



INCLUSIONARY HOUSING POLICY

Planning Commission Study Session
August 22, 2019



CITY OF
LONG BEACH

BACKGROUND

- In May 2017, the City Council adopted 29 policies to encourage the production of affordable housing.
- Policy 3.2 directs staff to begin the development of a citywide Inclusionary Housing policy.
- In December 2018, the City Council received a report from the Everyone Home Task Force which included a recommendation to adopt an inclusionary housing ordinance.

INCLUSIONARY HOUSING OVERVIEW

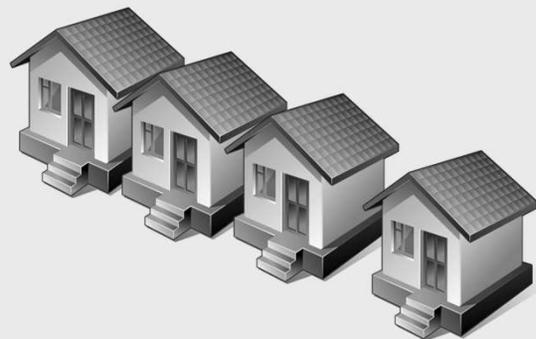
- **Affordable Housing** is defined as housing in which occupants pay no more than **30% of their income** on housing costs.
- **Income categories** are based on percentages of the Area Median Income (AMI).
 - Extremely Low: 30% AMI
 - Very Low: 50% AMI
 - Low: 80% AMI
 - Moderate: 120% AMI

Family of Four Persons	AMI Limit	Income Limit	Affordable Rent
Extremely Low Income	30%	\$31,300	\$783
Very Low Income	50%	\$52,200	\$1,305
Low Income	80%	\$83,500	\$2,088
Moderate Income	120%	\$87,700	\$2,193

Income and Rent Limits, Los Angeles County, 2019

INCLUSIONARY HOUSING OVERVIEW

- Inclusionary Housing requires that a certain percentage of **new** housing units be made affordable to lower income households.
- For example, if a development has 100 units and an inclusionary requirement is 10%, then 10 units would be affordable and 90 would be market rate.



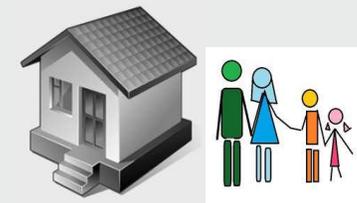
New housing

x



% inclusionary applied

=



Mixed-income units

INCLUSIONARY HOUSING OVERVIEW

- Inclusionary Housing is a widely-accepted policy throughout the State and much of the nation.
- In California, **more than 170 cities and counties** 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 are used to increase the supply of affordable housing.
- Legal challenges in 2009 and 2015 impacted the ability of cities to implement Inclusionary Housing Policies.

INCLUSIONARY HOUSING OVERVIEW

- Assembly Bill 1505 was signed into law September 29, 2017. It amends CA Government Code Section 65850 and adds Section 65850.01.
- This new State law provides jurisdictions with the ability to adopt Inclusionary Housing policies that impose affordable housing requirements on residential development.
- Allows the State to intervene if a local program requires that more than 15% of the units be restricted to households earning less than 80% of AMI.
- Inclusionary policies can not impose an onerous financial burden on the developers of market-rate housing and can not constrain the production of housing.
- An Inclusionary Housing policy is expected to fulfill only a small portion of the unmet need for affordable housing in Long Beach.

INCLUSIONARY HOUSING OVERVIEW

Benefits & Downsides

- Inclusionary programs rely on new market-rate residential development to fund the creation of new affordable housing.
- Inclusionary programs provide means for increasing supply of affordable housing.
- Can create greater economic integration and reduce concentrated poverty.
- The majority of the cost is ultimately borne by land owners who receive lower prices for developable land than they would otherwise.
- There is a risk that developers or land owners will find the costs onerous and choose not to build.
- Because of these risks, most communities set inclusionary requirements very carefully and monitor the results to ensure that it is not a burden on development.

ECONOMIC ANALYSIS

- Housing staff commissioned an economic feasibility analysis to determine the feasibility of implementing an Inclusionary Housing policy in accordance with State law.
- The completed Analysis evaluated the impacts of the imposition of affordable housing requirements that do not constrain development or deprive a property owner of a fair return on investment.
- It analyzed submarkets within Long Beach since some areas have had more development than others.
- Provided separate evaluations for rental and ownership housing.

ECONOMIC ANALYSIS

- The Analysis studied both the range of potential inclusionary production requirements and the range of in-lieu fees that can be supported.
- The Analysis concluded that an inclusionary policy must balance development costs against the public benefit of creating new affordable units.
- A key component of the Analysis is calculating the “affordability gap.”
- The affordability gap is the difference between market-rate rent or sales prices and what lower-income households can afford.

