



JOINT STUDY SESSION CITY COUNCIL & PLANNING COMMISSION MEMORANDUM

Meeting Date: September 2, 2020

To: City Council & Planning Commission
From: Jennifer Savage, Senior Planner
Subject: Inclusionary Housing In-Lieu Fee Study Session

Background

San Clemente adopted an Inclusionary Housing Program (IHP) in 1980 to expand affordable housing options in San Clemente. San Clemente's IHP requires developers of six or more units to set aside four percent of the total number of units for households earning 50 percent or less of the median income - \$64,050 for a four-person family in 2020. This affordable requirement can be provided either on-site, off-site, or through the payment of an in-lieu fee or provision of land.

On December 18, 2018, the City Council initiated a Zoning Amendment to update the City's Inclusionary Housing In-Lieu Fee. This project is required for compliance with the City's 2013-2021 Housing Element, specifically Program 5: Inclusionary Housing Program. Program 5 established objectives for the Inclusionary Housing Program (IHP) including development of a new in-lieu fee formula to provide clarity for staff and developers.

On March 2, 2020, the City Council approved the professional services agreement with Economic Planning Systems, Inc. (EPS) to conduct an analysis of the inclusionary housing in-lieu fee program and recommend program updates. EPS's scope of services includes:

1. Review of IHP and Recent Implementation
2. Fee Calculation Under Existing Program
3. Feasibility Analysis of Changes to Program
4. Program Recommendations and Report
5. Affordable Housing Production and Policy Recommendations

Purpose of Study Session: Inform the Final Report

During this study session, EPS will present:

- A review of the existing IHP and recent implementation;
- Fee calculations under the existing program;
- Alternative fee calculations; and,
- Feasibility analysis of changes to the program.

Most importantly, the consultant will solicit feedback from the City Council and Planning Commission. Feedback from this study session will inform the final feasibility analysis, and the program and policy recommendations based on the City's affordable housing goals.

Housing Need

The City of San Clemente has an unmet need for affordable housing. This unmet need is largely a result of housing cost burden and forecasted household growth, or Regional Housing Needs Assessment (RHNA) allocation. Generally, paying more than 30% of household income for housing and related expenses (e.g. utilities, rent, mortgage, taxes) presents a housing cost burden. At the time of the City's 2017 Midterm Housing Element Update, more than 50% of renter-occupied households and more than 44% of owner-occupied households in San Clemente experienced cost burden. The City's Housing Element identified a RHNA allocation of 581 new housing units between 2013 and 2021. Currently, the City has a RHNA shortfall of 212 units, 136 units of which are at the very low and low affordable housing income levels.

The cost of land in San Clemente has long been a constraint to developing affordable housing, and the lack of available land exacerbates this constraint. An Inclusionary Housing Program and In-lieu Fee provides the opportunity to meet the need for affordable housing by requiring provision of affordable units as the market rate housing supply increases. Replacing or complementing the IHP with incentives for producing affordable housing may provide an alternative route towards meeting affordable housing goals. Per Council suggestion on March 2, 2020, the final report will include a discussion of both the impacts of eliminating the program and recommendations related to incentives for affordable housing development.

Outreach

EPS conducted outreach to the Building Industry Association (BIA), market rate developers, affordable housing organizations, and community members. The outreach provided insight into the development process in the City, and of opportunities and challenges for the production of affordable housing units.

Attachments

1. PowerPoint Presentation

CITY OF SAN CLEMENTE
INCLUSIONARY HOUSING
PROGRAM UPDATE

City Council and Planning
Commission Joint Study
Session

September 2, 2020



Economic & Planning Systems, Inc.
The Economics of Land Use

9-2-20 / 1-3

949 South Hope Street, Suite 103 ■ Los Angeles, CA 90015
213.489.3838 ■ www.epsys.com

INCLUSIONARY HOUSING PROGRAM (IHP)

- **What is an inclusionary housing program?**
 - Requirement for new residential development to provide affordable housing units along with market-rate units
- **Why have an IHP?**
 - Grow affordable housing inventory along with overall residential supply
 - Provide accessibility for a range of households types to live in the community
- **Why consider an update?**
 - Address challenges in achieving desired growth in affordable units
 - Ensure that community can meet its housing goals (including RHNA requirements)

IHP UPDATE STUDY

- **We are considering the following questions:**
 - What are the City's inclusionary requirements?
 - Are the IHP requirements consistent with neighboring jurisdictions?
 - Are the current in-lieu fee levels adequate to support the development of new affordable units?
 - Are the current in-lieu fee levels encouraging or discouraging on-site affordable unit development?
 - Are the IHP requirements creating feasibility issues for market-rate development?
 - What are the options for changing the IHP requirements to better support affordable housing development (while limiting feasibility issues)?

