

Balancing Inclusionary Affordable Housing with Market Rate Development

City of Pasadena – SCANPH Housing Workshop

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Common Questions About the Impact of Inclusionary Housing Programs

1. What impact inclusionary housing programs have on reducing the affordable housing shortfall?
2. Do inclusionary housing programs cause a reduction in the production of housing?
3. Do inclusionary housing programs cause market rents / sales prices to increase?
4. Do inclusionary housing requirements create a financial burden on developers?

Impact of Inclusionary Housing Programs

No single program can solve the affordable housing crisis.

Inclusionary housing programs can only be expected to fulfill a small piece of a community's affordable housing needs. However, studies have shown that well executed inclusionary housing programs have produced more affordable units than have been created by Low-Income Housing Tax Credits.

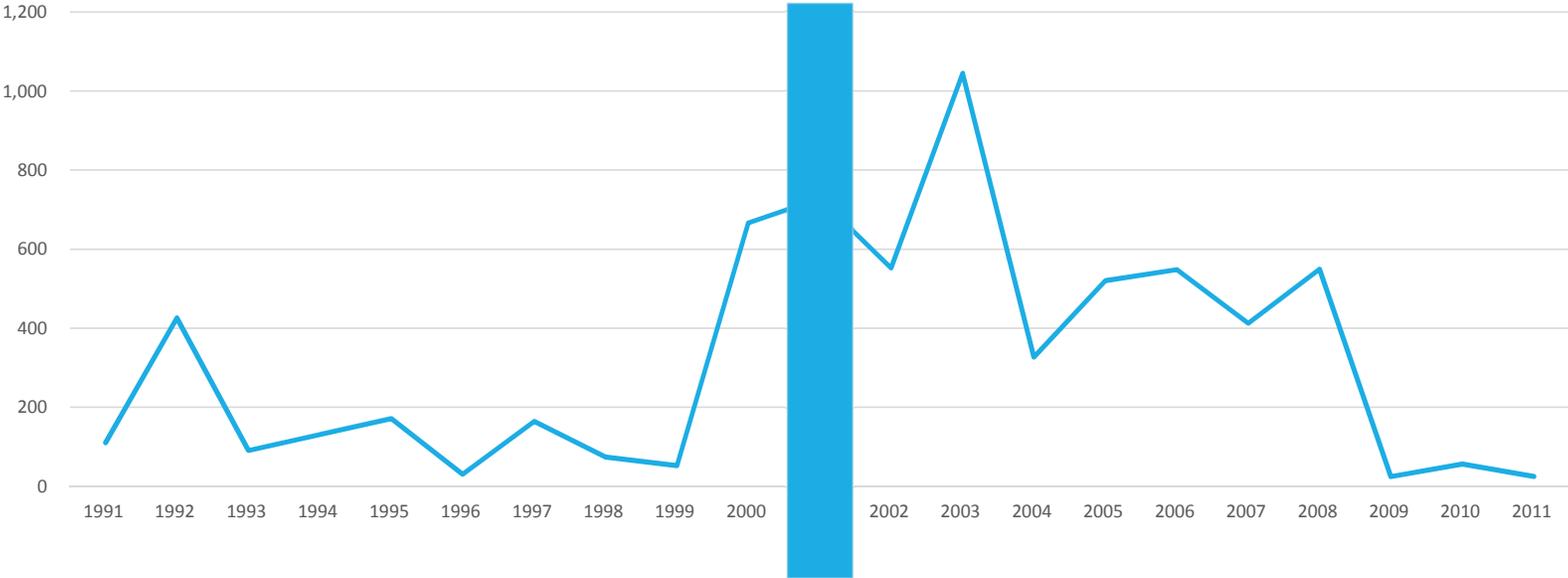
As federal and state affordable housing resources continue to diminish, it is clear that community's need to take advantage of every opportunity to attract the development of affordable housing.

