CITY OF RIVERSIDE INCLUSIONARY HOUSING PROGRAM STUDY

Housing and Homelessness Committee Meeting Update

February 28, 2022

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The Economics of Land Use

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Attachment 3

AGENDA

- Study Process To-Date
- Review of Inclusionary Housing Policies in Other Cities
- Review of Feasibility Analysis
- Overview of Stakeholder and Community Outreach To-Date
- Preliminary Recommendations for City Program
- Discussion

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STUDY PROCESS TO-DATE

May 2021

- EPS engaged by City

June-August 2021

- EPS preliminary technical analysis

September 2021

- Presentation of preliminary findings to Housing and Homelessness Committee

November 2021

- Meetings with targeted stakeholder groups

January 2022

- Community town hall presentation

AFFORDABLE HOUSING CONTEXT FOR RIVERSIDE

Riverside Affordable Housing Standards for 2021

Affordability Category	6th Cycle RHNA Allocation	Multifamily Rental Units		For-Sale Townhome Units		Single Family For-Sale Units	
		2021 Max Income (3 person household)[1]	Maximum Rent (2-bedroom unit)[2]	2021 Max Income (4 person household)[1]	Maximum Sale Price (3-bedroom home)[3, 4]	2021 Max Income (5 person household)[1]	Maximum Sale Price (4-bedroom home)[3]
Extremely Low Income (ELI) - 30% AMI	2,431	$21,960	$549	[6]	[6]	[6]	[6]
Very Low Income (VLI) - 50% AMI	2,430	$35,550	$889	$39,500	$114,440	$42,700	$147,845
Low Income (LI) - 70% AMI	2,064	$49,802	$1,245	$55,335	$202,498	$59,762	$239,779
Moderate Income (MOD) - 110% AMI	3,139	$76,725	$2,238	$85,250	$423,481	$92,070	$478,887
Above Moderate Income - >120% AMI	7,394	N/A	N/A	N/A	N/A	N/A	N/A
Typical Market Rates [5]			*$2,571*		*$400,000*		*$625,000*

[1] Income levels are based off the median household income for Riverside County, as reported by CA HCD.

[2] Maximum rent for each income level is based on 30% of maximum income for ELI, VLI, and LI; and 35% of maximum income for MOD.

[3] Maximum sale price for each income level assumes mortgage payment equal to 30% of maximum monthly income for ELI, VLI, and LI, and 35% of maximum monthly income for MOD (minus taxes and insurance), on a 30-year mortgage with a 3.5% annual interest rate and 10% down payment.

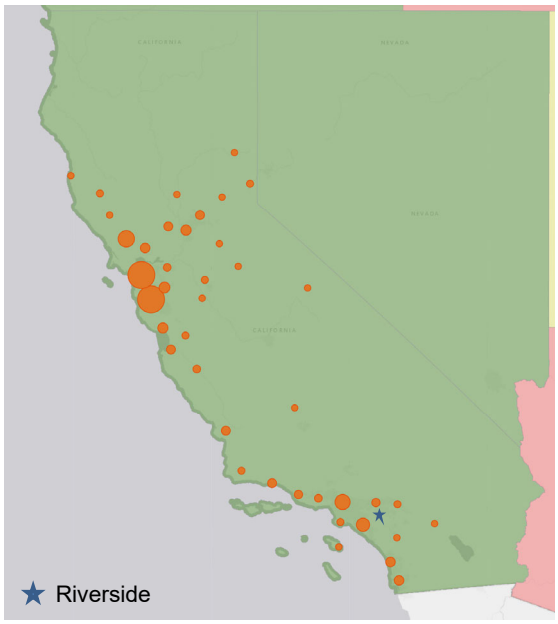
[4] The maximum sale price for four-person households at moderate income is higher than the estimated market-rate price for townhome products in Riverside. Therefore, EPS's analysis does not include moderate-income inclusionary requirements for townhomes.

[5] Based on EPS market research. Estimated rates are for 2-bedroom, 850 sq. ft. rental unit; 3-bedroom, 1,500 sq. ft. for-sale townhome; and 4-bedroom, 2,500 sq. ft. single family home.