AFFORDABLE HOUSING CONTEXT

- San Clemente Affordable Housing Standards for 2020

Affordability Category	Percentage of Area Median Income (AMI)		2020 Max Income [1]	Maximum Rent	Maximum Sale Price
	(3-person household)	(2-bedroom unit)	(2-bedroom home)	(2-bedroom unit)	(2-bedroom home)
Very Low Income (VLI)	50%	\$57,650	\$1,441	\$243,212	
Low Income (LI)	80%	\$92,250	\$2,306	\$457,246	
Median Income (Mod)	100%	\$92,700	\$2,318	\$460,030	
Moderate Income (Mod)	120%	\$111,250	\$2,781	\$574,780	
Typical Market Rates [4]			\$3,000	\$1,080,000	

[1] Income levels are for Orange County, as reported by CA HCD

[2] Maximum rent for each income level is based on 30% of maximum monthly income

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

[4] Based on EPS research into newer market rate units in the City.

Source: State of CA HCD; CoStar; Zillow; Economic & Planning Systems, Inc.

AFFORDABLE HOUSING IN SAN CLEMENTE

Project Name	Total Units [1]	Year Opened	Target Population
Escalones Nuevos	6	2002	Families
Mark Erickson Community Housing	16	2004	Families
Mendocino at Talega Phase I	124	2003	Families
Mendocino at Talega Phase II	62	2003	Families
Vintage Shores	122	2002	Seniors 55+
Cotton's Point Senior Apartments (aka SC Senior Apts)	76	2014	Seniors 62+
Las Palmas Village (aka Avenida Serra)	19	2015	Families
The Presidio (aka Wycliffe Casa De Seniors)	72	2015	Seniors 62+
Total Units	497		

[1] Unit count include market-rate manager's units at several properties.

Source: City of San Clemente Housing Element; Department of Housing and Urban Development; EPS

DEVELOPMENT CONSIDERATIONS/CONSTRAINTS

- Land Availability and Costs
 - City mostly built-out – majority of available sites less than 0.15 acres, and land costs are as high as \$220 per square foot
 - Housing Element identified sites with capacity for over 600 new units
- Zoning
 - Affordable Housing Overlay (AHO) sites represent opportunity for affordable development, but also for market-rate projects
 - To date, two affordable apartment buildings and 15 market-rate duplexes have been developed in AHO
- RHNA Allocation
 - As of 2017, San Clemente had 242 units left in its 5th Cycle RHNA allocation (~40% of total)
 - 6th Cycle allocation estimated to be 975 units

WHAT ARE THE CITY'S IHP REQUIREMENTS?

- **San Clemente Inclusionary Housing Program**
 - Established in 1980, revised in 1989, 2000, and 2008
 - Applies to projects with 6+ units
 - Requirement: Provide 4% affordable rental units for very-low income households (earning 50% or less of area median income (AMI))
 - Zoning Code requirement is 15% affordable rental or for-sale units at very-low, low, and moderate income levels

WHAT ARE THE CITY'S IHP REQUIREMENTS?