Impact on Housing Production

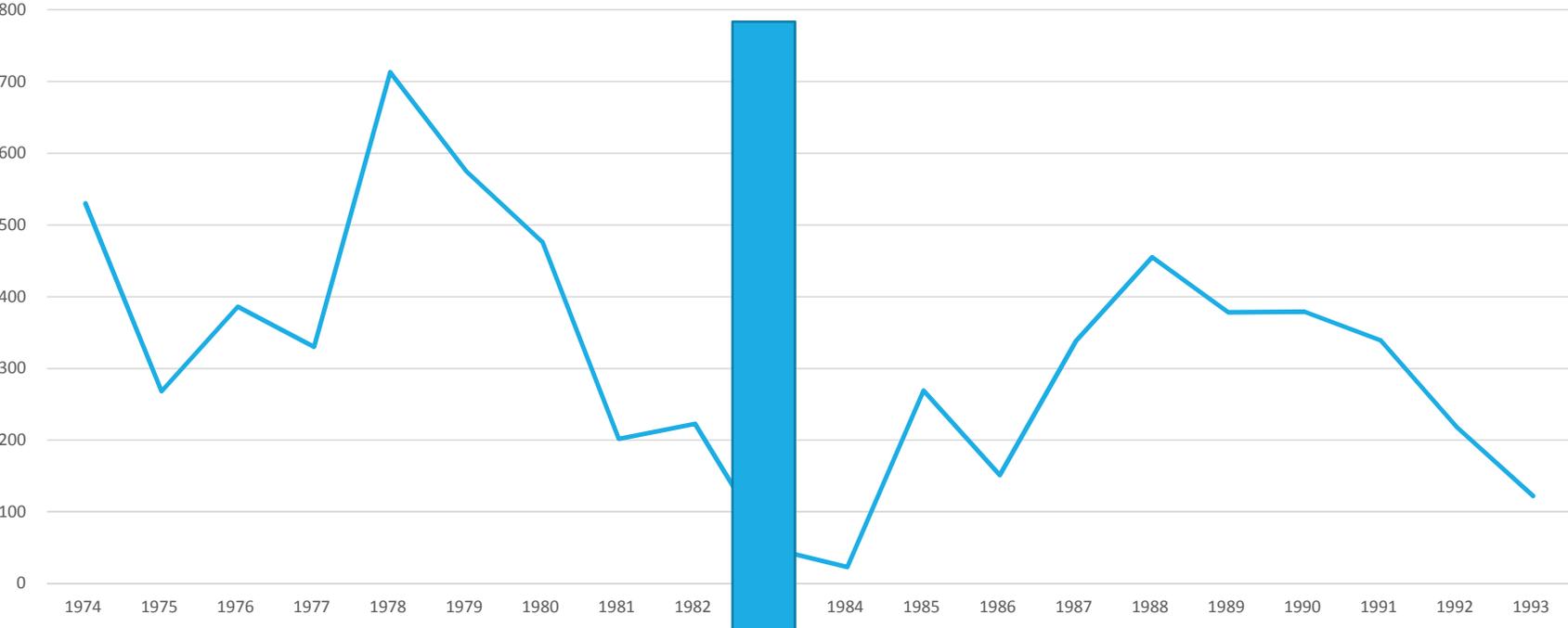
The cities of Pasadena, Santa Monica and West Hollywood all have long running inclusionary housing programs.

To test the impact on production, KMA analyzed residential building permit information for the 10-years preceding and following the program's adoption.

