1 funds will be fully committed before these BART projects are built. But given the high need for affordable housing throughout the county, it is possible that Alameda County could seek approval for another similar housing bond in the coming years.
- State legislation created the Bay Area Housing Finance Authority (BAHFA) in order to address regional housing needs. BAHFA has been designed with the goal of later securing voter approval for a regional affordable housing bond.

If voters approve a regional or another county housing bond, the BART sites would be logical recipients of such funding which would reduce the need for funding directly from the City of Berkeley. However, given that the availability of future county and regional housing funds is uncertain at this time, we assume that the local cash subsidy would need to come entirely from the City of Berkeley and BART.

E. Inflation assumptions

We would expect the subsidy need to increase at least at the rate of inflation each year. The exact amount of city subsidy will depend on how long it takes before projects are approved. We have assumed that projects would be seeking funding prior to 2028. If, however, the process is delayed or extended to include many phases as described below, an additional adjustment for inflation would be necessary which would result in slight increases in the estimated subsidy amounts.

III. “Internal” Subsidy in Mixed Use Projects

Because of the high demand for housing throughout the Bay Area, it is likely that new market rate housing units at either BART station would command relatively high rents. BART and the City, as well as many neighborhood stakeholders, have expressed a commitment to prioritizing the provision of affordable housing. Rather than allowing high rents to increase developer profits or increase the value of BART land, the shared intention is to recapture much of the value created through market rate housing to create more affordable housing.

How would market rate units support affordable housing?

“Value capture” for affordable housing can be achieved in two ways:

- **Mixed Income Buildings:** Often public agencies require residential builders to include a percentage of units within each building which are rented at below market rate rents to income qualified residents.
- **100% Affordable Buildings:** Another strategy for larger sites like the two BART stations, is to set aside portions of the site for the development of 100% affordable housing developments, typically built and managed by nonprofit affordable housing developers.

There are advantages and disadvantages to each strategy. Some people feel that incorporating affordable units into each and every building is the only way to achieve economic integration. There has been quite a lot of social science research on this point and the consensus of researchers seems to be that integration of affordable units into the same neighborhoods where market rate housing is being provided makes a big difference in the health and economic wellbeing of affordable housing residents. Neighborhood integration matters. But there has been virtually no research which would suggest that low-income residents derive additional benefit from integration in the same building with higher income neighbors.

Affordable housing developments offer some significant advantages as well. Publicly funded affordable housing buildings usually serve households at lower income levels than mixed income buildings. In Berkeley, mixed income buildings that comply with the Housing Mitigation Fee Ordinance must include affordable units with half of those units serving households earning 50% of AMI and half serving 80% of AMI. On the other hand, affordable housing developments which are funded by the City’s Housing Trust

Fund generally serve households earning less than 50% of AMI with many units targeting below 30%. Further, affordable housing buildings often have family-serving amenities like playgrounds, and they frequently offer on-site social services. And importantly, in this case, because of the availability of state and federal affordable housing subsidy programs, it is possible to provide many more affordable housing units when they are clustered into 100% affordable developments. These programs are only available to affordable housing projects with close to 100% restricted units.

What do Berkeley tenants prefer?

Berkeley has some real information about what local affordable housing residents themselves think about this choice. In 2012, Cal students Beth Gerstein and Gimin Shon surveyed more than 500 Berkeley affordable housing residents. They found that residents of 100% affordable housing buildings reported the same level of satisfaction as residents living in Below Market Rate (BMR) units within market rate buildings. Roughly 90% of residents were happy with both situations and they listed the same reasons for their satisfaction including their proximity to good transportation, grocery stores, schools and events. But they found a big difference in the social experience of residents between the two building types. Most (53%) of the low-income residents in mixed income buildings reported that they did not know any of their neighbors while this was true for only 15% of the residents in 100% affordable housing buildings. And even people who knew their neighbors reported much less interaction with them. In mixed income buildings, 63% of residents did not speak to a neighbor at least once per week. In the 100% affordable buildings only 24% spoke to neighbors less than once per week.

Because of the potential to significantly increase the number of affordable units and the lack of evidence that clustering affordable housing units on a site reduces the benefits to residents, Street Level Advisors has assumed that affordable housing units on each site would be provided within publicly funded 100% affordable housing buildings. In scenarios where market rate housing is included, we have assumed that the market rate developer would make a financial contribution to support, or cross-subsidize, the development of the affordable housing units. We assume that the amount of this contribution would be negotiated by BART and the City prior to approving any market rate development and that affordable units would be constructed either concurrently or prior to development of market rate units.