- **San Clemente Inclusionary Housing Program (cont.)**
 - Developer has choice for meeting requirements:
 - Provide units on-site or off-site;
 - Provide land to non-profit developer to fulfill requirement; or
 - Pay in-lieu fee
 - The Housing Element identifies that the in-lieu fee is based on 1% of construction value, per City Building Department, and is compared to 4% of the subsidy needed to develop an affordable unit to ensure it is commensurate with the current affordability gap

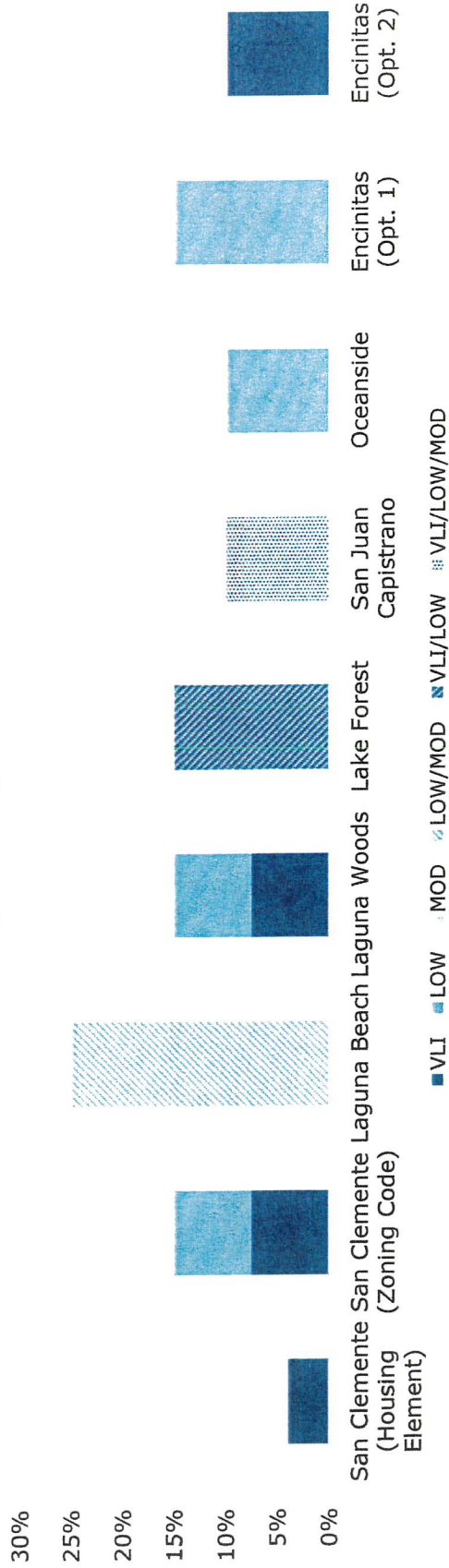
IN-LIEU FEE USAGE

- **Permitted uses of fee:**
 - Purchase of land or existing units in order to provide affordable units
 - Construction of new affordable units
- **Recent uses:**
 - Loans to Cotton's Point Senior Apartments and Las Palmas Village
 - In-Lieu Affordable Housing Reserve Fund has current balance of \$1.8M

ARE REQUIREMENTS CONSISTENT WITH NEIGHBORS?