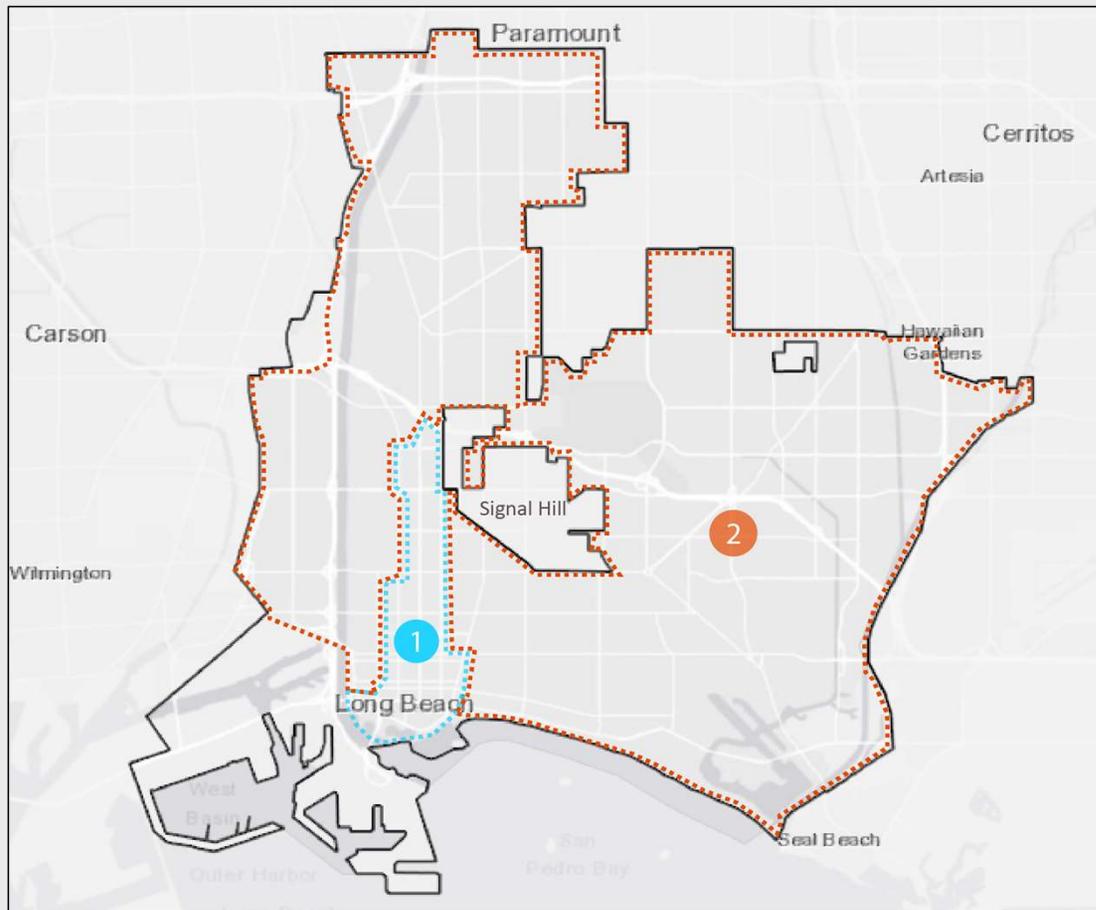
ECONOMIC ANALYSIS

- Downtown & Midtown experienced increased residential development activity after the 2007 recession.
- About 85% of new residential units built in the City over the past 10 years are in these areas.
- Nearly 90% of new units are in rental projects.
- Over 4,000 units are currently in varying stages of the development cycle.

ECONOMIC ANALYSIS

- The vast majority of housing development outside of Downtown & Midtown were built before 2000.
- This means that there is no recent data for development costs on which to base an affordability gap analysis.
- Only two residential projects outside these areas were built after 2000:
 - The 40-unit Dorado ownership project in East Long Beach
 - The 131-unit Riverdale ownership project in North Long Beach
- As a result, the Analysis identified two separate submarket areas.

ECONOMIC ANALYSIS - SUBMARKETS



1. Downtown (PD-30) & Midtown (SP-1)
2. Remainder of City

SUBMARKET 1 FEASIBILITY ANALYSIS

- Submarket 1 consists of Downtown and Midtown areas, which have experienced the majority of development.
- The majority of projects that have been developed are in the Downtown at medium to high density levels.
- Market-rate rents and affordable rents are shown at right.

Affordability Gaps in Submarket 1			
Unit Type by Income			
	Moderate Income	Low Income	Very Low Income
Studios			
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>
One-Bedroom			
Market Rate	\$2,620	\$2,620	\$2,620
Affordable	\$1,569	\$691	\$691
<i>Difference</i>	<i>-\$1,051</i>	<i>-\$1,929</i>	<i>-\$1,929</i>
Two-Bedroom			
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>

Keyser Marston Associates, 2019

METHODOLOGY

- The Analysis first calculated the projected developer return associated with prototypical projects based on recently completed projects in Submarket 1.
- Analysis of the 100% market-rate prototypes resulted in a **5.4% return on investment for rental projects** and a **9.0% return on investment for ownership projects**.
- The Analysis then analyzed prototype projects with inclusionary requirements and concessions/incentives applied, with a similar rate of return and a **maximum 30% reduction in land value**, an assumption used in a significant number of existing programs in California.

