



# 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.

| Family of Four Persons | Income Limit | Affordable Rent |
|------------------------|--------------|-----------------|
| Extremely Low-Income   | \$31,300     | \$783           |
| Very Low Income        | \$52,200     | \$1,305         |
| Low Income             | \$83,500     | \$2,088         |

# 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.



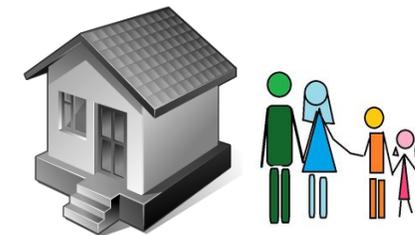
New housing

x



% inclusionary applied

=



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

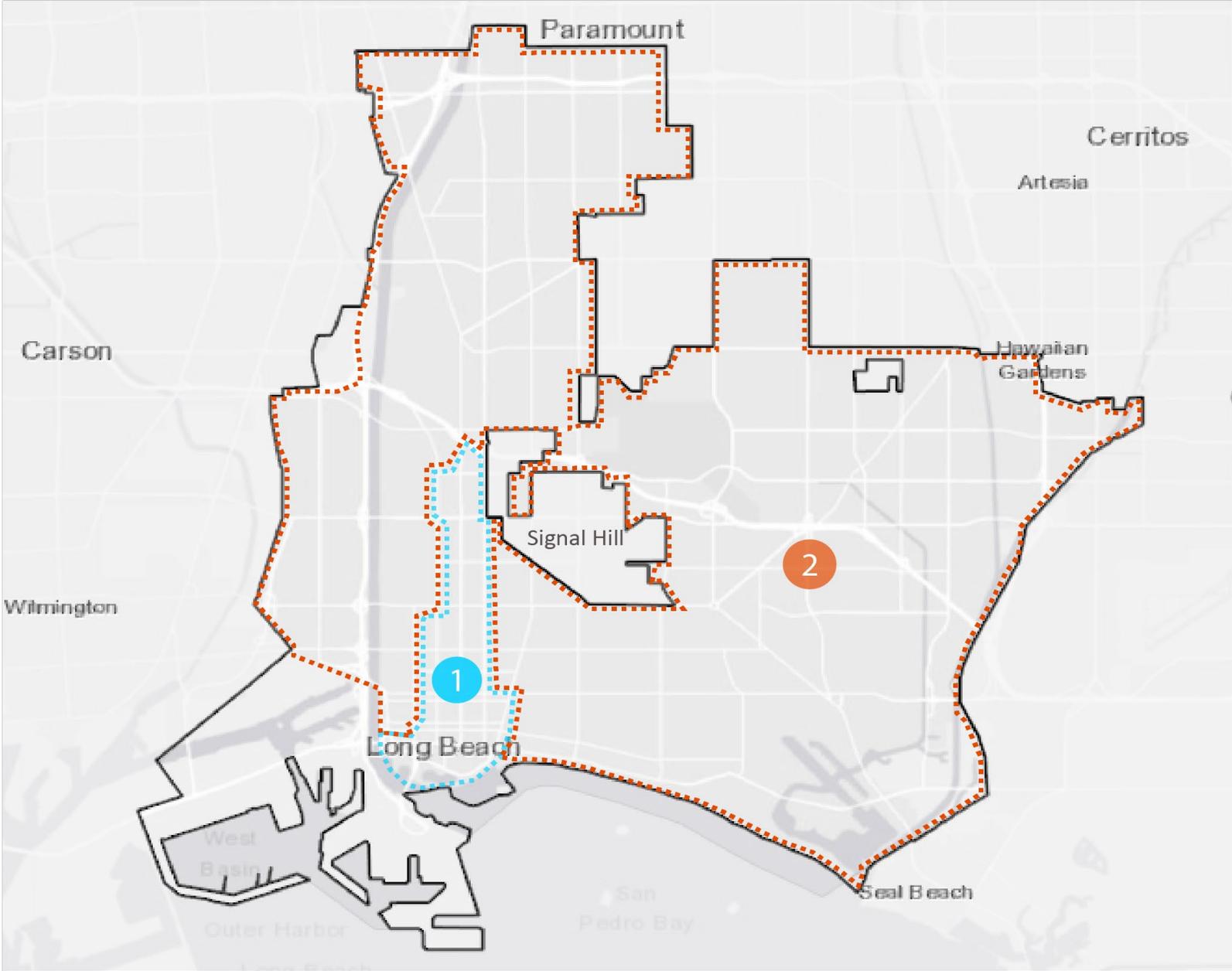


# INCLUSIONARY HOUSING STUDY PROCESS

- 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:
  - The 40-unit Dorado ownership project in eastern Long Beach, with asking prices for units from \$914,000 to \$1.03 million
  - The 131-unit Riverdale ownership 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”

