

Affordable Housing Ordinance In-Lieu Fee Study Session

February 27, 2024

City Council Study Session





Community Demographics

- Lower Income Households: Approximately 47-percent of the Costa Mesa community earn a lower income and approximately 29-percent of the community qualify for very low or extremely low-income housing.
- Housing Cost Burdens/Overpayment: Nearly half of renters in Costa Mesa experience housing cost burdens that exceed 30-percent of gross income and over a quarter of renters experience severe housing cost burdens that exceed 50-percent of gross income.
- Low Vacancy Rates: Costa Mesa has a low housing vacancy rate which indicates that there is a high demand for housing but low supply to fulfill the community's housing needs.
- Age Characteristics: Population aged 65 and over experienced the most growth in Costa Mesa between 2010 and 2018; young adults 20 to 34 years represent the largest age group in Costa Mesa at over 25% of the population. Similarly, the senior age group & young adults tend to have comparatively lower incomes and tend to favor apartments, or more affordable, single-family units, townhomes, or condominiums.





Housing Element

- Housing Element includes over 40 programs for a comprehensive strategy to address housing needs
- Housing Goal #2 "facilitate the creation and availability of housing for residents at all income levels and for those with special housing needs."
- Housing Element Program 2A Adoption of Inclusionary Housing Ordinance
 - establishing new housing projects to provide a certain percentage of its housing units as affordable units
 - o moderate, low, and/or very low-income households
 - option of payment of funds in-lieu of providing affordable units onsite
- Adoption of Inclusionary Housing Ordinance Required to obtain certification of Housing Element





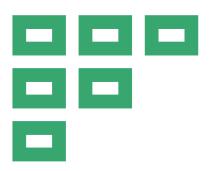
Inclusionary Housing Ordinance - Best Practices

- Ordinance developed with best practices to produce affordable housing:
 - Promote the development of affordable housing without unduly constraining the creation of market rate housing
 - Balances the City's housing needs with the needs of property owners and developers, while also considering the added value from future rezoning to allow more or new density
 - Leverages the private sector's capacity to get homes built
 - Creates a new source of financing for affordable housing with the payment of funds in-lieu of the project providing the specified affordable units onsite
- City data driven recommendations Costa Mesa specific analysis utilizing price and unit size information for rental and ownership housing









Study Session Regarding Proposed In-Lieu Housing Fee, State Density Bonus and Affordable Housing Strategies and Options

KEYSER MARSTON ASSOCIATES, INC.

FEBRUARY 27, 2024

Background

Planning Commission and City Council Actions: Ordinance 2024-XX

Planning Commission - November 13, 2024

The draft ordinance amends Title 13 of the Costa Mesa Municipal Code to establish affordable housing requirements for new residential development projects.

Planning Commission recommended changes to the draft ordinance.

Planning Commission voted 5-2 to recommend that the City Council give first reading to Ordinance 2024-XX with their proposed changes.

City Council – January 16, 2024

City Council made additional changes to the draft ordinance.

City Council voted 4-2 to give first reading to the revised Ordinance 2024-XX.

City Council directed staff to provide an in-lieu fee analysis for review and consideration at the second reading of Ordinance 2024-XX.

February 27, 2024

Summary: Proposed Affordable Housing Requirements

Program Component	City Council's Proposed Requirements			
Project Size Threshold	15 Units			
<u>Af</u>	Affordable Housing Percentage Requirement / Income Standards			
Rental Projects	60+ du/acre: 11% low or 7% very low Under 60 du/acre: 6% low or 4% very			
Ownership Projects	No specific production requirement - in-Lieu fee payment allowed for all projects			
Covenant Period	Rental: at least 55 years	Ownership: 45 years (if producing units)		
Affordable Unit Characteristics	Proportional to bedroom mix and no more than 15% smaller than average market rate units. Evenly distributed throughout the residential project.			
In-Lieu Fee Payment	Rental: Projects with 50 or fewer units Ownership: all projects are eligible			
Other Compliance Alternatives	Land dedication; off-site construction of affordable units; on-site construction of rental units (ownership projects only)			
Incentives	Residential uses in commercial/industrial corridors; increased densities; low income rents based on 80% AMI instead of State density bonus at 60% AMI; reduced parking requirements; concurrent processing			

In-Lieu Fee Analysis Approach

The KMA in-lieu fee analysis is based on:

- The evaluation of the prototype developments that were used in the Financial Evaluation; and
- The affordable housing requirements included in the draft ordinance as modified by the City Council.

