Update on the Housing Element, Results of a Feasibility Review of the Inclusionary Housing Ordinance and Comments on Strategies

July 26, 2022, Planning Commission Meeting

Community Development Department

Presented by:

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Consultants: PlaceWorks

Economic Planning Systems (EPS)



Discussion

- Update on key HCD review comments on 2nd Public Review Draft and strategies for compliance
- 2. Inclusionary Housing Ordinance Feasibility Analysis
- 3. Commission Discussion and recommendations to Council
 - Council meeting: Tomorrow evening



HCD Key Comments – 7/8 Review Letter

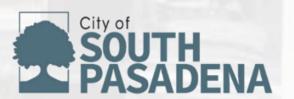
- ☐ Sites Inventory
 - Questions on some of the sites included
- Accessory Dwelling Units
 - > Staff needs clarification on this item
- ☐ Suitability of Non-Vacant Sites
- ☐ Confirming Feasibility of IHO
- ☐ Citywide Height Limit as a Constraint
- ☐ Affirmatively Furthering Fair Housing
 - Additional Information
- Owner Interest
 - More outreach to property owners.



Strategies Towards Compliance

Strategy Summary

- 1. Continue to reach out to HCD & invite to in-person meeting
- Modify zoning limits to accommodate more housing (includes consideration of ballot measure for height limit change)
- 3. Revisions to the sites inventory
- 4. Move forward with housing initiatives including GP/DTSP
- 5. Consider amending the inclusionary housing ordinance



Updates From PlaceWorks

Progress on Compliance Strategies



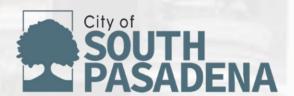
Strategy to Address HCD Letter

- ☐ Continue to meet with HCD to resolve outstanding issues and achieve conditional approval of a draft for adoption
 - ➤ Standing invitation to HCD to come to South Pasadena to discuss local issues



Sites Inventory

- ☐ Revisions to the inventory to ensure properties will be acceptable to HCD for certification
 - ☐ Projects have moved forward
 - ☐ Receiving responses to letters sent
 - ☐ Some to remove; some confirmed
 - ☐ Continue to seek additional property owner interest in housing development



Sites Inventory

- ☐ The housing element sites analysis assumes the following:
 - Adoption of the General Plan Update, Downtown Specific Plan and the changes to densities proposed in both those documents.
 - Revisions to the City's zoning code and development standards and processes and procedures outside of the DTSP.

Sites Inventory

- ☐ Current land inventory relies on proposed General Plan base densities (to be released soon)
 - ☐ Analysis is not based on density bonus
- ☐ Analysis is based on feasibility within the existing 45' height limit.
- Program 3.a is proposed to modify zoning (open space, parking, heights and design review); will be needed to make projects at the new proposed densities feasible

Constraints Analysis

- ☐ Strengthen programs to modify zoning limits (i.e., height limits, upzoning additional areas) to accommodate more housing to address HCD concerns
- ☐ Outreach to the development community to ensure feasibility of development in the City
 - Permit processing procedures
 - ☐ Inclusionary Zoning (as a potential constraint)
 - ☐ Height Limits/Densities

IHO Feasibility Studies:

Methodology and Outcomes of Analysis of Current Ordinance (20% requirement) and Option to Amend to 15% requirement

Julie Cooper, presenting





Feasibility Analysis

- Developed prototype rental and for-sale market-rate products that the City might see developed in the future
- Tested inclusionary scenarios for each prototype against typical real estate investment thresholds for feasibility:
 - 5.00% "yield on cost" for rental projects
 - 15% profit margin for for-sale projects
- The results indicate if new market-rate development can "bear" inclusionary scenarios, given development costs and the impacts of affordable units on project values

Inclusionary Scenarios Tested

For-Sale Units

- 20% Moderate-Income
- 15% Moderate-Income
- With and without density bonus

Rental Units

- 10% Low-Income and 10% Very-Low Income
- 7.5% Low-Income and 7.5% Very-Low Income
- 15% Low-Income
- 15% Very-Low Income
- With and without density bonus

Prototype Market-Rate Units

Product Type	Construction Type	Unit Type	Unit Size	Parking
For Sale Townhomes	20 du/acre Townhome	3BR	1,650 Sq. Ft.	Attached garage
For Sale Condominiums	55 du/acre 4-Story Wood Frame	2BR	1,200 Sq. Ft.	2 spaces per unit structured
Rental Apartments	55 du/acre 4-Story Wood Frame	2BR	1,000 Sq. Ft.	1 space per unit structured
	70 du/acre 5-Story Wood Frame	2BR	1,000 Sq. Ft.	1 space per unit structured

