

# Commercial Linkage Fees: A Guide for San Mateo County



## Why Commercial Linkage Fees?

- The current housing market is not producing enough housing options for all members of our communities.

### Average Rents in San Mateo County<sup>1</sup>:

1-BR: \$2,516  
2-BR: \$2,815

- Commercial Linkage Fees help cities address the problem of a “jobs-housing fit,” where the range of housing affordability choices need to fit the range of worker incomes in the community.
- The largest number of future job openings in the Peninsula metro areas are expected in low and moderate wage (less than \$20/hour) occupations<sup>2</sup>

**For every 1 high-tech job, an additional 4.3 local service jobs are added to the same region in the long run<sup>3</sup>**

<sup>1</sup>San Mateo County Department of Housing (June 2015)

<sup>2</sup>SAMCEDA (2014)

<sup>3</sup>Bay Area Council Economic Institute (2012)

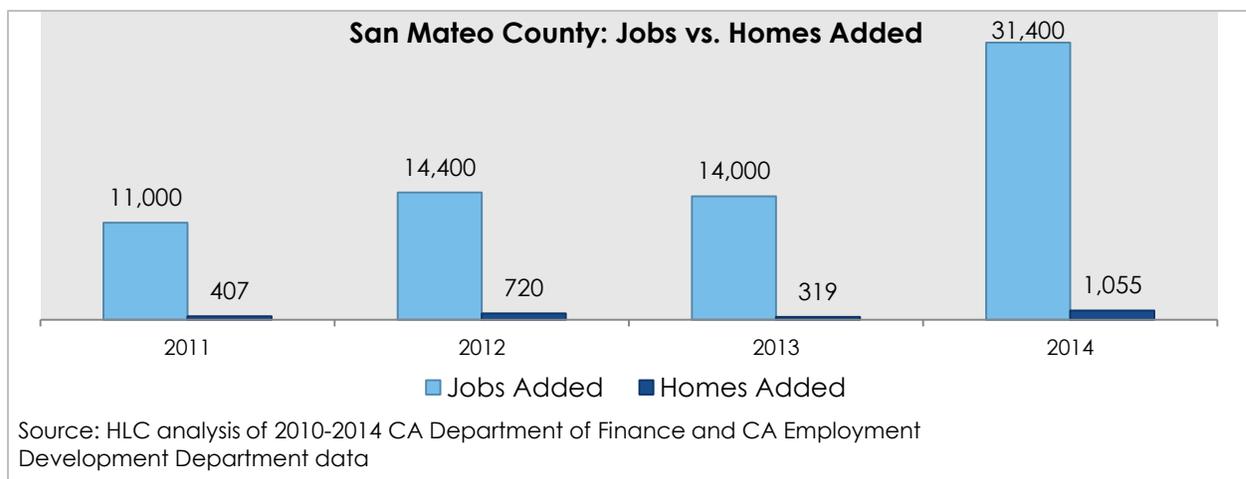
*How much do you need to earn to rent a market-rate apartment in San Mateo County?*

**1-BR: \$100,640/year**

**2-BR: \$112,600/year**

Occupation	Median Salary 2014	Projected job growth 2012-2022
Telecommunication Equipment Installers	\$64,091	34.1%
Meeting, Convention, and Event Planners	\$61,712	31.5%
Hotel, Motel, and Resort Desk Clerks	\$37,182	30.8%
Restaurant Cooks	\$27,358	26.0%
Food Prep Workers and Servers	\$22,340	24.2%

