INCLUSIONARY HOUSING POLICY
Planning Commission Study Session
August 22, 2019
• 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.
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

### Income and Rent Limits, Los Angeles County, 2019

<table>
<thead>
<tr>
<th>Family of Four Persons</th>
<th>AMI Limit</th>
<th>Income Limit</th>
<th>Affordable Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low Income</td>
<td>30%</td>
<td>$31,300</td>
<td>$783</td>
</tr>
<tr>
<td>Very Low Income</td>
<td>50%</td>
<td>$52,200</td>
<td>$1,305</td>
</tr>
<tr>
<td>Low Income</td>
<td>80%</td>
<td>$83,500</td>
<td>$2,088</td>
</tr>
<tr>
<td>Moderate Income</td>
<td>120%</td>
<td>$87,700</td>
<td>$2,193</td>
</tr>
</tbody>
</table>
• 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.
• 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.
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 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.
• 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.
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.
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.
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.
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.

<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>$691</td>
<td>$691</td>
</tr>
<tr>
<td>Difference</td>
<td>-$1,051</td>
<td>-$1,929</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>

Keyser Marston Associates, 2019
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.
## Supportable Rental Inclusionary Percentages

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Financially Feasible Inclusionary Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single-Income Category Inclusionary Alternatives</strong></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><strong>Mixed-Income Category Inclusionary Alternatives</strong></td>
<td></td>
</tr>
<tr>
<td>20% VLI, 80% LI</td>
<td>12%</td>
</tr>
<tr>
<td>80% VLI, 20% LI</td>
<td>11%</td>
</tr>
<tr>
<td>30% LI, 70% Mod</td>
<td>14%</td>
</tr>
</tbody>
</table>
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:

<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 Sq. Ft. of GBA*</td>
<td>$37.90</td>
<td>$37.90</td>
<td>$38.50</td>
</tr>
</tbody>
</table>

*Gross Building Area
• 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:

<table>
<thead>
<tr>
<th></th>
<th>Studio</th>
<th>One Bedroom</th>
<th>Two Bedrooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderate Income</td>
<td>$207,900</td>
<td>$231,300</td>
<td>$247,700</td>
</tr>
</tbody>
</table>
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.
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.

<table>
<thead>
<tr>
<th>Submarket 1 Ownership In-Lieu Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Income-Restricted Unit</td>
</tr>
<tr>
<td>Per Sq. Ft. of GBA</td>
</tr>
</tbody>
</table>
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.
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.
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
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.
### Incentive Program – Potential Structure

<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 (VLI)</td>
<td>11%</td>
<td>35%+</td>
<td>3+</td>
</tr>
<tr>
<td>Low (LI)</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>10%</td>
<td>35%+</td>
<td>2+</td>
</tr>
</tbody>
</table>
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

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
• 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
Andrew Chang
Real Estate Project Coordinator
(562) 570-6710
andrew.chang@longbeach.gov
www.longbeach.gov/lbds/