# SUBMARKET #1 FINANCIAL FEASIBILITY ANALYSIS

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

| In-Lieu Fee        | Affordability Gaps  |                 |                 |
|--------------------|---------------------|-----------------|-----------------|
|                    | Unit Type by Income |                 |                 |
|                    | Moderate Income     | Low Income      | Very Low Income |
| <b>Studios</b>     |                     |                 |                 |
| Market Rate        | \$2,569             | \$2,569         | \$2,569         |
| Affordable         | \$1,373             | \$733           | \$605           |
| <i>Difference</i>  | <i>-\$1,196</i>     | <i>-\$1,836</i> | <i>-\$1,964</i> |
| <b>One-Bedroom</b> |                     |                 |                 |
| Market Rate        | \$2,620             | \$2,620         | \$2,620         |
| Affordable         | \$1,569             | \$838           | \$691           |
| <i>Difference</i>  | <i>-\$1,051</i>     | <i>-\$1,782</i> | <i>-\$1,929</i> |
| <b>Two-Bedroom</b> |                     |                 |                 |
| Market Rate        | \$3,304             | \$3,304         | \$3,304         |
| Affordable         | \$1,753             | \$930           | \$766           |
| <i>Difference</i>  | <i>-\$1,551</i>     | <i>-\$2,374</i> | <i>-\$2,538</i> |

# 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

## SUBMARKET #1 RENTAL ANALYSIS

- 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

# SUBMARKET #1 RENTAL ANALYSIS

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

| Unit Size   | Market Rate | Moderate Income | Low Income | Very Low Income |
|-------------|-------------|-----------------|------------|-----------------|
| Studio      | \$2,569     | \$1,373         | \$733      | \$605           |
| One Bedroom | \$2,620     | \$1,569         | \$838      | \$691           |
| Two Bedroom | \$3,304     | \$1,753         | \$930      | \$766           |

## SUBMARKET #1 RENTAL ANALYSIS

- 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<br>Financially Feasible Inclusionary Housing Percentages<br>Submarket#1: Rental Residential Development |                                     |
|--|-------------------------------------|
| Alternative  | Financially Feasible Inclusionary % |
| Single Income Category Inclusionary Alternatives   |                                     |
| All Moderate Income  | 19%                                 |
| All Low Income   | 12%                                 |
| All Very Low Income  | 11%                                 |
| Mixed Income Category Inclusionary Alternatives  |                                     |
| 20% VLI and 80% LI   | 12%                                 |
| 80% VLI and 20% LI   | 11%                                 |
| 30% LI and 70% MOD   | 14%                                 |

# 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:

| In-Lieu Fees -- Affordability Gap Approach  |           |            |           |
|---|-----------|------------|-----------|
| Submarket#1: Rental Residential Development |           |            |           |
| In-Lieu Fee                                 | Moderate  | Low Income | Very Low  |
|   | Income    |            | Income    |
| Per Affordable Unit                         | \$223,000 | \$356,000  | \$383,000 |
| Per Square Foot of GBA                      | \$37.90   | \$37.90    | \$38.50   |

# 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

| Affordable Sales Price Estimates            |           |                   |                   |
|---|-----------|-------------------|-------------------|
| Submarket #1: Ownership Housing Development |           |                   |                   |
|   | Studio    | One Bedroom Units | Two Bedroom Units |
| Moderate Income                             | \$207,900 | \$231,300         | \$247,700         |