Source: CA Employment Development Department



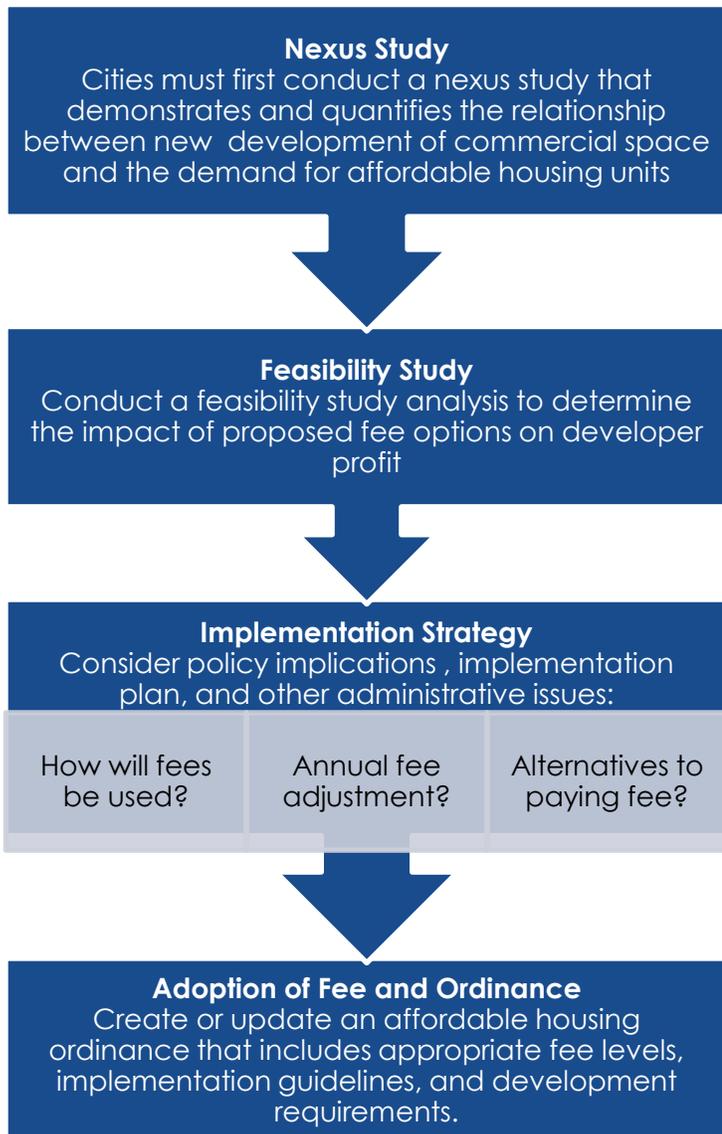
## What is a Commercial Linkage Fee?

A Commercial (Jobs) Linkage fee is a per-square foot fee assessed to new, non-residential construction, such as hotel, office space, and retail and restaurants, to address the affordable housing demand from new workers.

These fees are based on the idea that there will be a net gain in employment when new commercial space is built. Approximately 60% of new jobs in San Mateo County over the next 10 years are expected to pay less than \$50,000/year, such as custodial staff, shuttle bus drivers, coffee baristas, hotel service workers, and restaurant staff. These new workers will then create increased demand for new affordable homes.



## Key Steps to Adopting a Commercial Linkage Fee



## Local Cities with a Commercial Linkage Fee

City	Fee Amount
Menlo Park* (2015)	Office/R&D: \$15.19/sq. ft. Commercial/industrial: \$8.24/sq. ft.
Sunnyvale (2015)	High-intensity industrial: \$15.00/sq. ft.
Palo Alto* (1984)	Large commercial and industrial: \$19.31/sq. ft.
Mountain View* (2015)	Office/High Tech/Industrial: Up to \$25.00/sq. ft. of new gross floor area Commercial/Retail/Entertainment/Hotel: Up to \$2.50/sq. ft. of new gross floor area

\*Adjusted annually by the percentage change in the Consumer Price Index (CPI) for San Francisco-Oakland area

For a complete list of Bay Area cities that have adopted impact fees: [www.nonprofihousing.org](http://www.nonprofihousing.org)

### Sample ordinance language:

"A commercial development project may be required to provide below market rate housing on-site [...] or off-site. If it is not feasible to provide below market rate housing units, the developer shall pay an in lieu fee to issuance of a building permit [...]." City of Menlo Park [Ch. 16.96.030(3)]

## Policy Considerations

### Setting Appropriate Fee Levels

A commercial nexus study will typically present maximum and recommended fee levels for various prototypes (hotel, retail/restaurant, and office/R&D/medical office) that address both the affordability gap as well as the feasibility of a development with impact fees. Fees should also be adjusted on a regular basis to compensate for inflation and changes in the housing market. When determining what fee levels to adopt, cities should take into consideration several factors:

- Will it help mitigate the increased demand of new housing generated by new commercial development?
- Will it help promote a city's housing goals, such as increasing homeownership opportunities or increasing multi-family rental stock?
- Will it appropriately address current and future housing needs and job growth?
- Is it appropriate given the size and scope of a proposed development?

### Alternatives to Fee Payment

Some cities have provided the option for a developer to propose an alternative to paying a commercial linkage fee, such as onsite or offsite construction of affordable rental units. Providing alternatives to fee payment may be beneficial for cities that own little to no vacant or underdeveloped property and are unable to collect a significant amount in fees.

