INCLUSIONARY HOUSING COMMUNITY WORKSHOP

June 29, 2019
Roosevelt Elementary School
AGENDA

• Overview: Affordable Housing in Long Beach
• Recap: What is Inclusionary Housing?
• Components of an Inclusionary Housing Program
• Inclusionary Housing Study Process
• Results from the Feasibility Study
• Submarket Feasibility Analyses
• Community Feedback
OVERVIEW: AFFORDABLE HOUSING IN LONG BEACH

Like many cities, Long Beach has policies and programs in place to help create and preserve affordable housing.

- Preservation of “at-risk” affordable housing units
- New production and acquisition/rehabilitation of affordable units
- Multi-family housing rehabilitation loans
- Density bonuses, reduced parking, and impact fee waivers to encourage new affordable development
- Rental assistance programs including Housing Choice Vouchers
- Supportive housing for seniors, veterans and other special needs residents
OVERVIEW: AFFORDABLE HOUSING IN LONG BEACH

• **Affordable Housing** is defined as housing in which occupants pay no more than 30% of their income on housing costs.

• Income categories are based on percentages of the Area Median Income (AMI).

• Extremely low income is 30% of AMI, very low income is 50% of AMI, and low income is 80% of AMI

• This chart shows 2019 income limits and affordable rents for a family of four in LA County as set by the State of California.

<table>
<thead>
<tr>
<th>Family of Four Persons</th>
<th>Income Limit</th>
<th>Affordable Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low-Income</td>
<td>$31,300</td>
<td>$783</td>
</tr>
<tr>
<td>Very Low Income</td>
<td>$52,200</td>
<td>$1,305</td>
</tr>
<tr>
<td>Low Income</td>
<td>$83,500</td>
<td>$2,088</td>
</tr>
</tbody>
</table>
WHAT IS INCLUSIONARY HOUSING?

• Requires that a certain percentage of **new** housing development must be made affordable.

• For example, if a development has 100 units and the inclusionary requirement is 10%, then of the total 100 units, 10 units would be affordable and 90 would be market rate. It does not increase the total number of units in the development.

\[
\text{New housing} \times \text{% inclusionary applied} = \text{New affordable units}
\]
WHAT IS INCLUSIONARY HOUSING?

• Inclusionary housing is a widely-accepted policy throughout the State and much of the nation.

• In California, **more than 170 localities** have some form of inclusionary housing, including large and small jurisdictions.

• Inclusionary programs have existed for more than 30 years, and are **one tool among many** that localities use to increase the supply of affordable housing.
COMPONENTS OF AN INCLUSIONARY HOUSING POLICY

Inclusionary Housing Components

- Can apply to rentals, for-sale or both
- Require developers to build all inclusionary units or offer alternatives
- All developments or developments of a certain number of units
- Incentive to developers
- Varied requirements by target areas
- Incomes to target: extremely low income, very low income, etc.
- Percentage of units that must be affordable
INCLUSIONARY HOUSING STUDY PROCESS

• Now that the feasibility study has been completed, the City is seeking input from the community and its stakeholders.

• Over the next few months, the City will provide a variety of opportunities for community members and stakeholders to provide feedback on an inclusionary program.

• Feedback opportunities include additional stakeholder meetings, public study sessions, and social media.
RESULTS FROM THE FEASIBILITY STUDY

• The economic feasibility study was conducted to ensure that the proposed requirements comply with applicable laws and court rulings
• Any City program must ensure inclusionary zoning is not “confiscatory” and that appropriate alternatives for development are allowed
• Analyzed submarkets within Long Beach since some areas have had more development than others
• Prepared separate evaluations for rental and ownership housing
RESULTS FROM THE FEASIBILITY STUDY

• Submarket #1 saw increased residential development activity after 2007 recession
• About 85% of new residential units built in the City over the past 10 years are in this area
• Nearly 90% of new units are in rental projects
• Over 4,000 units are in varying stages of development, with more than 85% proposed in high rise developments
RESULTS FROM THE FEASIBILITY STUDY

• The vast majority of developments outside Submarket #1 were built before 2000

• Only two recently constructed projects KMA could identify in Submarket #2 were:
  o The 40-unit Dorado ownership project in eastern Long Beach, with asking prices for units from $914,000 to $1.03 million
  o The 131-unit Riverdale ownership project project near the east bank of the Los Angeles River, with asking prices between $664,000 to $707,000
SUBMARKET #1 FINANCIAL FEASIBILITY ANALYSIS

• Analyses should balance development costs against the public benefit of creating new affordable units

• Among other things, this report analyzed both the range of potential inclusionary production requirements and the range of in-lieu fees that can be supported

• Key component is the “affordability gap”
• The “affordability gap” is the difference between market rate rents or house prices and what lower income households can actually afford. For example:

