Date: September 8, 2026

City of Irvine – Affordable Housing In-Lieu Fee Formula Update

Frequently Asked Questions

1. Revenue Assumptions

- **Affordable Ownership Pricing Discrepancy:** In the *Affordable/Income-Restricted Ownership Unit Sale Prices* section, the Very Low Income price for a 4-Bed unit is listed at $53,385, which is lower than the 3-Bed unit price ($64,262).

Q: Is this a typographical error? If so, what is the corrected value?

A: No. The estimated affordable sale prices were calculated by first identifying required housing costs except for mortgage payments (i.e., insurance, HOAs, property taxes, etc.). The total of these housing costs is subtracted from 35% of gross income for each income category (i.e., very-low, low, and moderate) pursuant to HUD guidelines to calculate the remaining income available for a mortgage payment. The estimated sales price is calculated based on this remaining amount. The Study assumes higher utility and property tax costs for larger units. Utility costs were estimated using the County of Orange utility allowances for affordable housing units. The higher the bedroom count, the higher the utility allowance. Property taxes in Irvine often include special assessments for schools, landscape and lighting, community facilities, etc. Special assessments are not based on assessed value, but rather on square footage or special benefit. These assessments are routinely higher for larger units than smaller units and conservative assumptions were made on property taxes.

The higher cost for utilities and property taxes (i.e., housing costs recognized by HUD) are the reason for the lower sales price for the larger unit; there is less income left over for the mortgage which reduces the sales price.

Importantly, the sales prices for affordable units are only a factor in the Affordability Gap Fee option and are *not* included as a data input in the City's Existing Formula option, as recommended by the Study and City staff.

2. Development Cost Assumptions

- **Market Land Value Recency:** The analysis relies on an August 25, 2025 appraisal report for the Irvine Gateway Project.

Q: Why was a more recent appraisal not completed specifically for this in-lieu fee update study?

A: There are two appraisals on hand that are currently valid. One dated April 2025 for Gateway Residential Village (Planning Area 2) and one dated December 2025 for the IBC area (Planning Area 36). The City typically only prepares one appraisal a year as that is the amount of time for which they are valid.

- **Direct Construction Cost Backup**

Q: While the 5% contingency rate is standard, could the City share the detailed direct cost line items/breakdown derived from CoreLogic Marshall & Swift for stakeholder review?

A: The Development Cost Summary for all Prototypes is in the following table:

	OWNERSHIP			RENTAL		
Prototype #	**1**	**2**		**3**	**4**	**5**
Average Unit Size (Square Feet)	2,050	1,640		880	910	884
Total Stories	4	3		4	6	5
Parking Type	Tuck-Under	Built-In Garage		Wrap	Wrap	Wrap
Number of Units	42	108		200	178	335
Lot Size Assumed (Acres)	1.85	4.98		3.08	2.20	4.10
Direct Costs (1)						
Residential Building	$16,833,930	$34,694,316		$62,590,556	$60,069,256	$106,864,274
Commercial Building	0	0		0	0	4,909,055
Parking	1,170,535	2,651,843	**0**	7,120,299	6,337,766	11,068,114
Appliances & Fixtures	123,447	317,434		587,842	523,179	984,635
Demolition, Landscaping, Pool	523,266	886,234		868,233	902,439	919,542
Contingency	932,559	1,927,491		3,558,346	3,391,632	6,237,281
Total Direct Costs	**$19,583,738**	**$40,477,320**		**$74,725,275**	**$71,224,271**	**$130,982,900**
per Res. Unit	**$466,279**	**$374,790**		**$373,626**	**$400,136**	**$390,994**
Additional Indirect Costs						
Park Fees (2)	$2,126,250	$5,467,500		$6,570,000	$5,847,300	$11,004,750
Development Impact Fees (3)	526,389	866,117		1,466,364	1,349,738	2,663,037
Building and Permit Fees (4)	83,610	137,181		212,348	195,507	373,923