SUBMARKET 1 RENTAL RESULTS

Supportable Rental Inclusionary Percentages

Alternative	Financially Feasible Inclusionary Percentage
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, 80% LI	12%
80% VLI, 20% LI	11%
30% LI, 70% Mod	14%

SUBMARKET 1 RESULTS - RENTAL

Supportable Rental In-lieu Fee

- The Analysis established potential in-lieu fee amounts based on the affordability gaps – the difference between what a market rate renter can pay and what a lower-income renter can pay
- The in-lieu fees are calculated both per unit and per square foot of gross building area:

In-Lieu Fee	Moderate Income	Low Income	Very Low Income
Per Affordable Unit	\$223,000	\$356,000	\$383,000
Per Sq. Ft. of GBA*	\$37.90	\$37.90	\$38.50

*Gross Building Area

SUBMARKET 1 RESULTS - OWNERSHIP

- Affordability requirements typically based on Moderate incomes for ownership housing, as higher-income households have more discretionary income for ongoing maintenance costs
- Data on condominiums sold in Submarket 1 was used to establish average sales prices per square foot
- Affordable sales price estimates are based on household income, household size, housing expenses, and down payment:

	Studio	One Bedroom	Two Bedrooms
Moderate Income	\$207,900	\$231,300	\$247,700

SUBMARKET 1 RESULTS - OWNERSHIP

Supportable Inclusionary Ownership Percentage

- Based on maximum **30% reduction in land value** and **9.0% return on investment**.
- The results show the financially feasible percentage requirement is **10% of units in ownership projects** restricted to be affordable to moderate-income households.

SUBMARKET 1 RESULTS - OWNERSHIP

Supportable Ownership In-lieu Fee

- 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 moderate-income buyer can pay.
- The in-lieu fees are calculated both by unit and by square foot of gross building area.

Submarket 1 Ownership In-Lieu Fees	
Per Income-Restricted Unit	\$270,400
Per Sq. Ft. of GBA	\$23.80

SUBMARKET 2

Challenges and Opportunities

- There has been virtually no new residential development in Submarket 2 over multiple real estate cycles, indicating that residential development is already constrained.
- State law requires jurisdictions to ensure inclusionary zoning is not “confiscatory,” and does not deprive an owner of a fair and reasonable return.
- Adding mandatory inclusionary requirements in submarket 2 would further constrain the opportunity to attract residential development.

SUBMARKET 2

Challenges and Opportunities

- However, the City can create an incentive program for Submarket 2 to encourage new residential development.
- An incentive-based policy approach can ensure that affordable housing is provided in projects that use those incentives to facilitate development.
- Existing State density bonus law can assist in creating more opportunities.

SUBMARKET 2

Incentive Program Approach (Current State Law)

- Density bonuses are provided on a sliding scale based on how much affordable housing each project includes.
- City can offer incentives or concessions to offset affordable housing costs, such as reduced development standards, e.g.
 - Setback and minimum square footage reductions
 - Increased floor area and height limits
 - Parking modifications

SUBMARKET 2

Incentive Program – Important Considerations

- Inclusionary requirements imposed only on projects requesting zoning changes or other discretionary approvals
- In locations that allow higher density development
- Focus on encouraging housing development on commercially zoned properties, especially with underperforming retail or transit-oriented development sites
- City can offer enhanced density bonus
- Incentives will be established through a future Zoning Code Density Bonus Ordinance update.

SUBMARKET 2

Incentive Program – Potential Structure

Income Level	Affordable Units as a % of Base Zoning	Density Bonus Percentage	Number of Incentives or Concessions
Rental Residential Projects			
Very Low (VLI)	11%	35%+	3+
Low (LI)	12%	35%+	2+
Moderate (Mod)	19%	35%+	2+
Ownership Residential Projects			
Moderate (Mod)	10%	35%+	2+

INCLUSIONARY COMPONENTS

- Threshold project size
- Determine Inclusionary percentage
- Options for income targeting
- Submarket considerations
- Development incentives
- Alternatives (off-site / in lieu fees)
- Apply to rental, ownership or both



Community Engagement



Community Engagement

Comments

- Mixed-income alternatives have broad support
- Ensure equity in housing opportunities throughout the City
- Support for on-site affordable units and in-lieu fees high enough to incentivize affordable housing construction citywide
- Support for more flexible policies with multiple alternatives to on-site affordable units
- Desire for more development concessions and incentives citywide

NEXT STEPS

- Staff will work with the City Attorney's Office to prepare a new Draft Inclusionary Housing Ordinance to replace the City's existing voluntary inclusionary program.
- Draft Ordinance to be presented to the Planning Commission in Fall 2019.



Thank you!

Contact Us

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