Why do we need to talk about ‘feasibility?’

Some Berkeley stakeholders have raised concerns about the term ‘feasibility.’ When we talk about what is and is not financially ‘feasible’ particularly for market rate real estate developers, it can sound like the goal of public policy is to ensure that development remains profitable. The City has no obligation to ensure profits for private builders. But in order to maximize the expected contribution to affordable housing, it is important to understand how profitable projects are. Projects as “feasible” if they can generate the minimum level of profit (after providing affordable units or fees) that allows a project developer to access

private financing on common terms. The purpose of this analysis is to maximize the extent to which these sites can be used to meet the City's dire need for affordable housing including housing for the very lowest income residents.

In order to do that job effectively, however, we have to make certain predictions about how private developers will behave under different conditions. Housing development can be very profitable, and when we require market rate housing projects to contribute to affordable housing we are essentially capturing a share of that profit for community benefit. But there is a limit to how much we can capture. If you imagine the affordable housing requirement as if it were a dial, as we turn the dial up, we get more affordable units. However, at a certain point turning the dial further results in fewer affordable housing units – or none at all. That is the point of 'feasibility.' Most for-profit developers would prefer not to contribute to affordable housing because it reduces their profits. But when we require more than is feasible, they simply *can't* contribute more, whether or not they want to.

The reason to focus on this minimum level of profit, or "feasibility cutoff point" is not to protect the developer's interest. The reason is to maximize the public benefit by capturing the most that we can for the community's goals.

A. Market Rate Housing's Potential to Support Affordable Housing

In order to evaluate the potential for market rate developments at these sites to support the provision of affordable housing, we conducted a pro forma analysis to test the feasibility of various levels of contribution. We focused on the economics of rental housing developments with wood frame construction over a concrete podium. Using the results of a 'test fit' analysis conducted by Van Meter Williams Pollack (VMWP), we evaluated the feasibility of several different densities of development at each site.

The detailed assumptions we used and the detailed results from this feasibility analysis are presented in Appendix A. While the exercise yielded many helpful insights, its value to the task of budgeting for affordable housing was limited because we found that market rate housing was infeasible at both sites under current market conditions. The COVID-19 pandemic has introduced considerable uncertainty in the housing market.

Using our best estimates for the rents, construction costs and other factors in the market today, none of the prototypes we studied are currently feasible. In order for these projects to generate the minimum level of profitability required for a developer to secure institutional investment, either rents would need to rise or construction costs would need to fall (or both).

However, our interviews with developers strongly supported the view that over the next few years it was likely that these sites would become feasible again.

Thus, while we can predict that the projects will be financially feasible and capable of contributing to affordable housing, the current conditions make it impossible to evaluate the feasibility of any given level of financial support for affordable housing.

In order to estimate the level of City subsidy needed, Street Level Advisors has assumed that market rate or mixed income projects will not happen on either site until the point where a market rate project could feasibly afford to make a contribution to affordable housing at least equivalent to the City of Berkeley's current Affordable Housing Mitigation Fee (AHMF). The City currently charges \$39,746 per unit of market rate housing built.

To be clear, there is no magic to this specific fee level. Today, most potential projects would not be able to pay this fee and generate the level of return needed to attract investment. Over time, as market conditions change, the level of fee that can be paid will increase and may eventually exceed the level of the current AHMF. Street Level Advisors' recommendation is that the City and BART conduct a feasibility analysis **at the time** of any specific development proposal and negotiate a contribution which maximizes the resources for affordable housing based on conditions at the time. Street Level Advisors' assumption, however, is that the contribution would not be LOWER than the level of the current AHMF – simply because it would be politically challenging to require less from development on BART land than the City requires from other private projects throughout the city. In a strong market, it is likely that the City could require MORE than the AHMF but since we don't know how strong the market will be at that time, we can't forecast any particular level of contribution beyond the AHMF.

Using this simplified assumption, **Table 6** shows the minimum affordable housing contribution for various development scenarios at each station. Increasing the density (# of units) increases the dollar amount of this internal affordable housing contribution significantly.