### Overall Fee Structure

It is important to consider how a commercial linkage fee will interact with its existing fee structure on non-residential development. An effective commercial linkage will strike a balance between fully mitigating the affordable housing impacts of new development and encouraging new development.

### Establishing a Fund

When development begins to happen after the adoption of a commercial linkage fee, cities will need to create an "affordable housing fund" to collect the fees. How these fees are dispersed can then be determined at the discretion of local decision makers, such as the City Council or the City Manager, or through a public process. Fees can be used to fund a variety of spending programs, such as paying for new construction costs, preservation programs, providing rental assistance to low-income households, creating a first-time homebuyer loan program, or loans for home improvements.

### Employee Density

A commercial nexus study will typically calculate the number of new workers of a commercial prototype by using the average density (square feet per worker). However, when determining an appropriate fee, cities should take into consideration other factors such as:

- Office workers in the technology and mobile sectors tend to occupy less square feet per worker, allowing for a higher density of workers
- The nexus study does not account for the portion of workers who work but do not live in a community. These workers will also significantly contribute to the demand for local services.

### Public Participation

As cities begin to study and consider the adoption of a commercial linkage fee, it is critical to encourage participation and gather input from all members of the community, such as residents, community groups, housing developers, and other stakeholders.

## Resources

- **Non-Profit Housing Association of Northern California**, Bay Area Impact Fees, link: [nonprofithousing.org/resources/bay-area-impact-fees/](http://nonprofithousing.org/resources/bay-area-impact-fees/)
- **San Mateo County 21 Elements**, Grand Nexus Study, Link: <http://www.21elements.com/Nexus-Study/View-category.html>
- **City of Menlo Park**, Below Market Rate Housing Program - Zoning Code Chapter 16.96, Link: <http://www.codepublishing.com/CA/menloPark/?MenloPark16/MenloPark1696.html>
- **City of Sunnyvale**, Housing Impact Fees for non-residential development – Zoning Code Section 19.75.030, Link: <http://qcode.us/codes/sunnyvale/>
- **City of Mountain View**, Section 36.40, Link: [https://www.municode.com/library/ca/mountain\\_view/codes/code\\_of\\_ordinances?nodeId=PTIITHCO\\_CH36ZO\\_ARTXIVAFHOPR\\_D\\_IV3COINDEHOIMFEPR](https://www.municode.com/library/ca/mountain_view/codes/code_of_ordinances?nodeId=PTIITHCO_CH36ZO_ARTXIVAFHOPR_D_IV3COINDEHOIMFEPR)
- **City of Palo Alto**, Approval of Projects with Impacts on Housing – Section 16.47, Link: [http://www.amlegal.com/nxt/gateway.dll/California/paloalto\\_ca/title16buildingregulations\\*/chapter1647approvalofprojectswithimpacts?f=templates\\$fn=default.htm\\$3.0\\$vid=amlegal:paloalto\\_ca\\$anc=JD\\_Chapter16.47](http://www.amlegal.com/nxt/gateway.dll/California/paloalto_ca/title16buildingregulations*/chapter1647approvalofprojectswithimpacts?f=templates$fn=default.htm$3.0$vid=amlegal:paloalto_ca$anc=JD_Chapter16.47)

Founded in 2001, **HOUSING LEADERSHIP COUNCIL OF SAN MATEO COUNTY** works with communities and their leaders to produce and preserve quality affordable homes. We work to provide **fundamental solutions** to some of our community's most pressing issues. Our membership includes nonprofits, employers, business associations, labor unions, real estate professionals, public agencies, environmentalists, and concerned community members.

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## Frequently Asked Questions

### ***Do commercial linkage fees discourage development?***

Not if they are designed and implemented well. A strong financial feasibility analysis can show that commercial development in the current market would still be feasible if a city enacts a significant commercial linkage fee.

### ***Do commercial linkage fees make commercial spaces more expensive?***

No. Landlords set their rents based on the market and not on the cost of construction to the developer. In a competitive market, property owners and landlords are already commanding the maximum sales prices or rents that the market will bear. It is unlikely that sales prices or rents will increase due to the adoption of a commercial linkage fee.

### ***Is it fair to require market rate developers to pay this fee?***

Yes. Since a commercial nexus study will demonstrate the increased demand for affordable housing as a result of new, non-residential development, it is fair for developers to share the burden of the costs of meeting this new demand. Adopting an ordinance will make it clear to all developers what their financial obligations will be up front, rather than having fee levels vary on a project-by-project basis.