



*City of Arts & Innovation*

# Housing and Homelessness Committee Memorandum

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**TO: HOUSING AND HOMELESSNESS COMMITTEE MEMBERS** **DATE: October 23, 2023**

**FROM: DEPARTMENT OF HOUSING & HUMAN SERVICES WARD: ALL**

**SUBJECT: UPDATE ON INCLUSIONARY HOUSING PROGRAM FEASIBILITY STUDY**

**ISSUE:**

Receive a presentation on updates related to the City of Riverside Inclusionary Housing Program feasibility study and associated recommendations for updates to the draft inclusionary housing ordinance.

**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 elements of a potential inclusionary housing ordinance; and
2. Provide direction on the draft Inclusionary Housing Ordinance.

**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 \$94,500 for a family of four in 2023). 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 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 jurisdiction's zoning code.

On May 23, 2022, City staff and EPS received guidance from the Housing and Homelessness Committee (Attachment 1) on several elements of a draft inclusionary housing ordinance that was under development. Subsequently, City staff and EPS participated in the following meetings to discuss a draft inclusionary housing ordinance.

- August 18, 2022: Planning Commission meeting (Attachment 2)
- October 13, 2022: Planning Commission workshop (Attachment 3)
- November 10, 2022: Planning Commission meeting (Attachment 4)
- April 11, 2023: City Council workshop (Attachment 5)

## **DISCUSSION:**

### Updates to Feasibility Analysis

The analysis underlying the economic feasibility of an Inclusionary Housing Program in the City was originally conducted in 2021 and updated in 2022. Based on these analyses, EPS demonstrated to City staff and the Committee that it would be feasible to adopt a specific set of inclusionary requirements, as detailed in the Staff Report and Presentation from the March 23, 2022 Committee meeting.

Over the past year since the last update, there have been changes in the housing market that have implications for the economics of developing new residential projects in Riverside. Specifically:

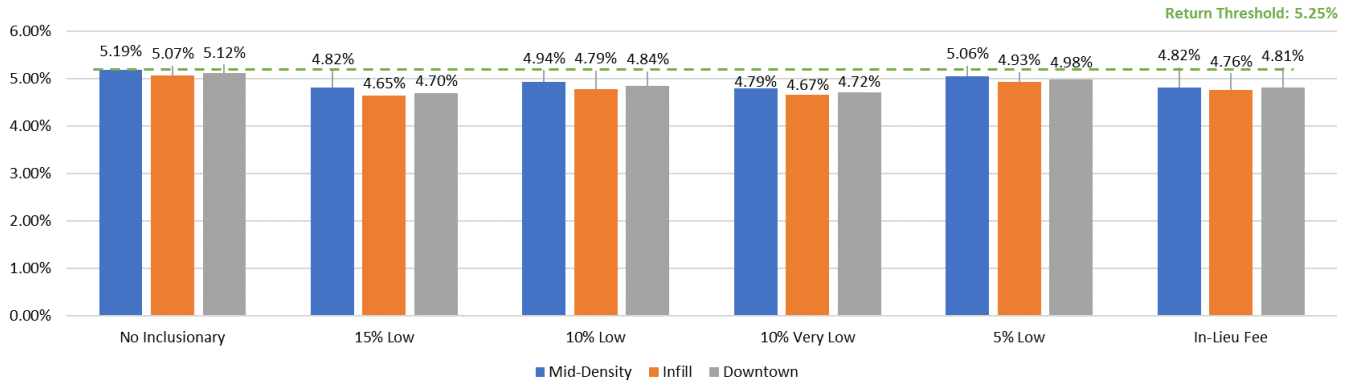
- Construction costs for residential development projects in the Southern California region have increased approximately eight (8)%;
- Rents for new multifamily apartment projects in Riverside have increased by approximately three percent (3%);
- Sale prices for new single-family and townhome projects in Riverside have increased by approximately 25%; and
- The income limits for lower-income households in Riverside County, as defined by HCD, have increased by eight percent (8%).

