

City of Arts & Innovation

Housing and Homelessness Committee Memorandum

**TO: HOUSING AND HOMELESSNESS
COMMITTEE MEMBERS**

DATE: FEBRUARY 28, 2022

FROM: OFFICE OF HOMELESS SOLUTIONS

WARD: ALL

**SUBJECT: UPDATE ON INCLUSIONARY HOUSING PROGRAM STUDY FOR THE CITY OF
RIVERSIDE**

ISSUE:

Receive a presentation on updates related to the City of Riverside Inclusionary Housing Program study and preliminary recommendations for inclusionary requirements.

RECOMMENDATION:

That the Housing and Homelessness Committee:

1. Receive an update on the Inclusionary Housing Program Study for the City of Riverside, including preliminary recommendations on inclusionary housing program requirements; and
2. Provide staff with direction on how to proceed with the Inclusionary Housing Program Study.

BACKGROUND:

In recent years, the State of California has identified the shortage of housing, particularly affordable housing, as a legislative priority. A housing shortage impacts the State's economy, contributes to homelessness, and results in long commutes, increasing production of greenhouse gas emissions, air pollution, and poor public health. Affordable housing is defined as rent/utilities or mortgage/taxes/insurance/utilities that cost 30% or less of the gross household income and are available to persons who earn at or below 80% of the Area Median Income (or \$63,200 for a family of four in 2021). The State further delineates affordability levels for "low-income" households, earning between 50% and 80% of the Area Median Income; and for "very-low income" households, earning between 30% and 50% of the Area Median Income. The State also defines households earning "moderate incomes," between 80% and 120% of Area Median Income.

Facing a rise in local rents and housing costs, a steady rise in homelessness, and a decrease in homeownership associated with the high cost of housing, on May 18, 2021, the City Council and Housing Authority Board authorized the award of an Agreement with Economic & Planning Systems, Inc., (EPS) to explore the possibility of implementing an inclusionary housing policy in the City of Riverside. By definition, inclusionary housing policies are local policies that could

require developers to sell or rent a percentage of new residential units to lower-income residents or pay an in-lieu fee to support the development of such units. To offset the cost of providing affordable housing in all new projects, an Inclusionary Housing Program can offer incentives to developers in the form of zoning concessions such as reduced parking, density bonuses, or tax abatements. Developers can also be given an option to choose an alternative to providing the affordable units in the form of in-lieu fees or providing affordable units at an alternate location. Inclusionary Housing Programs can include both for-sale and rental units and are often implemented through the jurisdiction's zoning code.

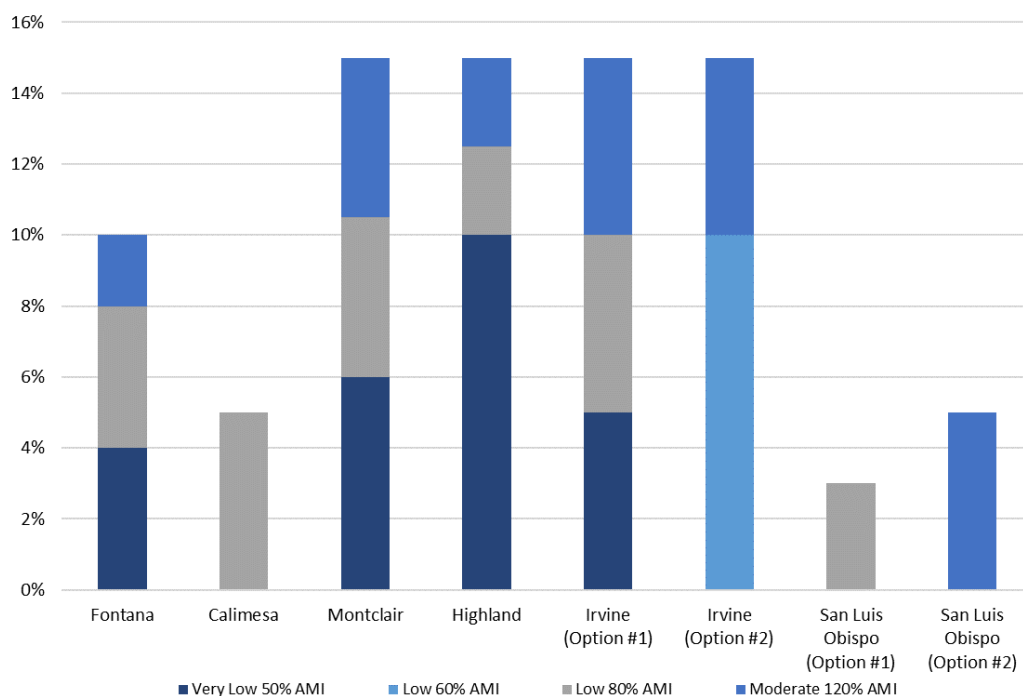
On September 28, 2021, City staff and EPS presented to the Housing and Homelessness Committee on the initial analysis of the development feasibility impacts of a range of inclusionary policy alternatives on new market-rate residential development. At that meeting, the Committee directed Housing Authority staff and EPS to proceed with the next steps of the Study, including stakeholder and community outreach.

