



# **CITY OF COSTA MESA**

## **REGULAR CITY COUNCIL AND HOUSING AUTHORITY\***

### **Agenda**

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**Tuesday, February 27, 2024**

**5:00 PM**

**City Council Chambers  
77 Fair Drive**

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#### **SPECIAL STUDY SESSION**

The City Council meetings are presented in a hybrid format, both in-person at City Hall and as a courtesy virtually via Zoom Webinar. If the Zoom feature is having technical difficulties or experiencing any other critical issues, and unless required by the Brown Act, the meeting will continue in person.

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As a courtesy, the public may participate via the Zoom option.

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[pwd=\\_XoNBT2uciL7zrDsfj4A9Q9srLgExg.bQEU-le6VvXjPDeL](https://us06web.zoom.us/j/81879579049?pwd=_XoNBT2uciL7zrDsfj4A9Q9srLgExg.bQEU-le6VvXjPDeL)

Or sign into Zoom.com and “Join a Meeting”

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- Select “Join Audio via Computer.”
- The virtual conference room will open. If you receive a message reading, “Please wait for the host to start this meeting,” simply remain in the room until the meeting begins.
- During the Public Comment Period, use the “raise hand” feature located in the participants’ window and wait for city staff to announce your name and unmute your line when it is your turn to speak. Comments are limited to 3 minutes, or as otherwise directed.

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Note, if you have installed a zoom update, please restart your computer before participating in the meeting.

Additionally, members of the public who wish to make a written comment on a specific agenda item, may submit a written comment via email to the City Clerk at [cityclerk@costamesaca.gov](mailto:cityclerk@costamesaca.gov). Comments received by 12:00 p.m. on the date of the meeting will be provided to the City Council, made available to the public, and will be part of the meeting record.

Please know that it is important for the City to allow public participation at this meeting. If you are unable to participate in the meeting via the processes set forth above, please contact the City Clerk at (714) 754-5225 or [cityclerk@costamesaca.gov](mailto:cityclerk@costamesaca.gov) and staff will attempt to accommodate you. While the City does not expect there to be any changes to the above process for participating in this meeting, if there is a change, the City will post the information as soon as possible to the City’s website.

Note that records submitted by the public will not be redacted in any way and will be posted online as submitted, including any personal contact information. All pictures, PowerPoints, and videos submitted for display at a public meeting must be previously reviewed by staff to verify appropriateness for general audiences. No links to YouTube videos or other streaming services will be accepted, a direct video file will need to be emailed to staff prior to each meeting in order to minimize complications and to play the video without delay. The video must be one of the following formats, .mp4, .mov or .wmv. Only one file may be included per speaker for public comments, for both videos and pictures. Please e-mail to the City Clerk at [cityclerk@costamesaca.gov](mailto:cityclerk@costamesaca.gov) NO LATER THAN 12:00 Noon on the date of the meeting. If you do not receive confirmation from the city prior to the meeting, please call the City Clerks office at 714-754-5225.

Note regarding agenda-related documents provided to a majority of the City Council after distribution of the City Council agenda packet (GC §54957.5): Any related documents provided to a majority of the City Council after distribution of the City Council Agenda Packets will be made available for public inspection. Such documents will be posted on the city's website and will be available at the City Clerk's office, 77 Fair Drive, Costa Mesa, CA 92626.

All cell phones and other electronic devices are to be turned off or set to vibrate. Members of the audience are requested to step outside the Council Chambers to conduct a phone conversation.

Free Wi-Fi is available in the Council Chambers during the meetings. The network username available is: CM\_Council. The password is: cmcouncil1953.

As a LEED Gold Certified City, Costa Mesa is fully committed to environmental sustainability. A minimum number of hard copies of the agenda will be available in the Council Chambers. For your convenience, a binder of the entire agenda packet will be at the table in the foyer of the Council Chambers for viewing. Agendas and reports can be viewed on the City website at <https://costamesa.legistar.com/Calendar.aspx>.

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**SPECIAL STUDY SESSION MEETING OF THE CITY COUNCIL**

**FEBRUARY 27, 2024 – 5:00 P.M.**

**JOHN STEPHENS**  
Mayor

**JEFFREY HARLAN**  
Mayor Pro Tem - District 6

**ANDREA MARR**  
Council Member - District 3

**MANUEL CHAVEZ**  
Council Member - District 4

**LOREN GAMEROS**  
Council Member - District 2

**ARLIS REYNOLDS**  
Council Member - District 5

**DON HARPER**  
Council Member - District 1

**KIMBERLY HALL BARLOW**  
City Attorney

**LORI ANN FARRELL HARRISON**  
City Manager

**CALL TO ORDER**

**ROLL CALL**

**PUBLIC COMMENTS – ONLY MATTERS LISTED ON THE AGENDA**  
Comments are limited to 2 minutes, or as otherwise directed.

**STUDY SESSION ITEM:**

1. [\*\*STUDY SESSION REGARDING THE PROPOSED IN-LIEU HOUSING 24-066 FEE, STATE DENSITY BONUS AND AFFORDABLE HOUSING STRATEGIES AND OPTIONS\*\*](#)

RECOMMENDATION:

Staff recommends the City Council receive the staff presentation and provide direction on proposed in-lieu housing fee amounts and subsequent fee resolution for potential future City Council adoption.

**Attachments:** [Agenda Report](#)

[1. KMA In-Lieu Fee Analysis](#)

[2. City Council Report 1-16-2024](#)

[3. Planning Commission Report 11-13-2023](#)

**ADJOURNMENT**



# CITY OF COSTA MESA

## Agenda Report

77 Fair Drive  
Costa Mesa, CA 92626

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**File #:** 24-066

**Meeting Date:** 2/27/2024

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**TITLE:**

**STUDY SESSION REGARDING THE PROPOSED IN-LIEU HOUSING FEE, STATE DENSITY BONUS AND AFFORDABLE HOUSING STRATEGIES AND OPTIONS**

**DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES  
DEPARTMENT/PLANNING DIVISION**

**PRESENTED BY: SCOTT DRAPKIN, ASSISTANT DEVELOPMENT SERVICES DIRECTOR AND NANCY HUYNH, PRINCIPAL PLANNER**

**CONTACT INFORMATION: NANCY HUYNH, PRINCIPAL PLANNER, (714) 754-5609**

**RECOMMENDATION:**

Staff recommends the City Council receive the staff presentation and provide direction on proposed in-lieu housing fee amounts and subsequent fee resolution for potential future City Council adoption.



## Agenda Report

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**Item #: 24-066**

**Meeting Date: 2/27/2024**

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**TITLE: STUDY SESSION REGARDING THE PROPOSED IN-LIEU HOUSING FEE, STATE DENSITY BONUS AND AFFORDABLE HOUSING STRATEGIES AND OPTIONS**

**DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/PLANNING DIVISION**

**PRESENTED BY: SCOTT DRAPKIN, ASSISTANT DEVELOPMENT SERVICES DIRECTOR AND NANCY HUYNH, PRINCIPAL PLANNER**

**CONTACT INFORMATION: NANCY HUYNH, PRINCIPAL PLANNER, (714) 754-5609**

**RECOMMENDATION:**

Staff recommends the City Council receive the staff presentation and provide direction on proposed in-lieu housing fee amounts and subsequent fee resolution for potential future City Council adoption.

**BACKGROUND:**

In recent decades there has been an under-building of housing for lower- and middle-income households. The goal of an affordable housing ordinance is to ensure housing is built to serve households at all income levels and that much needed affordable housing is produced along with market-rate units. The proposed affordable housing program is intended to promote the development of affordable housing without unduly constraining the creation of market rate housing. The ordinance proposed carefully 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.

The proposed ordinance assists in two distinct ways to provide affordable housing opportunities in the City. First, it leverages the private sector's capacity to get homes built, where other affordable housing strategies rely on government or non-profit agencies to build new homes. Requiring affordable units as part of new residential development ensures units are built onsite and integrated into a housing project to the greatest extent possible. Further, it creates a new source of financing for affordable housing with the payment of funds in-lieu of the project proponent providing the specified affordable units onsite, providing developers with more flexibility.

***Planning Commission Recommendation***

On November 13, 2023, the Planning Commission reviewed Ordinance No. 2024-XX to amend Title 13 (Planning, Zoning and Development) of the Costa Mesa Municipal Code (CMMC) to establish affordable housing requirements for new residential development projects. The Planning Commission recommended changes to the draft ordinance and voted 5-2 (Commissioner Zich and Commissioner Andrade voting no) to recommend the City Council give first reading of Ordinance No. 2024-XX with their proposed changes.

The November 13, 2023, Planning Commission agenda report is attached to this report, and the meeting video, and public comments are included in the links below:

- November 13, 2023 Planning Commission Meeting Video:  
[https://costamesa.granicus.com/player/clip/4063?view\\_id=14&redirect=true&h=f22a251337c41bbeeb55301395ff67cc2](https://costamesa.granicus.com/player/clip/4063?view_id=14&redirect=true&h=f22a251337c41bbeeb55301395ff67cc2)
- November 13, 2023 Planning Commission Public Comments:  
<https://costamesa.legistar.com/View.ashx?M=E3&ID=1135455&GUID=7ECD4C06-87E5-4283-8149-4BFF97215AA2>

### ***City Council First Reading***

On January 16, 2024, the City Council considered the Planning Commission's recommendations, discussed the draft ordinance and made further changes to the draft including:

- Establishing a minimum threshold project size for application of the affordability requirements
- Requiring the onsite production of affordable units for rental projects with over 50 units
- Allowing payment of in-lieu housing fees for rental projects with fewer than 50 units
- Allowing a residential project for which the City enters into a development agreement to provide an affordable housing equivalent to the AHO or equivalent community benefit

The City Council voted 4-2 (Councilmember Chavez and Mayor Pro Tem Harlan voting no; Councilmember Harper absent) to give first reading of Ordinance No. 2024-XX. The January 16, 2024 City Council agenda report is attached to this report, and the meeting video, and public comments are included in the links below:

- January 16, 2024 City Council Meeting Video:  
[https://costamesa.granicus.com/player/clip/4078?view\\_id=14&redirect=true](https://costamesa.granicus.com/player/clip/4078?view_id=14&redirect=true)
- January 16, 2024 City Council Public Comments:  
<https://costamesa.legistar.com/View.ashx?M=E3&ID=1144863&GUID=584645D0-2AD4-4EB6-9E72-78009403D0D6>

As part of the discussion regarding an inclusionary housing ordinance, the City Council directed staff to provide an in-lieu housing fee analysis for their review and consideration at the second reading of the ordinance. The second reading of the ordinance and proposed resolution to adopt an in-lieu housing fee schedule is tentatively planned for the March 19, 2024, City Council meeting date. This Study Session is intended to provide the City Council with a focused review of the proposed in-lieu housing fee calculations and applicable affordable local and State housing provisions, and provide the City Council with an opportunity to review and analyze the fees and their future potential application.

### ***Proposed Affordable Housing Requirements***

The table below provides a summary of the proposed affordable housing ordinance which reflects the City Council's revisions during the first reading.

**Table 1 – Summary of Affordable Housing Program Proposed Requirements**

PROGRAM COMPONENT	CITY COUNCIL’S PROPOSED REQUIREMENTS
<b>Project Threshold</b>	15 units
<b>Number of Affordable Units/Required Income – Rental Project</b>	<ul style="list-style-type: none"> <li>• 60+ dwelling unit (du)/acre: 11% at low-income or 7% at very-low income</li> <li>• Under 60 du/acre: 6% at low-income or 4% at very-low income</li> </ul>
<b>Number of Affordable Units/Required Income – Ownership Project</b>	Payment of in-lieu fee
<b>Covenant Period – Rental</b>	At least 55 years
<b>Covenant Period – Ownership</b>	45 years (if producing affordable units onsite)
<b>Affordable Unit Minimum Size</b>	No more than 15% smaller than average market rate unit
<b>Affordable Unit Bedroom Mix</b>	Proportional to market rate units
<b>Affordable Unit Location</b>	Evenly distributed/dispersed throughout residential project
<b>Alternatives for Compliance</b>	<ul style="list-style-type: none"> <li>• Land dedication</li> <li>• Offsite construction of affordable units</li> <li>• Payment of in-lieu fees:               <ul style="list-style-type: none"> <li>○ <i>Ownership</i>: All ownership projects can pay in-lieu fee</li> <li>○ <i>Rental</i>: Rental projects fewer than 50 units can pay in-lieu fee</li> </ul> </li> <li>• Onsite construction of rental units (ownership only)</li> </ul>
<b>Incentives</b>	<ul style="list-style-type: none"> <li>• Allow residential uses in commercial/industrial corridors</li> <li>• Increased densities</li> <li>• Allow low-income rents to be charged based on 80% AMI vs. 60% AMI (required by State density bonus)</li> <li>• Reduced parking requirements</li> <li>• Concurrent processing</li> </ul>

**ANALYSIS:**

As summarized in Table 1, the proposed affordable housing ordinance (AHO) imposes affordable housing requirements on housing projects with more than 15 units. The AHO is based on an on-site production requirement, but it also provides for multiple compliance options, including payment of a fee in lieu of producing affordable housing units.

The AHO is intended to be coupled with zoning code amendments in defined overlay areas in Costa Mesa. As indicated in Table 1 above, the proposed AHO provisions allow residential uses in commercial and industrial corridors, and at higher densities and at lower required parking ratios than are currently allowed for residential development. These benefits are meant to assist in mitigating the impacts created by the imposition of affordable housing requirements.

### ***State Density Bonus and Local Affordable Housing Program Strategies***

It is important to note that residential developers can choose by right to use California's Density Bonus Law, which is codified in Government Code §65915 et seq. (State Density Bonus) for projects that adhere to the minimum criteria defined below:

- 5% units restricted to "Very Low Income"
- 10% units restricted to "Low Income" rental units or 10% "Moderate Income" for sale units
- 100% affordable units (excluding manager's units) with a maximum of 20% moderate units
- 10% "Very Low Income" units restricted for transitional foster youth, disabled veterans, or homeless
- 20% "Low Income" units for student housing at accredited colleges.
- A senior housing development.
- An age-restricted mobile home park
- The project donates at least one acre of land to the jurisdiction for very low-income units, the land has the appropriate permits and approvals, and has access to needed public facilities
- Projects which include a child care facility

State Density Bonus allows for increased housing density on a property above the maximum allowed under the City's General Plan Land Use Element, a statutorily defined number of concessions/incentives, and potentially reductions and/or waivers to the City's development standards. The draft affordable housing ordinance is proposed to be designed to specifically include similar and in certain situations potentially greater housing development incentives than allowed by State Density Bonus Law. For example, the proposed AHO allows the affordable rents for low income units to be calculated based on 80% of the area median income (AMI), while State Density Bonus requires the rents to be calculated based on 60% of AMI. In addition, the City's amended parking standards are proposed to be based on demonstrated market demand. The intention of the AHO is to create sufficient incentives through the proposed zoning code amendments to incentivize affordable housing construction that serves the local households at all income levels, and is also consistent with the communities housing values.

The proposed AHO includes Section 13-334 - Density Bonus. This section stipulates that if an applicant proposes to use the State Density Bonus, the affordable units used to fulfill the density bonus requirements may also count as affordable units required by the City's' proposed AHO only if the more stringent requirements of the two programs are applied.

As discussed previously, the proposed AHO provides for multiple options for fulfilling the identified affordable housing obligations. However, it is important to note that if the in-lieu fee option is selected, the proposed market rate residential development will not meet the State Density Bonus eligibility requirements.

As drafted in the AHO, the option to pay the in-lieu housing fees would be specifically allowed with ownership housing projects with 15 or more units, and rental housing projects with 15 to 50 units. Unless approved otherwise by the City, a rental housing project proposed with over 50 units would be required to produce the affordable units onsite within their market rate project. However, should it be determined that onsite affordable housing production is not feasible in housing developments over 50

units, the proposed ordinance allows (with City approval) an in-lieu housing fee to be paid when it can be demonstrated that new construction of the required affordable units would create an unreasonable hardship due to such factors as project size, site constraints, and/or excessively large affordability gaps. The ultimate burden is on the developer to prove that none of the affordable housing production alternatives provided for in the Inclusionary Housing Ordinance can be used without creating an economic hardship on the project.

### ***In-Lieu Fee Analysis***

The City's consultant, Keyser Marston Associates (KMA), prepared the in-lieu housing fee analysis based on the percentages provided in Table 1 above and the "affordability gap." The affordability gap is the total sales or net rent cost difference between a market rate unit and affordable unit. KMA estimates the affordability gap using 2024 average rent/sales price data and unit sizes from rental and ownership housing projects in Costa Mesa. The affordability gap is then multiplied by each of the City's affordable housing requirement percentages.

For rental projects, the in-lieu housing fee payment is dependent on the project density (60+ dwelling unit per acre or less than a 60 dwelling unit per acre project). The recommended base in-lieu fees for proposed rental projects are set at \$26.10 or \$13.80 per square foot of leasable area, respectively. The in-lieu fee payment for ownership housing developments does not vary by project density. The recommended base in-lieu fee for ownership housing projects is set at \$17.70 per square foot of saleable area. KMA's in-lieu housing fee analysis study is included as Attachment 1 to this Agenda Report.

For discussion purposes and as recommended by the Planning Commission, KMA also prepared a supplemental in-lieu housing fee analysis for certain rental projects using a 10% low-income and 5% very-low income requirement. The City Council at their first reading considered these percentages; however, ultimately voted to establish the requirements based on staff and KMA's affordable housing set-aside recommendations. KMA's supplemental in-lieu housing fee analysis is also included with Attachment 1.

