

ATTACHMENT B

NOVEMBER 13, 2019 PLANNING COMMISSION STAFF REPORT (WITHOUT ATTACHMENTS)



PLANNING & COMMUNITY DEVELOPMENT DEPARTMENT

STAFF REPORT

DATE: November 13, 2019

TO: PLANNING COMMISSION

FROM: DAVID M. REYES, DIRECTOR OF PLANNING & COMMUNITY DEVELOPMENT DEPARTMENT

SUBJECT: ZONING CODE AMENDMENTS TO UPDATE REGULATIONS FOR SINGLE-ROOM OCCUPANCY USES

RECOMMENDATION:

It is recommended that the Planning Commission:

1. **Find** that the Zoning Code Amendments are exempt from the California Environmental Quality Act (CEQA) because they qualify for Categorical Exemption pursuant to Section 15303 (Class 5 – Minor Alterations to Land Use Limitations), and there are no features that distinguish this project from others in the exempt class; therefore there are no unusual circumstances;
2. **Adopt** the Findings for Zoning Code Amendments in Attachment A; and
3. **Recommend** that the City Council approve the Zoning Code Amendments as outlined in this report.

EXECUTIVE SUMMARY:

The Planning and Community Development Department was directed to prepare Zoning Code Amendments that would result in increasing the production of affordable housing, with a focus on reducing barriers to the creation of smaller residential units. Often referred to as Single-Room Occupancy or Micro-Units, these smaller residential unit types are typically marketed to single or two-person households, and are generally more affordable than traditional multi-family units, even when rented at market rates. This report provides an overview of the policy considerations for these amendments and makes recommendations for limited changes to development standards and review requirements that would provide greater flexibility and incentive toward the production of smaller residential unit types. The Planning Commission held a study session on this topic on July 24, 2019, and sought more information on a number of specific issues, which are addressed in this report.

BACKGROUND:

Terminology and Approach

Single-Room Occupancy and Micro-Unit

There is a broad conversation being held throughout many cities regarding the role of smaller housing unit formats in meeting housing needs of various populations. In this conversation, the term "Micro-Unit" is often used to refer to housing units that are distinctly smaller than what has typically been developed in the past. "Micro-Unit" does not currently have a standard, widely accepted definition, and the sizes of micro-units vary across jurisdictions, where minimum unit sizes range from zero to 450 square feet. There is also variation when it comes to amenities for micro-units. For example, New York City requires fully functional bathrooms and kitchens in each unit, San Francisco requires a minimum of 70 square feet to be dedicated to bathrooms and kitchens, Seattle and Portland allow these amenities to be shared in common areas, and Oakland prohibits kitchens within individual units. Research by the Urban Land Institute (Attachment B) looked at numerous examples of micro-unit projects and regulations across the nation, and developed the following general definition:

"...a micro-unit is a purpose-built, typically urban, small studio or one-bedroom using efficient design to appear larger than it is and ranging in size from as little as 280 square feet up to as much as 450 square feet (which roughly equates to 20 percent to 30 percent smaller than conventional studios in a given market)."

Pasadena's zoning code does not currently identify Micro-Unit as a land use, and does not have a definition for the term. Rather, the zoning code identifies SRO as a land use and includes unit size restrictions in its definition as follows:

"A facility providing dwelling units where each unit has a minimum floor area of 150 square feet and a maximum floor area of 220 square feet. These dwelling units may have kitchen or bathroom facilities and shall be offered on a monthly basis or longer."

Approach

During a study session with the Planning Commission on July 24, 2019, staff introduced the concept of micro-units and SRO units with the intent of finding the most effective way to provide greater flexibility and encourage the production of smaller units of housing that would be more affordable than typical market-rate development. After further research and investigation of the issues surrounding these housing types, it became clear that the features and regulation of micro-units as observed throughout the industry are not very different from SRO units as they are currently regulated in Pasadena, but for maximum unit size. Therefore, the approach in staff's recommendation is to make a relatively minor change to the existing definition of SRO's to allow slightly larger unit sizes more in line with current housing industry trends, and to streamline the permitting process within the Central District Specific Plan to encourage their production in locations where SRO's are most likely to succeed. This would allow additional flexibility for projects in the short-term. More in-depth discussion on creating a distinctly new land use type for micro-units with unique development standards, and potentially allowing them in more zones throughout the City, could be part of the Specific Plan Update process, which will consist of a more comprehensive view of future development throughout the City.