The foundational premise is that the in-lieu fee should correlate to the "Affordability Gap" associated with producing the affordable units required by the ordinance.

The Affordability Gap is defined as the difference between the achievable market rate rents or sales prices and the allowable rents or sales prices for the designated affordable units.

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Apartment Development Analysis for Costa Mesa

Rent Estimates for Costa Mesa

Projected Market Rate Rents Apartment Development Prototype		
Number of Bedrooms Monthly Rent		
Studio 1 2 3	\$2,410 \$2,970 \$3,660 \$3,330	

Affordable Rents				
Apart	Apartment Development Prototype			
Number of		Very Low		
Bedrooms	Low Income	Income		
Studio	\$1,694	\$1,023		
1	\$1,934	\$1,167		
2	\$2,152	\$1,290		
3	\$2,373	\$1,415		

Affordability Gap Calculation Methodology

Differences between Market Rents and Affordable Rents are calculated.

Property tax differential is estimated and deducted from the differences between the Market Rents and the Affordable Rents.

The difference represents the annual Affordability Gap.

The net Affordability Gap per affordable unit is estimated by capitalizing the annual Affordability Gap at the threshold return derived from the pro forma analysis of the prototype apartment development at unrestricted market rate rents.

Estimated Affordability Gaps Per Affordable Unit in Costa Mesa

Estimated Affordability Gaps Per Affordable Unit Apartment Development		
	Density: 60+	Density: <60
	Units Per Acre	Units Per Acre
Low Income Units	\$221,700	\$221,000
Very Low Income Units	\$364,300	\$363,500
	•	

Base In-Lieu Fee Calculations: Apartment Development

The Affordability Gaps Per affordable unit were converted into the inlieu fee payment that would be required to fulfill the affordable housing requirements on site within a proposed market rate apartment development. The results are presented in the table below:

Base In-Lieu Fee Payment Amounts			
Per Square Foot of Leasable Area in an Apartment Development			
Density at 60+ Units Per Acre 11% Low or 7% Very Low Income			
Density at Less than 60 Units Per Acre	6% Low or 4% Very Low Income	\$13.80	

Sample In-Lieu Fee Calculations: Apartment Density at 60+Units Per Acre

In-Lieu Fee Example			
Affordable Housing Requirement at 11% Low or 7% Very Low Income			
Total Units	23		
Affordable Housing Requirement - Low Income	11%		
Required Number of Low Income Units	3		
Leasable Area (Square Feet)	17,000		
In-Lieu Fee Per Square Foot of Leasable Area	\$26.10		
Required Total In-Lieu Fee Payment	\$443,700		

In-Lieu Fee Example			
Affordable Housing Requirement at 10% Low or 5% Very Low Income			
Total Units 23			
Affordable Housing Requirement - Very Low Income	5%		
Required Number of Low Income Units	1		
Leasable Area (Square Feet)	17,000		
In-Lieu Fee Per Square Foot of Leasable Area	\$19.50		
Required Total In-Lieu Fee Payment	\$331,500		

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Sample In-Lieu Fee Calculations: Apartment Density at Less than 60 Units Per Acre

In-Lieu Fee Example		
Affordable Housing Requirement at 6% Low or 4% Very Low Income		
Total Units	240	
Affordable Housing Requirement - Low Income	6%	
Required Number of Low Income Units	14	
Leasable Area (Square Feet)	220,000	
In-Lieu Fee Per Square Foot of Leasable Area	\$13.80	
Required Total In-Lieu Fee Payment	\$3,036,000	

Sliding Scale In-Lieu Fees: Apartment Development

To mitigate the disproportionate impact an affordable housing obligation creates on small projects, KMA prepared the following discounted in-lieu fee schedule for apartment developments that consist of between 15 and 20 units:

In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development				
Density: 60+ Density: <60 Total Units Units Per Acre Units Per Acre				
15	\$3.73	\$1.97		
16 \$7.46 \$3.94 17 \$11.19 \$5.91 18 \$14.91 \$7.89		·		
19	\$18.64	\$9.86		
20 \$22.37 \$11.83 21+ \$26.10 \$13.80				

Ownership Housing Development Analysis for Costa Mesa

Sales Price Estimates for Costa Mesa

Projected Market Rate Sales Prices Ownership Housing Development Prototype			
Number of Bedrooms	Sales Prices		
2	\$890,000		
3	\$1,083,000		
4 \$1,211,000			