## **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

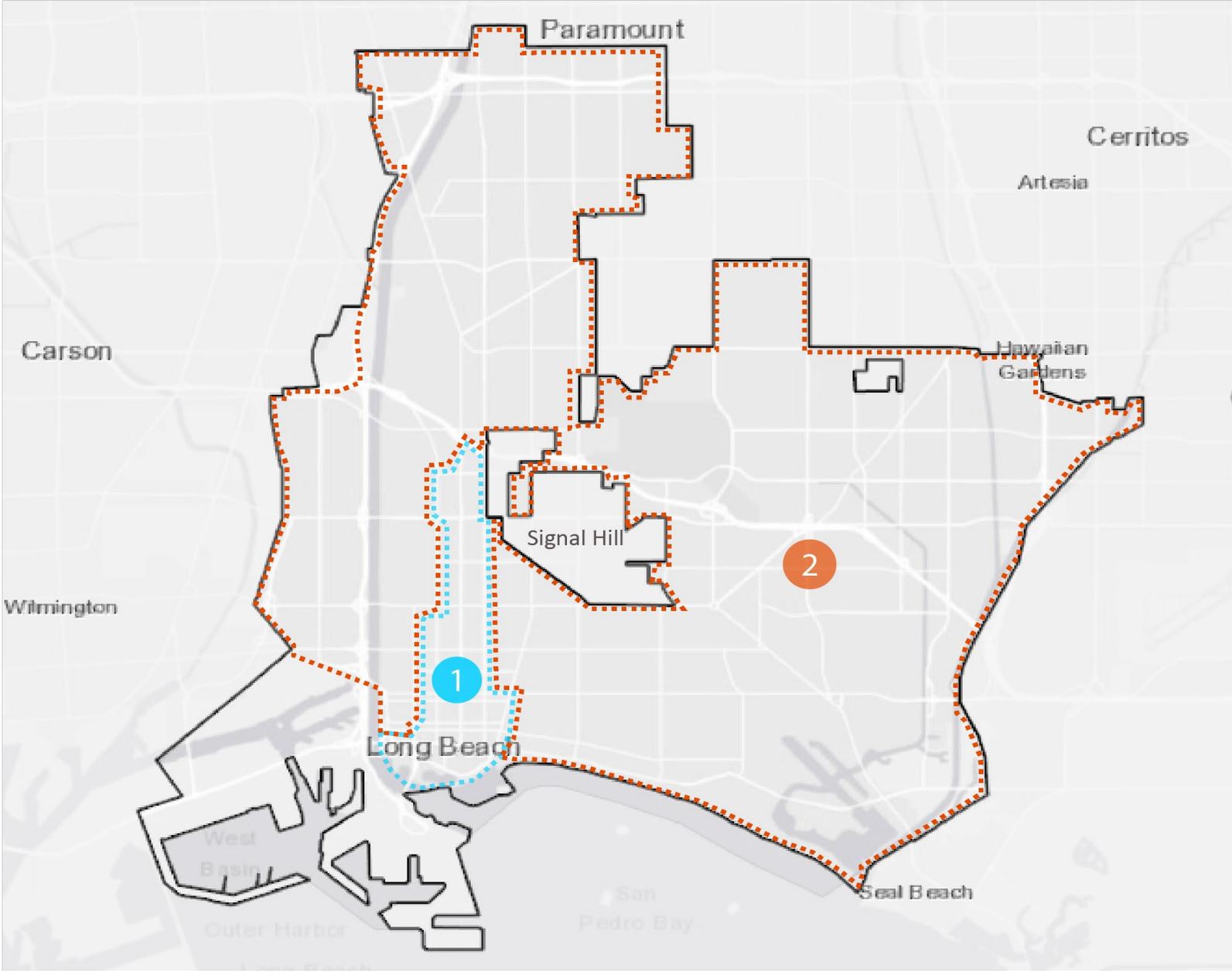
# SUBMARKET #1 OWNERSHIP IN-LIEU FEE ANALYSIS

- 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

| In-Lieu Fee Analysis<br>Affordability Gap Approach<br>Submarket#1: Rental Residential Development |                 |
|---|-----------------|
| Affordability Gaps  | Moderate Income |
| Per Income Restricted Unit  | \$270,400       |
| Per Square Foot of GBA  | \$23.80         |

# 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

| Section 65915 Incentive or Concession Benefits   |                       |                  |                       |
|--|-----------------------|------------------|-----------------------|
| Income Restricted Units as a Percentage of the Units Allowed by a Site's Base Zoning Standards |                       |                  |                       |
| Number of Incentives or Concessions  | Very Low Income Units | Low Income Units | Moderate Income Units |
| 1*   | 5%                    | 10%              | 10%                   |
| 2*   | 10%                   | 20%              | 20%                   |
| 3*   | 15%                   | 30%              | 30%                   |

\* 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

| Inclusionary Housing Production Analysis               |  |                          |                                     |
|--|--|--------------------------|-------------------------------------|
| Submarket #2   |  |                          |                                     |
| Potential Inclusionary Housing Production Requirements |  |                          |                                     |
| Income Level   | Affordable Units as a % of Base Zoning | Density Bonus Percentage | Number of Incentives or Concessions |
| Rental Residential Projects                            |  |                          |                                     |
| Very Low (VL)  | 11%                                    | 35%+                     | 3+                                  |
| Low (L)  | 12%                                    | 35%+                     | 2+                                  |
| Moderate (MOD)   | 19%                                    | 35%+                     | 2+                                  |
| Ownership Residential Projects                         |  |                          |                                     |
| Moderate (MOD)   | 19%                                    | 35%+                     | 2+                                  |

# COMPONENTS OF AN INCLUSIONARY HOUSING POLICY



# 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!**



**Thank you!**

## **Contact Us**

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