Need for these amendments

Role of SRO and Micro-Units in Pasadena's Housing Strategy

Regardless of the terminology used to describe them, smaller format housing units such as SRO's and micro-units have great potential to become an important part of the City of Pasadena's efforts to provide housing options that are affordable to a wide variety of households. In 2014, the Urban Land Institute published a comprehensive study evaluating the market performance and acceptance of micro-units across the United States (ULI Study, Attachment B). The ULI Study found that the top two reasons potential renters would choose a micro-unit are for lower rent compared with conventional studios and being in a desirable location/neighborhood. This means that micro-units, or in Pasadena's case, SRO's, are most likely to appeal to smaller households, most likely single professionals or students, who are looking to live in neighborhoods with easy access to jobs, transit, shopping, and entertainment.

Two SRO projects have been developed in Pasadena with the primary goal of providing income-restricted affordable housing. One is Centennial Place, which is the converted YMCA building located on Holly Street near City Hall. Centennial Place contains 144 units of permanent supportive housing affordable to very-low income households and below. The other SRO project in Pasadena is the Aqua Courtyard Suites, located at the corner of Green and Holliston, which contains 89 units affordable to low- and moderate-income households. These projects have provided much needed supply of affordable housing, and while current regulations do not require SRO projects to be 100% affordable, SRO projects are subject to Pasadena's inclusionary housing ordinance, which will require a minimum of 20% of units to be set aside as affordable once recent amendments to the ordinance go into effect. The ULI Study also found that micro-unit rents are typically 20-30% less than conventional studio units. Therefore, even if new SRO projects contain a significant portion of market-rate units, those units will likely be relatively more affordable than other product types on the market.

Thus, the goal of these amendments is to encourage the production of SRO units in order to provide a more affordable housing type in areas throughout the city that provide easy access to transit, jobs, shopping, and entertainment opportunities.

Current SRO Regulations

In recent months, the City has been approached by various developers seeking to build SRO projects that would be largely rented at affordable rates. Two major issues have been identified with existing SRO regulations that have become impediments to these projects moving forward. These include the maximum unit size, which is currently 220 square feet, and the requirement to obtain a Conditional Use Permit (CUP). Upon further study of the policy issues associated with these regulations, there is good evidence to support amending these regulations in order to facilitate the production of more SRO units.

ANALYSIS:

Land Use Regulations

SRO is currently a land use that is permitted without the requirement to obtain a Conditional Use Permit in the General Commercial (CG) zone, as well as various commercial-centric sub-areas of the East Colorado and East Pasadena Specific Plans. SRO is also a conditionally permitted use in all six sub-districts of the Central District Specific Plan, meaning that a Conditional Use Permit (CUP) is required in order for an SRO to be established in those areas. These regulations are summarized in the following table:

Zone	CD 1 through CD6	CG	ECSP CG-5	EPSP-d1-CG	EPSP-d2-CG	EPSP-d3-CG
Permitting	C	P	P	P	P	P
<i>P – Permitted</i> <i>C – Conditionally Permitted</i>						

In all zones where SRO is a permitted use, a CUP is only required within the Central District Specific Plan. The reason for this distinction is unclear, since SRO uses are not likely to result in greater impact to surrounding uses found in the Central District than they would be in the other zones where SRO is permitted by-right. Existing and allowed uses in the Central District Specific Plan include commercial, retail, institutional, urban housing, and mixed-use, all of which would be compatible with an SRO use. Furthermore, based on findings from the ULI Study, smaller housing unit types such as micro-units or SRO's are most attractive to potential tenants when they are located in urban areas that have easy, walkable access to shopping, entertainment, jobs, and transit options, all of which are prevalent in the Central District. Therefore, allowing SRO as a permitted use without a CUP in the CD 1 through CD 6 zones, consistent with other zones where SRO is allowed by-right, would be an appropriate strategy toward incentivizing the development of such uses.