Affordable Sales Prices		
Ownership Housing Development Prototype		
Number of		
Bedrooms	Moderate Income	
2	\$412,700	
3 \$451,700		
4 \$478,700		

Estimated Affordability Gaps Per Affordable Unit in Costa Mesa

Estimated Affordability Gaps Per Affordable Unit Ownership Housing Development					
Number of Market Rate Moderate Affordability Bedrooms Price Income Price Gap					
2 3	\$890,000 \$1,083,000	\$412,700 \$451,700	\$477,300 \$631,300		
4	\$1,211,000	\$478,700	\$732,300		

Base In-Lieu Fee Calculations: Ownership Housing Development

The weighted average Affordability Gaps were converted into the inlieu fee payment that would be required to fulfill the affordable housing requirements on site within a proposed ownership housing development. The results are presented in the table below:

Base In-Lieu Fee Payment	
Ownership Housing Development	
Weighted Average Affordability Gap Per Affordable Unit	\$608,000
In-Lieu Fee Payment Per Square Foot of Saleable Area	\$17.70

Sliding Scale In-Lieu Fees: Ownership Housing Development

To mitigate the disproportionate impact an affordable housing obligation creates on small projects, KMA prepared the following discounted in-lieu fee schedule for ownership housing developments that consist of between 15 and 20 units:

In-Lieu Fee Payment Schedule					
Ownership Housi	ng Development Prototype				
Total Units	In-Lieu Fee Per Square Foot of Saleable Area				
15 16 17 18 19 20	\$2.53 \$5.06 \$7.59 \$10.11 \$12.64 \$15.17				
21+	\$17.70				

Sample In-Lieu Fee Calculations Ownership Housing Development

In-Lieu Fee Example						
Example Ownership Housing	Projects					
Total Units in the Project	16	30				
Saleable Area (Square Feet)	38,900	73,000				
In-Lieu Fee Per Square Foot of Saleable Area	\$5.06	\$17.70				
Required Total In-Lieu Fee	\$196,700	\$1,292,100				

Density Bonus

Developers can use State Density Bonus (Govt. Code Section 65915 et seq.) by right for qualifying residential projects. Benefits are:

- Increased density above General Plan Land Use Element standards
- A statutorily defined number of concessions or incentives
- Development standards reductions or waivers if physically needed

If a developer uses the State Density Bonus, the City must count the density bonus affordable units towards the City's affordable requirements as long as the more stringent requirements of the two programs is applied.

The goal of the City's program is to provide similar or greater incentives than the State Density Bonus while being consistent with the community's housing values.

Density Bonus

100 unit rental project at 60 units/acre

City's Affordable Requirement:

∘ 11% Low: 11 units – or – 7% Very Low: 7 units

State Density Bonus (50% density bonus):

24% Low: 24 units – or – 15% Very Low: 15 units

Developer's Options

- 1. If developer uses State Density Bonus at low income, 11 of the 24 density bonus affordable units will count towards satisfying the City's affordable requirement. However, the low income rent calculated under the State Density Bonus is based on 60% of AMI.
- 2. If developer uses State Density Bonus at very low income, 7 of the 15 density bonus affordable units will count towards satisfying the City's affordable requirement.
- 3. If a developer chooses to pay the City's in-lieu fee, the project will not be eligible for the State Density Bonus and must comply with City's affordable requirement.

Recommendations

Recommended In-Lieu Payment Amounts

Based on the requirements proposed to be imposed by the Ordinance, and the results of the preceding analysis, KMA recommends that the following base in-lieu fee payment amounts be applied in 2024:

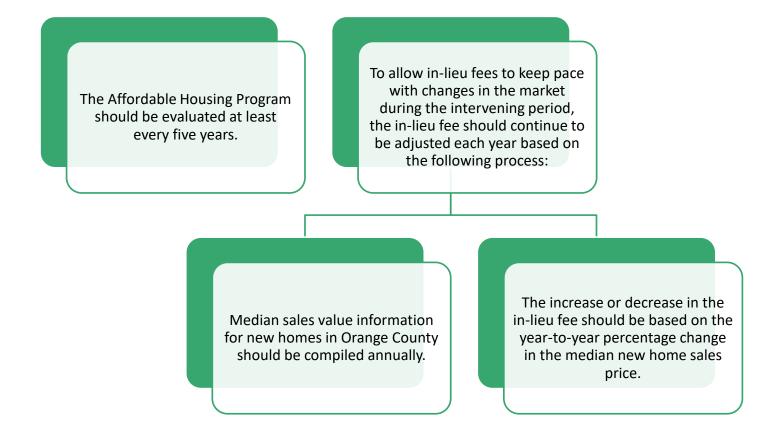
Rental Projects

- **60+ du/acre:** \$26.10/leaseable sq. ft.
 - ∘ Between 15 20 units: \$3.73 \$22.37
- Under 60 du/acre: \$13.80/leaseable sq. ft.
 - Between 15 20 units: \$1.97 \$11.83

Ownership Projects

- \$17.70/saleable sq. ft.
- Between 15 20 units: \$2.53 \$15.17

Recommended Affordable Housing Program Updates



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18504 Beach Blvd.

274 Total Units

Rental Property

274 Low- and Moderate-Income Units







21060 Pacific City Cir.

516 Total Units

Rental Property

51 Moderate-Income Units







45 Total Units

Ownership Property

4 Moderate-Income Units









17541-17557 Newland St.

13 Total Units

Ownership Property

2 Moderate-Income Units



Community Benefits of Affordable Housing Program

- Achieve City Council Housing Goal to "diversify, stabilize, and increase housing to reflect community needs"
- Contribute towards the State's Regional Housing Needs Allocation (RHNA)
- Comprehensive and diverse affordable housing program provides developers options to design projects to maximize potential housing development while meeting local affordable housing objectives



Community Benefits of Affordable Housing Program

- Increase affordable housing options for the community especially lower income households including seniors
- Develop diverse neighborhoods with varying age groups and socioeconomic backgrounds
- Helps reduce or end the cycle of poverty, eviction, homelessness in the community





Conclusion

- Recommendations provided are data driven based on Costa Mesa specific analysis
- Ordinance can be modified in the future and recommendation for regular program and fee review
- Best practices utilized by local governments for affordable housing
- Much needed affordable housing is produced along with market-rate units
- Requiring affordable units as part of new residential development ensures units are built onsite and integrated into a housing project





Next Steps

- March 19, 2024 City Council Meeting:
 - Second Reading of Affordable Housing Ordinance
 - In-Lieu Fee Resolution/Revised Fee Schedule
- Notify State HCD of adoption of ordinance which satisfies Program 2A of the Housing Element
- Prepare program guidelines for implementation including template agreements/forms and administrative regulations
- Mid-year budget adjustment for staffing recommendations





Staff's Recommendation

• Staff Recommends: City Council receive the staff presentation and provide direction on proposed in-lieu fee amounts and subsequent fee resolution for potential future City Council adoption





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Housing Project Entitlements List (Feb. 2014 – Oct. 2022)

PROJECT ADDRESS/NAME	PROJECT TYPE	TOTAL UNITS	AFFORDABLE UNITS	YEAR ENTITLED	YEAR CONSTRUCTED	OWNERSHIP (O) /RENTAL (R)
320 E 18th Street	Small Lot Ordinance (SLO)	2	0	2014	2017	0
119 Cecil Place	SLO	2	0	2014	2017	0
1944 Church Street	SLO	2	0	2014	2017	0
2095 Harbor Blvd. (Twenty8 Walk)	Live/Work + Townhomes	28	0	2014	2021	0
2661 Orange Ave.	SLO	5	0	2014	2017	0
2023-2027 Placentia Ave. (West Place)	Live/Work	36	0	2014	2016	0
2075 Placentia Ave.	Live/Work	14	0	2014	2016	0
573-591 Victoria Street (Maple Crossing)	Condominiums	37	0	2014	2017	0
1817 Viola Place	Condominiums	3	0	2014	Not constructed	0
1620-1644 Whittier Ave. (Lighthouse)	Live/Work + Lofts	89	0	2014	2018	0
2026 Placentia Ave.	Live/Work	15	0	2014	2017	
1631 Tustin Ave.	SLO	11	0	2014	2015	0
125 Baker St. (Baker Block)	Apartments	240	0	2014	2018	R
789 Paularino Ave. (The Edge)	Condominiums	19	0	2014	2015	0
595 Anton Blvd. (Halcyon House)	Apartments	393	0	2014	2023	R
		TOTAL HOUS	NG UNITS IN 2014:	896		
671 W 17 th Street (17 West)	Live/Work + Lofts	177	0	2015	2019	0
3350 Avenue of the Arts	Condominiums	100	0	2015	Not constructed	0
527 & 531 Bernard Street	Condominiums	10	0	2015	2017	0
217 Cabrillo Street	Condominiums	2	0	2015	2016	0
2967 Ceylon Drive	Single Family	1 (unit added to existing lot)	0	2015	2016	O
2333 Elden Ave.	SLO	5	0	2015	2018	0
2277 Harbor Blvd. (LUX)	Apa <mark>rtments</mark>	224	9	2015	In Plan Check	R
2068 Maple Ave.	Condominiums	4	0	2015	2018	O
261 Mesa Drive	SLO	5	0	2015	2017	0
2880 Mesa Verde Drive East (Miraval)	Single Family	10	0	2015	2016	0
1239 Victoria Street (Westreef)	Singl <mark>e Family</mark>	28	0	2015	2017	0