- San Clemente's current requirements are lower than its neighbors*

Inclusionary Requirements for Rental Developments in Neighboring Jurisdictions



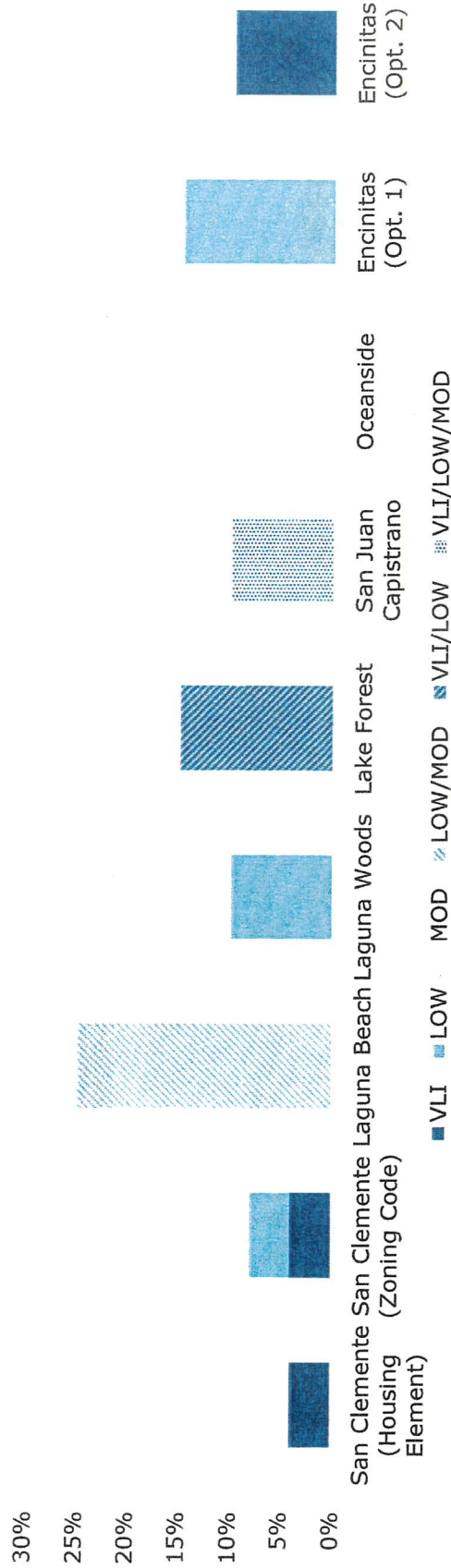
Note: Some jurisdictions' requirements reference multiple income levels (i.e. very-low and low or low and moderate), but do not specify an allocation of units to each level.

*Several neighbor cities in Orange County do not have inclusionary housing policies, including Dana Point, Aliso Viejo, Laguna Hills, Mission Viejo, Rancho Santa Margarita, and Laguna Niguel

ARE REQUIREMENTS CONSISTENT WITH NEIGHBORS?

- San Clemente's current requirements are lower than its neighbors*

Inclusionary Requirements for For-Sale Developments in Neighboring Jurisdictions



Note: Some jurisdictions' requirements reference multiple income levels (i.e. very-low and low or low and moderate), but do not specify an allocation of units to each level.

*Several neighbor cities in Orange and San Diego counties do not have inclusionary housing policies, including Dana Point, Aliso Viejo, Laguna Hills, Mission Viejo, Rancho Santa Margarita, and Laguna Niguel

DO CURRENT FEES SUPPORT AFFORDABLE UNITS?

- **Subsidy needed to develop affordable housing units**
 - Modeled a prototypical affordable unit: two-bedroom rental apartment affordable to very low-income household (50% AMI)
 - Development Value - Development Cost = Per unit subsidy needed
 - $\$157,783 - \$415,408 = (\$257,625)$
- **Current fee rate is well below subsidy needed**
 - 4% of subsidy = fee of $\$10,305$ per market rate unit
 - Per Building Department, 1% of construction cost equals \$1.38 per sq. ft. for apartments and \$1.57 per sq. ft. for single family house
 - 2-bedroom apartment unit at 950 sq. ft. would owe fee of $\sim\$1,500$ per market rate unit
 - 4-bedroom single family home at 2,800 sq. ft would owe fee of $\sim\$4,400$ per market rate unit

ARE DEVELOPERS PAYING FEE OR BUILDING UNITS?

- **Most recent developments have elected to pay the in-lieu fee***
 - Fees collected represent less than one-third of the \$257,625 subsidy needed per affordable unit

Project Name	Number of		Fees Per		Required		Equivalent	
	Market-Rate Units	Units	Fees Paid [1]	Market Rate Unit	Affordable Units [2]	Affordability Gap Per Unit [3]		
Coastline Mixed Use	16		\$24,138	\$1,509	0.64		\$37,716	
Sea Summit	309		\$1,000,000	\$3,236	13		\$80,906	

[1] Fee amount for Sea Summit is approximate, as provided by the City.

[2] Calculated as four percent of market-rate units. For Sea Summit, four percent of market-rate units is equivalent to 12.36 units, which is rounded up to 13 for calculating required units to be built, but not for purposes of calculating the equivalent affordability gap/implied in-lieu fee.

[3] Calculated as fees paid divided by four percent of market-rate units.