Systems Development Fees (5)	195,837	404,773	747,253	712,243	1,309,829
Irvine Ranch Water District (IRWD) Fees (6)	497,490	1,279,260	2,369,000	2,231,020	4,196,576
Orange County Fire Authority Fees (7)	15,248	20,027	17,150	20,027	20,027
Transportation Corridor Agency (TCA) Fees (8)	117,684	302,616	560,400	498,756	1,038,766
Irvine Unified School District (IUSD) Fees (9)	556,530	915,710	1,419,682	1,306,769	2,403,815
Legal & Accounting(10)	195,837	404,773	747,253	712,243	1,309,829
Marketing (10)	391,675	809,546	1,494,506	1,424,485	2,619,658
Contingency (10)	29,376	60,716	720,156	774,946	1,347,011
Total Additional Indirect Costs	**$4,735,926**	**$10,668,220**	**$16,324,111**	**$15,073,035**	**$28,287,221**
Financing Costs (11)	**$1,264,622**	**$2,659,568**	**$4,672,125**	**$4,549,903**	**$8,282,046**
Entitlement Costs (12)	**$127,921**	**$269,026**	**$478,608**	**$454,236**	**$837,761**
Development Costs w/o Land	**$25,712,207**	**$54,074,134**	**$96,200,118**	**$91,301,446**	**$168,389,928**
Cost Per Unit	**$612,195**	**$500,686**	**$481,001**	**$512,929**	**$502,657**

(1) Direct Costs calculated using CoreLogic Marshall & Swift® Construction Cost Estimates as of Q2 2025. Direct cost contingency calculated as 5% of direct costs. Per CoreLogic, Marshall & Swift® residential building cost estimates include certain indirect costs including engineer and architect fees.

(2) Park fees calculated per methodology in Irvine Municipal Code, assuming a population generation factor of 2.25 for Prototypes 1 and 2, and 1.46 for Prototypes 3, 4, and 5. A $4.5 million FMV is assumed for all Park Fee calculations.

(3) Calculated per Maximum Justified Development Impact Fee Schedule IV – City Council Resolution 25-78.

(4) Per City of Irvine Building & Grading Fee Schedule II, https://webadmin.cityofirvine.org/civica/filebank/blobdload.asp?BlobID=25632

(5) Estimated as 1% of direct costs.

(6) Calculated per https://www.irwd.com/images/pdf/rates/ADOPTED-RatesCharges82725.pdf

(7) Orange County Fire Authority Fees estimated per https://ocfa.org/transparency/fee-schedule/

(8) Calculated per https://thetollroads.com/about/about-tca/development-impact-fee-program#TcaFeeZones

(9) Calculated per https://iusd.org/business-services/developer-fees

(10) Legal/accounting and marketing costs estimated as 1% and 2% of direct costs, respectively. The analysis incorporates an indirect cost contingency equal to 5% of total fees, marketing, and legal/accounting cost estimates.

(11) Financing costs calculated assuming a 6.50% interest rate, per Federal Reserve data accessed Q1 2026.

(12) Entitlement costs calculated as 0.5% of above direct, indirect, and financing costs, per recent case studies examined by Harris and local developers.

- **Park Fee Methodology & Land Valuation**

Q: How are the various "Prototypes" (1 through 5) defined in relation to the park fee calculation?

A: Please refer to table above.

Q: Why does the Fair Market Value (FMV) of land used for the Park Fee calculation ($4.50 million/acre) differ from the general Market Land Value assumption ($5.15 million/acre)?

A: For the Residual Land Value proformas, it was appropriate to use a Citywide market land value assumption of $5.15 million per acre (per CBRE's Gateway Appraisal).

Separately, the development cost calculations include park fees. To estimate the fees, Harris used the City's recently approved park fee fair-market-value estimate of $4.5 million per acre. Although this estimate formally applies within the Irvine Business Complex, it was used in this City-wide analysis because it is the formally established FMV for park fee calculations.