PROJECT ADDRESS/NAME	PROJ <mark>ECT TYPE</mark>	TOTAL UNITS	AFFORDABLE UNITS	YEAR ENTITLED	YEAR CONSTRUCTED	OWNERSHIP (O) /RENTAL (R)
1672 Placentia Ave. (The Boatyard)	Liv <mark>e/Work</mark>	32	0	2015	2017	O O
650 Hamilton Street (Current)	Condominiums	24	0	2015	2017	О
334 E 16 th Street	SLO	2	0	2015	2016	0
		TOTAL HOUS	SING UNITS IN 2015:	624	2010	0
929 Baker Street (Elara)	Condominiums	56	0	2016	2019	0
2626 Harbor Boulevard (Aura)	Condominiums	33	0	2016	2018	0
548 Victoria Street	SLO	5	0	2016	2020	0
592 Hamilton Street	SLO	6	0	2016	Not constructed	0
522 & 526 Bernard Street	SLO	10	0	2016	2018	0
300, 316, 320 22 nd Street	Singl <mark>e</mark> Family	13	0	2016	2018	0
127 23 rd Street	SLO	4	0	2016	2019	0
1640 Monrovia Avenue (Vivante)	Apa <mark>r</mark> tments	111	0	2016	2020	O R
2053 Tustin Avenue	SLO	2	0	2016	Not constructed	0
788 Center Street	SLO	2	0	2016	2019	0
166 Rochester Street	SLO	2	0	2016	2018	0
155 Flower Street	SLO	2	0	2016	2017	0
		TOTAL HOUS	ING UNITS IN 2016:		2017	
1933 Church Street	SLO	2	0	2017	Not constructed	0
174 Costa Mesa Street	SLO	2	0	2017	2019	0
391 La Perle Place	SLO	2	0	2017	2019	0
326 E 16th Street	SLO	2	0	2017	2019	0
245 Knox Place	SLO	2	0	2017	2019	0
2850 Mesa Verde Drive East (Miraval)	Single Family	11	0	2017	2019	0
134 Santa Isabel Avenue	SLO	3	0	2017	2021	0
767 W 18th Street	SLO	3	0	2017	2019	0
337 16 th Place	SLO	2	0	2017	2019	0
		TOTAL HOUS	ING UNITS IN 2017:		2010	
390 Ford Road & 1957 Newport Boulevard (Westside Walk)	Townhomes	38	0	2018	2021	0
631 Victoria Street	SLO	5	0	2018	In Plan Check	0
1966 Wallace Avenue	SLO	5	0	2018	2021	0
2573 Elden Avenue	SLO	4	0	2018	2023	0