Development Cost Assumptions

Item	55-70 du/acre (Condos and Apartments)	20 du/acre (Townhomes)
Land Acquisition	\$4.75M/acre (\$110/sq. ft.)	\$3.3M/acre (\$75/sq. ft.)
Construction Costs	\$350/net bldg. sq. ft.	\$300/net bldg. sq. ft.
Parking Costs	\$35,000/space (structured)	N/A
Indirect Costs	18% of direct costs	18% of direct costs
Operating Expenses (annual)	\$12,000/unit (for rental units)	N/A

Development Revenue Assumptions

Item	Rental Apartments	For-Sale Condos	For-Sale Townhomes
Market-Rate Rent or Sale Price	\$3,900/ month	\$960,000	\$1,419,000
Very-Low Income Rent (Unadjusted 50% AMI) ¹	\$796/ month	N/A	N/A
Very-Low Income Rent (Adjusted 50% AMI)	\$1,111/ month	N/A	N/A
Low-Income Rent (Unadjusted 80% AMI) ¹	\$1,411/ month	N/A	N/A
Low-Income Rent (Adjusted 80% AMI)	\$1,916/ month	N/A	N/A
Moderate-Income Sale Price (110% AMI)	N/A	\$270,000 ²	\$306,000 ²

^[1] The unadjusted rents are required for projects using the State density bonus

^[2] The analysis of the 20% requirement assumed higher affordable sale prices; in the 15% requirement analysis, the mortgage interest rate assumption was increased from 4% to 6.25%, thus reducing the affordable price.

Findings – For-Sale Prototypes

Inclusionary Scenario	Profit Margin without Density Bonus	Density Bonus	Profit Margin with Density Bonus
Townhomes 20% MOD	39.1%	Not Analyzed	Not Analyzed
Townhomes 15% MOD	43.4%	Not Analyzed	Not Analyzed
Condos 20% MOD	11.4%	15%	15.5%
Condos 15% MOD	13.9%	10%	16.4%

Findings – Rental Apartments (55 du/acre)

Inclusionary Scenario	Yield on Cost without Density Bonus	Density Bonus	Yield on Cost with Density Bonus
10% VLI and 10% LI	4.7%	32.5%	5.1%
7.5% VLI and 7.5% LI	5.0%	25%	5.2%
15% LI	5.1%	27.5%	5.3%
15% VLI	4.9%	50%	5.3%

Findings – Rental Apartments (70 du/acre)

Inclusionary Scenario	Yield on Cost without Density Bonus	Density Bonus	Yield on Cost with Density Bonus
10% VLI and 10% LI	4.9%	32.5%	5.2%
7.5% VLI and 7.5% LI	5.1%	25%	5.4%
15% LI	5.2%	27.5%	5.4%
15% VLI	5.0%	50%	5.4%

Conclusions

- City's current inclusionary requirements (10% LI and 10% VLI):
 - Only for-sale townhomes are likely financially feasible without the use of the State density bonus
- 15% Moderate-Income requirement for for-sale projects:
 - Townhomes are likely financially feasible without the use of the density bonus
 - Condominiums are likely <u>not</u> financially feasible without the use of the density bonus
- 7.5% Low-Income and 7.5% Very-Low Income requirement for rental projects
 - Apartments at 55 and 70 du/acre are likely financially feasible without the use of the density bonus

Conclusions

- 15% Low-Income requirement for rental projects
 - Apartments at 55 and 70 du/acre are likely financially feasible without the use of the density bonus
- 15% Very-Low Income requirement for rental projects
 - Apartments at 70 du/acre are likely financially feasible without the use of the density bonus
 - Apartments at 55 du/acre are likely not financially feasible without the use of the density bonus
- ➤ City may set a minimum threshold of 15% Low-Income requirement, but allow projects to provide any mix of low and very-low income units totaling 15% of total units

Discussion: Recommendations to Council

- On revising the inclusionary housing ordinance:
- On initiating a ballot initiative to revise the 1983 height limit initiative.
- On other strategies to achieve certification and compliance with State law



Discussion: Recommendations to Council

- On revising the inclusionary housing ordinance:
 - 1. Set-aside % requirement (20%, 15%, other?)
 - 2. Affordability split (50-50 Low/Very Low? Any combination of Low/Very Low? Other?)
 - 3. Timing



Discussion: Recommendations to Council

- On initiating a ballot initiative to revise the 1983 height limit initiative. Some options for Council to consider asking the voters:
 - 1. Removing the limit for geographical areas (i.e., Downtown, new GP Ostrich Farm District, commercial centers, other?)
 - 2. Removing the limit for housing/mixed-use projects only?
 - 3. Rescinding the 1983 ballot measure altogether?
- On other strategies to achieve certification and compliance with State law



End of Presentation