

Inclusionary Housing Ordinance

Recommended Changes — Rental Properties

Background

- New residential developments with 20+ apartments are required to include a certain number of affordable apartments
- In-lieu of building affordable apartments, developers may pay a fee to the City

Proposed Changes to the IHO



On November 5, 2019, the Housing Department presented a staff report and set of recommendations to update the IHO to encourage the construction of moderate-income affordable apartments on-site and payment of in-lieu fees for, the construction of affordable low-income tax credit apartments to provide a broader range of housing.

APPROVED RECOMMENDATIONS BY CITY COUNCIL ON 11/05/19

	Current Rules	Proposed Rules
Base Requirement	15% of apartments in a new residential development must be affordable	No Change
Apply to Small Projects	Applies to buildings with 20 or more units	Applies to buildings with 5 or more units (Housing staff will provide additional analysis on this recommendation)
Serve a Wider Income Range	Target income levels: <ul style="list-style-type: none"> • 9% of the apartments rent at 80% AMI • 6% of the apartments rent at 50% AMI 	Target income levels: <ul style="list-style-type: none"> • 5% of the apartments rent at 100% AMI • 5% of the apartments rent at 60% AMI • 5% of the apartments rent at 50% AMI OR <ul style="list-style-type: none"> • 10% of the apartments rent at 30% AMI
New Methodology Calculation	Fee is based on the cost of the City to create a new affordable apartment	Fee is based on the difference between market rate and affordable rents and considers the cost to develop new housing
Restructure In-Lieu Fee	In-lieu of building affordable apartments, developers may pay the City \$125,000 per apartment required that isn't built (~\$28/sq. ft.)	In-lieu of building affordable apartments, developers may pay a fee of \$43/sq. ft. (multiplied by square footage of entire development). Will provide advance notice of fee increases.
Encourage On-Site Compliance	Developers may use combination of on-site apartments and in-lieu fees, but rules are unclear and not described in detail	Developers may build 5% of moderate-income affordable apartments on-site, and pay a fee of \$18.26/sq. ft. in lieu of building the remaining low-income affordable apartments
Clustering	Affordable apartments must be dispersed within the market-rate development to be considered on-site	Affordable apartments may be clustered to allow affordable housing financing and will be considered "on-site" if located on an adjacent parcel
Clarify Rules of Off-Site Projects	Funding for affordable housing apartments is only available for a higher number of apartments or lower income levels than required	Funding will be made available for affordable apartments where the developer demonstrates a financial contribution from the market-rate developers; developers who choose this option will receive a 25% discount off the \$43/sq. ft. fee
Longer Affordability	Rent restrictions in place for 55 years	Rent restrictions in place for 99 years (Housing staff will provide additional analysis on this recommendation)

Transition Approach

In-lieu fees will be transitioned into the full \$43/sq. ft. across the City once the market recovers. **Recommendation:** 1. West Valley, Willow Glen and Cambrian will be set at \$43/sq. ft.; 2. All other areas will be set at \$18.26/sq. ft. – consistent with the current AHIF; 3. Downtown high-rise will be charged \$0. **Transition Approach:** Fees will adjust to the full \$43/sq. ft. after three years – opportunity to evaluate **(City staff are working to update the planning area map where these recommended rates will apply)**

Additional Changes to Inclusionary Housing Ordinance

- Update administration and monitoring
- Incorporate co-living

Inclusionary Housing Ordinance

Recommended Changes — For-Sale Properties

Proposed Changes to the IHO



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APPROVED RECOMMENDATIONS BY CITY COUNCIL ON 11/05/19

	Current Rules	Proposed Rules
Set Aside	15% of homes in a new residential development must be price-restricted* for moderate-income buyers	No Change
	If building off-site, 20% of the new homes must be affordable to moderate-income buyers	No Change
In-Lieu Fee	In-lieu of building price-restricted homes, developers may pay the City \$193,000 per required price-restricted home that isn't built	In-lieu of building price-restricted homes, developers may pay a fee of \$25/sq. ft.** (multiplied by square footage of entire development)
Clustering	Affordable apartments must be dispersed within the market-rate development to be considered on-site	Affordable apartments may be clustered to allow financing and will be considered "on-site" if located on an adjacent parcel

Alternative Approach

In-lieu fees will be transitioned into the full \$25/sq. ft. across the City once the market recovers. Downtown high-rise will be charged \$0; other for-sale developments will be set at \$18.26/sq. ft. Fees will adjust to the full \$25/sq. ft. after a specified period of time (two years for example). **(City staff are working to update the planning area map where these recommended rates will apply)**

*Price-restricted, for-sale housing is defined as housing that is affordable to a buyer who earns 80% to 120% of the area median income.

**In-lieu fees will vary slightly based on actual affordability calculations for each development.