### ***Proposed In-Lieu Housing Fee Schedule***

Although the in-lieu housing fee payment option is allowed for rental projects at 15 units, the proposed in-lieu housing fee schedule also includes a "sliding scale" to account for the disproportionate impact that the fee may have on smaller projects. As such, the proposed fee for smaller projects designed with 15 to 20 units would be discounted. Projects over 20 units would be required to pay the full fee amount. A project's total required in-lieu housing fee amount is calculated based on the project's total leasable area (for rentals) or saleable area (for ownership). Table 2 below shows the proposed discounted rate for smaller rental projects and Table 4 below shows the proposed discounted rate for smaller ownership housing projects.

### **Rental Housing Projects**

The proposed fee schedule for rental housing projects is shown in Table 2 below. Since there are two different requirement "tiers" for rental housing projects (60 du+/acre and under 60 du/acre), Table 2 shows the fees for each type of rental project. The maximum fee amount for the higher density rental

projects would be \$26.10 per a project’s leasable area (per square foot). For the lower density rental projects, the maximum fee amount would be \$13.80 per a project’s leasable area (per square foot).

**Table 2 – Rental Housing Projects In-Lieu Fee Schedule (Pursuant to Draft Ordinance No. 2024-XX)**

Recommended In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development		
Total Units	Density: 60+ Units Per Acre	Density: <60 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

For discussion purposes, Table 3 below shows the proposed in-lieu housing fee schedule based on the affordable percentages as recommended by the Planning Commission (60+ du/acre rental projects at 10% low-income or 5% very-low income), and also includes a discounted rate for smaller rental projects between 15 and 20 units.

**Table 3 – 60+ du/acre In-Lieu Fee Schedule at 10% Low and 5% Very-Low Incomes**

In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development	
Units	In-Lieu Fee
15	\$2.79
16	\$5.57
17	\$8.36
18	\$11.14
19	\$13.93
20	\$16.71
21+	\$19.50

Ownership Housing Projects

The proposed fee schedule for ownership housing projects is shown in Table 4 below. The maximum fee amount would be \$17.70 per a project’s saleable area (per square foot) and includes a discounted rate for smaller ownership projects between 15 and 20 units.

**Table 4 – Ownership Housing Projects In-Lieu Fee Schedule**

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

**Comparison of Surrounding Cities In-Lieu Fees**

Each local jurisdiction’s affordable housing in-lieu fees are specific to that jurisdiction’s affordable housing requirements as well as the current real estate local market conditions (e.g., average rent and sales price and land values). As such, the fees and fee calculation vary from each jurisdiction. Nevertheless, a comparison between the City’s proposed fee schedules and Huntington Beach and Santa Ana’s in-lieu housing fees are provided in Table 5 below. The City’s proposed fees are generally consistent with both cities and in some cases lower.

**Table 5 – In-Lieu Fees Comparison**

<b>Santa Ana</b> <sup>1</sup>	<u>Flat fee for rental and ownership:</u> <ul style="list-style-type: none"> <li>• 5 to 9 units: \$6</li> <li>• 10 to 14 units: \$9</li> <li>• 15 to 19 units: \$12</li> <li>• 20+ units: \$20</li> </ul>
<b>Huntington Beach</b> <sup>2,3</sup>	<u>Sliding scale between 3 and 30+ units:</u> <ul style="list-style-type: none"> <li>• Rental: \$3.58 to \$35.80</li> <li>• Ownership: \$2.54 to \$25.36</li> </ul>
<b>Costa Mesa</b> <sup>2,4</sup>	<u>Sliding scale between 15 and 20+ units:</u> <ul style="list-style-type: none"> <li>• Rental – 60+ du/acre: \$3.73 to \$26.10</li> <li>• Rental – under 60 du/acre: \$1.97 to \$13.80</li> <li>• Ownership: \$2.53 to \$17.70</li> </ul>
<sup>1</sup> Fees calculated based on square feet of habitable area. <sup>2</sup> Fees calculated based on leaseable/saleable area. <sup>3</sup> Payment of in-lieu fees allowed for projects up to 100 units <sup>4</sup> Payment of in-lieu fees allowed for projects between 15 and 50 units	

**Project Examples**

To demonstrate how the proposed in-lieu housing fees would apply to a housing project subject to the AHO requirements, both a rental and ownership project example is provided below. The project examples used are from existing housing developments located within the City. The estimated in-lieu housing fee calculation is based on the proposed AHO set-aside percentages.

Rental Housing Project: 60+ du/acre Example

Illustratively, a rental housing project constructed on an approximate half-acre parcel in Costa Mesa with a total of 23 units (60 du/acre). The project includes 23 units in 17,000 square feet of leasable area. Since the project is less than 50 units, under the proposed AHO, the developer could request to fulfill their housing obligation with payment of in-lieu housing fees. The in-lieu fee payment amounts are based on the schedule presented in Table 2, and the calculations are presented in the following table.

**Table 6 – Rental Housing Project 60+ du/acre In-Lieu Fee Example and Comparison**

<b>Affordable Housing Alternative</b>	11% Low or 7% Very Low Income	10% Low or 5% Very Low Income
<b>Affordable Units</b>	3 Low or 2 Very Low	2 Low or 1 Very Low
<b>Basis for the In-Lieu Fee <sup>1</sup></b>	Low Income Std.	Very Low Income Std.
<b>In-Lieu Fee Per SF</b>	\$26.10	\$19.50
<b>Leasable Area (SF)</b>	17,000	17,000
<b>Total In-Lieu Fee</b>	\$443,700	\$331,500

Rental Housing Project: Less than 60 du/acre Example

Baker Block was developed in 2014 on a 4.2-acre property that was rezoned from an industrial zone to a high-density residential zone and includes a total of 240 apartment units (57.7 du/acre) which meets the project threshold size subject to the AHO requirements. Since the project proposes over 50 rental units, it must produce required affordable units on site within the market project. If the developer has demonstrated that onsite production would not be feasible, they could request to fulfill their obligation with payment of in-lieu fees. Using the fee schedule in Table 2 above, the project’s required in-lieu fee is calculated in the table below.

**Table 7 – Rental Housing Project Under 60 du/acre In-Lieu Fee Example**

<b>Total Units</b>	240
<b>6% Low or 4% Very Low Income</b>	14 Low or 10 Very Low
<b>Basis for In-Lieu Fee</b>	Low Income Std.
<b>Required In-Lieu Fee</b>	\$13.80
<b>Leasable Area</b>	220,000 SF
<b>Total In-Lieu Fee Payment</b>	\$3,036,000

<sup>1</sup> The In-Lieu Fee is based on the income standard that generated the lower payment amount of the two income levels.

Ownership Housing Project Example

Aura was developed in 2018 on a 3.7-acre property that was rezoned from commercial to medium-density residential and includes a total of 33 single-family detached condominiums (8.9 du/acre). Since the project proposes all ownership housing units, under the proposed ordinance, the developer may pay the in-lieu housing fee to fulfill their AHO obligation. Using the fee schedule in Table 4 above, the project’s required in-lieu housing fee is calculated in the table below.

**Table 8 – Ownership Housing Project In-Lieu Fee Example**

<b>Total Units</b>	33
<b>Required In-Lieu Fee</b>	\$17.70
<b>Saleable Area</b>	73,000 SF
<b>Total In-Lieu Fee Payment</b>	\$1,292,100

**Next Steps**

Following this study session, staff would prepare the updated AHO with the City Council’s modifications from the first reading, if any. The second reading of the ordinance, as well as a separate resolution and revised Master Fee and Charges Schedule reflecting the proposed in-lieu fees would be prepared for City Council’s review and potential adoption at their regular meeting on March 19, 2024. Should the City Council give second reading of Ordinance No. 2024-XX and adopt the fee resolution, the ordinance would become effective 30 days after adoption. As recommended by KMA, the AHO including the in-lieu housing fee schedule would be re-evaluated regularly.

**ALTERNATIVES:**

The City Council could provide staff with alternative feedback and direction prior to the second reading of the Ordinance and in-lieu housing fee resolution.

**FISCAL REVIEW:**

Should the City Council adopt the Affordable Housing Ordinance and in-lieu housing fee resolution, the City could potentially receive funding from payment of fees that would be deposited into a Housing Trust Fund to support and promote affordable housing programs in the City, including the administration of the City’s affordable housing program.

**LEGAL REVIEW:**

The City Attorney’s Office has reviewed and approved this report as to form.

**CITY COUNCIL GOALS AND PRIORITIES:**

This item supports the following City Council Goal:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs

**CONCLUSION:**

Consideration of an affordable housing ordinance has been included in the City's Housing Element as part of an overall strategy to promote the creation of additional housing supply that is affordable to all segments of the Costa Mesa community. In addition, the affordable housing ordinance is included as a strategic plan objective and priority to accomplish the City Council's goal to "*diversify, stabilize and increase housing to reflect the community needs*".

Staff is seeking feedback from the City Council regarding the proposed in-lieu housing fee schedules to accompany the second reading of draft Ordinance No. 2024-XX (Affordable Housing Ordinance) for potential adoption.



**KEYSER MARSTON ASSOCIATES**

**INCLUSIONARY HOUSING:**

**IN-LIEU FEE ANALYSIS**

**Prepared for:**

**City of Costa Mesa**

**Prepared by:**

**Keyser Marston Associates, Inc.**

**January 31, 2024**

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## ATTACHMENTS

### Attachment 1: Affordable Housing Cost Calculation Methodologies

Appendix A: Affordable Rent Calculation Methodology

Appendix B: Affordable Sales Price Calculation Methodology

### Attachment 2: Apartment Development

Appendix A: Rent Survey

Appendix B: Affordable Rent Calculations

Appendix C: Recommended In-Lieu Fee

### Attachment 3: Ownership Housing Development

Appendix A: Home Resales Survey

Appendix B: Affordable Sales Price Calculations

Appendix C: Recommended In-Lieu Fee

## I. EXECUTIVE SUMMARY

### A. Background

On January 16, 2024, the City of Costa Mesa (City) City Council gave first reading to Ordinance 2024-XX (Ordinance), which would modify Title 13 (Planning, Zoning, and Development) of the Costa Mesa Municipal Code by establishing an Inclusionary Housing program. Under defined circumstances the Ordinance allows an in-lieu fee to be paid as a means of fulfilling the Inclusionary Housing obligations.

Keyser Marston Associates, Inc. (KMA) was engaged by the City to assist in creating in-lieu fee schedules for apartment and ownership housing developments that would be subject to the Ordinance requirements. The following report describes the methodology and assumptions that KMA used in preparing this Inclusionary Housing Program: In-lieu Fee Analysis (In-Lieu Fee Analysis).

The Ordinance imposes the following basic requirements on residential development:

1. Residential projects with 15 or more units are subject to the Ordinance requirements.
2. The income and affordability requirements are set as follows:
  - a. Apartment development:
    - i. Projects developed at a density level of 60 units per acre or greater must allocate 11% of the units to low income households, or 7% of the units to very low income households.
    - ii. Projects developed at a density level of less than 60 units per acre must allocate 6% of the units to low income households, or 4% of the units to very low income households.
    - iii. Projects with 50 or fewer units have the right to pay an in-lieu fee at the developer's discretion.
  - b. An incentive is provided for the developers of ownership housing developments to pay an in-lieu fee to fulfill the Inclusionary Housing requirements. The in-lieu fee calculations are based on a moderate income Inclusionary Housing requirement.

The In-Lieu Fee Analysis is based on development prototypes that were included in the Inclusionary Housing: Financial Evaluation (Financial Evaluation) report prepared by KMA in July 2023 and a supplementary analysis prepared in November 2023. In addition, this analysis was updated to reflect the utilities allowances published by the Orange County Housing Authority on October 1, 2023 and the changes in mortgage interest rates.<sup>1</sup>

## B. Findings

The results of the KMA financial analysis are summarized in the following text and tables:

### BASE IN-LIEU FEE AMOUNTS

Recommended Base In-Lieu Fee Payment Amounts Per Square Foot of: Total Leasable or Saleable Area in a Residential Project	
<u>Apartment Development</u>	
Density at 60+ Units Per Acre	\$26.10
Density at Less than 60 Units Per Acre	\$13.80
Ownership Housing Development	\$17.70

The in-lieu fee payment amount should be re-evaluated at least every five years. To allow in-lieu fees to keep pace with changes in the marketplace during the intervening periods, the in-lieu fees should be adjusted each year based on the percentage change in new home prices in Orange County.

### IN-LIEU FEE SCHEDULES

Inclusionary housing requirements have a disproportionate impact on smaller projects, because there are fewer market rate units available to spread the impact created by the income and affordability standards. To reflect this, KMA recommends that the City provide a discounted in-lieu fee on a sliding scale basis for residential projects that consist of between 15 and 20 units. The base in-lieu fee would be applicable for all projects that include 21 or more residential units.

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<sup>1</sup> The mortgage interest rates are based on a 50 basis points premium applied to the Freddie Mac monthly average, between February 2023 and January 2024, for a fixed interest rate loan with a 30 year amortization period.

KMA recommends that the in-lieu payment schedules presented in the following table be applied. The recommended fees are presented in 2024 Dollars.

Recommended In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable or Saleable Area in a Residential Development			
Total Units	Apartment Development		Ownership Housing Development
	Density: 60+ Units Per Acre	Density: <60 Units Per Acre	
15	\$3.73	\$1.97	\$2.53
16	\$7.46	\$3.94	\$5.06
17	\$11.19	\$5.91	\$7.59
18	\$14.91	\$7.89	\$10.11
19	\$18.64	\$9.86	\$12.64
20	\$22.37	\$11.83	\$15.17
21+	\$26.10	\$13.80	\$17.70

KMA recommends that the following in-lieu fee schedules be applied to a fractional “Inclusionary Unit” obligation incurred by a residential development. The recommended fractional in-lieu fee amounts are presented in 2024 dollars.

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: 60+ Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.80	\$22,210
0.20	\$47.50	\$44,330
0.30	\$71.30	\$66,540
0.40	\$95.00	\$88,660
0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: <60 Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,000
Average Unit Size (Square Feet of Leasable Area)		931
In-Lieu Fee Per Square Foot of One Unit		\$237.40
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.70	\$22,060
0.20	\$47.50	\$44,220
0.30	\$71.20	\$66,280
0.40	\$95.00	\$88,440
0.50	\$118.70	\$110,500
0.60	\$142.40	\$132,560
0.70	\$166.20	\$154,720
0.80	\$189.90	\$176,780
0.90	\$213.70	\$198,930
1.00	\$237.40	\$221,000

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Ownership Housing Development Prototype		
Affordability Gap Per Inclusionary Unit		\$608,000
Average Unit Size (Square Feet of Saleable Area)		1,620
In-Lieu Fee Per Square Foot of One Unit		\$375.30
		Total Fractional In-Lieu Fee: Prototype Ownership Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$37.53	\$60,800
0.20	\$75.06	\$121,600
0.30	\$112.59	\$182,400
0.40	\$150.12	\$243,190
0.50	\$187.66	\$304,010
0.60	\$225.19	\$364,810
0.70	\$262.72	\$425,610
0.80	\$300.25	\$486,410
0.90	\$337.78	\$547,200
1.00	\$375.31	\$608,000

## II. APPROACH

The purpose of the In-Lieu Fee Analysis is to estimate the in-lieu fee amounts that can be supported by apartment and ownership housing developments. The KMA In-Lieu Fee Analysis is based on the evaluation of prototype developments that were used in the Financial Evaluation and the Inclusionary Housing requirements included in the Ordinance.

The foundational premise of this analysis is that an in-lieu fee should correlate to the “Affordability Gap” associated with producing the affordable units required by the Inclusionary Housing Program. The Affordability Gap can generally be defined as the difference between the achievable market rate rents or sales prices and the allowable rents or sales prices for the designated Inclusionary Units.

## III. ANALYSIS ORGANIZATION

The KMA analysis is supported by the following Attachments and Appendices:

### ATTACHMENT 1: AFFORDABLE HOUSING COST CALCULATION METHODOLOGIES

Appendix A:	Affordable Rent Calculation Methodology
Appendix B:	Affordable Sales Price Calculation Methodology

### ATTACHMENT 2: APARTMENT DEVELOPMENT

Appendix A:	Rent Survey 4+ Star Properties
Appendix B:	Affordable Rent Calculations
Appendix C:	In-Lieu Fee Calculations

### ATTACHMENT 3: OWNERSHIP HOUSING DEVELOPMENT

Appendix A:	Home Resales Survey
Appendix B:	Affordable Sales Price Calculations
Appendix C:	In-Lieu Fee Calculations

The recommended in-lieu fee payment amounts were estimated based on the Affordability Gaps associated with the following requirements:

1. Apartment development:
  - a. Projects developed at a density level of 60 units per acre or greater must allocate 11% of the units to low income households, or 7% of the units to very low income households.
  - b. Projects developed at a density level of less than 60 units per acre must allocate 6% of the units to low income households, or 4% of the units to very low income households.
2. The Ordinance applies an 8% moderate income Inclusionary Housing production requirement to ownership housing development. To create an incentive for developers to select the in-lieu fee option, this analysis calculates the fee based on a discounted rate tied to a 5% moderate income requirement.

The imposition of Inclusionary Housing requirements creates a disproportionate impact on small development projects. To mitigate this impact, KMA created discounted in-lieu fee schedules for projects that consist of between 10 and 20 units. In -lieu fee payment schedules are provided for any fraction of an Inclusionary Unit that is required to be produced under the Ordinance requirements.

#### IV. APARTMENT DEVELOPMENT ANALYSIS

##### A. Apartment Rent Estimates

###### MARKET RATE RENTS

KMA surveyed apartment projects that received 4+ stars in the CoStar quality ranking system (Attachment 2: Appendix A). Based in part on this survey, the market rate apartment rents used in this analysis are presented in the following table.

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

The weighted average rent equates to approximately \$3.52 per square foot of leasable area.