Table 6: Potential Minimum Developer Contribution for Affordable Housing – 35% Affordable

		5 Stories	6 Stories	7 Stories	8 Stories
Total Units					
Ashby		575	700	850	975
North Berkeley		540	650	775	900
Affordable Units					
Ashby	35%	201	245	298	341
North Berkeley	35%	189	228	271	315
Contribution from Market Rate Units					
Ashby		14,865,004	18,084,430	21,939,792	25,198,964
North Berkeley		13,950,846	16,772,812	20,031,984	23,251,410
		28,815,850	34,857,242	41,971,776	48,450,374

Table 6 shows this potential developer contribution for projects with a minimum of 35% affordable housing. If the affordable housing requirements are set higher than 35%, as described below, the amount of funding available through this kind of internal subsidy would fall because projects with more affordable units will have fewer market rate units contributing to the fee.

IV. Contribution of BART's Land Value Discount

BART leases its land rather than selling it. This means that the owner of a residential building on BART land, whether affordable or market rate, will pay a ground rent to BART. In general, the rent amount is determined based on the estimated market value of the land underlying the project. A key goal for BART in undertaking transit-oriented development is continuously generating revenue to support transit operations through ground rents as well as increased ridership.

For projects that include high levels of affordable housing, BART will discount the standard ground rent. BART's Transit-Oriented Development [Policy](#) requires at least 20% affordable housing in all projects and aims for much higher percentages when possible to achieve a portfolio-wide average affordability of 35%. BART will provide a land value discount to projects where at least 35% of units are affordable. More specifically, projects with affordable units serving households earning 46-60% of the Area Median Income on average, BART will reduce the land price by up to 30%. For supportive housing projects, or those serving households earning 45% of AMI or less on average, BART will discount land even further – up to 60% below the market value.

The determination of the market value of BART-owned land at each site will have a significant impact on feasibility of any project. To date, no appraisal or detailed estimate of the value of this land has been completed. For the purpose of estimation, we have assumed a market land value of \$3 to \$5 million per acre for each site. For comparison, the land values used in recent transactions for multi-family development sites in downtown Berkeley exceeded \$5 million per acre. But the significant and largely unknown costs related to infrastructure and open space at the BART sites will likely result in lower land values than we have seen at other sites.

For the purpose of estimating the necessary City subsidy, Street Level Advisors has assumed that BART's land value discount is calculated for the whole site but provided as a subsidy to the affordable project only, i.e. the market rate project would pay full value for land and receive a cash affordable housing contribution while the affordable project would receive both the land discount from BART and the developer's cash contribution. For an affordable project occupying 35% of the land area, a 30% discount on the value of the whole site results in an 86% discount on the land cost for the affordable parcel.

Table 7: BART Land Discount Example

	Ashby	North Berkeley
Land Cost Per Acre (Assumption)	\$ 5,000,000	\$ 5,000,000
Acres	\$ 6.1	\$ 6.6
Total Value	\$ 30,500,000	\$ 33,000,000
30% Discount	\$ 9,150,000	\$ 9,900,000
Land Value for affordable portion (35%)	\$ 10,675,000	\$ 11,550,000
Less Discount	\$ 9,150,000	\$ 9,900,000
Net land cost to affordable project	\$ 1,525,000	\$ 1,650,000

V. Remaining Local Subsidy Needed to Achieve 35% Affordable Housing at Each Site

The MOU between the City and BART calls for the City to calculate and commit the necessary funding to subsidize affordable housing at each site equal to 35% of the housing units at each site. **Table 8** shows the funding needed for development at a scale estimated using a 7-story project at each site. The calculations to arrive at the funding needed for the 7-story projects and other building heights are included in **Table 9** below. For example, a 7-story project at North Berkeley station could include a total of 775 units. To make 35% of those units affordable would require approximately \$54,200,000 in local funding.

But the City does not need to directly fund that full amount. Street Level Advisors assumed that at least \$20 million could be contributed by the market rate project(s) that comprise the remaining 65% of the units at the site and an additional \$9 million would be provided by BART in the form of reduced land cost. The net result is that the City would need to provide approximately \$25 million in additional subsidies in order to achieve 35% affordability at North Berkeley.

Table 9 shows the comparable calculations for buildings of different heights at each station.

