

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

1. 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.

SOUTH PASADENA CITY HALL

Strategies Towards Compliance

Strategy Summary

1. Continue to reach out to HCD & invite to in-person meeting
2. 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



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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	<i>Density Bonus</i>	Profit Margin with Density Bonus
Townhomes 20% MOD	39.1%	<i>Not Analyzed</i>	Not Analyzed
Townhomes 15% MOD	43.4%	<i>Not Analyzed</i>	Not Analyzed
Condos 20% MOD	11.4%	<i>15%</i>	15.5%
Condos 15% MOD	13.9%	<i>10%</i>	16.4%

Findings – Rental Apartments (55 du/acre)

Inclusionary Scenario	Yield on Cost without Density Bonus	<i>Density Bonus</i>	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	<i>Density Bonus</i>	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 not 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

A faded, grayscale background image of a city street. The street is lined with multi-story buildings, some with awnings. A person is walking on the sidewalk on the left, and a car is visible in the distance. The overall scene is slightly out of focus and has a low-contrast, muted appearance.

End of Presentation