Source: *City of San Clemente; EPS*

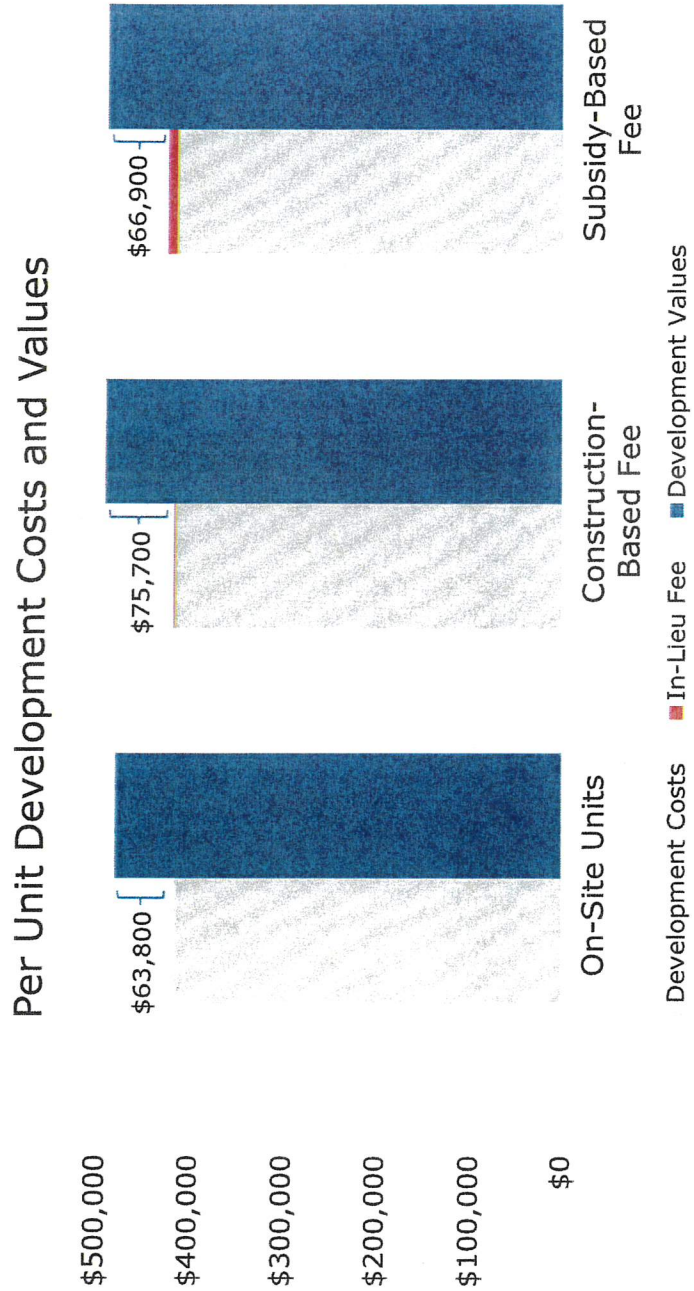
*Exception is Talega, which provided land for non-profit developer Jamboree to build affordable units (Mendocino)

DO THE IHP REQUIREMENTS IMPACT FEASIBILITY?

- EPS created and vetted “prototype pro formas” for rental and for-sale market-rate projects
- Tested several inclusionary scenarios with affordable rental units:
 1. Current Housing Element policy – 4% rental for very-low income households
 - Estimated construction-based fee and subsidy-based fee
 2. Zoning Code policy – 15% rental for combinations of very-low, low, and moderate income households
 3. “Neighborhood rate” – 10% rental for combinations of low and moderate income households