## AFFORDABLE RENTS

The methodology used to calculate the Affordable Rents is described in Attachment 1: Appendix A, and the calculations are presented in Attachment 2: Appendix B. The results are summarized in the following table:

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

## B. Estimated Affordability Gaps – Apartment Development

KMA estimated the Affordability Gaps associated with apartment development using the following calculation methodology:

1. The differences between the estimated achievable market rate rents and the defined Affordable Rents were calculated for studio, one-bedroom, two-bedroom, and three-bedroom apartment units.
2. KMA assumed that the property taxes for projects that include designated affordable housing units would be based on a lower assessed value due to the reduction in net operating income that would be generated by the project. KMA deducted this lower property tax expense from the estimated rent difference.
3. The estimated “Net Annual Rent Difference Per Inclusionary Unit” represents the annual rent difference minus the estimated property tax savings.

4. The “Affordability Gap Per Inclusionary Unit” is estimated by capitalizing the Net Annual Difference Per Inclusionary Unit at the threshold return derived from a pro forma analysis of the prototype apartment development at unrestricted market rate rents.

The Affordability Gap calculations are provided in Attachment 2: Appendix C, and the results are summarized in the following table:

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

### C. In-Lieu Fee Calculations – Apartment Development

The Affordability Gaps Per Inclusionary Unit were converted into the in-lieu fee payment that would be required to fulfill the Inclusionary Housing requirements on site within a proposed market rate apartment development. The conversion calculations are presented in Attachment 2: Appendix C, and the recommended base in-lieu fee payment amounts are summarized in the following table.

Recommended Base In-Lieu Fee Payment Amounts Per Square Foot of Total Leasable Area in an Apartment Development	
Density at 60+ Units Per Acre	\$26.10
Density at Less than 60 Units Per Acre	\$13.80

To mitigate the disproportionate impact an Inclusionary Housing obligations creates on small projects, KMA prepared a discounted in-lieu fee schedule for apartment developments that consist of between 15 and 20 units. The recommended in-lieu fee schedules, which are presented in 2024 dollars, are provided in the following table:

Recommended In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development		
Total Units	Density: 60+ Units Per Acre	Density: <60 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

Some developers may choose to pay a fee in lieu of fulfilling an obligation to produce a fraction of an Inclusionary Unit. The following tables provide schedules of fractional in-lieu fee payments for apartment development, presented in 2024 dollars:

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: 60+ Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee:
	Fractional In-Lieu Fee:	Prototype Apartment
<u>Fraction</u>	<u>Per Square Foot of One Unit</u>	<u>Development</u>
0.10	\$23.80	\$22,210
0.20	\$47.50	\$44,330
0.30	\$71.30	\$66,540
0.40	\$95.00	\$88,660
0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: <60 Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,000
Average Unit Size (Square Feet of Leasable Area)		931
In-Lieu Fee Per Square Foot of One Unit		\$237.40
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.70	\$22,060
0.20	\$47.50	\$44,220
0.30	\$71.20	\$66,280
0.40	\$95.00	\$88,440
0.50	\$118.70	\$110,500
0.60	\$142.40	\$132,560
0.70	\$166.20	\$154,720
0.80	\$189.90	\$176,780
0.90	\$213.70	\$198,930
1.00	\$237.40	\$221,000

## V. OWNERSHIP HOUSING DEVELOPMENT ANALYSIS

### A. Sales Price Estimates

#### MARKET RATE SALES PRICES

KMA compiled a survey of homes that were sold over the previous year (Attachment 3: Appendix A). Based in part on this survey, the projected market rate sales prices are presented in the following table.

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

The weighted average sales price equates to approximately \$651 per square foot of saleable area.

### AFFORDABLE SALES PRICES

The methodology used to calculate the Affordable Sales Prices is described in Attachment 1: Appendix B, and the calculations are presented in Attachment 3: Appendix B. The results are summarized in the following table:

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

### B. Estimated Affordability Gaps – Ownership Housing Development

The Affordability Gaps that were derived from the KMA analysis of ownership housing development are presented in the following table:

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

### C. In-Lieu Fee Calculations – Ownership Housing Development

The weighted average Affordability Gaps are translated into the in-lieu fee payment that would be required to fulfill the Inclusionary Housing requirements on site within a proposed market rate ownership housing development. These calculations are presented in Attachment 3: Appendix C, and the results are summarized in the following table:

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

To mitigate the disproportionate impact an Inclusionary Housing obligations creates on small projects, KMA prepared a discounted in-lieu fee schedule for ownership housing developments that consist of between 15 and 20 units. The recommended in-lieu fee schedule, which is presented in 2024 dollars, is provided in the following table:

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

The following table provides a schedule of fractional in-lieu fee payments for developers that choose this option for fulfilling an obligation to produce a fraction of an Inclusionary Unit. The fractional in-lieu fee schedule is presented in 2024 dollars:

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Ownership Housing Development Prototype		
Affordability Gap Per Inclusionary Unit		\$608,000
Average Unit Size (Square Feet of Saleable Area)		1,620
In-Lieu Fee Per Square Foot of One Unit		\$375.30
		Total Fractional In-Lieu Fee: Prototype Ownership Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$37.53	\$60,800
0.20	\$75.06	\$121,600
0.30	\$112.59	\$182,400
0.40	\$150.12	\$243,190
0.50	\$187.66	\$304,010
0.60	\$225.19	\$364,810
0.70	\$262.72	\$425,610
0.80	\$300.25	\$486,410
0.90	\$337.78	\$547,200
1.00	\$375.31	\$608,000

## VI. CONCLUSIONS / RECOMMENDATIONS

### A. Recommended Base In-Lieu Fee Payment Amounts

The in-lieu fees presented in the preceding table represent the amounts that would need to be charged to provide the City with sufficient funds to produce the same number of affordable units in similar locations and product types as the market rate residential projects that are subject to the requirements proposed to be imposed by the Ordinance.

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:

Recommended Base In-Lieu Fee Payment Amounts Per Square Foot of: Total Leasable or Saleable Area in a Residential Project	
<u>Apartment Development</u>	
Density at 60+ Units Per Acre	\$26.10
Density at Less than 60 Units Per Acre	\$13.80
Ownership Housing Development	\$17.70

It is KMA’s opinion that an in-lieu fee measured against the square footages of the units corresponds more closely to the Affordability Gap than an in-lieu fee that is measured by the number of units in the development. As such, KMA recommends that the in-lieu fee be based on the leasable area for apartment developments and the saleable area for ownership housing developments.

**B. Recommended In-Lieu Fee Schedules**

In recognition of the disproportionate impact Inclusionary Housing requirements have on small projects, KMA recommends that the following in-lieu fee schedules be applied in 2024:

Recommended In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable or Saleable Area in a Residential Development			
Total Units	Apartment Development		Ownership Housing Development
	Density: 60+ Units Per Acre	Density: <60 Units Per Acre	
15	\$3.73	\$1.97	\$2.53
16	\$7.46	\$3.94	\$5.06
17	\$11.19	\$5.91	\$7.59
18	\$14.91	\$7.89	\$10.11
19	\$18.64	\$9.86	\$12.64
20	\$22.37	\$11.83	\$15.17
21+	\$26.10	\$13.80	\$17.70

KMA recommends that the following in-lieu fee schedules be applied in 2024 to fractional Inclusionary Unit obligations incurred by a residential development:

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: 60+ Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.80	\$22,210
0.20	\$47.50	\$44,330
0.30	\$71.30	\$66,540
0.40	\$95.00	\$88,660
0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development @ Density: <60 Units Per Acre		
Affordability Gap Per Inclusionary Unit		\$221,000
Average Unit Size (Square Feet of Leasable Area)		931
In-Lieu Fee Per Square Foot of One Unit		\$237.40
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
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0.30	\$71.20	\$66,280
0.40	\$95.00	\$88,440
0.50	\$118.70	\$110,500
0.60	\$142.40	\$132,560
0.70	\$166.20	\$154,720
0.80	\$189.90	\$176,780
0.90	\$213.70	\$198,930
1.00	\$237.40	\$221,000

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Ownership Housing Development Prototype		
Affordability Gap Per Inclusionary Unit		\$608,000
Average Unit Size (Square Feet of Saleable Area)		1,620
In-Lieu Fee Per Square Foot of One Unit		\$375.30
		Total Fractional In-Lieu Fee: Prototype Ownership Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$37.53	\$60,800
0.20	\$75.06	\$121,600
0.30	\$112.59	\$182,400
0.40	\$150.12	\$243,190
0.50	\$187.66	\$304,010
0.60	\$225.19	\$364,810
0.70	\$262.72	\$425,610
0.80	\$300.25	\$486,410
0.90	\$337.78	\$547,200
1.00	\$375.31	\$608,000

### C. Recommended Inclusionary Housing Program Updates

KMA recommends that the Inclusionary Housing Program be updated at regular intervals:

1. The entire Inclusionary Housing Program should be re-evaluated at least every five years.
2. To allow in-lieu fees to keep pace with changes in the market place during the intervening periods, the in-lieu fees should continue to be adjusted each year based on the following process:
  - a. Median sales value information for “All New Residential Development” in Orange County should be compiled annually. The Redfin Corporation currently produces and publishes this information.
  - b. The increase or decrease in the in-lieu fee should be based on the year-to-year percentage change in the median new home sales price.

**ATTACHMENT 1**  
**AFFORDABLE HOUSING COST CALCULATION METHODOLOGIES**  
**INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS**  
**COSTA MESA, CALIFORNIA**

# APPENDIX A

## AFFORDABLE RENT CALCULATION METHODOLOGY

### ASSUMPTIONS

The Affordable Rent calculations are presented in Attachment 2 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Orange County as a whole. This information is published annually by the United States Department of Housing and Urban Development (HUD) and distributed by the California Department of Housing and Community Development (HCD).
2. The household size appropriate for the unit is based on the California Health and Safety Code (H&SC) Section 50052.5 standard of the number of bedrooms in the home plus one.<sup>1</sup> H&SC Section 50052.5 refers to this as “the family size appropriate for the unit.” This is a benchmark that is used for calculation purposes only. It is neither an occupancy minimum nor a maximum.
3. The benchmark household incomes used in the Affordable Rent analyses are based on the following standards:
  - a. The low income rents are based on 80% of area median income (AMI). This percentage of AMI is based on the standard imposed in Assembly Bill 1505.
  - b. The very low income rents are based on 50% of AMI, which is the standard imposed by H&SC Section 50053.
  - c. The affordable rents used in the California Government Code Section 65915 et seq. density bonus analyses are based on the household income standards imposed by H&SC Section 50053.
4. Thirty percent (30%) of defined household income is allocated to housing-related expenses.
5. The following monthly utilities allowances were applied in this analysis.<sup>2</sup>

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<sup>1</sup> For example, the imputed household size for a two-bedroom unit is three persons.

<sup>2</sup> Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; and basic electric. The allowances are based on the Orange County Housing Authority schedule effective as of October 1, 2023.

Utility Allowances Apartment Development	
Number of Bedrooms	Monthly Utilities Allowances
Studio	\$95
1	\$111
2	\$148
3	\$183

## AFFORDABLE RENTS

The resulting affordable rents are presented in the following table:

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

# APPENDIX B

## AFFORDABLE SALES PRICE CALCULATION METHODOLOGY

### ASSUMPTIONS

The Affordable Sales Price calculations are presented in Attachment 3 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Orange County as a whole:
  - a. The household incomes for low income households are produced by HUD and distributed by HCD.
  - b. The household incomes for moderate income households are produced and distributed annually by HCD.
2. The Affordable Sales Price estimates are based on the calculation methodology imposed by H&SC Section 50052.5.

The elements included in the Affordable Sales Price calculations are described in the following sections of this Attachment.

### Household Size

For the sole purposes of calculating Affordable Sales Prices, H&SC Section 50052.5 sets household sizes based on the number of bedrooms in the home plus one. As discussed previously, this is not an occupancy minimum or maximum. Rather, it is a benchmark that creates a consistent Affordable Sales Price calculation methodology.

### Household Income

For calculation purposes only, H&SC Section 50052.5 applies benchmark household incomes as the standard for determining the Affordable Sales Prices. These benchmarks are based on the following percentages of the Orange County AMI:

Income Category	% of AMI
Moderate	110%
Low	70%

The identified benchmark percentages of AMI are not income caps. The household income qualification standards are set at the upper limits presented in the HCD and are based on the actual size of the homebuyer’s household.

### Income Allocated to Housing-Related Expenses

H&SC Section 50052.5 allocates the following percentages of the benchmark household incomes to the payment of housing-related expenses:

Income Category	% of Benchmark Income
Moderate	35%
Low	30%

### Housing-Related Expenses

Based on research undertaken by KMA, the variable housing related expense assumptions used in this analysis are presented in the following table:

Variable Housing Related Expenses Ownership Housing Development		
Number of Bedrooms	Monthly Utilities Allowances <sup>3</sup>	Monthly HOA, Insurance & Maintenance
2	\$249	\$350
3	\$317	\$400
4	\$392	\$450

<sup>3</sup>Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; basic electric; and water, sewer and trash services. The allowances are based on the Orange County Housing Authority schedule effective as of October 1, 2023.

The property tax expense estimates are based on 1.15% of the defined Affordable Sales Prices. This assumes that the City will require the homes to be resold at an Affordable Sales Price throughout one cumulative 45-year covenant period.

### Supportable Mortgage Amount

The mortgage amounts used in the Affordable Sales Price calculations are estimated using the income available after the other housing-related expenses are paid. The mortgage terms used in this Financial Evaluation were based on a 30-year fully amortizing loan at a 7.33% interest rate.<sup>4</sup>

### Benchmark Down Payment

KMA set the benchmark down payment at 5% of the estimated Affordable Sales Price. A down payment of this magnitude is commonly allowed by affordable housing programs.

### AFFORDABLE SALES PRICES

The resulting Affordable Sales Prices are estimated as follows:

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

<sup>4</sup> Based on a 50 basis points premium applied to the Freddie Mac monthly average, between February 2023 and January 2024, for a fixed-interest rate loan with a 30-year amortization period.

**ATTACHMENT 2**

**APARTMENT DEVELOPMENT  
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
COSTA MESA, CALIFORNIA**

**ATTACHMENT 2: APPENDIX A**

**RENT SURVEY**

**APARTMENT DEVELOPMENT**

**INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS**

**COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX A

RENT SURVEY  
 APARTMENT DEVELOPMENT  
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built
						Total	Per SF	
<b>I. Studio Units</b>								
580 Anton	580 Anton Blvd	Costa Mesa	92626	5	506	\$2,365	\$4.67	2018
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	85	539	\$2,315	\$4.29	1987
Baker Block	123 Baker Street E	Costa Mesa	92626	31	623	\$2,346	\$3.77	2018
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	50	505	\$1,999	\$3.96	1985
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	64	480	\$2,084	\$4.34	1979
	Minimum				480	\$1,999	\$3.77	
	Maximum				623	\$2,365	\$4.67	
	Weighted Average				526	\$2,190	\$4.17	
<b>II. One-Bedroom Units</b>								
580 Anton	580 Anton Blvd	Costa Mesa	92626	165	745	\$2,879	\$3.86	
Halcyon House	585 Anton Blvd	Costa Mesa	92626	221	741	\$3,022	\$4.08	
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	349	756	\$2,637	\$3.49	
Baker Block	123 Baker Street E	Costa Mesa	92626	108	789	\$2,730	\$3.46	
Blue Sol	421 Bernard Street	Costa Mesa	92627	73	771	\$2,592	\$3.36	2014
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	102	942	\$2,649	\$2.81	
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	459	731	\$2,787	\$3.81	2008
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	468	780	\$2,451	\$3.14	
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	132	834	\$2,559	\$3.07	2014
	Minimum				731	\$2,451	\$2.81	
	Maximum				942	\$3,022	\$4.08	
	Weighted Average				770	\$2,687	\$3.51	

ATTACHMENT 2: APPENDIX A

RENT SURVEY  
 APARTMENT DEVELOPMENT  
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built	
						Total	Per SF		
<b>III. Two-Bedroom Units</b>									
580 Anton	580 Anton Blvd	Costa Mesa	92626	80	1,144	\$3,780	\$3.30		
Halcyon House	585 Anton Blvd	Costa Mesa	92626	172	1,230	\$4,149	\$3.37		
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	336	1,228	\$3,306	\$2.69		
Baker Block	123 Baker Street E	Costa Mesa	92626	93	1,124	\$3,376	\$3.00		
Blue Sol	421 Bernard Street	Costa Mesa	92627	30	1,110	\$3,555	\$3.20		
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	92	1,146	\$2,872	\$2.51		
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	431	1,033	\$3,353	\$3.25		
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	408	1,119	\$2,972	\$2.66		
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	83	1,075	\$3,045	\$2.83		
					Minimum	1,033	\$2,872	\$2.51	
					Maximum	1,230	\$4,149	\$3.37	
					Weighted Average	1,130	\$3,317	\$2.94	
<b>IV. Three-Bedroom Units</b>									
321 Avocado Street	321 Avocado Street	Costa Mesa	92627	18	1,222	\$3,406	\$2.79		
Baker Block	123 Baker Street E	Costa Mesa	92626	8	1,452	\$4,540	\$3.13		
Blue Sol	421 Bernard Street	Costa Mesa	92627	10	1,448	\$4,539	\$3.13		
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	24	1,456	\$3,931	\$2.70		
					Minimum	1,222	\$3,406	\$2.70	
					Maximum	1,456	\$4,540	\$3.13	
					Weighted Average	1,384	\$3,956	\$2.86	

Source: CoStar; April 2023

**ATTACHMENT 2: APPENDIX B**

**AFFORDABLE RENT CALCULATIONS  
APARTMENT DEVELOPMENT  
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX B

**AFFORDABLE RENT CALCULATIONS  
2023 INCOME STANDARDS  
APARTMENT DEVELOPMENT  
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
COSTA MESA, CALIFORNIA**

		Studio Units	One-Bedroom Units	Two-Bedroom Units	Three- Bedroom Units
<b>I. <u>General Assumptions</u></b>					
Area Median Income (AMI)	1	\$89,450	\$102,250	\$115,000	\$127,800
Monthly Utilities Allowance	2	\$95	\$111	\$148	\$183
<b>II. <u>Affordable Rent Calculations</u></b>					
<b>A. <u>Low Income - Rent Based on 80% AMI</u></b>	3				
Benchmark Annual Household Income		\$71,560	\$81,800	\$92,000	\$102,240
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$21,468	\$24,540	\$27,600	\$30,672
Monthly Income Available for Housing Expenses		\$1,789	\$2,045	\$2,300	\$2,556
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
<b>Maximum Allowable Rent</b>		\$1,694	\$1,934	\$2,152	\$2,373
<b>B. <u>Very Low Income - Rent Based on 50% AMI</u></b>	4				
Benchmark Annual Household Income		\$44,725	\$51,125	\$57,500	\$63,900
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$13,418	\$15,338	\$17,250	\$19,170
Monthly Income Available for Housing Expenses		\$1,118	\$1,278	\$1,438	\$1,598
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
<b>Maximum Allowable Rent</b>		\$1,023	\$1,167	\$1,290	\$1,415

<sup>1</sup> Based on the 2023 Orange County household incomes published by the California Department of Housing & Community Development (HCD). The benchmark household size is set at the number of bedrooms in the unit plus one.

