

Agenda Report

DATE: JUNE 16, 2008

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: WORKFORCE HOUSING ALTERNATIVE TO INCLUSIONARY REQUIREMENTS

RECOMMENDATION:

This report is provided for information only.

BACKGROUND:

The City Council, at its regular meeting on April 9, 2007, approved the Housing Agenda for Action Affordable Housing Plan, which was comprised of recommendations addressing affordable housing needs in Pasadena. Among them was an initiative to promote the production of Workforce Housing. Staff was directed to research the feasibility of an amendment to the City's Inclusionary Housing Requirements which would allow the set aside of 30% Workforce units as a fifth alternative to satisfying the Inclusionary requirements. Currently there are four methods of compliance: 1) Set aside of a 15% on-site affordable housing; 2) Off-site affordable housing; 3) Payment of an In-Lieu Fee to the City; or 4) Donation of land to the City.

The term Workforce does not have a legal or universal definition, however, it is generally used to describe a middle income bracket that does not qualify for subsidized affordable housing (as defined by the State), yet often cannot afford market rate rents and/or sales prices. Affordable housing is defined by the State as very low-, low- and moderate-income units affordable to a family earning up to 120% of Area Median Income (AMI). Workforce housing is defined by the City as being affordable to a family earning 121% to 180% of AMI. Pasadena defined the term during the process of setting rebates from the Residential Impact Fee as incentives.

Financial consultant Keyser Marston and Associates ("KMA") was commissioned to perform a financial analysis of the proposed code amendment based on current market conditions. Per the discussion in the Housing Agenda for Action report, KMA defined Workforce as only up to 150% of AMI for the purposes of the study. While the inclusion of affordable units eliminates the requirement to pay

Inclusionary Fees, the expectation was that the provision of Workforce units would require, as an incentive, a reduction in Inclusionary Fees. In other words, the developer would provide the Workforce units and pay some level of In-Lieu Fees so that the sum of the two would be comparable to the value of providing affordable units as defined in the ordinance. KMA analyzed, by sub-area as defined by the Inclusionary Ordinance, the portion of the In-Lieu Fees that would need to be reduced to create equivalency between Workforce and affordable units and to provide incentive for the production of Workforce units.

In summary, KMA found that: 1) the market is already providing rental units at the Workforce level, making further fee waivers and incentives unnecessary, and 2) the difference between the market price and the Workforce price for ownership units is so large that even a 100% waiver of the In-Lieu Fees would be insufficient to incentivize the development of ownership Workforce units. To close the gap between market and Workforce would require the provision of additional subsidy, which would compete with subsidy for the development of affordable units. The KMA analysis is contained in Exhibit "A" of this report.

Rental Market

The KMA analysis found that the market is currently providing rental housing at the Workforce level in most sub-areas and therefore, further incentives for the development of Workforce rental units is not needed. The specific findings for each sub-area are listed below (the Sub-area map is included in Appendix A of the attached KMA report):

1. Rental Projects in Sub-area "A" -- No significant rental housing development has occurred in Sub-area A. Therefore, there is insufficient market data to establish an Inclusionary -- and by extension -- a Workforce In-Lieu Fee. A Workforce In-Lieu Fee for rental projects in this sub-area would have to be calculated on a project-by-project basis.
2. Rental Projects in Sub-areas "B" and "C" -- Calculated Workforce rents are higher than current market rents in these two sub-areas. Therefore, it can be concluded that the market is already providing rental housing at the Workforce level and any reduction in the Inclusionary In-Lieu Fee is not warranted.
3. Rental Projects in Sub-area "D" -- Calculated Workforce rents are only minimally lower than current market rents in this sub-area, resulting in an In-Lieu Fee reduction of less than 5% for projects which provide 30% Workforce units. Therefore, it can be concluded that the market is already providing rental housing at near the Workforce level. Given the minimal difference between current market and Workforce rents, the rental Workforce In-Lieu Fee for this sub-area should be determined on a project-by-project basis should the City choose to proceed with the proposed Amendment.

Ownership Market

In all sub-areas, the financial gap associated with the provision of 30% Workforce ownership units is significantly higher than the gap associated with the provision of 15% affordable moderate income ownership units. Although the gap per unit is smaller, the 30% requires twice as many units to be priced below market. As such, even if 100% of the current In-Lieu Fee is waived in conjunction with the provision of 30% Workforce ownership housing units, developers would still have a financial gap.

KMA calculated the gap between Workforce and market rates prices for a standard 2-bedroom ownership unit in a high-density condominium project as ranging between \$155,600 and \$364,000 per unit (depending on the sub-area). This gap is greater than the value of 100% of the In-Lieu Fee in each sub-area.

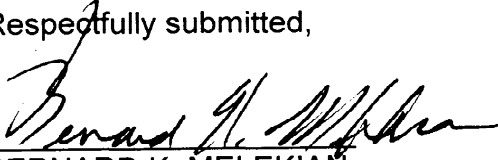
In order for Workforce ownership housing to be profitable to a private developer, the City would have to provide a direct financial subsidy in addition to full waiver of the In-Lieu Fee. Incentivizing Workforce housing in such a manner would divert funds from the production of affordable ownership housing that may potentially be produced under the Inclusionary Requirements.

Methodology

KMA's methodology to determine the Workforce housing In-Lieu Fee is summarized as follows:


1. Estimate the current market rents and sales prices for the four Inclusionary Sub-areas.
2. Calculate the maximum Workforce rents and sales prices based on 121% to 150% of AMI.
3. Estimate the affordability gaps associated with the development of Workforce units within projects to establish the Workforce In-Lieu Fee.
4. Subtract the estimated Workforce In-Lieu Fee gap from the current Inclusionary In-Lieu Fee to arrive at the net In-Lieu Fee applicable for projects with 30% Workforce housing.

Respectfully submitted,



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