EPS updated its feasibility model to reflect these changed conditions across the four types of residential projects that were previously assessed, which include:

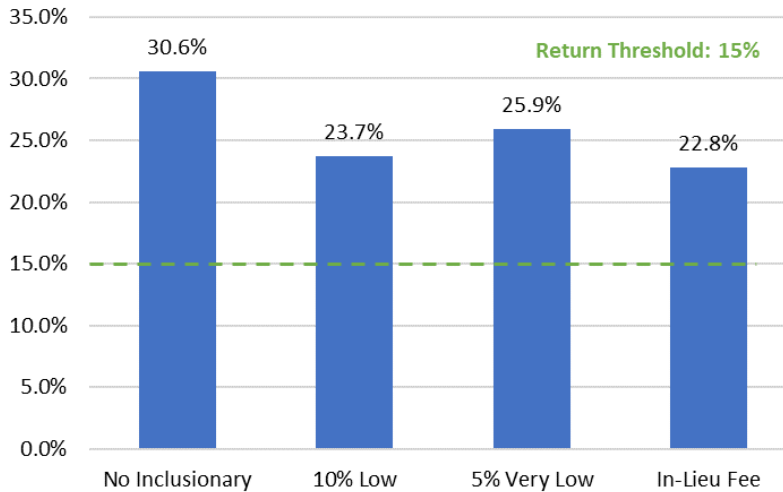
- low-density single-family;
- high-density single-family (aka townhomes);
- mid-density multifamily; and
- high-density multifamily.

Based on the new costs and revenues associated with residential projects in Riverside, the feasibility analysis indicated that while single-family projects (both low-density and high-density) remain feasible with the addition of inclusionary requirements, multifamily rental projects (at all densities) are not likely able to support requirements to include affordable units under current market conditions (see **Figures 1-3**).

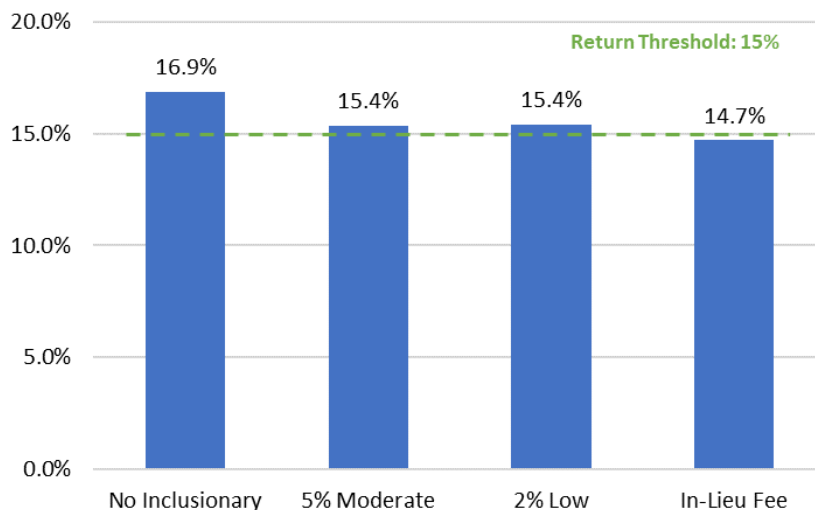
**Figure 1: 2023 Feasibility Analysis for Multifamily Rental Development**



**Figure 2: 2023 Feasibility Analysis for High-Density Single-Family For-Sale Development (Townhomes)**



**Figure 3: 2023 Feasibility Analysis for Low-Density Single-Family For-Sale Development**



*Inclusionary Housing Program Recommendations:*

Based on EPS’s updated feasibility analysis, the following inclusionary requirements are recommended for the Committee’s consideration and direction:

- Multifamily Rental Apartments – No inclusionary requirement until market conditions improve.
- High-Density Single-Family (e.g. Townhome) - 10% of units affordable to low-income households (70% AMI)\* if provided on-site; 15% of units affordable to low-income households if provided off-site; or payment of an in-lieu fee
- Low-Density Single-Family – Five percent (5%) of units affordable to moderate-income households (110% AMI) if provided on-site; eight percent (8%) of units affordable to moderate-income households if provided off-site; or payment of an in-lieu fee.