Table 8: Estimated Gap Funding - 7 Story Projects - 35% Affordable

	Ashby	North Berkeley
Total Units - 7 stories	850	775
Affordable Units %	35%	35%
Affordable Units #	298	271
Total Subsidy @ \$200,000/unit	\$ 59,600,000	\$ 54,200,000
- Contribution from Market Rate Units	21,939,792	20,031,984
- BART Land Value Discount	9,900,000	9,150,000
= Gap to be Funded by City	\$ 27,760,208	\$ 25,018,016

Table 9: Estimated Local Funding Gap – Various Levels of Projected Development - 35% Affordable

	5 Stories	6 Stories	7 Stories	8 Stories
Total Units				
Ashby	575	700	850	975
North Berkeley	540	650	775	900
Affordable Units				
Ashby 35%	201	245	298	341
North Berkeley 35%	189	228	271	315
Total Local Subsidy @ \$200,000/unit				
Ashby	40,200,000	49,000,000	59,600,000	68,200,000
North Berkeley	37,800,000	45,600,000	54,200,000	63,000,000
Total	78,000,000	94,600,000	113,800,000	131,200,000
Contribution from Market Rate Units				
Ashby	14,865,004	18,084,430	21,939,792	25,198,964
North Berkeley	13,950,846	16,772,812	20,031,984	23,251,410
	28,815,850	34,857,242	41,971,776	48,450,374
Land Discount Assumption				
	Acres	Value Per Acre	Market Value	30% Discount
Ashby	6.6	5,000,000	33,000,000	9,900,000
North Berkeley	6.1	5,000,000	30,500,000	9,150,000
Net - Gap to be funded by City				
Ashby		15,434,996	21,015,570	27,760,208
North Berkeley		14,699,154	19,677,188	25,018,016
Total - Funding needed from City		30,134,150	40,692,758	52,778,224
			52,778,224	63,699,626

VI. Exceeding 35% Affordable Housing

A. City Subsidy Estimates for Higher Levels of Affordable Housing

While the City-BART MOU requires the City to set-aside funds for a minimum of at least 35% affordable housing at both sites, many stakeholders have expressed a strong interest in exceeding that minimum, at the Ashby station in particular. The Adeline Corridor Specific Plan calls on the City to “strive to achieve 100% affordable housing” at the Ashby BART station. The Community Advisory Group for this process has been discussing specific proposals for the Joint Vision and Priorities document to be adopted along with the zoning regulations. The current draft language in that document calls for a minimum of 35% or 225 units of affordable housing at North Berkeley and 50% or 400 units at Ashby.¹

Phasing Assumptions

One of the key factors influencing the feasibility of projects with very large numbers of affordable housing units will be the need for phasing. All of the significant affordable housing funding sources are awarded through competitive, periodic application processes which have the effect of limiting the amount of subsidy that is generally awarded to a single project. Larger projects require larger allocations of Low-Income Housing Tax Credits and larger loans from sources like the State of California. For projects beyond a certain size, the required subsidies exceed the level of subsidy that is available in a single round of funding.

To build a very large number of affordable housing units on a single site, a developer is less likely to quickly develop one massive affordable project than to subdivide the site into multiple parcels and develop a series of smaller affordable projects over time. Low Income Housing Tax Credit funded projects range in size from around 25 units up to 200 units, but very few projects include more than 150 units.

¹ The Draft City – BART Joint Vision and Priorities document is the process of being developed and will go through additional review and comment by the City’s BART Community Advisory Group (CAG) and the broader community. A working (partial) draft presented to the CAG for comment on 12/18/20 is available on the project webpage: https://www.cityofberkeley.info/uploadedFiles/Planning_and_Development/Level_3_-_Land_Use_Division/2020_12-18_WORKING_DRAFT_Joint%20Vision%20and%20Priorities_HOUSING%20and%20CIVIC%20SPACE.pdf

Table 10 below shows the calculations for the needed subsidy to achieve these minimums. Setting a floor on the number of affordable units significantly increases the City subsidy needed for lower density projects. For lower density projects, achieving the minimum unit numbers requires a higher share of affordable housing. With fewer market rate units to provide internal subsidy, the subsidy needed from the City rises dramatically.

Achieving a higher percentage of affordable housing at Ashby would require a greater City subsidy. **Table 11** below shows the subsidy levels needed for 7-story projects with 35% affordable housing at North Berkeley and percentages of up to 100% affordable housing at Ashby.

B. Phasing Assumptions

One of the key factors influencing the feasibility of projects with very large numbers of affordable housing units will be the need for phasing. All of the significant affordable housing funding sources are awarded through competitive, periodic application processes which have the effect of limiting the amount of subsidy that is generally awarded to a single project. Larger projects require larger allocations of Low-Income Housing Tax Credits and larger loans from sources like the State of California. For projects beyond a certain size, the required subsidies exceed the level of subsidy that is available in a single round of funding.