<sup>2</sup> Based on the Orange County Housing Authority utilities allowance schedule effective as of October 1, 2023. Assumes: Electric Cooking, Electric Heating, and Electric Water Heater; and Basic Electric.

<sup>3</sup> Based on 80% of AMI. This percentage of AMI is based on the standard identified in AB 1505.

<sup>4</sup> Based on 50% of AMI. This percentage of AMI is based on the standard identified in California Health & Safety Code Section 50053.

**ATTACHMENT 2: APPENDIX C**

**IN-LIEU FEE ANALYSES**  
**APARTMENT DEVELOPMENT**  
**INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS**  
**COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX C

SUPPORTABLE IN-LIEU FEE  
 APARTMENT DEVELOPMENT  
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
 COSTA MESA, CALIFORNIA

		60+ Units Per Acre		<60 Units Per Acre	
		Low Income	Very Low Income	Low Income	Very Low Income
<b>I. Rent Difference</b>					
<b>A. Studio Units</b>					
Market Rents	1	\$2,410	\$2,410	\$2,410	\$2,410
Affordable Rents	2	1,694	1,023	1,694	1,023
<b>Difference</b>		\$716	\$1,387	\$716	\$1,387
<b>B. One-Bedroom Units</b>					
Market Rents	1	\$2,970	\$2,970	\$2,970	\$2,970
Affordable Rents	2	1,934	1,167	1,934	1,167
<b>Difference</b>		\$1,036	\$1,803	\$1,036	\$1,803
<b>C. Two-Bedroom Units</b>					
Market Rents	1	\$3,660	\$3,660	\$3,660	\$3,660
Affordable Rents	2	2,152	1,290	2,152	1,290
<b>Difference</b>		\$1,508	\$2,371	\$1,508	\$2,371
<b>D. Three-Bedroom Units</b>					
Market Rents	1	\$4,400	\$4,400	\$4,400	\$4,400
Affordable Rents	2	2,373	1,415	2,373	1,415
<b>Difference</b>		\$2,027	\$2,986	\$2,027	\$2,986
<b>II. Distribution of Total Units</b>					
Studio Units	3	5%	5%	5%	5%
One-Bedroom Units		50%	50%	50%	50%
Two-Bedroom Units		40%	40%	40%	40%
Three-Bedroom Units		5%	5%	5%	5%
<b>III. Annual Rent Difference/Inclusionary Unit</b>					
Less: Property Tax Difference	4	\$15,100	\$24,819	\$15,056	\$24,766
		(3,656)	(6,009)	(3,645)	(5,996)
<b>Net Annual Rent Difference/Inclusionary Unit</b>		\$11,444	\$18,810	\$11,411	\$18,770
<b>IV. Assumptions</b>					
Total Units		300	300	172	172
Total Leasable Area		279,975	279,975	160,115	160,115
Weighted Average Unit Size (Sf)		933	933	931	931
Inclusionary Housing Percentage		11%	7%	6%	4%
Inclusionary Units		33	21	10	7
Affordability Gap Per Inclusionary Unit	5	\$221,700	\$364,300	\$221,000	\$363,500
<b>V. In-Lieu Fee</b>					
Total In-Lieu Fee	6	\$7,316,100	\$7,650,300	\$2,210,000	\$2,544,500
Per Total Unit in the Project		\$24,390	\$25,500	\$12,850	\$14,790
Per Sf of Total Leasable Area		\$26.10	\$27.30	\$13.80	\$15.90

1 The market rents are drawn from the Financial Evaluation.

2 Based on the Affordable Rent Calculations included in the Financial Evaluation.

3 Based on the unit mix distribution applied in the pro forma analyses included in the Financial Evaluation.

4 Based on the Annual Rent Difference/Inclusionary Unit capitalized at a 4.75% rate to establish the value, and a 1.15% property tax rate.

5 Based on the Net Annual Rent Difference/Inclusionary Unit capitalized at the Threshold Return on Total Investment generated by the p

6 Based on the Affordability Gap Per Inclusionary Unit multiplied times the number of Inclusionary Units.

**ATTACHMENT 3**

**OWNERSHIP HOUSING DEVELOPMENT  
INCLUSIONARY HOUSING: FINANCIAL EVALUATION  
COSTA MESA, CALIFORNIA**

**ATTACHMENT 3: APPENDIX A**

**HOME SALES SURVEY  
OWNERSHIP HOUSING DEVELOPMENT  
INCLUSIONARY HOUSING: FINANCIAL EVALUATION  
COSTA MESA, CALIFORNIA**

RESALE HOME SALES SURVEY  
 OWNERSHIP HOUSING DEVELOPMENT  
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION  
 COSTA MESA, CALIFORNIA

Address	Unit Size (SF)	Sales Price		Year Built		
		Total	Per SF			
<b>Two-Bedroom Units</b>						
2152 Harmony Way	Costa Mesa	92627	1,715	\$800,000	\$466	2014
597 Seabright Cir	Costa Mesa	92627	1,559	\$875,000	\$561	2014
2109 W Place Dr	Costa Mesa	92627	1,653	\$890,000	\$538	2015
2097 W Place Dr	Costa Mesa	92627	1,653	\$940,000	\$569	2015
2170 Harmony Way	Costa Mesa	92627	1,730	\$949,000	\$549	2014
605 Seabright Cir	Costa Mesa	92627	1,559	\$975,000	\$625	2015
2162 Harmony Way	Costa Mesa	92627	1,731	\$978,000	\$565	2014
577 Donovan Ln	Costa Mesa	92627	1,705	\$1,000,000	\$587	2017
1826 Coastal Way	Costa Mesa	92627	1,785	\$1,015,000	\$569	2014
1686 Topanga #111	Costa Mesa	92627	1,972	\$1,125,000	\$570	2018
3061 Paragon	Costa Mesa	92626	1,937	\$1,175,625	\$607	2016
1675 Grand Vw	Costa Mesa	92627	2,243	\$1,395,000	\$622	2017
Minimum			1,559	\$800,000	\$466	2014
Maximum			2,243	\$1,395,000	\$625	2018
Average			1,770	\$1,009,800	\$570	2015

<b>Three-Bedroom Units</b>						
797 Wonder Ln	Costa Mesa	92627	1,738	\$965,000	\$555	2016
2138 Palmilla Ct	Costa Mesa	92627	1,653	\$995,000	\$602	2015
585 Victoria St	Costa Mesa	92627	1,711	\$1,005,000	\$587	2016
307 Ford Rd	Costa Mesa	92627	1,688	\$1,100,000	\$652	2020
1941 Vitae Pl	Costa Mesa	92627	1,700	\$1,135,000	\$668	2017
693 W 17th St	Costa Mesa	92627	1,904	\$1,150,000	\$604	2019
649 W 17th St	Costa Mesa	92627	1,904	\$1,169,000	\$614	2018
1000 Katama Bay Dr	Costa Mesa	92627	1,820	\$1,185,000	\$651	2017
3063 Paragon	Costa Mesa	92626	1,847	\$1,200,000	\$650	2015
2998 Lumiere	Costa Mesa	92626	2,061	\$1,225,000	\$594	2019
617 W 17th St	Costa Mesa	92627	2,101	\$1,275,000	\$607	2015
1827 Coastal Way	Costa Mesa	92627	1,611	\$1,300,000	\$807	2014
634 Port Dr	Costa Mesa	92627	2,267	\$1,360,000	\$600	2015
1686 Grand Vw	Costa Mesa	92627	2,057	\$1,375,000	\$668	2017
1809 Ocean Ct	Costa Mesa	92627	1,873	\$1,375,000	\$734	2014
636 Channel Way	Costa Mesa	92627	2,267	\$1,398,000	\$617	2016
690 Malibu	Costa Mesa	92627	2,142	\$1,448,000	\$676	2019
1679 Topanga	Costa Mesa	92627	2,057	\$1,500,000	\$729	2019
1676 Grand Vw	Costa Mesa	92627	2,057	\$1,535,000	\$746	2018
1676 Pomona Ave	Costa Mesa	92627	2,057	\$1,565,000	\$761	2019
301 Shadow Bay Dr	Costa Mesa	92627	1,913	\$1,620,000	\$847	2015
607 Trestles	Costa Mesa	92627	2,366	\$1,740,000	\$735	2018
628 Cardiff Reef	Costa Mesa	92627	2,380	\$1,775,000	\$746	2019
Minimum			1,611	\$965,000	\$555	2014
Maximum			2,380	\$1,775,000	\$847	2020
Average			1,964	\$1,321,500	\$673	2017

ATTACHMENT 3: APPENDIX A

RESALE HOME SALES SURVEY <sup>1</sup>  
 OWNERSHIP HOUSING DEVELOPMENT  
 INCLUSIONARY HOUSING: FINANCIAL EVALUATION  
 COSTA MESA, CALIFORNIA

Address	Unit Size (SF)	Sales Price		Year Built		
		Total	Per SF			
Four-Bedroom Units						
2120 Palmilla Ct	Costa Mesa	92627	1,763	\$1,049,000	\$595	2015
2108 Harper Way	Costa Mesa	92627	2,019	\$1,115,000	\$552	2016
2633 Clarion Ln	Costa Mesa	92626	2,230	\$1,320,000	\$592	2017
2988 Lumiere Dr	Costa Mesa	92626	2,227	\$1,335,000	\$599	2018
1648 Topanga	Costa Mesa	92627	2,142	\$1,375,000	\$642	2019
947 Tesla Ln	Costa Mesa	92626	2,453	\$1,400,000	\$571	2019
1669 Grand	Costa Mesa	92627	2,142	\$1,435,000	\$670	2018
174 Costa Mesa	Costa Mesa	92627	1,942	\$1,515,000	\$780	2019
137 Woodflower Ln	Costa Mesa	92627	2,361	\$1,515,000	\$642	2018
1034 Bridgewater Way	Costa Mesa	92627	1,869	\$1,625,000	\$869	2018
393 Latitude Pl E	Costa Mesa	92627	2,148	\$1,775,000	\$826	2016
1923 Church St	Costa Mesa	92627	2,432	\$1,860,000	\$765	2022
309 Anderson Ln	Costa Mesa	92627	2,344	\$2,000,000	\$853	2014
Minimum			1,763	\$1,049,000	\$552	2014
Maximum			2,453	\$2,000,000	\$869	2022
Average			2,159	\$1,486,100	\$688	2018

Source: Redfin; June 2023

<sup>1</sup> Based on a search of the Redfin data base for sales occurring between May 2022 and June 2023. The survey is limited to homes constructed within the past 10 years with a sales price of \$2 million or less.

**ATTACHMENT 3: APPENDIX B**

**AFFORDABLE SALES PRICE CALCULATIONS  
OWNERSHIP HOUSING DEVELOPMENT  
INCLUSIONARY HOUSING: FINANCIAL EVALUATION  
COSTA MESA, CALIFORNIA**

ATTACHMENT 3: APPENDIX B

**AFFORDABLE SALES PRICE CALCULATIONS** 1  
**MODERATE INCOME UNITS - 2023 INCOME STANDARDS**  
**OWNERSHIP HOUSING DEVELOPMENT**  
**INCLUSIONARY HOUSING: FINANCIAL EVALUATION**  
**COSTA MESA, CALIFORNIA**

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		Two-Bedroom Units	Three-Bedroom Units	Four-Bedroom Units
<b><u>General Assumptions</u></b>				
Area Median Income	2	\$115,000	\$127,800	\$138,000
Annual Utilities Allowance	3	\$2,988	\$3,804	\$4,704
HOA, Maintenance & Insurance	4	\$4,200	\$4,800	\$5,400
<b>I. <u>Income Allotted to Housing Based on 110% AMI</u></b>				
Benchmark Annual Household Income		\$126,500	\$140,580	\$151,800
Income Allotted to Housing @ 35% of Income		\$44,280	\$49,200	\$53,130
<b>II. <u>Property Taxes @ 1.15% of Affordable Sales Price</u></b>				
		\$4,750	\$5,200	\$5,510
<b>III. <u>Income Available for Mortgage Debt Service</u></b>				
	5	\$32,342	\$35,396	\$37,516
<b>IV. <u>Affordable Sales Price</u></b>				
Supportable Mtg @ 7.33% Interest	6	\$392,100	\$429,100	\$454,800
Home Buyer Down Payment @ 5% of ASP		20,600	22,600	23,900
<b>Affordable Sales Price</b>		<b>\$412,700</b>	<b>\$451,700</b>	<b>\$478,700</b>

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<sup>1</sup> Based on 2023 Orange County household incomes published by the California Department of Housing & Community Development (HCD). The Affordable Sales Price calculations are based on the California Health and Safety Code Section 50052.5 methodology.

<sup>2</sup> Under the California Health & Safety Code Section 50052.5 calculation methodology, the benchmark household size is set at the number of bedrooms in the unit plus one. This benchmark is used solely for the purposes of calculating the Affordable Sales Price. It is neither an occupancy cap nor a floor.

<sup>3</sup> Utilities allowances are based on the Orange County Housing Authority utilities allowance schedule effective as of October 1, 2023. Assumes: Electric Heating, Electric Cooking, Electric Water Heater, Basic Electric, Water, Sewer, and Trash.

<sup>4</sup> Based in part on the HOA dues identified in the home sales survey.

<sup>5</sup> Based on the Income Allotted to Housing minus the following: Annual Utilities Allowance; HOA, Maintenance & Insurance; and Property Taxes @ 1.15% of Affordable Sales Price.

<sup>6</sup> Based on a 50 basis points premium applied to the Freddie Mac monthly average, between February 2023 and January 2024, for a fixed-interest rate loan with a 30-year amortization period.

**ATTACHMENT 3: APPENDIX C**

**IN-LIEU FEE ANALYSES  
OWNERSHIP HOUSING DEVELOPMENT  
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
COSTA MESA, CALIFORNIA**

ATTACHMENT 3: APPENDIX C

OWNERSHIP HOUSING DEVELOPMENT  
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
 COSTA MESA, CALIFORNIA

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I. Sales Price Difference

A. Two-Bedroom Units

Market Rate Sales Price	1	\$890,000
Affordable Sales Price	2	412,700
<b>Difference</b>		<b>\$477,300</b>

B. Three-Bedroom Units

Market Rate Sales Price	1	\$1,083,000
Affordable Sales Price	2	451,700
<b>Difference</b>		<b>\$631,300</b>

C. Four-Bedroom Units

Market Rate Sales Price	1	\$1,211,000
Affordable Sales Price	2	478,700
<b>Difference</b>		<b>\$732,300</b>

II. Distribution of Total Units

Two-Bedroom Units	3	25%
Three-Bedroom Units		60%
Four-Bedroom Units		15%

III. Assumptions

Total Units		85
Total Saleable Area		137,750
Weighted Average Unit Size (Sf)		1,620
Inclusionary Housing Percentage		5%
Inclusionary Units		4
Affordability Gap Per Inclusionary Unit	4	\$608,000

IV. In-Lieu Fee

Total In-Lieu Fee	\$2,432,000
Per Total Unit in the Project	\$28,610
Per Sf of Saleable Area	\$17.70

<sup>1</sup> Based in part on a survey of homes in Costa Mesa that were constructed after 2014 and resold between May 2022 and June 2023. See ATTACHMENT 3: APPENDIX A.

<sup>2</sup> See ATTACHMENT 3: APPENDIX B

<sup>3</sup> Based on the unit mix distribution applied in the pro forma analyses.

<sup>4</sup> Based on the Affordability Gap Per Inclusionary Unit multiplied times the Supportable Inclusionary Housing Percentage.



KEYSER MARSTON ASSOCIATES

MEMORANDUM

**ADVISORS IN:**

Real Estate  
Affordable Housing  
Economic Development

**BERKELEY**

Debbie M. Kern  
David Doezema

**LOS ANGELES**

Kathleen H. Head  
Kevin E. Engstrom  
Julie L. Romey  
Tim R. Bretz

**SAN DIEGO**

Paul C. Marra  
Linnie A. Gavino

**EMERITUS**

A. Jerry Keyser  
Timothy C. Kelly

**To:** Nancy Huynh, Principal Planner  
City of Costa Mesa

**From:** Kathleen Head

**Date:** January 31, 2024

**Subject:** Inclusionary Housing: Supplemental In-Lieu Fee Analysis

Keyser Marston Associates, Inc. (KMA) prepared an Inclusionary Housing: In-Lieu Fee Analysis (In-Lieu Fee Analysis) in a report dated January 31, 2024. The In-Lieu Fee Analysis was based on the Inclusionary Housing requirements included in Ordinance 2024-XX (Ordinance), which received its first reading on January 16, 2024.