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Moderate Income</th>
<th>Low Income</th>
<th>Very Low Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studios</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Rate</td>
<td>$2,569</td>
<td>$2,569</td>
<td>$2,569</td>
</tr>
<tr>
<td>Affordable</td>
<td>$1,373</td>
<td>$733</td>
<td>$605</td>
</tr>
<tr>
<td>Difference</td>
<td>-$1,196</td>
<td>-$1,836</td>
<td>-$1,964</td>
</tr>
<tr>
<td>One-Bedroom</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Rate</td>
<td>$2,620</td>
<td>$2,620</td>
<td>$2,620</td>
</tr>
<tr>
<td>Affordable</td>
<td>$1,569</td>
<td>$838</td>
<td>$691</td>
</tr>
<tr>
<td>Difference</td>
<td>-$1,051</td>
<td>-$1,782</td>
<td>-$1,929</td>
</tr>
<tr>
<td>Two-Bedroom</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Rate</td>
<td>$3,304</td>
<td>$3,304</td>
<td>$3,304</td>
</tr>
<tr>
<td>Affordable</td>
<td>$1,753</td>
<td>$930</td>
<td>$766</td>
</tr>
<tr>
<td>Difference</td>
<td>-$1,551</td>
<td>-$2,374</td>
<td>-$2,538</td>
</tr>
</tbody>
</table>
SUBMARKET #1 RENTAL ANALYSIS

• For rental developments, the feasibility of single income categories were tested (all Moderate income, all Low income, all Very Low income)

• Mixed income alternatives were also tested:
  ➢ 20% the inclusionary units are restricted at VLI and 80% at LI
  ➢ 80% of inclusionary units are restricted at VLI and 20% at LI
  ➢ 30% of inclusionary units are restricted at LI and 70% at MOD
The analysis included testing a variety of housing prototypes based on market surveys and recently-constructed units:

- Density in terms of units per acre
- Mix of units based on number of bedrooms
- Parking requirements

From these prototypes, likely market rate rents against which to determine the affordability gap were determined.
The following factors were used to determine affordable rents for the prototypes:

• Household income limits published by HUD and HCD
• Household sizes based on the State standard of number of bedrooms plus one
• Household income is set at 50% of area median income for VLI households, 60% for LI, and 110% for moderate income
• Households cannot spend more than 30% of income on housing cost
### Submarket #1 Rental Analysis

<table>
<thead>
<tr>
<th>Unit Size</th>
<th>Market Rate</th>
<th>Moderate Income</th>
<th>Low Income</th>
<th>Very Low Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$2,569</td>
<td>$1,373</td>
<td>$733</td>
<td>$605</td>
</tr>
<tr>
<td>One Bedroom</td>
<td>$2,620</td>
<td>$1,569</td>
<td>$838</td>
<td>$691</td>
</tr>
<tr>
<td>Two Bedroom</td>
<td>$3,304</td>
<td>$1,753</td>
<td>$930</td>
<td>$766</td>
</tr>
</tbody>
</table>
• Analyzed the impact of inclusionary requirements on development costs and returns to determine financial feasibility

• Calibrated inclusionary requirements against each alternative to generate an impact of equal to about 30% reduction in land cost

• The estimated stabilized developer return on total investment is estimated at 5.4%
## SUBMARKET #1 RENTAL ANALYSIS

### Inclusionary Housing Production Analysis
Financially Feasible Inclusionary Housing Percentages
Submarket#1: Rental Residential Development

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Financially Feasible Inclusionary %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Income Category Inclusionary Alternatives</td>
<td></td>
</tr>
<tr>
<td>All Moderate Income</td>
<td>19%</td>
</tr>
<tr>
<td>All Low Income</td>
<td>12%</td>
</tr>
<tr>
<td>All Very Low Income</td>
<td>11%</td>
</tr>
<tr>
<td>Mixed Income Category Inclusionary Alternatives</td>
<td></td>
</tr>
<tr>
<td>20% VLI and 80% LI</td>
<td>12%</td>
</tr>
<tr>
<td>80% VLI and 20% LI</td>
<td>11%</td>
</tr>
<tr>
<td>30% LI and 70% MOD</td>
<td>14%</td>
</tr>
</tbody>
</table>
SUBMARKET #1 RENTAL IN-LIEU FEE ANALYSIS

• The study established potential in-lieu fee amounts based on the affordability gaps – the difference between what a market rate renter can pay and what an affordable renter can pay.

• The in-lieu fees are calculated both by unit and by square foot of gross building area:

<table>
<thead>
<tr>
<th>In-Lieu Fee</th>
<th>Moderate Income</th>
<th>Low Income</th>
<th>Very Low Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Affordable Unit</td>
<td>$223,000</td>
<td>$356,000</td>
<td>$383,000</td>
</tr>
<tr>
<td>Per Square Foot of GBA</td>
<td>$37.90</td>
<td>$37.90</td>
<td>$38.50</td>
</tr>
</tbody>
</table>
SUBMARKET #1 OWNERSHIP ANALYSIS

• Affordability requirements typically based on Moderate incomes for ownership housing, as higher-income households have more discretionary income for ongoing costs

• Data on sales of condos sold in submarket used to establish average sales prices per square foot

• Affordability sales price estimates based on household income, household size, household expenses, and down payment