To build a very large number of affordable housing units on a single site, a developer is less likely to quickly develop one massive affordable project than to subdivide the site into multiple parcels and develop a series of smaller affordable projects over time. Low Income Housing Tax Credit funded projects range in size from around 25 units up to 200 units, but very few projects include more than 150 units.

Table 10: Example of Minimums included in DRAFT Joint Vision and Priorities Document (12/18/20)

			5 Stories	6 Stories	7 Stories	8 Stories
Total Units						
Ashby			575	700	850	975
North Berkeley			540	650	775	900
Affordable Units	<u>Min %</u>	<u>Min #</u>				
Ashby	50%	400	400	400	425	488
North Berkeley	35%	225	225	228	271	315
Total Local Subsidy @ \$200,000/unit						
Ashby			80,000,000	80,000,000	85,000,000	97,600,000
North Berkeley			45,000,000	45,600,000	54,200,000	63,000,000
Total			125,000,000	125,600,000	139,200,000	160,600,000
Contribution from Market Rate Units						
Ashby			6,955,550	11,923,800	16,892,050	19,356,302
North Berkeley			12,519,990	16,772,812	20,031,984	23,251,410
			19,475,540	28,696,612	36,924,034	42,607,712
Land Discount Assumption						
		Acres	Value Per Acre	Market Value	30% Discount	
Ashby		6.6	5,000,000	33,000,000	9,900,000	
North Berkeley		6.1	5,000,000	30,500,000	9,150,000	
Net - Gap to be funded by City						
Ashby			63,144,450	58,176,200	58,207,950	68,343,698
North Berkeley			23,330,010	19,677,188	25,018,016	30,598,590
Total - Funding needed from City			86,474,460	77,853,388	83,225,966	98,942,288

Table 11: City Subsidy Needed - 7 Story Buildings

Ashby		North Berkeley		TOTAL
% Affordable	City Cost	% Affordable	City Cost	
35%	27,760,208	35%	\$ 25,018,016	\$ 52,778,224
50%	\$ 58,207,950	35%	\$ 25,018,016	\$ 83,225,966
60%	\$ 78,586,360	35%	\$ 25,018,016	\$ 103,604,376
70%	\$ 98,964,770	35%	\$ 25,018,016	\$ 123,982,786
75%	\$ 109,273,848	35%	\$ 25,018,016	\$ 134,291,864
80%	\$ 119,343,180	35%	\$ 25,018,016	\$ 144,361,196
85%	\$ 129,652,258	35%	\$ 25,018,016	\$ 154,670,274
90%	\$ 139,721,590	35%	\$ 25,018,016	\$ 164,739,606
95%	\$ 150,030,668	35%	\$ 25,018,016	\$ 175,048,684
100%	\$ 160,100,000	35%	\$ 25,018,016	\$ 185,118,016
50%	\$ 58,207,950	50%	\$ 49,967,475	\$ 108,175,425
75%	\$ 109,273,848	75%	\$ 96,418,263	\$ 205,692,111
100%	\$ 160,100,000	100%	\$ 142,869,050	\$ 302,969,050

Note: figures have not been adjusted for inflation.

Nothing prevents two projects in Berkeley or even two projects at the same BART station from securing funding from the same source in the same year. However, since tax credits and other resources are allocated through statewide competitions, there is a limit to how much funding Berkeley should expect to secure in a given period of time. Unfortunately, we don't know what those limits are because there are few good examples of very large sites being set aside for primarily affordable housing. It may be possible for a different Ashby BART project to win the tax credit competition each year for several years in a row, but that scenario seems somewhat unlikely. The affordable housing stakeholders we interviewed all agreed that as the number of affordable units at either station grows, the total time required to secure the necessary outside funding will grow significantly.

Brooklyn Basin

Brooklyn Basin is a larger-scale development on 64 acres of Oakland's waterfront. The project is being developed to include more than 3,000 units of housing in 13 residential buildings including 465 units of affordable housing (15%). While the City selected the Master Developer for the project in 2006, the subsequent economic downturn delayed development and the nonprofit developer, MidPen Housing, was not selected until 2015. MidPen decided to break the required 465 units into four separate projects which they expect to complete over a 7-year period. In 2016, the City allocated \$35 million of its Affordable Housing Bond funds to the projects, and MidPen began work on two projects: a 101-unit family housing project called Paseo Estero, and a 110-unit senior housing project called Vista Estero. Both projects target households earning less than 60% of AMI. Construction has begun on both of these projects, and MidPen has started planning the next phase. In 2020, Oakland approved an additional \$30 million from its housing trust fund for the next two projects. Project 3 is a 130-unit project including 26 units for chronically homeless individuals, 52 units for extremely low-income households and 77 units for households earning less than 60% of AMI. Project 4 will be a 124-unit project with income mix to be determined based on financing availability.