PROJECT ADDRESS/NAME	PROJ <mark>ECT TYPE</mark>	TOTAL UNITS	AFFORDABLE UNITS	YEAR ENTITLED	YEAR CONSTRUCTED	OWNERSHIP (O) /RENTAL (R)
2060 Maple Avenue	Duplex & Single Family	2 (units added to existing lot)	0	2018	2020	0
1592 Riverside Place	SLO	2	0	2018	2021	0
362 La Perle Lane	SLO	2	0	2018	Not constructed	0
302 Cabrillo Street	SLO	2	0	2018	2021	0
1593 Riverside Place	SLO	2	0	2018	2020	0
2542 Elden Avenue	SLO	2	0	2018	2020	0
128 E Wilson Street	SLO	2	0	2018	2021	0
170 Cabrillo Street	SLO	2	0	2018	2020	0
2062 Pomona Avenue	Single Family	2	0	2018	2020	0
2179 Miner Street	Single Family	1	0	2018	2020	0
180 Broadway	Duplex T	(unit added to existing lot)	0	2018	2019	0
752 & 756 W 19 th Street	Mixed Use		INITS ENTITLED IN			
172 E Wilson Street	Condominium	2 2	0	2019	2023	0
154 Albert Place			0	2019	Under Construction	0
765, 767 Baker Street & 2972 Century Place (The Plant)	Single Family Live/Work & Lofts	1 (new unit) 54	0	2019	Not constructed	0
2070 Thurin Street	Condominium	2	0	2019	In Plan Check	0
		OTAL HOUSING U	NITS ENTITLED IN		III I OIICCK	A A Section Association
1923 Church Street	SLO	2	0	2020	2022	0
377 La Perle Place	SLO	2	0	2020	2022	0
385 La Perle Place	SLO	2	0	2020	2022	0
2156 Myran Drive	SLO	2	0	2020	In Plan Check	0
			JNITS ENTITLED IN		III I I OHECK	
1978 Meyer Place & 1979 Anaheim Avenue	Condominiums	8	0	2021	In Plan Check	0
1683 Sunflower Avenue (One Metro West)	Apartments	1057	106	2021	Not Constructed	R

TOTAL HOUSING UNITS ENTITLED IN 2021: 1,065

Note(s): Housing projects list from 2014 through October 2022 includes any entitled housing projects that resulted in new additional dwelling unit(s) on the existing property except accessory dwelling units (ADUs) which are approved ministerially ("by-right").

Housing Project Entitlements and Pending Applications (November 2022 – Present)

PROJECT ADDRESS/NAME	PROJECT TYPE	TOTAL UNITS	AFFORDABLE UNITS	YEAR ENTITLED	YEAR CONSTRUCTED	OWNERSHIP (O) /RENTAL (R)
549 Bernard Street	SLO	4	0	Nov. 2022	Pending	/KLNTAL (K)
	T	OTAL HOUSING	UNITS ENTITLED IN		Tolland	
161 Cecil Place	Condominiums	2	0	2023	Pending	
1592 Redlands Place	SLO	2	0	2023	Pending	0
185 Rochester Street	SLO	2	0	2023	Pending	0
1711 – 1719 Pomona Ave.	Live/Work	8	0	2023	Pending	0
1540 Superior Avenue	Live/Work	9	0	2023	Pending	0 R
212 Broadway	Single Family	2	0	2023	Pending	
278 Broadway	Single Family	2	0	2023	Pending	0
212 Del Mar Avenue	Single Family	2	0	2023	Pending	0
	т	TAL HOUSING	UNITS ENTITLED IN		I chaing	
258 E 15 th Street	Duplex	2	0	2024	Pending	R
374 – 376 Hamilton Street	Duplex	4	0	2024	Pending	R
	TOTAL	HOUSING UNIT	S ENTITLED IN 2024		i i i i i i i i i i i i i i i i i i i	

Note(s): Housing projects list from November 2022 to present includes any entitled housing projects that resulted in new additional dwelling unit(s) on the existing property except accessory dwelling units (ADUs) which are approved ministerially ("by-right").

ROJECT TYPE	TOTAL UNITS	AFFORDABLE UNITS	YEAR	YEAR	OWNERSHIP (O)
			ENTITLED	CONSTRUCTED	/RENTAL (R)
Apartments	1,050	TBD	Pending	Pending	R
Apa <mark>r</mark> tments	60	59	Pending	Pending	R
SLO	2	0	Pendina	Pendina	0
SLO	2	0	Pending		0
SLO	2	0	Pending		0
HME/CC	SLO SLO SLO	SLO 2 SLO 2 SLO 2	SLO 2 0 SLO 2 0 SLO 2 0 SLO 2 0	Apartments 60 59 Pending SLO 2 0 Pending SLO 2 0 Pending SLO 2 0 Pending SLO 2 0 Pending	Apartments 60 59 Pending Pending SLO 2 0 Pending Pending SLO 2 0 Pending Pending SLO 2 0 Pending Pending

Note(s): Pending housing entitlement applications includes any proposed housing projects that would result in new additional dwelling unit(s) on the existing property except accessory dwelling units (ADUs) which are approved ministerially ("by-right").