Moving forward, it is important to note that park fees for each new project will be calculated based upon a valid appraisal, which is subject to change. The fees in the Study are only an estimate.

- **Location-Specific Fee Assumptions (IRWD & TCA):** Water/sewer and transportation fees vary significantly depending on project location.

Q: Which specific project location/zone and fee schedule tier were selected in the model for the IRWD and TCA fee calculations?

A: Similar to park fees, the IRWD & TCA fees are estimates based on recent projects that the prototypes are based on. Irvine Ranch Water District fees correspond to Planning Area 30, while Transportation Corridor Agency fee estimates correspond to the Zone B Foothill / Eastern TCA fee zone.

3. Additional Assumptions & Financial Feasibility

- Operating Expense Sufficiency: The multi-family operating expense assumption is set at $6,738 per unit/year (excluding taxes).

Q: Does this amount fully cover both controllable and non-controllable expenses, given that it appears low relative to current market operating costs? Costs should be at least $500 per unit per year more.

A: Refer to the Assumptions Tables at the end of this document.

- **Cap Rate Justification:** The assumed 3.9% market cap rate appears aggressively low.

Q: How many actual sales transactions of post-2023 multi-family properties in Irvine were used to establish this rate? This seems unrealistic for the post-2021 timeframe.

A: The cap rates were obtained directly from CoStar, a recognized real estate data analytics platform routinely used by developers and investors. CoStar identified a market cap rate of 3.9% for newly constructed multi-family properties in the City as of March 2026. CoStar estimates the rate at which these properties would likely sell by analyzing available multifamily market data and accounting for the Irvine location, recent construction, property quality, and other relevant market characteristics. The 3.9% rate therefore represents CoStar's market-supported estimate for the properties evaluated rather than a rate calculated directly from recent Irvine sales.

Q: Would a range of 4.5%+ in keeping with current rates be more realistic for standard financing models?

A: See answer to prior question. Cap rates used in the Study were obtained directly from CoStar when the Study was drafted (cap rate data was identified in March 2026).

- **Yield on Cost (YoC) & Project Financing:** The model assumes a 5.4% Yield on Cost.

Q: Given that current institutional financing standards generally require a Yield on Cost of around 6.5% for a project to be viable, how does 5.4% accurately reflect a financeable project? Nothing at a 5.4% YoC is financeable.

A: The 5.4% Yield on Cost (YOC) was calculated by adding a 1.5% development spread (the return above the market cap rate intended to account for development risk) to the 3.9% market cap rate identified at the time of the Study (see corresponding footnote in the Study). This approach measures the return premium over the anticipated value of a completed, stabilized property for planning-level development feasibility purposes. For the Rental Prototypes, YOC is used to calculate FMV based on corresponding Net Operating Income calculations. Of note, the YOC is not used as a stand-alone basis for determining that a Prototype is financeable. YOC is one of the various inputs used to calculate the Residual Land Value (RLV) for each Prototype. The Study's ultimate feasibility determination is whether the calculated RLV per acre exceeds the assumed Market Land Value per acre by at least 30%. Again, the YOC is one component of a broader feasibility framework, not the sole threshold for evaluating the Prototypes.

The Study does not use YOC as a minimum lending requirement or stand-alone measure of financial feasibility. In the Study, feasibility is evaluated based on the percentage by which each rental Prototype's Residual Land Value per acre exceeds the Market Land Value per acre. YOC is one input used to calculate RLV.

While individual lenders may consider YOC among various underwriting criteria, Harris did not identify lenders requiring a YOC rate above 6%.

- **Density Assumptions:** 30 units per acre is an accurate reflection of affordable housing densities currently being built in Irvine, this figure is likely 50% lower than actual market trends.

Q: Should this figure be reassessed consistent recent local projects which all seem to exceed 38 units per acre, with the majority at 45+ units per acre.