The specific sizes and phasing of either site will depend on a number of factors including the specific populations being served. For the purpose of evaluating the general feasibility of development strategies with very high shares of affordability, however, Street Level Advisors made the following general assumptions:

- Affordable housing at either site would be provided in buildings of 140 units or less.
- Any affordable project would require roughly 5 years for development on average, including planning, design, permitting, securing funding, construction, and initial leasing.; and
- The phases would need to be staggered by at least one and a half years. (Sometimes projects are funded in back to back years or even in the same year and at other times one or more years elapses between successful funding awards.)

Based on these simplifying assumptions, it is possible to project how long it would take to complete the construction of different levels of affordable housing. In order to make a relatively conservative estimate, Street Level Advisors has accounted for both stations together. Even though they may be developed entirely independently of one another, the funding demands of one station will inevitably impact the other if they are developed simultaneously.

Table 12: Affordable Housing Phasing Estimates

Phasing Scenario

Specific phasing cannot be predicted at this stage, this simply provides an example

Ashby (7 stories)		North Berkeley (7 stories)		Total Units	Phases	Average Size	Minimum Years to completion
%	#	%	#				
35%	298	35%	271	569	5	114	11
50%	425	35%	271	696	6	116	13
75%	638	35%	271	909	7	130	14
100%	850	35%	271	1121	9	125	17

These estimates are intended to provide only a rough sense of the potential timeline. There is no specific reason why projects could not be completed more quickly, but it would not be uncommon for development at this scale to take much longer.

As **Table 12** shows, Street Level Advisors estimates that producing even the minimum expectation of 35% affordable housing at both stations will require funding at least 5 separate projects. Based on the assumption that phases will be staggered by 1.5 years, the 5 phases would not be completed until 11 years after BART selects developers. The first affordable housing residents would likely move into projects at one of these sites about 5 years after developer selection. For the purpose of illustration, Street Level Advisors has assumed developer selection in 2022 though it would not be unusual for the selection process to take longer.

Increasing the share affordable units increases the required timeframes significantly. **Table 12** shows several scenarios discussed with the CAG in which North Berkeley includes 35% affordable housing and Ashby includes a much higher percentage. For example, building 100% affordable at Ashby plus 35% at North Berkeley would require roughly 9 separate phases and at least 17 years.

The timelines suggested by this simplified analysis suggest that it would be difficult to meet BART’s goal of completing construction by 2030 under any scenario.

Projecting the timing of funding commitments

One potential positive side effect of developing several affordable housing projects over many years is that the City will not need to commit its entire share of subsidy funding at the outset. While the MOU between the City and BART calls for the City to set-aside sufficient funding at this time for 35% affordable housing, phased development can be *funded* in phases. The large number of unknowns regarding the future of these projects

makes it impossible to project the specific timing of these potential projects. However, it seems helpful for the City and BART to have some expectation about when the City will need to commit funding, particularly for scenarios that involve very high shares of affordable housing.

Table 13 presents one hypothetical scenario for developing both sites with the minimum required 35% affordable housing (assuming development using 7-story buildings). This scenario assumes that developers are selected for both sites by 2022 and that the first projects would be ready for occupancy by 2027. In general, the assumption is that projects would need access to City financing before they start construction at least two years prior to occupancy. In this case, for projects to be ready by 2027, the City funding would need to be available by 2025. This analysis also assumed that two projects could be funded simultaneously in the first year with another funded the following year and remaining phases staggered every other year. The actual timing of phases could be quite different. The table does not include predevelopment financing, though it is likely that a developer would also require a much lower amount of predevelopment funding from the City at an earlier stage.

Table 14 presents an alternative hypothetical scenario with 35% affordable housing at North Berkeley and 75% affordable at Ashby with both sites built to 7 stories.