The proposed Ordinance imposes the following Inclusionary Housing requirements on apartment developments that include 15 or more units:

1. Projects developed at a density level of 60 units per acre or greater must allocate 11% of the units to low income households, or 7% of the units to very low income households.
2. Projects developed at a density level of less than 60 units per acre must allocate 6% of the units to low income households, or 4% of the units to very low income households.

At their January 16, 2024 meeting the City Council discussed reducing the Inclusionary Housing requirements, for apartments developed at 60 units per acre or greater, to a 10% low income standard or a 5% very low income standard. The requirements for apartments developed at less than 60 units per acre were not proposed to be modified.

KMA prepared the following Inclusionary Housing: Supplemental In-Lieu Fee Analysis (Supplemental Analysis) to identify the applicable in-lieu fee payment amounts based on these alternate Inclusionary Housing requirements. The fundamental assumptions and methodology applied in this Supplemental Analysis are the same as were applied in the In-Lieu Fee Analysis.

## KEY FINDINGS

If the City Council chooses to adopt the reduced Inclusionary Housing requirements for apartment developments at a density level of 60 units per acre or greater, based on the results of the Supplemental Analysis, KMA offers the following recommendations:

1. The base in-lieu fee payment amount should be set at \$19.50 per square foot of total leasable area in an apartment development that is subject to the Inclusionary Housing program requirements.
2. KMA prepared a discounted in-lieu fee schedule for apartment developments that consist of between 15 and 20 units. The recommended in-lieu fee schedule is presented below:

In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development	
Units	In-Lieu Fee
15	\$2.79
16	\$5.57
17	\$8.36
18	\$11.14
19	\$13.93
20	\$16.71
21+	\$19.50

## APPROACH

The Supplemental Analysis is based on an evaluation of the prototype developments that were used in the Inclusionary Housing: Financial Evaluation report. The foundational premise is that the in-lieu fee will be based on the “Affordability Gap” associated with producing the affordable units required by the Inclusionary Housing Program.

## SUPPORTING DOCUMENTS

The Supplemental Analysis is supported by the following Attachments and Appendices:

### ATTACHMENT 1: AFFORDABLE HOUSING COST CALCULATION METHODOLOGY

### ATTACHMENT 2: APARTMENT DEVELOPMENT

Appendix A:	Rent Survey 4+ Star Properties
Appendix B:	Affordable Rent Calculations
Appendix C:	In-Lieu Fee Calculations

## ASSUMPTIONS

### Apartment Rent Estimates

The apartment rents used in the Supplemental Analysis are presented in the following table:

Estimated Apartment Rents			
Number of Bedrooms	Market Rate Units	Low Income Units	Very Low Income Units
Studio	\$2,410	\$1,694	\$1,023
1	\$2,970	\$1,934	\$1,167
2	\$3,660	\$2,152	\$1,290
3	\$3,330	\$2,373	\$1,415

### Affordability Gap Calculation Methodology

The Affordability Gap calculations are presented in Attachment 2: Appendix C; the calculations are based on the following assumptions:

1. The differences between the estimated achievable market rate rents and the defined Affordable Rents were calculated.

2. KMA assumed that the property taxes for projects that include designated affordable units would be based on a lower assessed value due to the reduction in net operating income that would be generated by the project. KMA deducted this lower property tax expense from the estimated rent difference.
3. The estimated “Net Annual Rent Difference Per Inclusionary Unit” represents the annual rent difference minus the estimated property tax savings.
4. The “Affordability Gap Per Inclusionary Unit” is estimated by capitalizing the Net Annual Difference Per Inclusionary Unit at the threshold return derived from a pro forma analysis of the prototype apartment development at unrestricted market rate rents.

### Estimated Affordability Gaps

The Affordability Gaps derived from the analysis are estimated as follows:

Estimated Affordability Gaps Per Inclusionary Unit	
Low Income Units	\$221,700
Very Low Income Units	\$364,300

It is important to note that estimated Affordability Gaps per Inclusionary Unit do not vary from the amounts identified in the In-Lieu Fee Analysis report. The difference between the In-Lieu Fee Analysis and this Supplemental Analysis is the percentage of Inclusionary Units required to be provided in the apartment development.

### In-Lieu Fee Calculations

#### ESTIMATED BASE IN-LIEU FEE PAYMENT AMOUNTS

The Affordability Gaps Per Inclusionary Unit were converted into the in-lieu fee payment that would be required to fulfill the Inclusionary Housing requirements on site within a proposed market rate apartment development. The conversion calculations are presented in Attachment 2: Appendix C, and the results are summarized in the following table.

Estimated Base In-Lieu Fee Payment Amounts Per Square Foot of Total Leasable Area in an Apartment Development	
Low Income Units	\$23.80
OR	
Very Low Income Units	\$19.50

Under the Ordinance terms Developers can choose between the low and very low income Inclusionary Housing requirements. As such, it is appropriate to set the in-lieu fee payment at the lower of the two amounts derived from the Affordability Gap analyses. The resulting recommended in-lieu fee payment amount is \$19.50 per square foot of total leasable area in an apartment development.

#### IN-LIEU FEE PAYMENT SCHEDULE

KMA prepared a discounted in-lieu fee schedule for apartment developments that consist of between 15 and 20 units. The resulting recommended in-lieu fee schedule is presented below:

In-Lieu Fee Payment Schedule Per Square Foot of Total Leasable Area in an Apartment Development	
Units	In-Lieu Fee
15	\$2.79
16	\$5.57
17	\$8.36
18	\$11.14
19	\$13.93
20	\$16.71
21+	\$19.50

**FRACTIONAL IN-LIEU FEE PAYMENT**

Some developers may choose to pay a fee in lieu of fulfilling an obligation to produce a fraction of an Inclusionary Unit. The following table provides a recommended schedule of fractional in-lieu fee payments.

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in an Apartment Development		
Affordability Gap Per Inclusionary Unit		\$221,700
Average Unit Size (Square Feet of Leasable Area)		933
In-Lieu Fee Per Square Foot of One Unit		\$237.60
		Total Fractional In-Lieu Fee: Prototype Apartment Development
Fraction	Fractional In-Lieu Fee: Per Square Foot of One Unit	
0.10	\$23.80	\$22,210
0.20	\$47.50	\$44,330
0.30	\$71.30	\$66,540
0.40	\$95.00	\$88,660
0.50	\$118.80	\$110,870
0.60	\$142.60	\$133,080
0.70	\$166.30	\$155,200
0.80	\$190.10	\$177,410
0.90	\$213.80	\$199,530
1.00	\$237.60	\$221,740

**ATTACHMENT 1**  
**AFFORDABLE RENT CALCULATION METHODOLOGY**  
**INCLUSIONARY HOUSING:**  
**SUPPLEMENTAL IN-LIEU FEE ANALYSIS**  
**COSTA MESA, CALIFORNIA**

# ATTACHMENT 1

## AFFORDABLE RENT CALCULATION METHODOLOGY

### ASSUMPTIONS

The Affordable Rent calculations are presented in Attachment 2 – Appendix B. The calculations are based on the following assumptions:

1. The household income information used in the calculations is based on 2023 income statistics for Orange County as a whole. This information is published annually by the United States Department of Housing and Urban Development (HUD) and distributed by the California Department of Housing and Community Development (HCD).
2. The household size appropriate for the unit is based on the California Health and Safety Code (H&SC) Section 50052.5 standard of the number of bedrooms in the home plus one.<sup>1</sup> H&SC Section 50052.5 refers to this as “the family size appropriate for the unit.” This is a benchmark that is used for calculation purposes only. It is neither an occupancy minimum nor a maximum.
3. The benchmark household incomes used in the Affordable Rent analyses are based on the following standards:
  - a. The low income rents are based on 80% of area median income (AMI). This percentage of AMI is based on the standard imposed in Assembly Bill 1505.
  - b. The very low income rents are based on 50% of AMI, which is the standard imposed by H&SC Section 50053.
  - c. The affordable rents used in the California Government Code Section 65915 et seq. density bonus analyses are based on the household income standards imposed by H&SC Section 50053.
4. Thirty percent (30%) of defined household income is allocated to housing-related expenses.
5. The following monthly utilities allowances were applied in this analysis.<sup>2</sup>

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<sup>1</sup> For example, the imputed household size for a two-bedroom unit is three persons.

<sup>2</sup> Utilities allowances are based on utilities costs comprised of electric heating, cooking and water heating; and basic electric. The allowances are based on the Orange County Housing Authority schedule effective as of October 1, 2023.

Utility Allowances Apartment Development	
Number of Bedrooms	Monthly Utilities Allowances
Studio	\$95
1	\$111
2	\$148
3	\$183

## AFFORDABLE RENTS

The resulting affordable rents are presented in the following table:

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

**ATTACHMENT 2**

**APARTMENT DEVELOPMENT  
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
COSTA MESA, CALIFORNIA**

**ATTACHMENT 2: APPENDIX A**

**RENT SURVEY**

**APARTMENT DEVELOPMENT**

**INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS**

**COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX A

RENT SURVEY  
 APARTMENT DEVELOPMENT  
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built
						Total	Per SF	
<b>I. Studio Units</b>								
580 Anton	580 Anton Blvd	Costa Mesa	92626	5	506	\$2,365	\$4.67	2018
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	85	539	\$2,315	\$4.29	1987
Baker Block	123 Baker Street E	Costa Mesa	92626	31	623	\$2,346	\$3.77	2018
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	50	505	\$1,999	\$3.96	1985
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	64	480	\$2,084	\$4.34	1979
	Minimum				480	\$1,999	\$3.77	
	Maximum				623	\$2,365	\$4.67	
	Weighted Average				526	\$2,190	\$4.17	
<b>II. One-Bedroom Units</b>								
580 Anton	580 Anton Blvd	Costa Mesa	92626	165	745	\$2,879	\$3.86	
Halcyon House	585 Anton Blvd	Costa Mesa	92626	221	741	\$3,022	\$4.08	
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	349	756	\$2,637	\$3.49	
Baker Block	123 Baker Street E	Costa Mesa	92626	108	789	\$2,730	\$3.46	
Blue Sol	421 Bernard Street	Costa Mesa	92627	73	771	\$2,592	\$3.36	2014
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	102	942	\$2,649	\$2.81	
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	459	731	\$2,787	\$3.81	2008
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	468	780	\$2,451	\$3.14	
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	132	834	\$2,559	\$3.07	2014
	Minimum				731	\$2,451	\$2.81	
	Maximum				942	\$3,022	\$4.08	
	Weighted Average				770	\$2,687	\$3.51	

ATTACHMENT 2: APPENDIX A

RENT SURVEY  
 APARTMENT DEVELOPMENT  
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
 COSTA MESA, CALIFORNIA

Name	Address			# of Units	Unit Size (SF)	Average Effective Rent		Year Built
						Total	Per SF	
<b>III. Two-Bedroom Units</b>								
580 Anton	580 Anton Blvd	Costa Mesa	92626	80	1,144	\$3,780	\$3.30	
Halcyon House	585 Anton Blvd	Costa Mesa	92626	172	1,230	\$4,149	\$3.37	
3400 Avenue of the Arts Apartments	3400 Avenue of the Arts	Costa Mesa	92626	336	1,228	\$3,306	\$2.69	
Baker Block	123 Baker Street E	Costa Mesa	92626	93	1,124	\$3,376	\$3.00	
Blue Sol	421 Bernard Street	Costa Mesa	92627	30	1,110	\$3,555	\$3.20	
Wimbledon Glen	1142 Buckingham Dr	Costa Mesa	92626	92	1,146	\$2,872	\$2.51	
The Enclave at South Coast	400 Enclave Circle	Costa Mesa	92626	431	1,033	\$3,353	\$3.25	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	408	1,119	\$2,972	\$2.66	
Azulon at Mesa Verde	1500 Mesa Verde Dr E	Costa Mesa	92626	83	1,075	\$3,045	\$2.83	
					Minimum	1,033	\$2,872	\$2.51
					Maximum	1,230	\$4,149	\$3.37
					Weighted Average	1,130	\$3,317	\$2.94
<b>IV. Three-Bedroom Units</b>								
321 Avocado Street	321 Avocado Street	Costa Mesa	92627	18	1,222	\$3,406	\$2.79	
Baker Block	123 Baker Street E	Costa Mesa	92626	8	1,452	\$4,540	\$3.13	
Blue Sol	421 Bernard Street	Costa Mesa	92627	10	1,448	\$4,539	\$3.13	
27 Seventy Five Mesa Verde	2775 Mesa Verde Dr	Costa Mesa	92626	24	1,456	\$3,931	\$2.70	
					Minimum	1,222	\$3,406	\$2.70
					Maximum	1,456	\$4,540	\$3.13
					Weighted Average	1,384	\$3,956	\$2.86

Source: CoStar; April 2023

**ATTACHMENT 2: APPENDIX B**

**AFFORDABLE RENT CALCULATIONS**  
**APARTMENT DEVELOPMENT**  
**INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS**  
**COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX B

**AFFORDABLE RENT CALCULATIONS  
2023 INCOME STANDARDS  
APARTMENT DEVELOPMENT  
INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
COSTA MESA, CALIFORNIA**

		Studio Units	One-Bedroom Units	Two-Bedroom Units	Three- Bedroom Units
<b>I. <u>General Assumptions</u></b>					
Area Median Income (AMI)	1	\$89,450	\$102,250	\$115,000	\$127,800
Monthly Utilities Allowance	2	\$95	\$111	\$148	\$183
<b>II. <u>Affordable Rent Calculations</u></b>					
<b>A. <u>Low Income - Rent Based on 80% AMI</u></b>	3				
Benchmark Annual Household Income		\$71,560	\$81,800	\$92,000	\$102,240
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$21,468	\$24,540	\$27,600	\$30,672
Monthly Income Available for Housing Expenses		\$1,789	\$2,045	\$2,300	\$2,556
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
<b>Maximum Allowable Rent</b>		\$1,694	\$1,934	\$2,152	\$2,373
<b>B. <u>Very Low Income - Rent Based on 50% AMI</u></b>	4				
Benchmark Annual Household Income		\$44,725	\$51,125	\$57,500	\$63,900
Percentage of Income Allotted to Housing Expenses		30%	30%	30%	30%
Annual Income Available for Housing Expenses		\$13,418	\$15,338	\$17,250	\$19,170
Monthly Income Available for Housing Expenses		\$1,118	\$1,278	\$1,438	\$1,598
(Less) Monthly Utilities Allowance		(95)	(111)	(148)	(183)
<b>Maximum Allowable Rent</b>		\$1,023	\$1,167	\$1,290	\$1,415

<sup>1</sup> Based on the 2023 Orange County household incomes published by the California Department of Housing & Community Development (HCD). The benchmark household size is set at the number of bedrooms in the unit plus one.

<sup>2</sup> Based on the Orange County Housing Authority utilities allowance schedule effective as of October 1, 2023. Assumes: Electric Cooking, Electric Heating, and Electric Water Heater; and Basic Electric.

<sup>3</sup> Based on 80% of AMI. This percentage of AMI is based on the standard identified in AB 1505.

<sup>4</sup> Based on 50% of AMI. This percentage of AMI is based on the standard identified in California Health & Safety Code Section 50053.

**ATTACHMENT 2: APPENDIX C**

**IN-LIEU FEE ANALYSES**  
**APARTMENT DEVELOPMENT**  
**INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS**  
**COSTA MESA, CALIFORNIA**

ATTACHMENT 2: APPENDIX C

SUPPORTABLE IN-LIEU FEE  
 APARTMENT DEVELOPMENT  
 INCLUSIONARY HOUSING: IN-LIEU FEE ANALYSIS  
 COSTA MESA, CALIFORNIA

		60+ Units Per Acre		<60 Units Per Acre	
		Low Income	Very Low Income	Low Income	Very Low Income
<b>I. Rent Difference</b>					
<b>A. Studio Units</b>					
Market Rents	1	\$2,410	\$2,410	\$2,410	\$2,410
Affordable Rents	2	1,694	1,023	1,694	1,023
<b>Difference</b>		\$716	\$1,387	\$716	\$1,387
<b>B. One-Bedroom Units</b>					
Market Rents	1	\$2,970	\$2,970	\$2,970	\$2,970
Affordable Rents	2	1,934	1,167	1,934	1,167
<b>Difference</b>		\$1,036	\$1,803	\$1,036	\$1,803
<b>C. Two-Bedroom Units</b>					
Market Rents	1	\$3,660	\$3,660	\$3,660	\$3,660
Affordable Rents	2	2,152	1,290	2,152	1,290
<b>Difference</b>		\$1,508	\$2,371	\$1,508	\$2,371
<b>D. Three-Bedroom Units</b>					
Market Rents	1	\$4,400	\$4,400	\$4,400	\$4,400
Affordable Rents	2	2,373	1,415	2,373	1,415
<b>Difference</b>		\$2,027	\$2,986	\$2,027	\$2,986
<b>II. Distribution of Total Units</b>	3				
Studio Units		5%	5%	5%	5%
One-Bedroom Units		50%	50%	50%	50%
Two-Bedroom Units		40%	40%	40%	40%
Three-Bedroom Units		5%	5%	5%	5%
<b>III. Annual Rent Difference/Inclusionary Unit</b>		\$15,100	\$24,819	\$15,056	\$24,766
<b>Less: Property Tax Difference</b>	4	(3,656)	(6,009)	(3,645)	(5,996)
<b>Net Annual Rent Difference/Inclusionary Unit</b>		\$11,444	\$18,810	\$11,411	\$18,770
<b>IV. Assumptions</b>					
Total Units		300	300	172	172
Total Leasable Area		279,975	279,975	160,115	160,115
Weighted Average Unit Size (Sf)		933	933	931	931
Inclusionary Housing Percentage		10%	5%	6%	4%
Inclusionary Units		30	15	10	7
Affordability Gap Per Inclusionary Unit	5	\$221,700	\$364,300	\$221,000	\$363,500
<b>V. In-Lieu Fee</b>					
Total In-Lieu Fee	6	\$6,651,000	\$5,464,500	\$2,210,000	\$2,544,500
Per Total Unit in the Project		\$22,170	\$18,220	\$12,850	\$14,790
Per Sf of Total Leasable Area		\$23.80	\$19.50	\$13.80	\$15.90

1 The market rents are drawn from the Financial Evaluation.

2 Based on the Affordable Rent Calculations included in the Financial Evaluation.

3 Based on the unit mix distribution applied in the pro forma analyses included in the Financial Evaluation.

4 Based on the Annual Rent Difference/Inclusionary Unit capitalized at a 4.75% rate to establish the value, and a 1.15% property tax rate.