*\*These requirements would automatically qualify projects for use of State density bonus*

It is additionally recommended that the City commit to revisiting the Inclusionary Housing Program within two years, and conduct an updated analysis to assess any changes to the feasibility of providing inclusionary units across residential product types. At that time, the City may opt to change the requirements and potentially include an inclusionary requirement for multifamily rental projects, market conditions permitting.

**In-Lieu Fee**

If the City adopts an Inclusionary Housing Ordinance it is required to provide alternative means of compliance with the inclusionary requirement. A common alternative means of compliance is the payment of an in-lieu fee. While there is no legislated calculation for determining an in-lieu fee amount, the fees are typically calculated to reflect the financial subsidy needed to support the development of affordable units that are not being provided on-site. The fee revenues are collected into a dedicated fund that can be used to support the production and preservation of affordable units elsewhere in the City.

Under the draft ordinance, aligned with previous Committee guidance, the fee would be based on the subsidy needed to provide a higher proportion of affordable units—either eight (8) or 15%, depending on the development type—than would be required if the units were built on-site as part

of the market-rate development. The fee can also be paid for any fractional affordable units required on-site, as an alternative to “rounding up” and building an additional unit.

In order to calculate the estimated in-lieu fee associated with the City’s proposed inclusionary requirements, EPS used the same assumptions from its feasibility analysis to determine the average subsidy an inclusionary project must bear to provide on-site affordable units for both low- and high-density single-family development types at the proposed percentages. EPS also calculated the subsidy associated with providing low-income multifamily rental apartments, but this calculation is not included in this report, as to align with the recommendation to not adopt an inclusionary requirement on multifamily rental projects at this time.

As shown in **Table 1** below, the associated inclusionary percentage (15% low-income for high-density single-family and eight (8%) moderate-income for low-density single-family) is applied to the per unit subsidy for each development type to calculate a fee per market-rate unit. The analysis further converts the fee per market-rate unit to a fee per market-rate square foot, based on the typical unit sizes. The City can choose to charge the fee on new development projects on either a per-market-rate unit basis or a per-market-rate building area basis.

As shown, the fee for high-density single-family units would be \$30,548 per market-rate unit or \$20.37 per market-rate square foot; and the fee for low-density single-family units would be \$13,937 per market-rate unit or \$5.57 per market-rate square foot.

**Table 1: Estimated In-Lieu Fee Calculation for Proposed Riverside Inclusionary Housing Program**

Item	Formula	Unit Type	
		High-Density Single Family For-Sale	Low Density Single Family For-Sale
Affordability Level		Low-Income	Moderate-Income
Value Per Unit	<i>a</i>	\$246,005	\$557,419
Cost Per Unit	<i>b</i>	\$449,661	\$731,626
Subsidy Per Unit	$c = a - b$	(\$203,655)	(\$174,208)
Fee Per Affordable Unit	<i>c</i>	\$203,655	\$174,208
Inclusionary Percentage for In-Lieu Fees	<i>d</i>	15%	8%
<b>Fee Per Market Rate Unit</b>	$e = c * d$	<b>\$30,548</b>	<b>\$13,937</b>
Average Unit Size	<i>f</i>	1500	2500
Fee Per Affordable Sq. Ft.	$g = c / f$	\$135.77	\$69.68
<b>Fee Per Market Rate Sq. Ft.</b>	$h = g * d$	<b>\$20.37</b>	<b>\$5.57</b>

These tables are provided for informational purposes only, and no action is needed from the Committee at this time. It is best practice to adopt in-lieu fee levels by resolution, following the adoption of an Inclusionary Housing Ordinance, which allows for greater flexibility in adjusting fee levels as needed.

## **STRATEGIC PLAN ALIGNMENT:**

This item contributes to Riverside's Envision 2025 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 tapping 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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Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. May 23, 2022, Housing and Homelessness Committee Report
2. August 18, 2022, Planning Commission Report
3. October 13, 2022, Planning Commission Workshop Report
4. November 10, 2022, Planning Commission Report
5. April 11, 2023, City Council Workshop Report
6. Presentation