A: No. Staff has determined that 30 units per acre is appropriate to use as the default density for affordable housing projects. California Government Code Section 65583.2(c)(3)(B) sets the default density standard of 30 units per acre for lower-income housing in metropolitan jurisdictions (and 20 units per acre for suburban districts). For reference, 100% affordable projects approved within the last 10 years in Irvine include Cartwright Family (37 units per acre), Salerno (31 units per acre), Luxaira Senior Apts. (32 units per acre), Montaira Senior Apts. (32 units per acre), Sage Park (16 units per acre), Belaira Family Apts. (22 units per acre), and the under review ICLT project in PA 40 (38 units per acre).

- **Developer Return Assumptions:**

Q: Have the 5.00% Cost of Sale and 20.00% Target Developer Profit assumptions for ownership prototypes been reviewed and vetted with local developers?

A: Yes. Refer to data sources provided in the Assumptions Tables at the end of this document.

- **In-Lieu Fee Calculation Methodology:** In the formula, the staff recommendation in-lieu fee increase is from $250 to $78,000, resulting in a 31,100% increase, which is not congruent with cost increases over the same period of time.

Q: What was the formula or basis used to come to the $250 number? What are the inputs used for the $78,000 number?

The methodology (or formula) for the initial Affordable Housing In-Lieu Fee was developed by David Taussig and Associates, in a report titled "City of Irvine Affordable Housing In-Lieu Fee Program and Credits Program." Specifically, the $250 per unit pre-development fee originated from $500,000 funding provided for a hypothetical 200-unit project identified in the Taussig Report. The result of this additional $500,000 in funding for pre-development costs equates to $250 per unit.

Data from the Study shows per unit predevelopment costs ranging from $75,000 - $92,000 per unit for the ownership prototypes and $72,000 - $77,000 per unit for the rental prototypes (these costs do not include financing costs). The $78,000 figure represents the average predevelopment cost per unit amount identified across all Prototypes.

Additionally, the Terner Center for Innovation at UC Berkeley published study indicates that soft costs represent 27% of development costs for a mixed income multifamily project. These data sources, and Irvine Housing Division's recent review of over half a dozen affordable housing development proformas for proposed affordable housing projects within the last eight months, support the $78,000 per unit in estimated predevelopment costs for affordable housing projects.

It is also important to note that Irvine Zoning Ordinance requires that if on-site inclusionary units are not provided, "equivalent value" must be provided in the form of an in-lieu fee or other menu options. A 100-unit project with a 15% inclusionary requirement (required by Zoning Ordinance) would pay $4.4 million in fees if no affordable units are provided and the fee option is chosen. However, the actual estimated cost of producing 15 for-sale units is estimated to be $11.8 million ($788,618 x 15), or 15 for rent units estimated at $8.5 million ($567,531 x 15). Refer to the per unit development costs in the Assumptions Tables and in the Study.