5 Based on the Net Annual Rent Difference/Inclusionary Unit capitalized at the Threshold Return on Total Investment generated by the p

6 Based on the Affordability Gap Per Inclusionary Unit multiplied times the number of Inclusionary Units.



## Agenda Report

Attachment 2

Item #: 24-011

Meeting Date: 01/16/2024

**TITLE: AN ORDINANCE AMENDING TITLE 13 (PLANNING, ZONING AND DEVELOPMENT) OF THE COSTA MESA MUNICIPAL CODE TO ESTABLISH AFFORDABLE HOUSING REQUIREMENTS FOR NEW RESIDENTIAL DEVELOPMENT PROJECTS**

**DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/PLANNING DIVISION**

**PRESENTED BY: NANCY HUYNH, PRINCIPAL PLANNER**

**CONTACT INFORMATION: NANCY HUYNH, PRINCIPAL PLANNER, (714) 754-5609**

### **RECOMMENDATION:**

Staff recommends the City Council:

1. Find that the adoption of Ordinance No. 2024-XX is exempt from the California Environmental Quality Act (CEQA) per CEQA Guidelines Section 15061(b)(3), General Rule in that the affordable housing ordinance will not have a significant impact on the environment.
2. Give first reading to Ordinance No. 2024-XX (PCTY-23-0001) modifying Title 13 (Planning, Zoning, and Development) of the Costa Mesa Municipal Code (CMMC) to establish affordable housing requirements for new residential developments.

### **BACKGROUND:**

In 2021, the City Council adopted a Strategic Plan identifying five key goals to address specific community issues and needs which included to **“diversify, stabilize, and increase housing to reflect community needs.”** To address this goal, the City Council also identified several objectives and priorities. One of the Council’s identified priorities included considering a draft inclusionary housing ordinance (also referred to as an affordable housing ordinance).

In addition, pursuant to State housing requirements, the City is required to plan for its Regional Housing Needs Assessment (RHNA) allocation of 11,760 units. Approximately 40% of its RHNA allocation falls into moderate, low, and very low-income housing. In response, the City’s Housing Element identifies 47 programs that work together to support and incentivize housing and affordable housing. Program 2A of the City’s 2021-2029 adopted Housing Element calls for the City to adopt an affordable housing ordinance which would generally require new housing projects in the City to provide a certain percentage of its housing units as affordable units to moderate, low, and/or very low-income households. Housing Element Program 2A states:

*“As of adoption of the 6th Cycle Housing Element, the City of Costa Mesa is analyzing the market impacts and potential affordability requirements for an inclusionary housing requirement for specific projects. The City has hired a consultant to evaluate and make recommendations regarding the*

*structure of a potential inclusionary housing ordinance, including the affordability percentage requirement, potential for an in-lieu fee option, and other factors. As part of this effort, the City will consider the applicability of establishing a local preference policy.*

*Objectives: Adopt an inclusionary housing ordinance.”*

## **Financial Evaluation**

In order to identify a supportable affordable housing percentage and other policy recommendations, the City retained an expert housing consultant, Keyser Marston Associates Inc. (KMA). KMA prepared a draft Financial Evaluation (FE) report in July 2023, which was supplemented in November 2023. The Financial Evaluation is an analysis that determines the financial impact of applying an affordable housing requirement on a housing development project. Based on that potential financial impact, the FE determines the supportable affordable housing requirement that the City could impose on new residential developments without being “confiscatory”.

The completed FE and supplemental analysis were made available online on the City’s Affordable Housing Ordinance webpage and the links are included below. Staff and KMA’s recommendations are discussed in detail in the Analysis section of this report.

- KMA Financial Evaluation (July 11, 2023):  
[https://www.costamesaca.gov/home/showpublisheddocument/54969/638253773\\_340200000](https://www.costamesaca.gov/home/showpublisheddocument/54969/638253773_340200000)
- KMA Supplemental Analysis (November 6, 2023):  
<https://www.costamesaca.gov/home/showpublisheddocument/55858/638351433427070000>

## **City Council and Planning Commission Joint Study Sessions**

On May 16, 2023 and subsequently on July 26, 2023, City Council and Planning Commission held two joint study sessions to discuss an affordable housing ordinance for Costa Mesa. The first study session provided a general overview of affordable housing program best practices while the second study session focused on the preliminary findings of KMA’s draft FE. City Council and Planning Commission also received public comments at both study sessions as well as provided feedback regarding KMA’s policy recommendations to be incorporated in a draft ordinance.

The May 16, 2023 study session agenda report, meeting video, and public comments are included in the links below:

- May 16, 2023 Study Session Agenda Report:  
<https://costamesa.legistar.com/View.ashx?M=F&ID=11974698&GUID=90360909-8600-4286-A076-E5B7F45794D4>
- May 16, 2023 Study Session Meeting Video:  
[https://costamesa.granicus.com/player/clip/3993?view\\_id=14&redirect=true&h=dc14b3b0c827980057c8fbbc40502a38](https://costamesa.granicus.com/player/clip/3993?view_id=14&redirect=true&h=dc14b3b0c827980057c8fbbc40502a38)

- May 16, 2023 Study Session Public Comments:  
<https://costamesa.legistar.com/View.ashx?M=E3&ID=1103184&GUID=F4CDF38E-2EEE-4D0C-8B90-ADB54899FEF6>

The July 26, 2023 study session agenda report, meeting video, and public comments are included in the links below:

- July 26, 2023 Study Session Agenda Report:  
<https://costamesa.legistar.com/View.ashx?M=F&ID=12177354&GUID=A49D2109-3609-4770-A7CE-76223D45F377>
- July 26, 2023 Study Session Meeting Video:  
[https://costamesa.granicus.com/player/clip/4019?view\\_id=14&redirect=true&h=a7972baf3ae0c1909cbb73e6a43d05fe](https://costamesa.granicus.com/player/clip/4019?view_id=14&redirect=true&h=a7972baf3ae0c1909cbb73e6a43d05fe)
- July 26, 2023 Study Session Public Comments:  
<https://costamesa.legistar.com/View.ashx?M=E3&ID=1113344&GUID=50122EA8-6A28-42B3-BB2F-5D5434897623>

### **Planning Commission Public Hearings**

Following the joint study sessions, staff prepared a draft ordinance for Planning Commission review and recommendation to City Council. The Planning Commission held two public hearings on November 13, 2023 and December 11, 2023 to discuss the draft ordinance.

At the first public hearing, staff presented the draft content intended to be included in the proposed affordable housing ordinance. The Planning Commission received staff's presentation as well as public comments, discussed the item, and voted 4-0 (Chair Ereth, Commissioner Rojas, and Commissioner Klepack absent) to continue the item to December 11, 2023.

The November 13, 2023 Planning Commission agenda report, meeting video, and public comments are included in the links below:

- November 13, 2023 Planning Commission Agenda Report:  
<https://costamesa.legistar.com/LegislationDetail.aspx?ID=6413792&GUID=4C906E13-F94B-49E9-AD3E-73B588C6EB6E>
- November 13, 2023 Planning Commission Meeting Video:  
[https://costamesa.granicus.com/player/clip/4063?view\\_id=14&redirect=true&h=f22a251337c41beb55301395ff67cc2](https://costamesa.granicus.com/player/clip/4063?view_id=14&redirect=true&h=f22a251337c41beb55301395ff67cc2)
- November 13, 2023 Planning Commission Public Comments:  
<https://costamesa.legistar.com/View.ashx?M=E3&ID=1135455&GUID=7ECD4C06-87E5-4283-8149-4BFF97215AA2>

At the subsequent Planning Commission meeting, staff presented the final draft affordable housing ordinance for recommendation to City Council. The Planning Commission recommended changes to the draft ordinance and voted 5-2 (Commissioner Zich and Commissioner Andrade voting no) to recommend the City Council give first reading of the ordinance. The Planning Commission's recommended changes are detailed further in the Analysis section of this Agenda Report.

The December 11, 2023 Planning Commission agenda report, meeting video, and public comments are included in the links below:

- December 11, 2023 Planning Commission Agenda Report:  
<https://costamesa.legistar.com/LegislationDetail.aspx?ID=6448847&GUID=F06836A7-2485-4993-A2B9-7413119EBE05>
- December 11, 2023 Planning Commission Meeting Video:  
[https://costamesa.granicus.com/player/clip/4071?view\\_id=14&redirect=true&h=3afc5737bffd6e2094027c9beb28f56c](https://costamesa.granicus.com/player/clip/4071?view_id=14&redirect=true&h=3afc5737bffd6e2094027c9beb28f56c)
- December 11, 2023 Planning Commission Public Comments:  
<https://costamesa.legistar.com/View.ashx?M=E3&ID=1145138&GUID=D27058F5-3E1C-458F-BC71-819FE295D4F8>

### **Stakeholders Meetings**

In addition to the joint study sessions, KMA's FE and policy recommendations, and staff's research, the process of drafting the affordable housing ordinance also involved a total of 17 stakeholder meetings with local affordable housing advocate groups and local housing developers with expertise in land development and affordable housing. The meetings were conducted both in person at City Hall and virtually through Zoom.

The meetings included residents from the Costa Mesa community and representatives from the following organizations: Affordable Housing Coalition, The Irvine Company, Sakioka Company, Legacy Partners, City Ventures, The Olson Company, Red Oak Investments, Kennedy Commission, People for Housing, OC Resilience, and the Building Industry Association. In addition, staff and/or KMA have had conversations with the cities of Huntington Beach, Irvine, Santa Ana and several other cities about their experiences with adopting and managing an affordable housing program. Staff and KMA also met one-on-one with developers that have specific experience in developing housing projects in Costa Mesa who were willing to discuss their development and construction cost projections to ensure that the FE's projections were reflective of actual residential project costs. The proposed draft ordinance is reflective of the stakeholders' input which included the importance of focusing policy on very-low income households (in addition to low-income), requiring onsite production of affordable units, setting affordable housing percentages at a level that would not disincentivize housing projects, and providing incentives such as flexible parking requirements and concurrent processing of entitlement application(s) with plan check review to further encourage housing production.

**ANALYSIS:****Costa Mesa Community Profile**

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. However, lower income households in Costa Mesa cannot afford to own or rent in Costa Mesa without experiencing overpayment. Per State guidance, a household should generally spend no more than 30-percent of gross income on housing expenses including utilities. The current average rent for a market rate one-bedroom apartment unit in Costa Mesa is approximately \$2,700 yet 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. Recent average for sale home prices in Costa Mesa are over \$1 million yet the home price that a moderate-income level household could afford for a three-bedroom house is approximately \$500,000. This data indicates a general mismatch in incomes versus housing expenses and a lack of affordable housing units to meet the community's current and future housing needs

Unfortunately, affordable housing options including deed restricted units are very limited in Costa Mesa. Without an affordable housing requirement or redevelopment-based funding programs, newer housing projects have produced market rate housing units. In addition, deed restricted affordable housing units that were constructed in the 1980s and 1990s have since expired and reverted to market rate. As such, production of and access to affordable housing options for lower income households is limited and is unlikely to be remedied by the market or additional housing supply alone. One of the tools that many cities throughout the state and country have utilized to help make progress toward affordable housing goals is an affordable housing ordinance (also referred to as inclusionary housing).

**Policy Context**

Inclusionary housing programs are not new and in fact, have been used to address affordable housing issues since the 1970s. Since then there have been over 700 other cities across 31 states with an adopted affordable housing ordinance. In California, there are more than 170 jurisdictions with an adopted ordinance including eight from Orange County with some that have existed and produced affordable units within their community for over 30 years. For example, Santa Ana has been able to produce nearly 3,500 affordable rental units and Huntington Beach has produced over 2,500 affordable rental units as part of their inclusionary housing program. These two cities have also collected in-lieu fees and accumulated a sufficient amount to subsidize 100% affordable housing projects and other programs aimed at promoting entry into the ownership housing such as providing down payment assistance for first-time homebuyers.

While an affordable housing ordinance is one tool to address housing affordability, it is not anticipated to produce all of the affordable units that the City is mandated to plan for pursuant to the RHNA allocation. The affordable housing ordinance is one of many housing programs in the City that complement each other to address housing and affordability issues. Existing programs include tenant eviction protection, rental assistance programs, accessory dwelling unit programs, and the City's Bridge Shelter. Programs also underway include the corridor visioning and rezoning effort and development standards update intended to promote new ownership and rental housing opportunities overall in compatible areas of the City.

Although these programs are starting to address the issue, these programs alone do not produce new affordable units or require housing developers to do so. An affordable housing ordinance would help the City meet this specific need by requiring new housing projects to set aside a percentage of new units as affordable and maintain those units as affordable for a specific timeframe (as proposed in the ordinance – 45 years for ownership and 55 years for rental units). Collected in-lieu fees as part of the affordable housing program requirement would also assist the City by creating a Housing Trust Fund that could be used to fund affordable housing projects and new programs.

Furthermore, adoption of the ordinance would help the City maintain compliance with State housing laws since the affordable housing program is listed in the City's adopted Housing Element. The City is required to implement this program within one year of the Housing Element adoption in order for the City to remain consistent with its Housing Element. If the City does not adopt one, the State could find the City out of compliance with State law requirements making it more vulnerable to legal challenges which could ultimately result in the loss of local control over land use and permitting decisions.

### **An Incentive-Based Program**

The City's proposed Affordable Housing Program has been structured as an "incentive-based program" that uses the City's rezoning along commercial/industrial corridors for housing to create value and incentivize housing production overall, while coupling the creation of that value with a requirement to provide a portion of the project's units as affordable housing. This program structure is in effect a local density bonus program.

To implement the affordable housing program, the City would implement its rezoning program described in the City's approved Housing Element – which would rezone non-residentially zoned properties located along major commercial and industrial corridors to allow for housing where housing does not currently exist and at increased densities with reduced parking requirements. The rezone and increase in density creates opportunities for new homes that presently do not exist because of the lack of available properties that allow residential uses and the historically low maximum allowable density in Costa Mesa (maximum of 20 units per acre pursuant to the City's General Plan). Rezoning would create value and thus, incentivizing land owners to sell commercial and industrial properties to housing developers and incentivize housing developers to build. In doing so, the City would require a portion of the added value to be used to provide the required affordable units under the City's Affordable Housing Program.

The affordable housing program consists of four main components:

- 1) Project threshold size (minimum number of housing units subject to the ordinance);
- 2) Required percentages of affordable units;
- 3) Required income levels for affordable units; and
- 4) Covenant period (required length of time that units must remain affordable).

### **Planning Commission's Recommendation**

The Planning Commission discussed each proposed affordable housing program component. Table 1 below provides a summary of staff's recommendations and the Planning Commission's recommended changes:

TABLE 1 – SUMMARY OF AFFORDABLE HOUSING PROGRAM COMPONENTS		
PROGRAM COMPONENT	PLANNING COMMISSION RECOMMENDATIONS	FINANCIAL EVALUATION/STAFF RECOMMENDATIONS
<b>Project Threshold*</b>	<ul style="list-style-type: none"> <li>60+ dwelling units per acre; two-acre minimum (Effectively a 120 unit threshold)</li> </ul>	<ul style="list-style-type: none"> <li>10 units</li> </ul>
<b>Number of Affordable Units/Required Income – Rental*</b>	<ul style="list-style-type: none"> <li>10% at low-income or</li> <li>5% at very-low income</li> </ul>	<ul style="list-style-type: none"> <li>60+ du: 11% at low-income or 7% at very-low income</li> <li>Under 60 du: 6% at low-income or 4% at very-low income</li> </ul>
<b>Number of Affordable Units/Required Income – Ownership*</b>	Exempt ownership projects	<ul style="list-style-type: none"> <li>8% at moderate-income if providing onsite affordable units, or payment of in-lieu fee by right</li> </ul>
<b>Covenant Period – Rental</b>	At least 55 years	At least 55 years
<b>Covenant Period – Ownership</b>	N/A	45 years (if producing affordable units onsite)
<b>Affordable Unit Minimum Size</b>	No more than 15% smaller than average market rate unit	No more than 15% smaller than average market rate unit
<b>Affordable Unit Bedroom Mix</b>	Proportional to market rate units	Proportional to market rate units
<b>Affordable Unit Location</b>	Evenly distributed/dispersed throughout residential project	Evenly distributed/dispersed throughout residential project
<b>Alternatives for Compliance</b>	<ul style="list-style-type: none"> <li>Land dedication</li> <li>Offsite construction of affordable units</li> <li>Payment of in-lieu fees</li> <li>Onsite construction of rental units (ownership only)</li> </ul>	<ul style="list-style-type: none"> <li>Land dedication</li> <li>Offsite construction of affordable units</li> <li>Payment of in-lieu fees</li> <li>Onsite construction of rental units (ownership only)</li> </ul>
<b>Incentives</b>	<ul style="list-style-type: none"> <li>Allow residential uses in commercial/industrial corridors</li> <li>Increased densities</li> <li>Allow low income rents to be charge based on 80% AMI vs 60% AMI (required by State density bonus)</li> <li>Reduced parking requirements</li> <li>Concurrent processing</li> </ul>	<ul style="list-style-type: none"> <li>Allow residential uses in commercial/industrial corridors</li> <li>Increased densities</li> <li>Allow low income rents to be charge based on 80% AMI vs 60% AMI (required by State density bonus)</li> <li>Reduced parking requirements</li> <li>Concurrent processing</li> </ul>
<p>* These program components are the main differences between Planning Commission and the Financial Evaluation/staff's recommendations.</p>		

Based on the Planning Commission’s recommendation, staff updated the draft affordable housing ordinance for City Council’s review. The Planning Commission recommended changes are described below in further detail and shown as strikethrough and underline text in Attachment 2:

**• Project Threshold – Ordinance Section 13-38.1 and 13-330(a)**

Staff recommended a project threshold size of ten units based on the size of housing projects typically experienced in Costa Mesa. At ten units, the ordinance would not apply to the majority of infill projects on small lots, while projects at ten or more units would be required to provide onsite affordable units or to pay an in-lieu fee. Locally in Orange County, the threshold size ranges from zero, meaning requirements apply to any housing project (City of Irvine) to 20 units (City of Brea).