[6] Inclusionary programs do not typically include ELI requirements for-sale housing.

Sources: State of CA HCD; City of Riverside; CoStar; Zillow; EPS

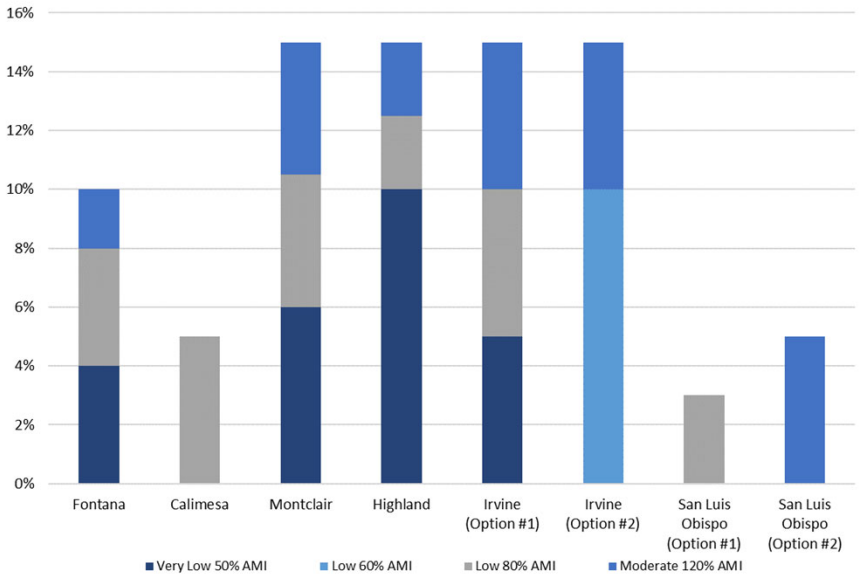
INCLUSIONARY HOUSING POLICIES IN CALIFORNIA



Over 170 cities and counties in California have inclusionary housing policies

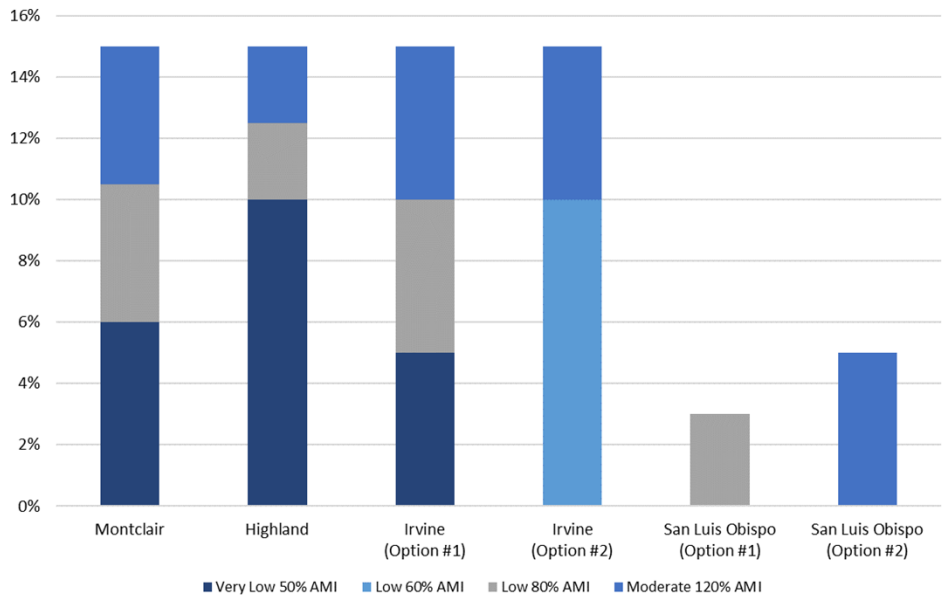
Source: Grounded Solutions Network

IHP IN COMPARABLE JURISDICTIONS – FOR SALE



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

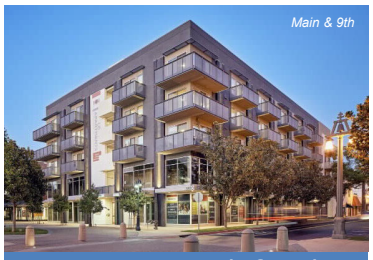
IHP IN COMPARABLE JURISDICTIONS – RENTAL