Revenue Assumptions

Item	Assumption / Input			Data Source	Notes
Market-Rate Rents	*Studio* *1-Bed* *2-Bed* *3-Bed*	$6.29 $4.72 $4.08 $3.60	*per square foot / month*	*CoStar*	Market-rate rents for residential units per CoStar data (accessed March 2026) for newly-constructed, comparable multi-family projects in Irvine. Commercial Rent PSF (applicable to Prototype 5): Per CoStar's Irvine Spectrum Submarket Report accessed March 2026.
	Commercial	$45	*per square foot / year*		
Affordable / Income-Restricted Gross Rents	*Very Low Income*	$1,481 $1,693 $1,904 $2,115	*per Studio Unit / month* *per 1-Bed Unit / month* *per 2-Bed Unit / month* *per 3-Bed Unit / month*	*HCD, HUD*	Maximum affordable rents calculated as 30% of gross monthly income, per Department of Housing and Urban Development (HUD) guidelines. Monthly incomes for 1-, 2-, 3-, and 4-person households (per 2025 HCD Income Limits) utilized to calculate maximum affordable rents for studio, 1-bed, 2-bed, and 3-bed units, respectively. **Inclusionary Housing proformas calculate the revenue derived from affordable/income restricted for-rent units by subtracting the applicable utility allowance (below) from the maximum affordable gross rent (this row).**
	Low Income	$2,369 $2,708 $3,046 $3,384	*per Studio Unit / month* *per 1-Bed Unit / month* *per 2-Bed Unit / month* *per 3-Bed Unit / month*		
	Moderate Income	$2,869 $3,278 $3,688 $4,098	*per Studio Unit / month* *per 1-Bed Unit / month* *per 2-Bed Unit / month* *per 3-Bed Unit / month*		
Utility Allowances per Unit	*Studio* *1-Bed* *2-Bed* *3-Bed*	$217 $239 $306 $381	*per unit/month*	*2026 Orange County Utility Allowance Schedule*	Utility Allowances are calculated using the 2026 Orange County utility allowance schedule. Net rental revenue for affordable units is calculated by subtracting the applicable utility allowance from the maximum affordable gross rent shown above.
Market-Rate Ownership Unit Sale Price Assumptions	2-Bed 3-Bed 4-Bed	$807 $772 $719	*per square foot* *per square foot* *per square foot*	*Zillow, Redfin*	Calculated based on recent, comparable sales of newly-constructed ownership units in Irvine using Zillow and Redfin market data.
Affordable/Income-Restricted Ownership Unit Sale Prices	*Very Low Income*	$50,165 $64,262 $53,385	*per 2-Bed Unit* *per 3-Bed Unit* *per 4-Bed Unit*	*HCD State Income Limits, Ownwell, Zillow, Federal Reserve, Insurance.com.*	Market sale prices for affordable/income-restricted for-sale units are calculated on a per-unit basis. Analysis assumes that owner households can spend up to 35% of gross monthly income, and that a 20% downpayment is required for the purchase of these units. Maximum Household Income identified per 2025 HCD Income Limits for Orange County. 2-Bed units, 3-Bed, and 4-Bed units are assumed to be occupied by 3-person, 4-person, and 6-person households, respectively. Monthly condo insurance estimated at $60 per unit per Insurance.com. A 1.11% Property Tax Rate is assumed, per Ownwell data examined during March 2026. Monthly HOA fees for new units estimated at $350 per unit, per Zillow data examined at the time of the Study. Utility expenses estimated per 2026 Orange County utility allowances, as detailed above.
	Low Income	$313,783 $356,952 $393,143	*per 2-Bed Unit* *per 3-Bed Unit* *per 4-Bed Unit*		
	Moderate Income	$461,711 $521,491 $583,787	*per 2-Bed Unit* *per 3-Bed Unit* *per 4-Bed Unit*		
Additional Income from Residential Units	*All Units*	$134	*per unit / per month*	*National Apartment Association*	Per National Apartment Association (NAA) Data accessed during March 2026. An inflationary factor is applied to the NAA per unit dollar amount to reflect 2026 dollars.