DISCUSSION:

Survey of Comparable Jurisdictions

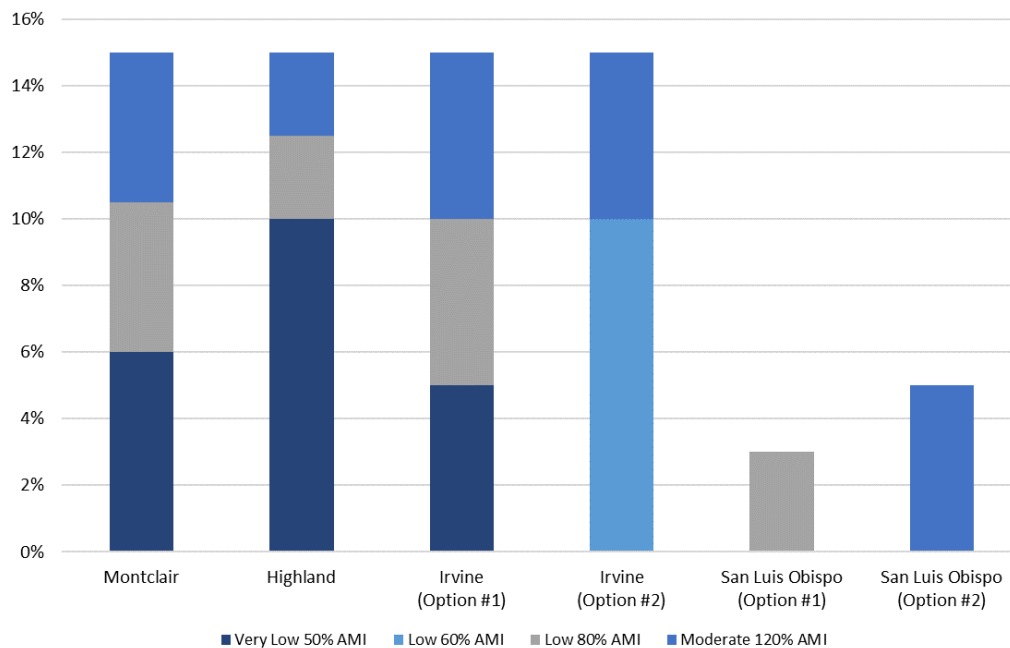
Inclusionary housing requirements are common throughout California, with over 170 jurisdictions imposing such requirements on new residential construction. Communities have considerable flexibility regarding the components of their inclusionary programs, in terms of what percentages of units must be affordable, the income levels required, whether they apply to both rental and for-sale housing, what sizes and types of projects may be exempt, whether they allow fees in lieu of providing units, and other components. A small sample of selected jurisdictions with geographic or economic similarities to Riverside indicates that communities have adopted a wide range of inclusionary programs, as shown below:

Figure 1: Selected Sample of Inclusionary Standards for For-Sale Housing



Note: Fontana and Calimesa do not have inclusionary requirements for rental residential projects.

Figure 2: Selected Sample of Inclusionary Standards for Rental Housing



As shown in Figures 1 and 2, it is common for communities to require as much as 15 percent inclusionary units and with a mix of income levels. However, some communities require lower percentages of units and at a single income level. These findings inform the preliminary recommendations for Riverside's inclusionary program, discussed below.

