

Inclusionary Housing: Financial Evaluation and Policy Considerations City of Redondo Beach

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Inclusionary Housing Program Considerations

- The legal standards are:
 - The requirements cannot be confiscatory; and
 - The requirements cannot deprive an owner of a fair and reasonable return on their investment.
- The strength of the real estate market needs to be considered in formulating goals & objectives.
- The requirement should balance the interest of property owners and developers against the public benefit created by the production of affordable housing units.

City Council Goals Identified in January 2021

- The trigger for the requirement is eight units.
- Tiered requirement based on project size:
 - Ownership housing development:
 - 8 to 19 units 10%
 - 20 to 29 units 15%
 - 30+ units 20%
 - Apartment development:
 - 8 and 9 units 10%
 - 10+ units 15%
- Income Standards:
 - Ownership housing development at moderate Income.
 - Apartment development at very-low or low Income .
- Covenant Period:
 - Ownership – one cumulative 45 year period.
 - Apartments – for as long as the property is put to a residential use with a minimum 55 year term.

City Council Assessment of Potential Fulfillment Options January 2021

- On-Site Production - this is the default option:
 - Units can be integrated into the market rate project; or
 - A separate parcel can be created and a different product type can be provided.
- Off-Site Production:
 - Needs to be in close proximity to the market rate project.
 - Ownership projects can fulfill the requirements with rental units.
- In-Lieu Fee Payment: only under extreme hardship circumstances.
- Acquisition & Rehabilitation: No
- Land Dedication: No

Financial Evaluation Parameters

- KMA prepared pro forma analyses of prototype residential developments.
- The prototype projects are based on a combination of the following:
 - City Staff Reports for recently proposed projects.
 - Development plans that were submitted to the Planning Department.
 - Project types identified in KMA's market surveys.
- The prototypes do not represent actual projects:
 - Prototypes are a composite of many factors.
 - In some instances the prototype's development scope is at a lower density than is allowed by the City's zoning code as a reflection of site characteristics and development types.

§65915 Density Bonus



State density bonus can potentially mitigate the impacts of affordable housing requirements by allowing an increased number of units plus one to three incentives or concessions such as height and floor area ratio increases.



Projects that use the State density bonus cannot pay a fee in lieu of producing affordable housing units.



KMA analyzed a prototype ownership project that fulfills the affordable housing requirement with rental units, and prototype density bonus apartment projects.

Ownership Development Analysis

Prototype Condominium Development

- Two acre site / Density at 17.5 units per acre.
- 35 units in a one to four bedroom unit mix.
- Code compliant parking provided in attached garages and at-grade spaces.
- Projected market rate sales prices at \$800,000 and \$1.49 million.
- Affordable sales prices at \$289,500 and \$387,400.
- Affordability Gaps Per Unit:
 - One-bedroom units - \$510,500
 - Two-bedroom units - \$815,500
 - Three-bedroom units - \$975,000
 - Four-bedroom units - \$1,105,600
- Supportable Moderate Income Requirement:
 - 7% if the units are required to be distributed on a pro rata basis; or
 - 9% if the units are allowed to be provided in the smallest units in the project.

Prototype Condominium Project

\$65915 Density Bonus

Market Rate Condominiums + Very Low Income Rental Units	
Base Number of Units	35
Very Low income Units as % of Base Units	<u>11%</u>
Required Number of Very Low Income Units	4
Base Number of Units	35
Allowable Density Bonus Percentage	<u>35%</u>
Number of Density Bonus Units	13
Total Number of Units Allowed by Density Bonus	48
Statutory Incentives or Concessions	2
Attached Garages – No Guest Spaces	2.0
Supportable Inclusionary Housing Percentage as a % of Base Zoning	16% base zoning units / 35 units x 16% = 6 affordable units 4 units for density bonus + 2 additional affordable units

Supportable In-Lieu Fees

In-Lieu Fee	Ownership
Per Affordable Unit	\$639,000
Per Total Unit in the Project	\$57,500
Per Square Foot of Saleable Area	\$33.40

Apartment Development Analysis

Affordability Gap Analysis

Differences between Market Rents and Affordable Rents are calculated.