<table>
<thead>
<tr>
<th>Affordable Sales Price Estimates</th>
<th>Submarket #1: Ownership Housing Development</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>One Bedroom</td>
</tr>
<tr>
<td>--</td>
<td>Units</td>
</tr>
<tr>
<td>Moderate Income</td>
<td>$207,900</td>
</tr>
</tbody>
</table>

Inclusionary Housing Community Workshop
SUBMARKET #1 OWNERSHIP ANALYSIS

• As with rental analysis, the analyses tested to determine the financially feasible percentage of moderate-income units that can be supported
• Based on approximately 30% reduction in supportable land value
• The results show the financially feasible percentage requirement is 10% of units in ownership projects
SUBMARKET #1 OWNERSHIP IN-LIEU FEE ANALYSIS

• Study established proposed in-lieu fee amounts based on the affordability gaps – the difference between what a market rate buyer can pay and what the affordable buyer can pay.

• The in-lieu fees are calculated both by unit and by square foot of gross building area.

<table>
<thead>
<tr>
<th>Affordability Gaps</th>
<th>Moderate Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Income Restricted Unit</td>
<td>$270,400</td>
</tr>
<tr>
<td>Per Square Foot of GBA</td>
<td>$23.80</td>
</tr>
</tbody>
</table>
SUBMARKET #1 OWNERSHIP POLICY CONSIDERATIONS

• Should developers of premium priced homes be permitted to pay in-lieu by right?
• Should the City establish a calculation methodology applied on case by case?
• Should it apply per affordable unit, per unit in a market rate development, per square foot?
SUBMARKET #2 CHALLENGES AND OPPORTUNITIES

• There has been virtually no new residential development in Submarket #2 over multiple real estate cycles
• Law requires jurisdictions to ensure inclusionary zoning is not “confiscatory,” or depriving owner of fair and reasonable return
• Adding inclusionary requirements would further constrain the opportunity to attract residential development
• The inclusionary requirements become a constraint
SUBMARKET #2 CHALLENGES AND OPPORTUNITIES

• However, the City can create an incentive program for Submarket #2 to encourage new residential development
• Can ensure that affordable housing is provided in projects that use those incentives
• State density bonus law can assist in creating more opportunities
SUBMARKET #2 CHALLENGES AND OPPORTUNITIES

- Density bonuses are provided on a sliding scale based on how much affordable housing each project produces.
- Incentives or concessions granted under State law to provide for affordable housing costs, including:
  - Setback and minimum square footage reductions
  - Increased height limits
  - Parking ratio reductions
## SUBMARKET #2 CHALLENGES AND OPPORTUNITIES

Incentives and concessions involving setback, square footage, building height, parking ratios and other factors, per State law.

<table>
<thead>
<tr>
<th>Number of Incentives or Concessions</th>
<th>Very Low Income Units</th>
<th>Low Income Units</th>
<th>Moderate Income Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1*</td>
<td>5%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>2*</td>
<td>10%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>3*</td>
<td>15%</td>
<td>30%</td>
<td>30%</td>
</tr>
</tbody>
</table>

*Incentives and concessions involving setback, square footage, building height, parking ratios and other factors, per State law.
SUBMARKET #2 PROGRAM CONSIDERATIONS

• On projects with zoning changes or other discretionary approval

• In locations that allow higher density development

• Commercially zoned properties, especially with underperforming retail or on transit-oriented development sites

• Enhanced density bonus considerations
### SUBMARKET #2 PROGRAM CONSIDERATIONS

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Affordable Units as a % of Base Zoning</th>
<th>Density Bonus Percentage</th>
<th>Number of Incentives or Concessions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rental Residential Projects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Very Low (VL)</td>
<td>11%</td>
<td>35%+</td>
<td>3+</td>
</tr>
<tr>
<td>Low (L)</td>
<td>12%</td>
<td>35%+</td>
<td>2+</td>
</tr>
<tr>
<td>Moderate (MOD)</td>
<td>19%</td>
<td>35%+</td>
<td>2+</td>
</tr>
<tr>
<td><strong>Ownership Residential Projects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderate (MOD)</td>
<td>19%</td>
<td>35%+</td>
<td>2+</td>
</tr>
</tbody>
</table>
COMPONENTS OF AN INCLUSIONARY HOUSING POLICY

- Inclusionary Housing Components
- Can apply to rentals, for-sale or both
- Require developers to build all inclusionary units or offer alternatives
- All developments or developments of a certain number of units
- Incentive to developers
- Varied requirements by target areas
- Incomes to target: extremely low income, very low income, etc.
- Percentage of units that must be affordable
TOPICS FOR FEEDBACK

• Threshold – Developments of what size?
• On-site or off-site?
• Production options for ownership projects
• In-lieu fees
• Options for the affordability mix
• Submarket #2 program considerations
NEXT STEPS

• More opportunities to provide your comments and hear more information as it is released – through social media, additional community listening sessions, and the website: http://www.longbeach.gov/lbds/hn/inclusionary-housing-study/

• Next steps will include meetings with key stakeholders and public study sessions

We welcome your feedback!
Contact Us

Andrew Chang
Administrative Analyst
(562) 570-6710
andrew.chang@longbeach.gov
www.longbeach.gov/lbds/

Thank you!