Table 13: Hypothetical Project Funding Timeline (35% Affordable at Both Sites) – City Subsidy

	2025	2026	2027	2028	2029	2030	2031	2032
Ashby								
Ashby #1			99					
Ashby #2				99				
Ashby #3								99
North Berkeley								
North Berkeley #1			136					
North Berkeley #2						136		
Ashby	9,253,403	9,531,005	-	-	-	10,727,230		
North Berkeley	12,509,008			13,668,931				
Total	21,762,411	9,531,005	-	13,668,931	-	10,727,230	-	-

Table 14: Hypothetical Project Funding Timeline (75% at Ashby/35% at North Berkeley) – City Subsidy

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Ashby												
Ashby #1			128									
Ashby #2				128								
Ashby #3								128				
Ashby #4										128		
Ashby #5												128
North Berkeley												
North Berkeley #1			136									
North Berkeley #2						136						
Funding from Berkeley												
Ashby	21,923,280	22,580,978	-	-	-	25,415,090		26,962,869		28,604,908	-	-
North Berkeley	12,555,167			13,719,370								
Total	34,478,447	22,580,978	-	13,719,370	-	25,415,090	-	26,962,869	-	28,604,908	-	-

D. Considering Middle Income Restricted Housing

One strategy that could help the projects achieve a higher share of income-restricted housing units without extending the time required for development or dramatically increasing the City subsidy needed would be the inclusion of “middle-income” restricted units.

There is a fairly new state program which enables tax exempt bond financing and property tax exemption for projects serving a mix of incomes from 80% to 150% of Area Median Income. These are higher incomes than what most affordable housing programs serve but this is roughly the income range that includes many of Berkeley’s teachers. While they don’t face the same hardships as lower income residents, it is very hard for people in this income group to find housing that they can afford, and they are almost never eligible for affordable housing programs.

Within this program, these projects are owned by a public authority, created by the state, which would offer the City of Berkeley the right to purchase the projects if they are ever sold in the future. These projects are financed without any private equity which brings the cost down. The model has been used to finance the purchase of existing apartment buildings mostly in suburban areas of the state and it has not been tested yet for new construction in a high cost location so it may or may not be possible.

Since this program is relatively new, it would require further exploration before the City could commit to such an approach. There are a number of factors in the finance and development process which could render this approach infeasible for the BART station projects. However, ongoing innovation in this field may present other opportunities to achieve moderate-income housing in the future.

E. Working with a Master Developer to Maximize Affordable Housing

There appears to be widespread agreement that the City and BART should attempt to maximize the number and share of affordable housing units at each of these sites. But this raises a critical process question. An aspirational goal such as “maximize affordable housing” is much harder to oversee than a hard and fast percentage. If the goal were simply to achieve 35% affordable housing, BART or the City could simply refuse to approve projects that didn’t meet the mark. But if the goal is to achieve a higher share at one or both sites, approval might require evidence that the selected developer made its “best effort.” Unfortunately, a private residential builder may have a fairly strong financial incentive to prefer a project with fewer affordable units – making it difficult, though not impossible, to hold them to a higher standard.

One alternative which the City and BART might jointly explore would be selecting a nonprofit Master Developer or approving a partnership between multiple nonprofits. Frequently, larger development projects like these station sites are developed by a Master Developer who leads the overall planning, builds key infrastructure like streets,

sidewalks and open space but then creates smaller parcels within the overall site and selects other developers to build the buildings on those parcels. Quite often a for-profit builder serves as the Master Developer and they select a nonprofit affordable housing developer to build affordable units on one or more specific parcels. But this relationship can be flipped. A nonprofit organization can serve as the Master Developer and select one or more for-profit developers to build market rate housing on certain parcels (and this has been the case previously at a BART station). While this approach may require building capacity as described below, one clear advantage would be that it would align the Master Developer's interest with the community interest of maximizing affordable housing. A nonprofit developer dedicated to serving households with the greatest need may be more likely to do everything in its power to include as much affordable housing as possible and reach as far down the income ladder as possible. In addition, community members and public officials might be more willing to trust and accept a nonprofit developer if they assert that it is not practical to exceed a certain share of affordable housing.

The obvious obstacle to this approach is that no Berkeley-based organization currently has all of the necessary capacity and experience to act as the Master Developer. Working with a nonprofit master developer will require the City and BART to select a larger regional nonprofit, or to invest in building capacity of the selected local nonprofit(s).