More data regarding other communities' inclusionary standards can be found at the following website: [California Inclusionary Housing Programs Searchable Database \(arcgis.com\)](https://arcgis.com)

Stakeholder and Community Outreach:

Following the September 28, 2021, Housing and Homelessness Committee meeting, EPS engaged in several stakeholder and community outreach meetings to present the initial feasibility study findings and solicit feedback on the potential inclusionary program. These meetings are summarized below:

EPS hosted two virtual stakeholder meetings in November 2021. The first stakeholder meeting took place on November 5, 2021, and included seven participants involved in housing advocacy work and/or development of affordable residential properties. Primary feedback from this workshop included:

- Importance of including affordable units in market-rate developments, to avoid clustering of affordable units in existing low-income areas of City.
- Some but not unanimous support for consideration of in-lieu fee option, as it can result in more affordable units in the long-run through funding leverage.
- Program should include option for land donation and/or collaboration with nonprofit builders for separate buildings to meet inclusionary requirement – would be relevant for larger projects.
- Encouraging City to explore other tools for developing permanent/long-term affordable housing, including co-ops and community land trusts, and other funding sources such as transient occupancy tax (TOT).

The second stakeholder meeting took place on November 16, 2021, and included 16 participants involved in developing and operating market-rate residential projects. Representatives from the Riverside Chamber of Commerce and Building Industry Association attended this workshop. Primary feedback from this workshop included:

- Desire for flexibility from City in negotiating on a project-by-project basis, to reflect that every project has unique cost factors.
- Concern that feasibility models may underestimate development costs, in which case financial returns are overestimated and projects may be less able to absorb the costs of inclusionary requirements.
- Interest in having incentives that will reduce costs elsewhere in a project, although higher density allowances do not always improve project feasibility because construction costs can increase.
- Combined with other City policies that are adding costs to development, such as VMT reduction and electrification policies, the addition of inclusionary requirements can push many projects into infeasibility.
- Better option to get affordable units is to support the building of 100% affordable projects on City-owned land; alternately, City should share in cost of inclusionary requirements somehow.

On January 12, 2022, EPS and City staff hosted a virtual community webinar on the Inclusionary Housing Program Study. Approximately 50 individuals signed on to the meeting. EPS provided a presentation on the Study, and EPS and City staff took written and oral questions and comments from attendees. Primary feedback from this meeting included:

- Overall support for an inclusionary housing policy.
- Preference to require units on-site rather than allow in-lieu fee; fee should be higher than cost of providing on-site units to discourage the fee option.
- Questions about other means of encouraging development of affordable units, such as density bonuses (which the City and State do have).
- Stated need for provision of affordable housing that serves special needs population.

On January 25, 2022, EPS staff provided a consolidated version of the community webinar at a meeting of the Riverside Chamber of Commerce's Economic Development Council.

Review of Feasibility Findings

Since presenting to the Housing and Homelessness Committee on September 28, 2021, EPS made some refinements and additions to its feasibility analysis. One refinement includes an adjustment in maximum rents and sale prices affordable to very-low, low-, and moderate-income households. While the State defines the upper limit of these affordability levels at 50%, 80%, and 120% of Area Median Income, respectively, EPS has found that it is a best practice to set the upper limit for low- and moderate-income households at 70% and 110% of Area Median Income, respectively. This approach, which is used by many California jurisdictions, allows more households to qualify for and afford the inclusionary units, but does lower the revenue from those units and thus affects feasibility. Table 1 shown in Attachment 1 summarizes the maximum incomes and associated maximum rents and sale prices used in the feasibility analysis.

One addition to the analysis is the preliminary calculation of affordable housing in-lieu fee levels for various inclusionary requirements. The fee levels reflect the financial subsidy needed to build the affordable units that the development is not providing on-site. Payment of such a fee can be

offered as an alternative option to providing on-site units, although some cities do limit the option to specific conditions (e.g., to cover fractional units required, or only for projects below a certain size). The City would collect fee revenues in a dedicated fund to utilize in support of producing and preserving affordable housing units in Riverside. Examples of potential uses include providing local matching funds to support 100% affordable projects, purchasing land for affordable housing development, or purchasing existing units and requiring/extending affordability.

EPS applied a range of inclusionary scenarios, including payment of the in-lieu fee, to the five housing prototypes identified in the preliminary feasibility analysis. These prototypes include for-sale single-family detached homes (10 units per acre) and attached townhomes (15 units per acre), as well as rental apartments at different densities reflecting their locations in the Downtown (100 units per acre), Downtown- and transit-adjacent areas (60 units per acre), or other neighborhoods of the City (30 units per acre). EPS updated its feasibility analysis to compare development costs and revenues under the inclusionary requirements to determine whether they met common investment thresholds for feasibility. For the for-sale housing, the feasibility threshold is a 15% profit margin (values exceed costs by at least 15 percent). For rental properties, the feasibility threshold is a "return on cost" of 5.25%, meaning that the expected net operating income of the project (total rents received less operating expenses) would equal at least 5.25% of the project's total development costs.