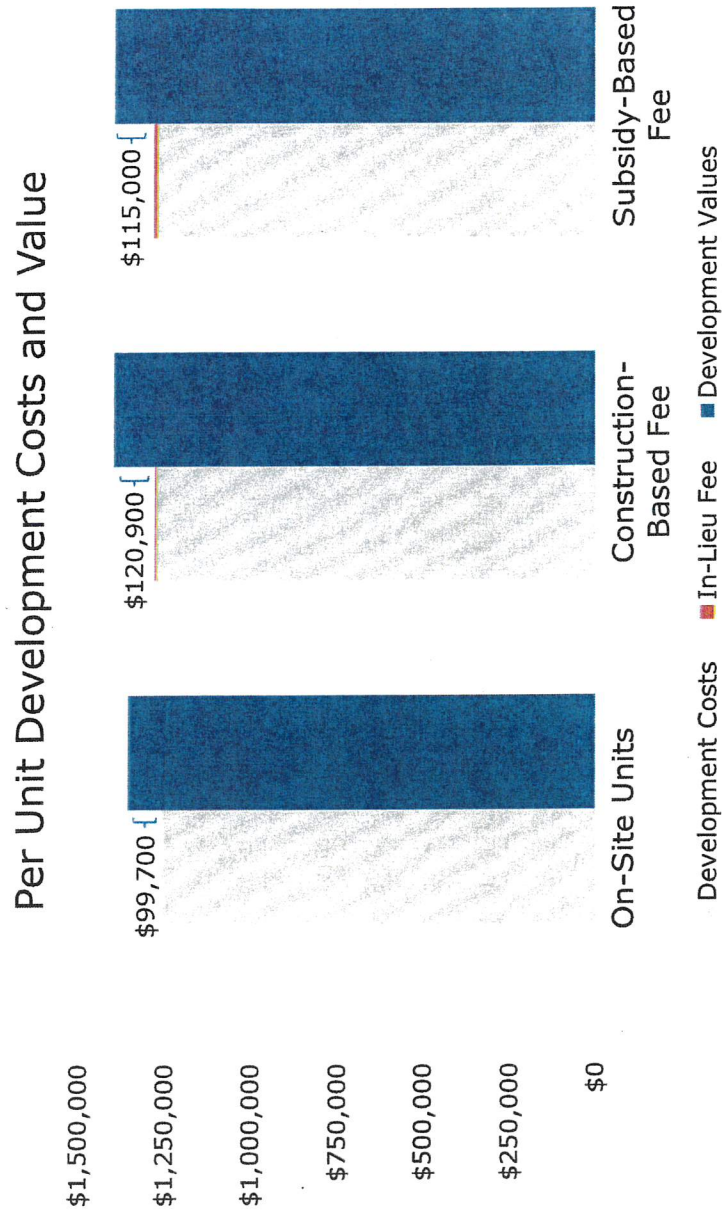
CURRENT HOUSING ELEMENT REQUIREMENTS

- Market-rate apartment development with 4% affordable rental units for very-low income households



CURRENT HOUSING ELEMENT REQUIREMENTS

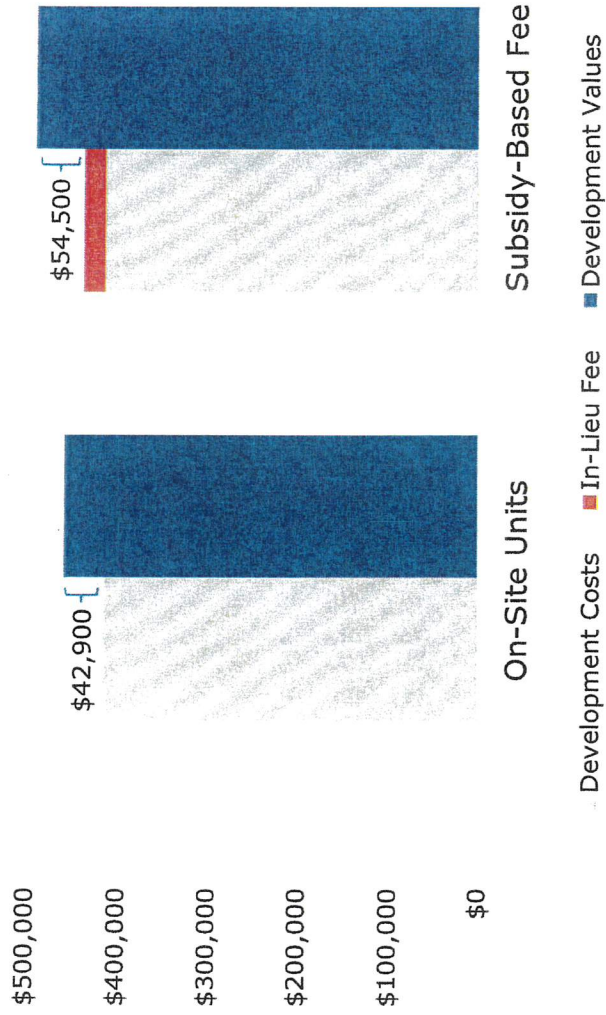
- Market-rate single-family home development with 4% affordable rental units for very-low income households (50% AMI)