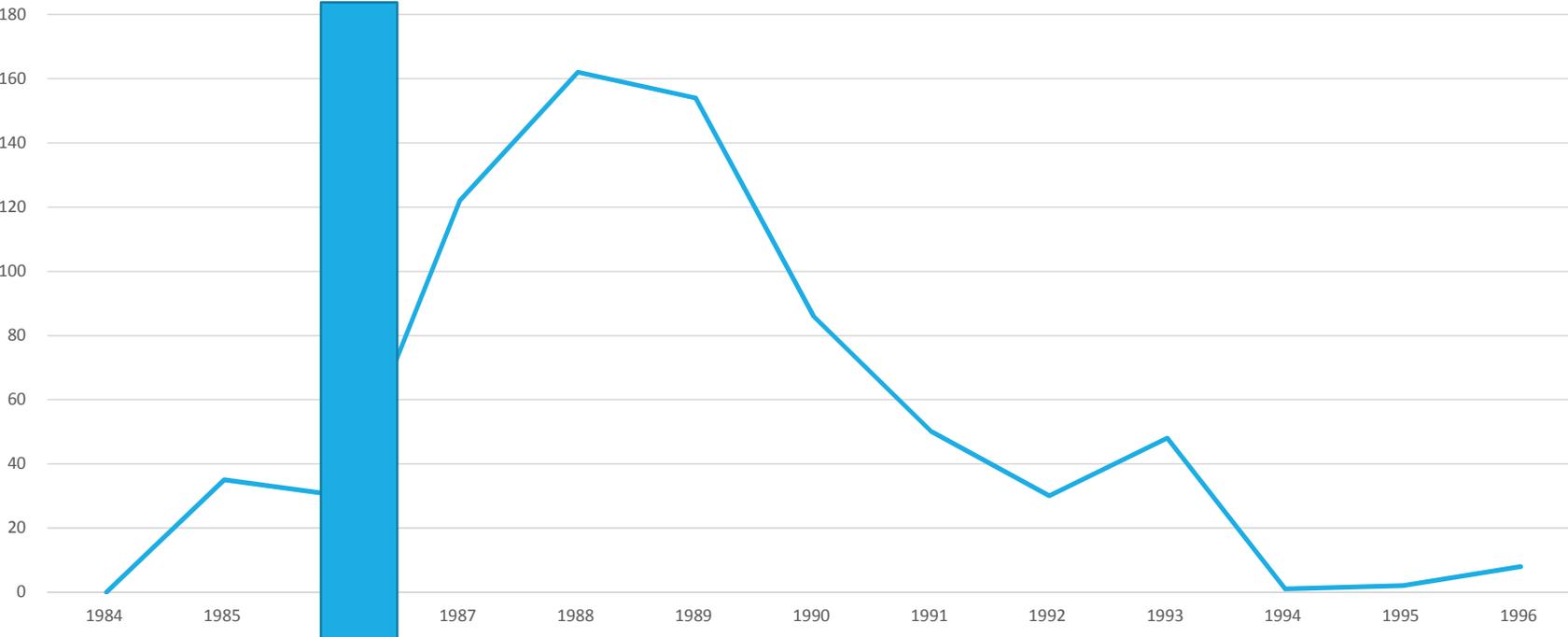
Residential Building Permits - Pasadena



Residential Building Permits – Santa Monica



Residential Building Permits – West Hollywood



Impact on Housing Production

As shown on the preceding slides, housing production increased and decreased before and after inclusionary housing requirements were adopted.

There is no evidence that the adoption of an inclusionary housing program had any impact on housing development. The swings were clearly attributable to other factors.

Impact on Market Rents / Sales Prices

As a general rule, developers set rents / sales prices at the maximum amounts that the market will bear.

Supply and demand factors are major indicators of achievable rents / sales prices. Well structured inclusionary housing programs should not constrain production.

In Southern California the demand for housing far outpaces the supply of housing. Inclusionary housing programs simply provide the opportunity to assist jurisdictions in attracting additional affordable units.

Inclusionary Housing Structuring Suggestions to Minimize Financial Burden to Developers

Inclusionary Housing Program Foundation

An inclusionary housing program should not place an onerous financial burden on the developers of market rate housing.

Determine if there is a diverse mix of demographic and economic conditions in the community. If so, consider establishing subareas.

Identify set aside percentages and income/affordability goals:

- Prepare separate evaluations for ownership and rental housing.
- Identify the minimum project size that will trigger the requirements.
- Perform financial feasibility assessments to test those goals.

Development Options

Allow development standards modifications for on-site production of inclusionary units. For example:

- Allow market rate units to be larger than inclusionary units in terms of square footage, but not bedroom count.
- Allow market rate units to include enhanced interior improvements.

Allow off-site construction that meets defined criteria such as:

- A location within a defined distance from the market rate project.
- Bedroom mix comparability to the mix in the market rate project.

In-Lieu Fee Payments

Will in-lieu fees be payable by right or allowed under defined circumstances? Considerations are:

- Program goals
- Ownership versus rental projects
- Project size thresholds
- Community's views on density

Establishing the In-Lieu Fee Payment Amounts:

- Affordability gap methodology
- Discounted amount to encourage in-lieu fee payment

Other Options

Land dedication can be offered if the proposed site has appropriate General Plan and zoning designations in place, and the developer makes a cash contribution to fill any remaining financial gap.

Acquisition and rehabilitation projects can be considered if they meet the following criteria:

- Existing units have been cited for substantial building code violations.
- All of the units have been vacant for a defined period.
- The direct rehabilitation costs comply with a defined threshold.
- The affordable rents must be a defined percentage less than market rents.

Program Design

A phase-in period should be provided to mitigate the impacts experienced by developers that have already purchased land.

A clear set of administrative procedures should be established.

The entire program should be updated at regular intervals to reflect changes in economic and demographic characteristics.

The in-lieu fee payment amount should be adjusted each year to keep pace with changes in the market place. The adjustment should be based on a readily accessible neutral third party source.