One of the questions raised by the Planning Commission during the study session was whether it would be appropriate to allow SRO's or micro-units in residential zones where other types of housing are allowed, outside of the CG and CD zones. After further analysis of micro-unit typologies and existing development standards for residential zones, it became clear that SRO's or micro-units would not be able to meet many of the standards, most notably open space and density, and remain a viable product. Furthermore, most residential-only zones do not have as much access to the complementary uses and transit options that make micro-units attractive to tenants. While there may be opportunities to allow micro-units in other Specific Plan areas in the future, the Specific Plan Update program would be the appropriate process through which to vet these issues with those neighborhoods to determine the best path forward.

Development Standards

Density

One of the unique characteristics of SRO's is that while they are a residential use in nature, their density is regulated not by dwelling units per acre, but rather by floor area ratio (FAR). This approach acknowledges that SRO's have distinct characteristics that make them unlike typical residential uses, such as much smaller units, shared kitchen spaces and common areas, and often times include an on-site manager's unit or, in cases of permanent supportive housing projects, offices to provide services to residents. This approach is appropriate for SRO's going forward, and should be maintained in order to provide flexibility for providing the most number of units with appropriate levels of on-site amenities. In cases of mixed-use projects, where a proposed building may have a typical residential use, retail use, and an SRO component, the SRO units would not be counted toward the maximum allowed residential density but would be counted toward the maximum total building FAR. Thus, no change is recommended from existing density standards for SRO uses as part of these amendments.

Unit Size

The Pasadena zoning code currently requires floor area for an SRO unit to be a minimum of 150 square feet and a maximum of 220 square feet. While it is necessary to define appropriate minimum and maximum sizes, a review of other jurisdictions regulations as well as a number of recently proposed SRO projects indicates that the maximum of 220 square feet is severely limiting the production of SRO projects in Pasadena. The following table provides a comparison of Pasadena's SRO standards and micro-unit standards for various jurisdictions across the United States:

Place	Size Restrictions	Amenities
Pasadena	Min: 150 SF Max: 220 SF	Units must include bathroom and kitchen sink. May have shared shower or cooking facilities.
Santa Monica	Min: 150 SF Max: 375 SF	Project must include 4 SF per unit of common area.
Oakland	Min: 150 SF Max: None Avg: up to 175 SF	Units may not include cooking facilities. Projects must include 5 SF per unit or 250 SF of common area, whichever is greater.
San Francisco	Min: 220 SF Max: 220 SF	Units must include separate closet, bathroom with shower, kitchen sink, cooktop, and refrigerator
New York City	Min: 275 SF Max: 300 SF	Units must include full kitchen and bathroom facilities
Boston	Min: None Max: 450 SF (studio)	Pilot program, no set regulations on amenities.

Based on these examples, it appears that an appropriate maximum unit size would be 375 square feet. This size is consistent with the average unit sizes in projects that have been conceptually proposed to staff by various developers, including those seeking to provide 100% of the project units at affordable levels. The minimum unit size of 150 square feet remains appropriate and consistent with minimum habitability standards in California and other jurisdictions. Thus, staff recommends no change to minimum unit sizes for SRO's, and recommends increasing the maximum unit size from 220 to 375 square feet.

Parking

Existing regulations for SRO's in Pasadena require parking at a rate of one space per unit for market-rate projects, and one space per four units for affordable projects. In both cases, two spaces must be provided for the resident manager. Given the fact that all SRO units would be less than 650 square feet, the requirement for one space per unit would effectively be the same as the Central district Transit-Oriented Development standards for parking, with the exception of the SRO not having to comply with the guest parking provisions. Additionally, the significant parking reduction for affordable SRO projects is appropriate and also consistent with typical demand for affordable housing projects, which often have very minimal parking demand. Thus, no changes are recommended to parking standards for SRO units as part of these amendments.

Amenities

Currently, Pasadena's regulations require that at minimum, each SRO unit include a kitchen sink and a certain amount of counter top, as well as a private enclosed toilet of a minimum size. Beyond that, the zoning code allows flexibility to provide shared kitchens and shower facilities if each unit does not include full cooking or bathing amenities. With respect to common areas, the

zoning code requires a minimum of 10 square feet for each unit or 250 square feet, whichever is greater. This is a significantly larger requirement than Santa Monica and Oakland's common area requirements, and in-line with the ULI Study's findings on the importance of gathering spaces in successful micro-unit projects. Based on existing regulations requiring relatively large common areas, as well as the flexibility provided by allowing shared kitchen and shower facilities, staff does not recommend any changes to these regulations at this time.