Property tax differential is estimated.

The difference represents the annual Affordability Gap.

The net Affordability Gap is set at the annual Affordability Gap capitalized at the threshold return from the 100% market rate project analysis.

The net Affordability Gap is translated into the supportable Inclusionary requirement.

Prototype Apartment Development Based on a Review of Recently Proposed Projects

	Small Project	Large Project
Zoning Standard	35 Units/Acre	35 Units/Acre
Development Density	35 Units/Acre	30 Units/Acre
Site Area	15,000 sq. ft.	3.0 acres
Total Number of Units	10	90
Unit Mix		
One-Bedroom Units	N/A	36
Two-Bedroom Units	10	54
Code Compliant Parking /Unit	2.33	2.33
Projected Market Rents	\$3,721	\$3,500 & \$3,908
Affordable Rents	One-Bedroom Units	Two Bedroom Units
Very-Low, Low & Moderate Income	\$737 - \$1,697	\$820 - \$1,900
Supportable Requirement as a Percentage of Base Zoning	9% Moderate – One Unit	6% Very Low 7% Low 9% Moderate

Prototype Apartment Development

§65915 Density Bonus – Very Low Income Units

	Small Project	Large Project
Base Number of Units	10	90
Very Low income Units as % of Base Units	<u>15%</u>	<u>15%</u>
Number of Very Low Income Units	2	14
Base Number of Units	10	90
Allowable Density Bonus Percentage	<u>50%</u>	<u>50%</u>
Number of Density Bonus Units	5	45
Total Number of Units	15	135
Statutory Incentives or Concessions	3	3
Parking/Unit – No Guest Spaces	2.0	1.6
Supportable Inclusionary Requirement as a Percentage of Base Zoning	15% base zoning units / 2 Units / 20% of units when rounded up	21% base zoning units / 90 units x 21% = 19 units 14 units for density bonus + 5 additional affordable units

Supportable In-Lieu Fees

In-Lieu Fee	Apartments
Per Affordable Unit	\$547,000
Per Total Unit in the Project	\$38,300
Per Square Foot of Leasable Area	\$39.50

Issues for Consideration

- Inclusionary Housing requirements provide the City with flexibility to establish development standards that the §65915 density bonus alone does not provide.
- The Financial Evaluation supports as much as a 21% very-low income requirement for apartment projects. However, HCD recommends 15% low income as the most stringent requirement.
- In-Lieu Fees can be used for a wide array of affordable housing activities including contributions to homeless shelters, home buyer programs, and rehabilitation loans.

General Recommendations

The Financial Evaluation indicates that a full affordable unit cannot be supported at 8 and 9 units, which creates an incentive for the developers to build 7 or fewer units:

- Set the threshold project size at 10 units; or
- Allow 8 and 9 units to pay an in-lieu fee by right.

Allow for an extreme hardship exemption based on standards established in the Inclusionary Housing Ordinance.

Recommendations: Ownership Housing Development

- Affordable Housing Percentage Requirement
 - 9% moderate income requirement for projects with 19 or fewer units.
 - 15% moderate income requirements for projects with 20 or more units.
- Fulfillment Options
 - The provision of on-site affordable units allocated to the smallest units in the project.
 - Creation of a separate on-site parcel that can be developed with a different product type than the market rate project.
 - Off-site development of apartments in close proximity to the market rate project.
 - In-lieu fee payment in demonstrated cases of extreme hardship.
- Covenant Payment: One cumulative 45 year period.

Recommendations: Apartment Development

- Affordable Housing Percentage Requirement
 - 10% moderate income requirement for projects with 19 or fewer units.
 - 15% low income requirements for projects with 20 or more units.
- Fulfillment Options
 - The provision of on-site affordable units allocated on a pro rata basis to the market rate units.
 - Off-site development in close proximity to the market rate project.
 - In-lieu fee payment in demonstrated cases of extreme hardship.
- Covenant Payment: For as long as the property is put to a residential use with a minimum 55 year term.