ZONING CODE REQUIREMENTS

- Market-rate apartment development with 15% affordable rental units – 7.5% for very-low income households and 7.5% for low income households

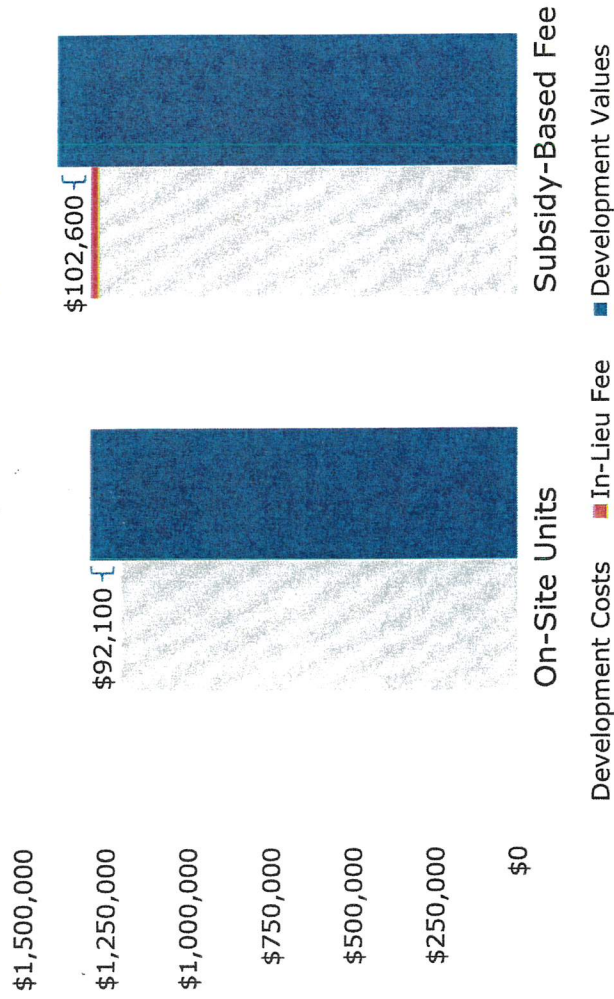
Per Unit Development Costs and Value



ZONING CODE REQUIREMENTS

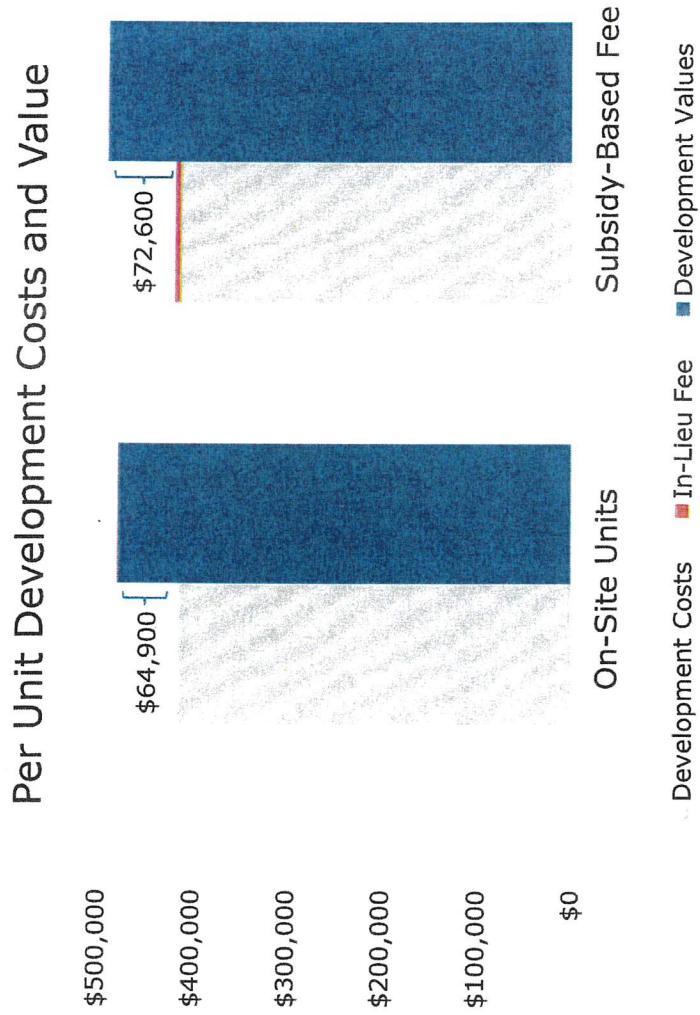
- Market-rate single-family home development with 15% affordable rental units - 4% for very-low income households, 4% for low income households, and 7% for moderate income households