FEASIBILITY ANALYSIS

- Developed prototype rental and for-sale market-rate products that the City might see developed in the future.
- Tested feasibility of several scenarios of developing on-site affordable units, using typical return metrics
  - *5.25% return on cost for rental projects*
  - *15% profit margin on for-sale projects*
- Also estimated an in-lieu fee and assessed the feasibility impacts of paying fee as compared to building on-site units
  - Fee calculated as subsidy needed to support development of affordable units off-site *(Unit value at affordable levels – Cost of building unit)*
  - EPS calculated fees for select inclusionary requirements – if City opts to include fee option, calculation will be updated to reflect preferred requirement

PROTOTYPE PRODUCTS



Downtown Multifamily
(~100 units/acre)

Infill Multifamily
(~60 units/acre)

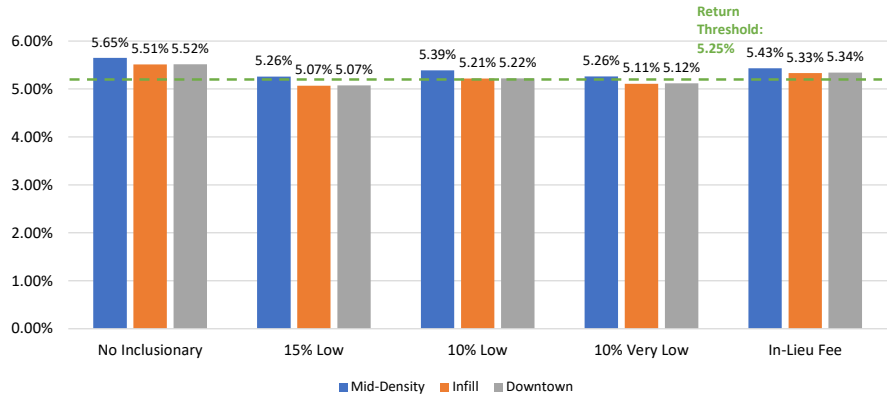
Mid-Density Multifamily
(~30 units/acre)

Townhomes
(~15 units/acre)

Single Family Homes
(~10 units/acre)

INCLUSIONARY SCENARIOS – RENTAL

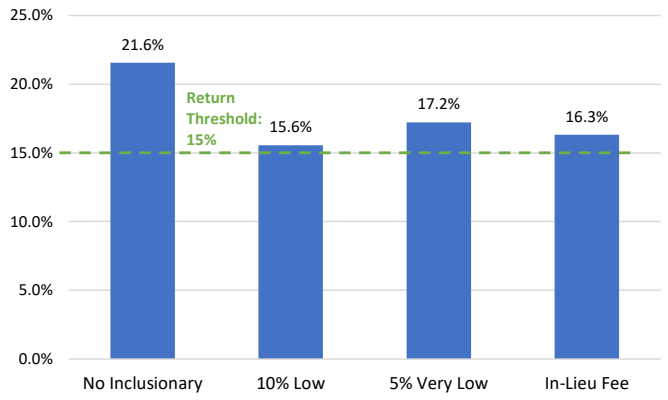
- Scenarios for multifamily rental include:
  - 15% and 10% of units for low-income households
  - 10% of units for very low-income households
  - In-lieu fee on 10% low-income requirement (~$13,000 per market rate unit)



- Higher density projects achieve lower return on cost, and options for including affordable units are limited
- Mid-density projects have more room to feasibly include affordable units
- Payment of in-lieu fee is a feasible option