There are several high-capacity nonprofit developers based in Berkeley that probably have the financial and organizational capacity necessary to lead large-scale development at either of the stations, but none have significant experience serving as Master Developer in projects that include market rate housing. This capacity challenge could be addressed by building a team including one or more experienced consultants with private sector experience who would be accountable to the local nonprofit's leadership. Another possibility is that a local nonprofit could enter into a formal joint venture with an experienced larger developer which would give the local nonprofit final authority over certain key decisions but allow the for-profit developer to play a role in managing the project.

Another critical capacity issue, particularly in South Berkeley, is community engagement and voice. The historical and present-day racial equity challenges surrounding the Ashby BART station suggest that the success of any project will depend on ongoing and active leadership from Berkeley's African American community. While all selected developers should be expected to listen to community voices, it would be possible to achieve a qualitatively different level of engagement if a black-led organization with existing community relationships was actively involved in every stage of the development process, especially the process of determining the strategy for maximizing affordable housing. Any Requests For Qualifications (RFQs) for developer selection could either require this kind of partnership, or offer points to teams led by local nonprofit organizations with relevant capacity and/or teams with a well-developed racial equity strategy and commitment.

Appendix A: Mixed Income Development Proforma Analysis

This appendix provides detailed information about the assumptions that Street Level Advisors used to produce the Financial Feasibility Analysis for the Berkeley BART sites.

1. Proposed Building Prototypes



4-Story Apartment Building

- Construction Cost per Gross Foot: \$340 (excluding parking)
- Avg. Rent per Residential Foot: \$4.89
- Average Unit Size: 718 feet
- Parking Ratio: 0.25%
- Unit Mix: 20% Studio, 50% 1BD, 30% 2BD, 0% 3BD
- *Example Projects:* La Vereda, San Leandro; The Overture, Berkeley

5 or 6-Story Apartment Building

- Construction Cost per Gross Foot: \$390 (excluding parking)
- Avg. Rent per Residential Foot: \$5.04
- Average Unit Size: 718 feet
- Unit Mix: 20% Studio, 50% 1BD, 30% 2BD,
- Parking Ratio: 0.25
- Parking Construction Cost per Space: \$60,000
- Ground Floor Commercial (Retail or Office) - \$2.25/foot
- *Example Projects:* Mural, Oakland; The Dwight, Berkeley





7 or 8-Story Apartment Building

- Construction Cost per Gross Foot: \$390 (excluding parking)
- Avg. Rent per Residential Foot: \$5.24
- Average Unit Size: 718 feet
- Unit Mix: 30% Studio, 50% 1BD, 20% 2BD,
- Parking Ratio: 0.25
- Parking Construction Cost per Space: \$60,000
- Ground Floor Commercial (Retail or Office) - \$2.25/foot

Example Projects: StoneFire Building, Berkeley

2. Parking Structure Prototype

a. Patron Parking Structure

- Construction Cost: \$60,000 to \$80,000 per Space
- Monthly Rental Revenue per Space: \$150 (\$7 per day)
- BART O&M Cost per Space per Month: \$40

3. Open Space Prototype

a. Plaza/Paseo/Market Space

- Construction Cost: \$500 - \$900 per sq ft
- Annual Operating Cost: \$150,000 to \$200,000 per year
- Operating Revenue - \$0

4. Financing Assumptions

Market Rate

- Construction Interest Rate: 6%
- Loan to Cost ratio: 80%
- Cap Rate: 4.1%
- Target Yield on Cost: 5.10%

Low Income Housing Tax Credit

- Applicable Federal Rate (AFR) 4%: 3.07
- Applicable Federal Rate (AFR) 9%: 7.17
- Syndication Rate 4%: 92%
- Syndication Rate 9%: 92%

Middle Income Restricted

Example: Catalyst Housing

- 100% debt financed with Governmental Revenue Bonds (no private equity)
- Interest Rate: 4%
- 100% Property Tax Exemption
- Income Restrictions at 80%, 120%, and 150% (average rent 20% below market)
- Rent to Income Ratio: 35%
- Annual Cap on Rent Increases: 4%
- Issuance Fees and Reserve Capitalization: 10% of cost

5. Common Project Assumptions

Note: All hard costs above assume a Project Labor Agreement

- Soft Costs as a % of Hard Costs: 25%
- Rental Vacancy Rate: 4.5%
- Parking Revenue for Rental Properties: \$200 per space per month
- Other Rental Property Revenue (Storage, etc.): \$50 per unit per month
- Rental Operating Costs: 30% of gross rent