Per Unit Development Costs and Value



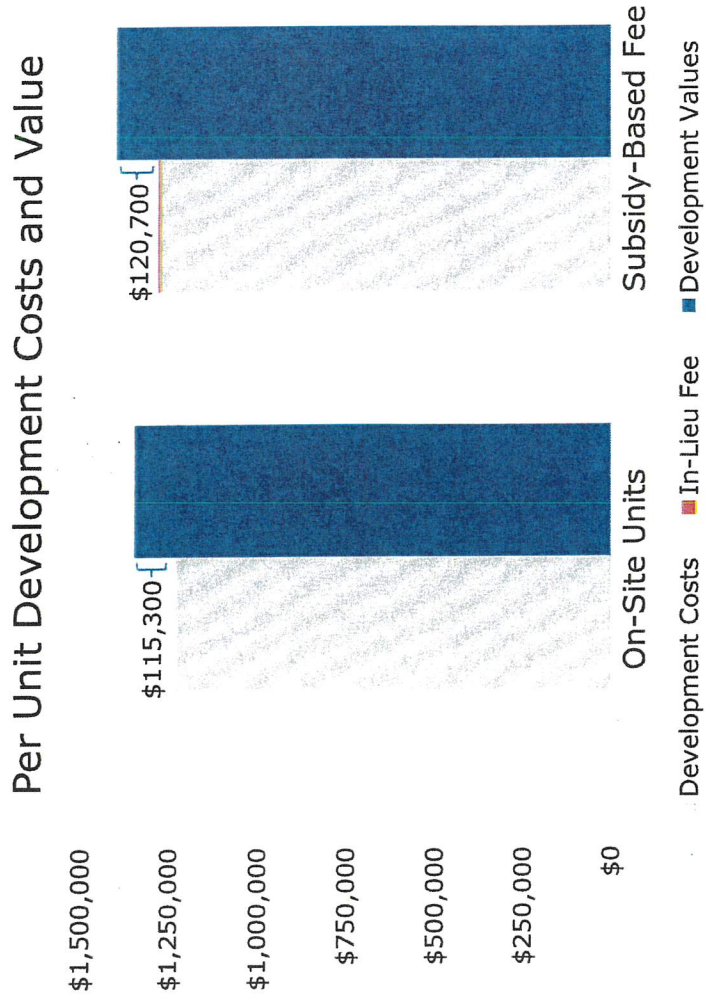
NEIGHBORHOOD RATE

- Market-rate apartment development with 10% affordable rental units for low income households



NEIGHBORHOOD RATE

- Market-rate single-family home development with 10% affordable rental units - 5% for low income households and 5% for moderate income households



OPTIONS FOR CHANGING REQUIREMENTS

- Overall, the value of the market-rate units is high enough to feasibly accommodate a variety of inclusionary requirements
- Paying the in-lieu fee is more advantageous for developers than providing units directly
- What are the City's priorities as they relate to affordable housing?
 - On-site production vs. Fee revenue
 - Position of City's program relative to neighbors
 - Others?
- Requirements can be modulated to fit the priorities
 - Study will also consider incentives that can facilitate affordable development and balance out program changes



Discussion

NEXT STEPS

- Refine scenarios and calculations based on Commission and Council feedback
- Produce public draft for Commission and Council review
- Updated presentation of findings to Commission and Council