INCLUSIONARY SCENARIOS – FOR SALE TOWNHOMES

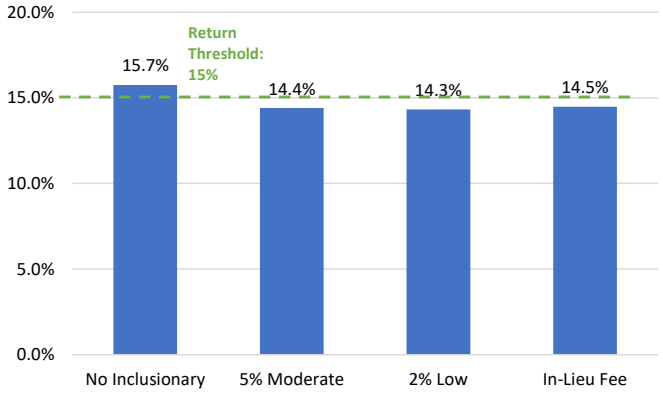
- Scenarios for for-sale townhomes include:
  - 10% of units for low-income households
  - 5% of units for very low-income households
  - In-lieu fee on 10% low-income requirement (~$17,000 per market rate unit)



- Townhome projects achieve yield on cost well above threshold without affordable units
- Both inclusionary scenarios and payment of in-lieu fee would still produce a feasible yield on cost

INCLUSIONARY SCENARIOS – FOR SALE SINGLE FAMILY

- Scenarios for single family detached homes include:
  - 5% of units for moderate-income households
  - 2% of units for very low-income households
  - In-lieu fee on 5% moderate-income requirement (~$7,000 per market rate unit)



- Single family projects just barely achieve profit margin threshold without affordable units
- Both affordable scenarios and payment of the in-lieu fee would produce a barely feasible profit

SUMMARY OF FEASIBILITY RESULTS

- **For-sale single family home products** are limited in feasibly providing inclusionary units
- **For-sale townhomes products** appear able to support inclusionary requirements, but are a less common product
- **Multifamily rental products** at ~30 units/acre appear to feasibly support inclusionary requirements, and are a common product
- **Higher-density multifamily rental products** in and near Downtown tend to have higher costs, and providing affordable units is less feasible
- Payment of **in-lieu fee** yields a higher return than providing on-site units

STAKEHOLDER FEEDBACK

- EPS hosted two stakeholder workshops in November 2021, and presented to the Riverside Chamber of Commerce's Economic Development Council in January 2022
- Workshop #1 included housing advocates and developers of affordable housing projects. Seven stakeholders attended the meeting, and provided following primary feedback:
  - 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)

STAKEHOLDER FEEDBACK

- Workshop #2 included developers of market-rate residential projects. Sixteen stakeholders attended the meeting and provided following primary feedback:
  - 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, addition of inclusionary requirements can push a lot of projects into infeasibility
  - Better option to get affordable units is to support building of 100% affordable projects on City-owned land; alternately, City should share in cost of inclusionary requirements somehow

COMMUNITY FEEDBACK

- EPS and City hosted a community webinar on January 12, 2022
- Approximately 50 individuals signed on to meeting
- Primary feedback 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

ELEMENTS OF AN INCLUSIONARY HOUSING POLICY

Cities have wide latitude in structuring inclusionary policy – there is no "one size fits all"

- **Inclusionary Requirement**: Proportion of new units that must be affordable
- **Affordability Levels**: Income levels that are served by affordable units
- **Included/Exempted Developments**: Can include a minimum project size or particular project types
- **Requirements for rental vs. for-sale units**
- **District-based Requirements**
- **In-Lieu Fee Option**

PRELIMINARY RECOMMENDATIONS

Given EPS's research and analysis, and the stakeholder and community feedback, we would make the following preliminary recommendations to the City in developing an inclusionary housing program:

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

   **These requirements would automatically qualify projects for use of State density bonus*
2. Develop an in-lieu fee to align with the above requirements
   - Allowances 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 set timeline for revisiting requirements in light of new market conditions

Questions/Discussion

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TOPICS FOR DISCUSSION/FEEDBACK

- Questions/concerns/feedback regarding recommended inclusionary requirements
  - Changes to requirements? Exemptions for any uses?
- City questions/preferences regarding use of in-lieu fee
  - What are the priorities?
- Timeline for program implementation

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COMMITTEE RECOMMENDATIONS

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