For rental housing, EPS tested the following inclusionary requirement scenarios: 1) 15% of units affordable to low-income households; 2) 10% of units affordable to low-income households; and 3) 10% of units affordable to very-low income households. EPS also estimated that if the inclusionary requirement were for 10% of units to be affordable to low-income households, the associated in-lieu fee needed to support the development of the required units elsewhere would be approximately \$13,000 per market-rate unit built. EPS found that rental projects developed at 30 units per acre outside of the Downtown and nearby areas could feasibly include affordable units in all of the scenarios. However, rental projects developed at 60 or 100 units per acre in and around Downtown would have higher development costs per unit and could not feasibly include affordable units in any of the scenarios. Therefore, it would be feasible for these higher-density projects to pay the estimated in-lieu fee.

For for-sale attached townhomes, EPS tested the following inclusionary scenarios: 1) 10% of units affordable to low-income households; and 2) 5% of units affordable to very-low income households. EPS also estimated that if the inclusionary requirement were for 10% of units to be affordable to low-income households, the associated in-lieu fee needed to support the development of the required units elsewhere would be approximately \$17,000 per market-rate unit built. EPS found that for-sale attached townhome projects are forecast to have strong profit margins and could feasibly provide affordable units under both inclusionary scenarios, and that paying the estimated in-lieu fee rather than providing on-site units would be feasible for such projects as well.

For for-sale detached single-family homes, EPS tested the following inclusionary requirements: 1) 5% of units affordable to moderate income households; and 2) 2% of units affordable to low-income households. EPS also estimated that if the inclusionary requirement were for 5% of units to be affordable to moderate-income households, the associated in-lieu fee needed to support the development of the required units elsewhere would be approximately \$7,000 per market-rate unit built. EPS found that under current cost and value expectations, for-sale detached single-family developments are forecast to have marginally feasible profit margins even if they are all market-rate units and that such projects would face feasibility challenges whether they provide affordable units on-site under either inclusionary scenario or pay the estimated in-lieu fee.

Preliminary Recommendations

Given the findings of the feasibility analysis and the feedback received from stakeholders and community members, EPS has compiled a preliminary set of recommendations for an Inclusionary Housing Program in Riverside for the Committee's consideration:

- 1) Inclusionary requirements
 - Multifamily – 10% of units affordable to low-income households (70% AMI)*
 - Townhome - 10% of units affordable to low-income households (70% AMI)*
 - Single-family – 5% of units affordable to moderate-income households (110% AMI)

*These requirements would automatically qualify projects for the use of State density bonus
- 2) Develop an in-lieu fee to align with the above requirements. Allowance for payment of fee should be based on City priorities (e.g., encouraging on-site units/mixed-income properties vs. maximize local support for affordable projects).
- 3) Consider a phased-in approach for requirements to allow markets to adjust and a set timeline for revisiting requirements in light of evolving market conditions.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 2: Community Well -Being** and **Goal No. 2. 1** Facilitate the development of a quality and diverse housing supply that is available and affordable to a wide range of income levels. It also supports **Action 2. 1. 4**, Prepare creative land use regulations that include Adaptive Reuse Ordinance, Inclusionary Zoning, Density Bonus Ordinance, and Infill Ordinance to create incentives for housing development.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** — The initiative to explore an inclusionary policy merges best practices in policy development with intensive outreach and communication with both the development community and public to be transparent and make decisions based on sound policy, and inclusive community engagement based on timely and reliable information.
2. **Equity** — Inclusionary Housing promotes the integration of affordable housing into the City's market rate stock which allows people of different races, backgrounds, and economic circumstances to live throughout Riverside, lessening the concentration of poverty and broadening the experiences of those who live in affordable/market mixed units.
3. **Fiscal Responsibility** — By using local development resources to ensure a balanced housing market, Riverside is a prudent steward of public funds and ensures responsible management of the City' s financial resources while providing quality of life to all residents.
4. **Innovation** — Exploring inclusionary housing potentially creates a development tool to address changing needs and prepares for the future through collaborative partnerships and adaptive processes in consultation with the public and development community.
5. **Sustainability & Resiliency** — By creating a balanced housing market, Riverside is ensuring a balanced economy that serves all income levels of city residents but does not sacrifice growth.

FISCAL IMPACT:

There is no fiscal impact associated with the report.

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Certified as to

Availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer

Approved by: Lea Deesing, Assistant City Manager

Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. Table 1: Affordability Standards for the City of Riverside
2. Presentation