Development Cost Assumptions

Item	Assumption / Notes / Sources
Market Land Value	Analysis assumes a per-acre market land value of **$5,150,405**, per 8/25/2025 Irvine Gateway Project appraisal report prepared by CBRE and provided to Harris by the City
Direct / Construction Costs	Direct Costs calculated using CoreLogic Marshall & Swift® Construction Cost Estimates. Direct cost contingency calculated as 5% of direct costs. Per CoreLogic, Marshall & Swift® residential building cost estimates include certain indirect costs including engineer and architect fees.
Park Fees	Park Fees calculated per methodology provided by City staff, assuming a population generation factor of 2.25 for Prototypes 1 and 2, and 1.46 for Prototypes 3, 4, and 5. Calculations assume a $4.5 million per acre FMV.
Development Impact Fees	Calculated per Maximum Justified Development Impact Fee Schedule provided by City staff.
Building and Permit Fees	Per City of Irvine Building Safety Fee schedule, https://webadmin.cityofirvine.org/civica/filebank/blobdload.asp?BlobID=25632
Systems Development Fees	Estimated as 1% of direct costs.
Irvine Ranch Water District (IRWD) Fees	Calculated per IRWD FY 2025-26 Fee Schedule (Section 3: Developer Services - Water and Sewer Connection Fees)
Orange County Fire Authority (OCFA) Fees	Orange County Fire Authority Fees estimated per https://ocfa.org/transparency/fee-schedule/
Transportation Corridor Agency (TCA) Fees	Calculated per https://thetollroads.com/about/about-tca/development-impact-fee-program#TcaFeeZones
Irvine Unified School District (IUSD) Fees	Calculated per https://iusd.org/business-services/developer-fees
Additional Indirect Costs - Legal, Accounting, Marketing, and Indirect Cost Contingency	Legal/accounting and marketing costs estimated as 1% and 2% of direct costs, respectively. The analysis incorporates an indirect cost contingency equal to as 5% of total fees, marketing, and legal/accounting cost estimates.
Entitlement Costs	Estimated at 0.50% of development costs, per case studies examined by Harris and local housing developers.
Financing Costs / Interest Rate	Financing costs calculated assuming a 6.50% interest rate, per Federal Reserve data examined during March 2026.

Additional Assumptions

Item	Assumption / Input	Data Source	Notes
Vacancy (Multi-family)	5.00%	*CoStar*	Multi-family vacancy rates in Irvine per Costar submarket data examined during March 2026.
Vacancy (Commercial)	5.00%	*CoStar*	(Applicable to Prototype 5, which represents a mixed-use Prototype with ground-floor commercial space): 5% vacancy rate assumed per CoStar submarket data accessed during March 2026. While certain areas of Irvine exhibited vacancy rates below 5%, a 5% vacancy rate was assumed in the analysis for conservatism.
Operating Expenses per Unit / Year (Multi-Family Units)	$6,738	*National Apartment Association, CoStar, OwnWell*	• **Residential Unit Operating Expenses (Excluding Taxes):** Estimated per National Apartment Association Data. • **Property Taxes** per unit estimated as the market sale price per unit for multi-family units in Irvine (per CoStar submarket report) times the median property tax rate in the City per Ownwell.com info. Analysis assumes Very Low and Low Income units are exempt from property taxes. • **Commercial Operating Expenses (applicable to Prototype 5):** Analysis assumes that ground floor retail tenants will operate under NNN leases, with all additional rent subject to tenant reimbursement, per comparable mixed-used projects examined on CoStar.
Cap Rate	3.90%	*CoStar*	According to CoStar data examined during spring 2026, the market cap rate for multi-family properties constructed since 2023 in Irvine is 3.9%. The proformas utilize a Yield on Cost equal to the market cap rate plus 1.5%, per the Loopnet source noted below.
Yield on Cost	5.40%	*Loopnet*	Analysis assumes that Yield on Cost exceeds market cap rate by 150% bps, per Loopnet. (https://www.loopnet.com/cre-explained/investing/yield-on-cost/)
Cost of Sale (Ownership Prototypes)	5.00%	*Previous discussions with local developers, industry benchmark assumption*	Applicable to ownership proformas (net sales proceeds calculation): A cost of sale equal to 5% of gross sales proceeds was deducted to account for customary marketing, brokerage, closing, and transaction costs as part of the net sales proceeds calculation.
Target Developer Profit	20.00%	*National Assocation of Home Builders (NAHB), CoConstruct*	Applicable to ownership proformas (net sales proceeds calculation): In addition to the cost of sale estimate, a required developer profit equal to 20% of gross sales proceeds was then deducted to reflect a market-supported return necessary to incentivize residential development.
Per Unit Land Cost ILF - Affordable Housing Density Assumed	30 units per acre	*CoStar*	Average affordable housing density in Irvine per CoStar data accessed March 2026.