The Planning Commission recommended the minimum project threshold be higher and based on a housing project's proposed density (60+ dwelling units per acre) and/or project site size (two-acre minimum site size). This would mean any new housing projects under 60 dwelling units per acre and/or any projects under two-acres (even if over 60 dwelling units per acre) would be exempt from the ordinance's requirements and would not provide onsite affordable units or pay housing in lieu fees. Compared to staff's recommendation, and assuming a two-acre site at 60 dwelling units per acre, this would mean projects with 120 units and under would not be subject to the ordinance.

It should be noted that approximately 30% of the "housing opportunity sites" listed in the Housing Element and shown in Attachment 5, Corridors Map, are two or more acres. (Refer to Page 26 of [Appendix B of the Housing Element](#) for a complete list of the housing opportunity sites.) Thus, increasing the threshold would reduce the number of affordable units (or their related housing in lieu fees) that would result from the ordinance.

- **Required Number/Percentage of Affordable Units – Section 13-330(b)(1a)**

Staff and KMA recommended requiring 11% of a housing project's units be provided at the low-income level, or 7% at the very-low income level which is the supportable recommendation based on the FE's "improved land" scenarios. KMA's financial analysis is based on a conservative approach that balances the City's need for affordable housing while not discouraging the development of housing in general. In addition, the analysis is unique to each city's real estate market conditions since it is based on actual land value and sales data from that area. If adopted, the affordable housing ordinance would be re-evaluated on a continued basis to ensure the requirements reflect current market conditions which has been similarly done on several occasions by Santa Ana and Huntington Beach.

The Planning Commission recommended the required number or percentages of affordable units be lower to be consistent with the surrounding Orange County cities such as Santa Ana (15% at low-income, 10% at very-low income, or 5% at extremely-low income) and Huntington Beach (10% at low-income or 5% at very-low income); refer to Attachment 3 for a comparison table. The Planning Commission recommended that the required affordable percentages should be 10% at the low-income level and 5% at the very-low income level.

- **Exempt Ownership Housing Projects – Section 13-328**

Staff and KMA recommended requiring 8% of an ownership housing project's units to be provided onsite at the moderate income level, or to allow a developer to fulfill the requirement with payment of in-lieu fees for any size ownership project. (For rental projects 100 units or less, the ordinance allows payment of in-lieu fees, but any rental project over 100 units is required to provide affordable units onsite).

The in-lieu fees collected would be used to fund housing projects and programs that could include 100% affordable projects or financial assistance for a first-time homebuyer. New ownership units incentivized through the City's rezoning program would help improve the ownership to renter ratio in the City while in homebuyer programs create an easier path to those homeownership opportunities.

The Planning Commission recommended that applying the affordable housing requirements (even just in lieu fees) could be a barrier that could discourage ownership housing projects. As such, they recommended to exempt any ownership housing projects from the affordable housing ordinance's requirements.

Exempting ownership projects from the affordable requirements altogether would mean all new ownership housing units would likely be market rate and in addition, such projects would not contribute funds (through in-lieu fees) to programs that could promote affordable ownership projects or otherwise support homebuyers. It should be noted that KMA's FE did support applying the requirements to ownership projects and determined that doing so would not cause an undue constraint and would allow a developer a fair return.

### **Staff Resources**

The Department is already restructuring its existing entitlement staff to create a housing-focused team as part of its overall program to improve efficiencies and customer service and promote housing opportunities in Costa Mesa. The vacant Planning and Sustainable Development Manager and Senior Planner positions are being filled and, along with existing planning staff, will continue to more efficiently review and process housing projects.

If an inclusionary ordinance is adopted, it would create a new housing program that would require additional staff and consultant resources to implement, manage, monitor, and enforce the ordinance. Such tasks would include but are not limited to the collection and management of in-lieu fees, preparation of requests for proposals for housing projects funded by in-lieu fees, agenda reports for the allocation of in-lieu housing funds, development of community development partnerships, preparation and monitoring of affordable housing agreements for each inclusionary project, annual rent certifications to ensure required units are rented to households at the appropriate income levels, and appropriate tracking and reporting of units to the State annually.

Initially, these responsibilities could be absorbed by the Department's existing Housing and Community Development team, particularly when the program is in its infancy and in lieu fees are still being collected. However, as the program matures and as affordable housing projects develop, a manager position will likely be necessary to lead and administer this program. The City Manager's Office and the Department will continue to evaluate Department staffing and bring a recommendation to the City Council concurrently with its mid-year or annual budget.

In addition, initially staff will utilize the Department's existing consulting budget and third-party plan check contract services to process concurrent plan checks for housing projects, when in house staff resources are at maximum utilization. Annual budget and contract amounts for plan check services will be reviewed and adjusted if necessary as part of the annual budget process.

**Next Steps**

If the City Council approves the first reading, staff will return at the next meeting for second reading. If approved, the Ordinance becomes effective 30 days after second reading. In addition, KMA will immediately complete an in-lieu fee study which will be presented to the Council for adoption by Resolution, concurrently with the effective date of the Ordinance. Staff in consultation with KMA will also prepare Affordable Housing Program procedures and templates concurrently with the effective date of the Ordinance. KMA's efforts would require a contract amendment but would be funded within the existing Department budget.

**ALTERNATIVES:**

The City Council could modify the ordinance and direct staff to return with an update to the draft for an additional first reading. City Council could also not approve the Ordinance, which may subject the City to litigation and/or other State enforcement actions.

**FISCAL REVIEW:**

Fiscal impacts of the ordinance include the potential for revenue in the form of housing in-lieu fees and the potential for additional staff or consultant resources necessary to manage an affordable housing program over time.

**LEGAL REVIEW:**

The agenda report and draft Ordinance has been reviewed and approved as to form by the City Attorney's Office.

**CITY COUNCIL GOALS AND PRIORITIES:**

This item supports the following City Council Goal:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs

**CONCLUSION:**

The adoption of the proposed Affordable Housing Ordinance would require new residential development projects that meet the minimum threshold size to set aside a portion of its new units as "affordable units" for a 45- to 55-year timeframe. Its adoption would fulfill the objective of Program 2A of the 2021-2029 General Plan Housing Element and help achieve City Council's goal to "diversify, stabilize and increase housing to reflect community needs".



# **PLANNING COMMISSION AGENDA REPORT**

MEETING DATE: NOVEMBER 13, 2023      ITEM NUMBER: PH-2

**SUBJECT: AN ORDINANCE AMENDING TITLE 13 (PLANNING, ZONING AND DEVELOPMENT) OF THE COSTA MESA MUNICIPAL CODE TO ESTABLISH AFFORDABLE HOUSING REQUIREMENTS FOR NEW RESIDENTIAL DEVELOPMENT PROJECTS**

**FROM: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/  
PLANNING DIVISION**

**PRESENTATION BY: NANCY HUYNH, PRINCIPAL PLANNER**

**FOR FURTHER INFORMATION CONTACT: NANCY HUYNH  
714.754.5609  
Nancy.Huynh@costamesaca.gov**

## **RECOMMENDATION**

Staff recommends the Planning Commission:

1. Receive staff presentation and public comment and provide feedback regarding the draft content of Ordinance No. 2023-XX, which would amend Costa Mesa Municipal Code (CMMC) Title 13 to establish affordable housing requirements for new residential development projects; and
2. Continue the item to a date certain for staff to return with a final Draft Ordinance for recommendation to the City Council.

## **APPLICANT OR AUTHORIZED AGENT**

The subject Ordinance is a City-initiated effort to implement Program 2A of the City's adopted 2021-2029 6<sup>th</sup> Cycle Housing Element.

## **BACKGROUND**

On November 15, 2022, the City Council adopted the 2021-2029 6<sup>th</sup> Cycle Housing Element which includes over 40 programs that work together to form a cohesive and comprehensive housing strategy to address housing needs for the community. The City's demographics show that approximately half of the population earn a lower income and half of renters in the City experience housing cost burdens and overpayment. Program 2A of the Housing Element calls for the City to consider adoption of an inclusionary housing ordinance. An inclusionary or affordable housing ordinance would generally require new housing projects in the City to provide a certain percentage of its housing units as affordable units to moderate, low, and/or very low-income households.

To better understand the potential benefits and impacts of an affordable housing ordinance, staff retained an expert housing consultant, Keyser Marston Associates Inc. (KMA), to evaluate and make policy recommendations for a potential ordinance. KMA prepared a Financial Evaluation (FE) report which is an analysis to determine the financial impact on a housing development project if affordable housing is required. Based on that impact, the FE determines the supportable affordable housing requirement that the City could impose on new residential developments without being "confiscatory". In short, it is important for a City's affordable housing ordinance to balance the need for the development of affordable housing without encumbering the development of housing in general.

### **City Council and Planning Commission Joint Study Sessions**

On May 16, 2023 and subsequently on July 26, 2023, City Council and Planning Commission held two joint study sessions to consider preparing an affordable housing ordinance for Costa Mesa. The first study session provided a general overview of affordable housing program best practices while the second study session focused on the preliminary findings of KMA's draft FE.

#### ***May 16, 2023 Joint Study Session***

At the May 16, 2023 joint study session, staff and Kathe Head with KMA presented major components of an affordable housing ordinance, legal requirements, compliance options, and a discussion of policy considerations. The overview included target income and affordability levels, typical affordable housing ordinance standards, alternative compliance options, and in-lieu fee payment considerations.

City Council, Planning Commission, and members of the public provided their comments at the study sessions. Comments included concern with rising rental costs, balancing the need for affordable housing with the development community's need to pursue profitable housing projects, a desire to create incentives beyond the State's density bonus program to encourage the production of housing units such as reduced

parking requirements, path for homeownership, and deeper affordability in rental projects as well as focus on the Fairview Development Center. Following the discussion, City Council directed staff to complete the draft FE and requested a follow-up study session once the draft FE and policy recommendations had been completed by KMA.

The May 16, 2023 study session agenda report and meeting video are included in the links below:

- May 16, 2023 Study Session Agenda Report:  
<https://costamesa.legistar.com/View.ashx?M=F&ID=11974698&GUID=90360909-8600-4286-A076-E5B7F45794D4>
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[https://costamesa.granicus.com/player/clip/3993?view\\_id=14&redirect=true&h=dc14b3b0c827980057c8fbbc40502a38](https://costamesa.granicus.com/player/clip/3993?view_id=14&redirect=true&h=dc14b3b0c827980057c8fbbc40502a38)

### ***July 26, 2023 Joint Study Session***

At the follow-up joint study session, staff and KMA presented the preliminary findings of the completed draft FE and their policy recommendations based on the draft FE's findings. The policy recommendations included the minimum project size that would be subject to an affordable housing requirement, set-aside percentage(s) for the minimum number of affordable units, target affordability level(s), covenant periods, and alternative compliance options.

City Council and Planning Commission provided staff with their feedback on the proposed policy recommendations to be considered in a draft ordinance.

The July 26, 2023 study session agenda report and meeting video are included in the links below:

- July 26, 2023 Study Session Agenda Report:  
<https://costamesa.legistar.com/View.ashx?M=F&ID=12177354&GUID=A49D2109-3609-4770-A7CE-76223D45F377>
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[https://costamesa.granicus.com/player/clip/4019?view\\_id=14&redirect=true&h=a7972baf3ae0c1909cbb73e6a43d05fe](https://costamesa.granicus.com/player/clip/4019?view_id=14&redirect=true&h=a7972baf3ae0c1909cbb73e6a43d05fe)

### **Stakeholders Meetings**

As part of staff's analysis and research regarding the potential impacts and opportunities of an affordable housing ordinance in Costa Mesa, throughout the process staff met on multiple occasions with local affordable housing advocate groups and local housing developers with expertise in land development and affordable housing.

Staff conducted a total of 17 stakeholder meetings which included meetings prior to and after the joint study sessions and during staff's preparation of the draft ordinance. The meetings were conducted both in person at City Hall and virtually through Zoom. Staff and KMA also met with developers that have specific experience in developing housing projects in Costa Mesa and specifically discussed cost projections in the FE to ensure those projections were reflective of actual residential project costs.

Most stakeholders were generally accepting or supportive of an affordable housing program in Costa Mesa and understood the need for one. Below is a summary of feedback from these stakeholders meetings.

**Deeper Affordability:** Housing advocates expressed a desire to focus policy on providing affordable housing for households with the deeper affordability income levels (very-low and extremely-low incomes) since there is a larger need for affordable units at the much lower income level especially for those with fixed incomes such as the elderly and working families. While the very-low or extremely-low income households may be income eligible to qualify for an affordable unit provided at the low-income level, the affordable rent associated with the low-income unit would be higher than what a very-low or extremely-low income household could feasibly afford. Essentially, the housing market is currently not fulfilling the demand for units at the deeper affordability level. As such, housing advocates have expressed that deeper affordability should be required for rental housing projects, but not for ownership housing since it is common best practice to target the moderate-income affordability level for ownership housing.

**Homeownership:** Some housing advocates expressed an interest in seeing more homeownership opportunities in the City given the current imbalance of rentals to ownership housing. There were concerns about the narrow margins for most ownership projects and potentially slowing the development of ownership housing projects if the affordable housing requirement applied to these projects. It was preferred that the affordable housing ordinance either not apply to ownership housing or allow payment of in-lieu fees by right (and not require onsite production of ownership units).

**Incentives:** Stakeholders concurred that the State's density bonus will be utilized more often if an affordable housing requirement is adopted and understood that the City is required by law to grant development standard concessions/incentives under the State density bonus. Some suggested including additional incentives such as expediting processing by identifying a staff team responsible only for housing entitlement projects in the City, streamlining processes by using "by-right development" and objective design standards (as opposed to discretionary processes which take time and increase risk), offering flexibility in affordable unit design standards, allowing concurrent review of entitlement planning applications and building permit plan check, and/or fee waivers were also mentioned. Some councilmembers also requested reviewing what other local incentives the City could provide beyond the State's density bonus.

***In-Lieu Fees:*** Stakeholders were supportive of providing in-lieu fees as an alternative compliance option. It was discussed that the fee should be an appropriate amount because if too high, it could deter housing projects. It was also discussed that the in-lieu fee is more beneficial for and should be applied to smaller housing projects. Housing developers encouraged the City to adopt in-lieu fees that have the ability to be responsive to market conditions and can be updated frequently. Developers suggested that the City also review other jurisdictions in-lieu fee amounts to ensure feasibility and comparable fee amounts.

***Land Costs:*** Housing developers as well as housing advocates had concerns that an affordable housing program would reduce the price developers can pay to acquire property since the cost of producing affordable units would be factored into the land price a housing developer is willing to pay to acquire property for a housing project. This can lead to a competitive disadvantage on properties that contain a viable commercial or industrial use. It can also lead to a land owner choosing to keep the property rather than sell the land for housing development. This potential exists with or without an affordable housing requirement; however, an affordable housing requirement that is set too high can inadvertently disincentivize both housing and affordable housing by making a housing proposal more costly and thus less competitive for land acquisition. Housing developers discussed with staff the need to induce land owners to sell their land for residential development and housing advocates agreed that this is a consideration when setting affordable housing set-aside percentages.

Staff and KMA scheduled one-on-one meetings with housing developers who were willing to share specific information regarding its housing project pro forma projections and suggested that the FE's projections for existing land value of an improved commercial or industrial property were lower than land developers were experiencing. As a result, KMA obtained additional data representing a broader range of existing commercial and industrial uses that are common in Costa Mesa and conducted additional analysis. Ultimately, KMA concurred that using a higher existing improved land value in the FE was supportable and a more conservative approach in an area like Costa Mesa where land value is high, vacant land is scarce, and housing developers are competing for land that is already improved and operating and in many cases making a low risk profit for the land owner.

### **Financial Evaluation - Supplemental Analysis**

Based on the stakeholders feedback, staff and KMA augmented the FE analysis specifically for the higher density rental project prototypes. KMA's additional analysis is provided as a supplemental analysis memorandum to the FE and is attached to this report for reference (Attachment 2). A copy of the preliminary draft FE dated July 11, 2023 is included in the link below:

- KMA Draft FE (July 11, 2023):  
<https://www.costamesaca.gov/home/showpublisheddocument/54969/638253773340200000>

The draft FE dated July 11, 2023 included an analysis of a prototype for rental housing at 60 units per acre based on a property north of the I-405 Freeway currently used as a surface parking lot and was calculated as vacant land for land value purposes. Based on that prototype analysis, the supportable requirement was 19% at low income and 12% at very low income. However, nearly all of the potential housing opportunity sites identified in the Housing Element are existing improved commercial and industrial properties with existing office, warehouse, or other land uses (especially north of the I-405 Freeway). Therefore, although accurate, the vacant land prototype analysis may not best reflect the real estate opportunities available in Costa Mesa and the associated higher land values.

