

Agenda Report

November 23, 2020

TO: Honorable Mayor and City Council
FROM: Planning and Community Development Department
SUBJECT: Affordable Housing Policy and Production

RECOMMENDATION:

This report is for information only, there is no action required by the Council.

BACKGROUND:

Affordable Housing in California

According to the March 2020 California Affordable Housing Needs Report (Report) prepared by the California Housing Partners (Attachment A), there is a drastic need for more affordable housing in California, and the Covid-19 Pandemic has exacerbated this need. Some key findings from the Report indicate that there remains a high demand for affordable housing, the state's funding for affordable housing continues to be inadequate and income for renters has not kept pace with rental costs:

- *California needs 1.3 million more affordable rental homes to meet current demand;*
- *State funding remains well below 2012 levels, undermining progress in addressing homelessness;*
- *Median rent in California has increased 40% since 2000 while median renter household income has only increased by 8%, when adjusted for inflation.*
- *79% of extremely low-income (ELI) households are paying more than half of their income on housing costs compared to just 0.4% of above moderate-income households.*
- *Meanwhile, California spends nearly four times more on homeowners than on renters.*

Affordable Housing in Pasadena

The City of Pasadena has recognized the need for affordable housing and has taken a broad based policy approach to address this issue. The City has consistently gone above and beyond State housing requirements in establishing rules and regulations to increase the production of affordable housing. Under State law, all California cities are required to provide capacity for their fair share of existing and future regional housing need. Every eight years, this fair share assignment is determined through the Regional Housing Needs Assessment (RHNA) process. Jurisdictions are further required to adopt a Housing Element every 8 years that shows compliance with the RHNA process. Pasadena's current Housing Element runs from 2014-2021 and has been recognized by the State as a Recipient of the Urban Land Institute's National 2014 Robert C. Larson Housing Policy Leadership Award.

Although the City has adopted and implemented outstanding planning and policy efforts, the City does not actually *build* housing and, like most cities, has fallen short of producing the number of units identified in the RHNA process.

Existing Policies to Increase Affordable Housing

Currently, the City has **2,799** units that are deed restricted as affordable. The City has recognized the challenges with producing affordable housing and has developed and implemented the following regulations and policies to further promote this goal:

- **Inclusionary Housing:** The City requires ALL housing projects of 10 units or more set aside 20% of the units as affordable. For rental projects, the current requirement is that 10% of the units be deed restricted for up to moderate, 5% be set aside for up to low-income and 5% for very-low income. For-sale projects are required to restrict up to 20% of the units as moderate income. The City's inclusionary housing ordinance was adopted in 2001 and has resulted in the construction of **590** affordable units to date.
- **In-lieu Fees:** As an alternative to providing affordable units on-site as specified above, a developer may choose to pay the City an in-lieu fee. The City updated its in-lieu fee in 2019 and, since the inception of the program, has collected **\$26.3M** from which revenues the development, preservation, or rehabilitation have subsidized a total of 488 affordable units.
- **Funding Affordable Housing Projects:** The City uses in-lieu money as well as local Housing Successor, state and federal dollars to assist in the production of affordable housing. From 2008 to present, **409 affordable units** (including 328 very low income units) were built, rehabilitated or preserved with City financial assistance totaling **\$25.2M**. Also, within the past year, the City committed approximately \$7M to assist the development of **134** permanent supportive housing units for homeless persons. Recently, the City initiated a pilot program

to incentivize the construction of accessory dwelling units (ADUs) including ADUs to house very low income persons with rent subsidies.

- Establishment of Local Menu: In an effort to streamline and further incentivize the production of affordable housing, the City recently adopted a menu of development incentives for projects with on-site affordable housing. If a project stays “on the menu” they are allowed to go straight to Design Review without another discretionary hearing.
- Conversion of Hotels to Affordable Housing: The City has established regulations to allow, through a Conditional Use Permit, the conversion of certain hotels to be converted to affordable transitional housing units. This is a needed housing type that is difficult to build new. While no such projects have been converted thus far, the regulations are in place should the opportunity arise.
- Establishment of SROs as an Allowed Land Use: The City recently changed regulations to allow SROs to be permitted without a Conditional Use Permit. While SROs are not required to be deed restricted as affordable, because of their small size (maximum 350 square feet) most SROs will likely be affordable at the moderate income level.

These policies and regulations have helped to spur affordable housing. In addition to the units indicated above, there are 907 affordable units (See Attachment B, Affordable Housing Units in the Pipeline) that are either under construction or in the planning stages.

Challenges to Affordable Housing Production

Since affordable housing is produced by the private market (whether it is for-profit housing developers or non-profit affordable housing developers) the production of affordable housing often follows a larger market trend and tracks with the economy. As has been discussed with the Council previously, building affordable housing can be very expensive. Several recent examples show that costs range from \$416K to \$618K per unit, including land costs. In addition to the high construction costs, Pasadena is largely built out, resulting in a scarcity of available land for affordable housing. In addition the State’s funding for affordable housing is inadequate to assist cities in meeting RHNA requirements and remains well below 2012 levels.

Additional Opportunities to Increase Affordable Housing

Absent additional state funding, options for increasing affordable housing have focused on policy efforts. While the City’s policies to address affordable housing remain progressive, there are other steps that could be taken to further increase affordable housing opportunities include but are not limited to:

- Affordable Housing on Religious Institution Property: Staff is currently evaluating potential options to amend the certain regulations to allow affordable housing on property owned and operated by a religious institution.
- Revising the Local Menu Option: Staff will be bringing forward a one-year review of the local menu program early next year.
- Rezone PUSD Property to Allow Multiple Types of Housing: Currently, all PUSD property is classified within the PS Zoning District. The PS District allows Senior Affordable Housing and Residential Care Facilities with approval of a Conditional Use Permit. Other housing types are allowed as ancillary uses to a principle use.

FISCAL IMPACT:

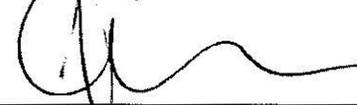
There is no fiscal impact associated with this action. This item is for information purposes only.

Respectfully submitted,



DAVID REYES
Director of Planning & Community
Development Department

Concurred by:



for _____
BILL HUANG
Director of Housing Department

Approved by:



for _____
STEVE MERMELL
City Manager

Attachment:

- Attachment A – California Affordable Housing Needs Report
- Attachment B – Affordable Housing Pipeline