Issues for Future Consideration

Expanding micro-units to new zones

Staff compared research on micro-unit trends to existing development standards for typical housing uses in Pasadena, and found that significant changes may need to occur to existing standards in order to accommodate micro-units in multi-family residential or mixed-use areas. Based on the ULI Study, micro-units are most successful when they are located in walkable neighborhoods with easy access to jobs, shopping, entertainment, and transit. It is unclear whether there is a strong enough desire for allowing such a relatively unique housing type in established multi-family neighborhoods, however there may be opportunity for allowing micro-units in future higher density, mixed-use, transit oriented neighborhoods. Given that staff is currently updating all eight Specific Plans, which includes extensive community engagement, that process would be the ideal venue in which to vet these issues with the community and incorporate micro-unit regulations in appropriate contexts.

Affordability

A major goal of encouraging the production of more SRO's is to increase the production of affordable housing. Micro-units generally have a 20-30% lower monthly rent than larger studio or one-bedroom units by virtue of their smaller size, making the total monthly cost of housing more affordable for smaller households. In some cases, these rents may be de facto affordable, in that the monthly rent may be the same or lower than the maximum allowed rent for income-restricted affordable housing. While market rents for micro-units are unlikely to be affordable to very-low or low-income households, they may be within the range of being affordable to moderate-income households depending on location. On the developer side, the ULI Study found that micro-units generate a significant rental income premium on a per square foot basis over more traditional sized units. In some cases, the rent premium for a developer can be 43%. In short, although the total monthly rent would be lower for renters because of the smaller unit size, developers would be generating stronger profit margins by increasing the total number of units within a project than would otherwise be feasible with traditionally sized units.

Pasadena's inclusionary housing requirements, which were recently amended to be increased to a total of 20%, would be applicable to any new SRO project. In light of the financial benefits for developers, it is worth considering whether a higher inclusionary requirement specifically for SRO's can be justified in order to ensure that as many units as possible remain affordable for specific populations, such as students, seniors, or other lower-income households within transit- and amenity-rich neighborhoods. It should be noted that upon approval of the recent amendments to the inclusionary housing ordinance, the City Council directed staff to conduct annual reviews of the ordinance and return with recommendations for refinement and updates based on shifting market conditions. Further analysis and study on the appropriate inclusionary rate for SRO's could be part of this annual review.

ENVIRONMENTAL ANALYSIS:

The Zoning Code Amendments have been assessed in accordance with the criteria contained in the CEQA Guidelines, and qualify for Categorical Exemption pursuant to Section 15305 (Class 5 – Minor Alterations in Land Use Limitations), and there are no features that distinguish this project from others in the exempt class; therefore there are no unusual circumstances. Section 15305 exempts projects that consist of minor alterations in land use limitations in areas with an average slope of less than 20 percent, which do not result in any changes in land use or density. The properties affected by these Zoning Code Amendments have an average slope of less than 20 percent. Furthermore, the Zoning Code Amendments would not introduce a new use that is not currently allowed. They would instead change the permitting process for a use that is currently conditionally permitted, making it a permitted use and thus eliminating the requirement for a CUP. The Zoning Code Amendments would also increase the maximum allowed floor area per unit for SRO uses, but would not change the maximum allowed density. Therefore, staff recommends that the Planning Commission find that the proposed Zoning Code Amendments are exempt from further review under the provisions of CEQA.

CONCLUSION AND RECOMMENDATIONS:

The goal of the amendments is to encourage greater production of a unique housing type that is generally more affordable, even when offered at market rates. The amendments would increase the maximum unit size for SRO uses from 220 square feet to 375 square feet, and would eliminate the requirement to obtain a CUP for SRO developments in CD zones, consistent with the land use regulations in the CG zones where SRO is also a permitted use that does not require a CUP. These amendments will provide flexibility and remove regulatory barriers in order to increase production of SRO units in areas of the City that have easier access to amenities and support a transit-oriented lifestyle. Staff recommends that the Planning Commission make the required findings for these Zoning Code Amendments and recommend adoption by the City Council.

Respectfully Submitted,



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Attachments:

Attachment A: Findings for Zoning Code Amendments
Attachment B: "The Macro View on Micro Units" (ULI Study)