To that end, KMA's supplemental analysis for the rental housing prototype evaluates multiple scenarios based on improved commercial and industrially zoned property as well as higher density housing ranges at 60, 75, and 90 units per acre, which are feasible in certain areas of the City primarily north of the I-405 Freeway.

As a result, and as a more conservative approach based on the supplemental analysis, the supportable affordable housing requirement for a rental housing project would be:

**60+ Housing Units per Acre**

- 11% Low Income, or
- 7% Very Low Income

**Under 60 Housing Units per Acre**

- 6% Low Income, or
- 4% Very Low Income

This supplemental analysis is a more conservative approach and takes into consideration current market conditions and the lack of vacant land in Costa Mesa and the likelihood that future housing projects will be located on property currently used for office, warehouse or other similar non-residential uses. Once adopted, the affordable housing ordinance would be re-evaluated on a continued basis to ensure the requirements reflect market conditions which could be higher under a stronger market in the future.

**DESCRIPTION**

The proposed ordinance establishes the City of Costa Mesa's Affordable Housing Program which would facilitate the development and availability of housing affordable to a range of households with varying income levels. This goal is accomplished by requiring new residential developments in Costa Mesa to provide a minimum number of its proposed units as affordable units. The proposed ordinance would amend Article 1 (Residential Districts) of Title 13 to establish an affordable housing requirement applicable to any new residential developments on property that has experienced a rezone to allow housing or increased density and which meet the specified project

threshold size. The ordinance would also add a new chapter to Title 13, Chapter XVII (Affordable Housing Ordinance) which establishes the minimum affordable housing requirements and standards including threshold size, set-aside percentage(s), affordability level(s), affordable unit standards, and affordable housing agreements.

Pursuant to CMMC Section 13-10(i)(2a), the Planning Commission is authorized to recommend to the City Council proposed amendments to Title 13 (Zoning Code); thus, the proposed affordable housing ordinance amending portions of Title 13 is presented for Planning Commission consideration and recommendation to City Council.

## **ANALYSIS**

The proposed draft Affordable Housing Ordinance is based on the policy direction from City Council and Planning Commission, findings and policy recommendations from the City's expert consultant, KMA, including industry best practices based on years of expertise evaluating and preparing affordable housing programs, input from local residents, housing developers and housing advocates, and staff's research on affordable housing programs including existing successful programs in other neighboring cities and throughout California. (Refer to Attachment 5 for a comparison of the neighboring local cities' affordable housing requirements and the City's draft requirements.) Based on this, staff developed an Affordable Housing Ordinance that balances the continued need for market rate housing developments in the City while also addressing the community's need for more affordable housing options.

### **Incentive-Based Local Density Bonus Program**

The City's Affordable Housing Program has been structured as an "incentive based program" that uses rezoning of commercial/industrial property for housing to create value and incentivize housing production while coupling rezoning with a requirement to provide a portion of the project's units as affordable housing. This program structure is in effect a density bonus program.

To implement the program, the City would implement its rezoning program described in the City's approved Housing Element, rezoning non-residentially zoned properties located along major commercial and industrial corridors to allow for housing. The rezoning would allow housing to be developed at densities that support ownership and rental housing products on property where housing is not currently allowed. The rezone and increase in density creates opportunities for new homes that presently do not exist because of the lack of available properties that allow residential uses and the historically low maximum allowable density in Costa Mesa (maximum of 20 units per acre pursuant to the City's General Plan). Rezoning would create value, incentivizing land owners to sell and housing developers to build. In doing so, the City would require a portion of the added value to be used to provide the required affordable units under the City's Affordable Housing Program.

To that end, the proposed Affordable Housing Program is envisioned to only apply to properties that are rezoned to allow for residential uses or otherwise receive approval for housing at an increased density compared to what is allowed today. Although some councilmembers and commissioners expressed interest in applying the program city-wide, staff recommends the ordinance be focused on properties experiencing a rezone for housing or increased density compared to its underlying zone since these properties are much more likely to see interest due to improved housing project feasibility.

The ordinance could be applied to new residential projects proposed anywhere in the City. However, outside of the rezone areas, this would change the program from incentive-based to applying a new requirement to an existing property that already allows for residential development which would likely have mixed results.

### **Affordable Housing Program Components**

New residential projects (ownership or rental housing) proposed in the City that meet the project threshold size would be subject to requirements and standards established in the Affordable Housing Program. The program would require developers to provide affordable units onsite within their market rate housing project or fulfill their obligation with an acceptable alternative compliance option equivalent to onsite production of affordable units such as payment of in-lieu fees.

Below is summary of the key affordable housing requirements proposed in the attached draft ordinance including:

- Applicability and Exemptions
- Threshold Size
- Set Aside Percentage and Affordability Levels
- Covenant Period
- Alternative Compliance Standards

Each program component is discussed below.

### ***Applicability and Exemptions***

Certain residential projects would be exempt from the affordable housing requirements including projects with less than ten units, residential condominium conversions of existing rental housing to ownership, and any project proposed within the boundaries of the Fairview Development Center Specific Plan. (The Fairview Developmental Center Specific Plan will include affordable housing requirements that are specific to that property, which is State owned and prioritized for housing. Affordable housing requirements for that property are anticipated to provide deeper affordability and a higher set aside percentage.)

**Threshold Size**

Ten (10) or more units – Residential projects (ownership or rental housing) proposed with ten or more units would be subject to the Affordable Housing Program.

The majority of housing projects approved in the City from 2014 to 2021 were one or two units and were infill projects on residentially zoned sites located within existing residential neighborhoods. Of the other housing projects, which were either located in the City’s urban plan areas or along major commercial or industrial corridors, all were more than ten units. Many of these other housing projects are also located within or adjacent to the anticipated “rezone areas.” Setting the threshold size at 10 units would exempt the smaller infill residential projects (common interest and small lot developments) which are typically under 10 units and ownership housing projects in existing established neighborhoods.

**Set-aside Percentage and Required Affordability Levels**

The percentage of a project’s total housing units that are required to be affordable (referred to as the affordable housing “set aside”) are proposed to vary depending on a site’s zoning and allowable density (i.e. the number of housing units allowed per acre). This proposed approach reflects the density anticipated in the commercial and industrial areas of the City identified for potential rezoning in the Housing Element. The range of densities proposed in Housing Element acknowledges that not all areas of the City could support or be compatible with higher density housing at 60+ units per acre. Rather, lower scale housing projects that tend to fall between 40 to 50 du/acre range are envisioned along commercial and industrial corridors such as Harbor Boulevard and in the SoBECA area, while only the area north of the I-405 Freeway is envisioned to be compatible with projects at higher densities between 60 and 90 du/acre.

Due to differences in the varying characteristics between project types anticipated to be developed in Costa Mesa, and the relative sizes of the projects, the FE found that higher density projects can generally support a higher affordable housing set aside while lower density projects can generally support a lower set aside percentage. Based on the Financial Evaluation as supplemented the following set-aside requirement is proposed for rental housing projects in two density ranges:

Rental Housing:

**60+ Housing Units per Acre Zone:**

- 11% Low Income, or
- 7% Very Low Income

**Under 60 Housing Units per Acre Zone:**

- 6% Low Income, or
- 4% Very Low Income

Attachment 4 shows household incomes and rents for both the low and very-low Income categories as defined by the State in 2022. As an example, for a four-person household based, a household with an income of approximately \$108,000 per year falls into the “low income” category while a household with an income of approximately \$67,000 per year fall into the “very low income” category. Rents for a “low income” two-bedroom housing unit would be approximately \$2,000 per month and approximately \$1,200 per month for a “very low income” housing unit.

A frequent comment made by housing advocates, councilmembers, and commissioners during the study sessions and stakeholders meeting was to target the affordable housing requirement at the very-low income level. Given that approximately one third of the households in Costa Mesa fall into very-low and extremely-low income categories, targeting deeper affordability is appropriate. However, it should also be noted that approximately one-fifth of Costa Mesa households fall into “low income” income categories so focusing only on very-low income could affect access to affordable housing options for these households. The low-income category also has a higher supportable set aside percentage and therefore could produce a greater number of affordable units compared to the very-low income category. Therefore, the Planning Commission and City Council may view a greater number of additional affordable units at the low-income level (compared to a lower number of housing units at deeper affordability levels) as a desirable trade off since both scenarios fill a need.

The proposed ordinance includes a required set aside at both the low income and very low-income level, to allow the developer to choose an option. Ultimately, this is a policy decision.

### Ownership Housing

For ownership housing projects of any size (but at least ten units), onsite production of affordable units is not required. Instead, the developers of ownership housing projects may choose to pay an in-lieu fee. The in-lieu fee payment would be based on a fee schedule adopted by City Council. The in-lieu fee study is in progress and will be finalized after the Planning Commission and City Council decide on the underlying affordable housing requirements.

The draft FE results found that the affordability gap (difference between the market rate unit sales price and the moderate income affordable sales price) for ownership housing projects is extremely broad (between \$557,000 to \$745,000) that it limited the supportable percentage of units that could be required to be sold to moderate income households. By allowing the payment of in-lieu fees by right, it promotes the opportunities for the development of market rate ownership housing projects that tend to be lower to medium density.

## In-lieu Fees and Housing Fund

The in-lieu fee schedule would be adopted by City Council concurrently with an affordable housing ordinance. Fees can be reviewed and updated frequently as part of the City's budget process and master schedule of fees.

The in-lieu fees collected would be placed into a dedicated Housing Fund (as proposed in the draft ordinance) that could only be used to fund affordable housing projects and programs. The City Council would identify appropriate expenditures of those housing funds at the time the fund is created and through the annual budget process. The funds could be used to support new affordable housing projects, deeper affordability or household assistance programs like a first-time homebuyer program. The Housing Fund would be managed by dedicated housing staff who would implement the programs identified by the Council.

Stakeholders provided feedback as to which of these Housing Fund projects and programs would best achieve long-term housing goals given limited housing funds. Ultimately, this is a policy matter and would be decided on by the Council at the time the Housing Fund is created, and then reconsidered through the annual budget process.

### ***Covenant Period***

#### Rental Housing Projects:

- 55 years minimum

The required covenant period for affordable units in rental housing projects is a minimum of 55 years. This means the affordable rental units must remain affordable for at least 55 years and will continue to remain as affordable until the land use changes to a non-residential use.

### ***Alternative Compliance Options***

#### Rental Housing Projects:

- Payment of in-lieu fees – applicable for projects with fewer than 100 units
- Offsite production
- Land dedication

The in-lieu fee payment option is only available to rental projects with less than 100 units because smaller projects have less units to spread the cost of constructing affordable units so may not feasibly be able to provide onsite affordable units. Offsite production and land dedication are also available alternative options since developers may find it to be more economically feasible to fulfill their obligation with land that they may already own (or could acquire). Offsite production units must be within a reasonable distance of the market rate project and constructed concurrently.

### Ownership Housing Projects:

- Payment of in-lieu fees – applicable to all ownership housing projects
- Onsite construction of rental units – interspersed with market rate units or on a separate parcel within market rate project site
- Offsite production
- Land dedication

It is likely that developers of ownership housing would select the in-lieu fees. However, it is best practice to include alternative compliance options. As such, KMA recommended onsite production of affordable rental units within the market rate ownership project as one option since it would provide affordable units in the equivalent form of rental units. Similarly, offsite production and land dedication are also available options for ownership housing developers to provide additional flexibility for program compliance.

### ***Affordable Unit Design Standards***

Affordable units would be required to be comparable to the market rate units including unit sizes, proportional bedroom mix, floor plan design, finishes/materials, and access to and enjoyment of residential community amenities. In addition, the affordable units would be required to be constructed and available at the same time as the market rate units. A certificate of occupancy for the project would not be issued until construction of the affordable units are completed.

The draft ordinance includes these unit design standards to ensure that affordable units are not designed differently than market rate units. However, the draft ordinance would provide the final review authority with the flexibility to allow slight deviations from these standards if doing so would be beneficial for the Affordable Housing Program. During the stakeholders meetings with housing developers, it was expressed that providing reasonable design flexibility while maintaining the goal of comparable quality of affordable units could potentially allow developers to provide more affordable units or deeper affordability.

### **Parking Requirements**

#### **Rental Housing Projects:**

- Parking reduction – minimum of 1.75 spaces per rental unit; lower parking requirement may be considered if supported by a parking study

Parking requirements are important in the context of housing policy because they affect the financial feasibility of a housing project. As a result, the City's per unit parking requirement is incorporated into KMA's evaluation of housing prototypes. In some cases, KMA's evaluation concluded that at existing required parking rates (an average 2.19 spaces per unit) and considering allowable densities and existing improved land value, many projects incorporating affordable housing "don't pencil". The rental project prototypes analyzed in the FE and the supplemental analysis assumed a parking rate of

1.45 to 1.9 spaces per unit in order to make it financially feasible to include a significant number of affordable housing units.

This is important when considering that housing developers also indicated during the City's stakeholder meetings that the City's parking requirements appear to be high compared to the actual demand for parking. Some indicated that for multi-family projects an actual demand of 1.5 to 1.9 spaces per unit was typical. As such, concurrently with the drafting of the proposed ordinance, staff conducted a review of parking requirements with the intent of "right sizing" parking requirements to actual demand.

The City hired an expert parking consultant, LSA, who analyzed the City's existing parking requirements and recommended that an average of 1.75 spaces for multi-family developments would be appropriate based on nationally recognized parking data, analysis of surrounding cities' parking requirements, and empirical parking counts obtained at existing apartment communities both in Costa Mesa and nearby cities.

Reducing parking requirements would allow a developer to construct more market rate units to offset the costs of the required affordable units, thereby increasing the potential for financially feasible housing projects. Therefore, staff recommends that a code amendment modifying the City's residential parking requirements be brought forward separately but concurrently with the Affordable Housing Program. In the meantime, the draft affordable housing ordinance would establish an average of 1.75 spaces per unit parking requirement for multifamily (rental) housing projects and allow the flexibility for the decision-making body to consider a lower parking requirement to match actual demand when supported by a professionally-prepared parking study.

A study of parking requirements for ownership housing types is currently underway and would also be brought forward separately.

### **City Housing Team and Concurrent Processing for Housing Projects**

In our meetings, stakeholders indicated that concurrent ("at risk") review of entitlement applications and building permit construction plans would help to reduce a project's timeline. The City does not currently allow for concurrent processing as part of normal operations so that Building plan check staff resources can be focused on projects that already have approved entitlements and are ready to move forward with construction. Since a project's entitlement(s) are typically approved before the plan check review may commence, allowing concurrent processing would expedite a project's review and allow it to commence construction in a more efficient timeline, thereby reducing a developer's carrying costs and making housing and affordable housing projects more financially feasible.

The Department is already restructuring its existing entitlement staff to create a housing-focused team as part of its overall program to improve efficiencies and customer service and promote housing opportunities in Costa Mesa. Staff will be

recommending that the City Council consider allocating resources to allow for concurrent processing of entitlement and building construction plans when requested by the applicant.

## **GENERAL PLAN CONFORMANCE**

The following analysis evaluates the General Plan and its goals, objectives, and policies for consistency and compliance with the proposed Affordable Housing Ordinance:

1. **Housing Goal #2:** *Facilitate the creation and availability of housing for residents at all income levels and for those with special housing needs.*
2. **Policy HOU-2.1:** *Facilitate the development of housing that meets the needs of all segments of the population including affordable housing and households with specialized needs.*
3. **Policy HOU-2.2:** *Promote the use of State density bonus provisions to encourage the development of affordable housing for lower and moderate-income households, as well as senior housing through the dissemination of informational materials and discussions with project applicants.*
4. **Policy HOU-2-4:** *Encourage housing programs and future actions that address the need for affordable housing options as well as the housing needs of Costa Mesa's senior resident population and the large households population.*

Adoption of the proposed affordable housing ordinance would support the above policies identified in the City's adopted 2021-2029 Housing Element as well as further achieve the goal of facilitating housing for all income levels in the community and especially for the lower income households. Upon adoption of the ordinance, the Affordable Housing Program would be established to implement the requirements of the ordinance as well as monitor implementation and compliance with the affordable housing requirements and applicable State law(s). Adoption of the Ordinance would fulfil the goal of Program 2A of the 2021-2029 General Plan Housing Element.

## **ENVIRONMENTAL DETERMINATION**

The Code Amendment and Ordinance were reviewed for compliance with the California Environmental Quality Act (CEQA), the CEQA guidelines, and the City's environmental procedures. The Planning Commission's recommendation regarding the Ordinance are exempt pursuant to CEQA Guidelines Section 15061(b)(3) (General Rule) because a recommendation is not a final action and the recommended ordinance will not have a significant effect on the environment.

## **LEGAL REVIEW**

The staff report and draft Ordinance has been reviewed and approved as to form by the City Attorney's Office.

## **PUBLIC NOTICE**

Pursuant to Title 13, Section 13-29(d), of the Cost Mesa Municipal Code, a 1/8<sup>th</sup> page public notice was published once in the Daily Pilot newspaper no less than 10 days prior to the November 13, 2023 public hearing.

As of this report, no written public comments have been received. Any public comments received prior to the Planning Commission meeting will be provided separately.

## **CONCLUSION**

The adoption of the proposed Affordable Housing Ordinance would establish affordable housing requirements for new rental and ownership residential development projects proposed with ten or more units as well as create the City's Affordable Housing Program including minimum requirements, standards, and agreements for affordable housing units. Its adoption would fulfil the goal of Program 2A of the 2021-2029 General Plan Housing Element.