Inclusionary Housing

Introduction

November 6, 2023
Background

• 2023 – 2031 Regional Housing Needs Allocation (RHNA)

<table>
<thead>
<tr>
<th>Very Low</th>
<th>Low</th>
<th>Moderate</th>
<th>Above Moderate</th>
<th>RHNA</th>
</tr>
</thead>
<tbody>
<tr>
<td>669</td>
<td>385</td>
<td>200</td>
<td>519</td>
<td>1,773</td>
</tr>
</tbody>
</table>

• 2023 – 2031 Housing Element program
  • Develop an inclusionary housing policy / ordinance with an in-lieu fee option
    • Goal: Develop affordable housing incentives and appropriate inclusionary requirements to help facilitate affordable housing without significantly constraining housing production

• RFP process – selected ECONorthwest
  • Economic background and experience in understanding housing markets, barriers to affordable housing, impacts of inclusionary housing requirements on the financial feasibility of new projects
  • $77,133 from Housing Element budget unspent funds
Inclusionary Housing

• Inclusionary housing introduction outline
  • Objective
  • Legal context of inclusionary housing
  • Synopsis of Gilroy's affordable housing needs
  • Regional context of inclusionary housing
  • Concept of inclusionary housing feasibility
  • Process and milestones for inclusionary housing feasibility study

• Public outreach and community engagement
  • Affordable housing policy website: gilroy.city/AHP
  • Community meeting: November 7, 2023, 6 – 7:30 PM, Council Chambers, English with Spanish translation
A trusted thought partner
Public policy research for better human outcomes

Chris Blakney

James Kim
Establishing the Problem: Why should we explore this policy?
Palmer (2009): Led to halt in inclusionary practices due to conflict with Costa Hawkins

CA Building Industry Association (2015): CA Supreme Court finds inclusionary policies are not exactions

Dartmond Cherk (2019): Challenged in-lieu fees. Supreme Court declined to hear

AB 1505 (2017): Allows inclusionary, requires cities to offer alternatives to compliance

AB 491 (2022): Requires integration of below market rate (BMR) units

AB 571 (2022): Prohibits additional fees on affordable housing units

HCD Authority (via AB 1505): HCD has authority to require economic feasibility or review the ordinance under specific conditions
- Rental only
- 80% of AMI and > 15% set-aside
- Not meeting moderate income units in RHNA
## Increase in Planned Capacity Target

<table>
<thead>
<tr>
<th></th>
<th>Very Low Income</th>
<th>Low Income</th>
<th>Moderate Income</th>
<th>Above Moderate Income</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>RHNA 5</td>
<td>236</td>
<td>160</td>
<td>217</td>
<td>475</td>
<td>1,088</td>
</tr>
<tr>
<td>Building Permits</td>
<td>217</td>
<td>729</td>
<td>100</td>
<td>1,559</td>
<td>2,605</td>
</tr>
<tr>
<td>+/-</td>
<td>-19</td>
<td>+569</td>
<td>-117</td>
<td>+1,084</td>
<td>+1,517</td>
</tr>
<tr>
<td>RHNA 6</td>
<td>669</td>
<td>385</td>
<td>200</td>
<td>519</td>
<td>1,773</td>
</tr>
<tr>
<td>Change in RHNA</td>
<td>+183%</td>
<td>+140%</td>
<td>-8%</td>
<td>+9%</td>
<td>+63%</td>
</tr>
</tbody>
</table>

The City is required to plan for a larger share of regional housing need.

Source: City of Gilroy Housing Element 6th Cycle; permit data to 2022 from City of Gilroy
## Gilroy is Growing Quickly

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>2010</th>
<th>2023</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gilroy</td>
<td>48,821</td>
<td>60,078</td>
<td>23%</td>
</tr>
<tr>
<td>Hollister</td>
<td>34,928</td>
<td>42,891</td>
<td>23%</td>
</tr>
<tr>
<td>Morgan Hill</td>
<td>37,882</td>
<td>45,892</td>
<td>21%</td>
</tr>
<tr>
<td>Watsonville</td>
<td>51,199</td>
<td>49,876</td>
<td>-3%</td>
</tr>
<tr>
<td>Santa Clara County</td>
<td>1,781,642</td>
<td>1,886,079</td>
<td>6%</td>
</tr>
<tr>
<td>California</td>
<td>37,253,956</td>
<td>38,940,231</td>
<td>5%</td>
</tr>
</tbody>
</table>

Migration patterns are driving growth to Gilroy.

Source: CA Department of Finance
Decreasing Affordability

Source: Redfin; average of all units, most of which are single-family units.
Many Households Cannot Afford Today’s Prices

35% of homeowners are cost burdened, spending more than 30% of income on housing costs

52% of renters are cost burdened, spending more than 30% of income on housing costs

Source: American Community Survey (ACS)
## Example Policies in Other Cities

<table>
<thead>
<tr>
<th>City</th>
<th>Requirement (rental)</th>
<th>Fee in lieu (rental)</th>
<th>Requirement (ownership)</th>
<th>Fee in lieu (ownership)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Hill (*less in downtown)</td>
<td>15% of units @ 50% and 80% of AMI</td>
<td>$29/sf</td>
<td>15% of units @ 120% of AMI</td>
<td>$19.70/sf</td>
</tr>
<tr>
<td>Campbell</td>
<td>15% of units @ 80% of AMI</td>
<td>$34.50/sf</td>
<td></td>
<td>$21.50/sf</td>
</tr>
<tr>
<td>Milpitas</td>
<td>15% of units @ 80% of AMI</td>
<td>$48.26/sf</td>
<td></td>
<td>$48.26/sf</td>
</tr>
<tr>
<td>East Palo Alto</td>
<td>20% of units @ 35%, 50%, and 60% of AMI</td>
<td>$54K/unit</td>
<td>20% of units @ 80% and 120% of AMI</td>
<td>$52K/unit</td>
</tr>
</tbody>
</table>
Cities with Inclusionary Policies

Map by Silicon Valley At Home

© OpenStreetMap contributors, © CARTO

Map by Silicon Valley At Home
What are inclusionary housing requirements in similar housing markets?
How is the demand for housing (i.e., rents and prices) changing?
Local Incomes vs. Regional AMI

State Defined AMI

- 30%: Extremely Low Income
- 50%: Very Low Income
- 80%: Low Income
- 120%: Moderate Income
- 150%: Workforce and Older Market-rate (incl. luxury)
- New market-rate (incl. luxury)
• Santa Clara County Area Median Income (AMI) (4-person): $181,300
• Gilroy Median Household Income: $130,400 (72% of AMI) (source: 2021 ACS, inflation adjusted)
How can we determine the "right" policy?
Tradeoffs in Inclusionary Housing Policy

Affordability (% of AMI)

- Few
- Many

Affordable Units ("Set-Aside")

- Few
- Many

120%

30%
Inclusionary Housing Feasibility

DEVELOPMENT VALUE

Net operating income from multifamily rents

OR

Sales value of ownership units

DEVELOPMENT COST

Soft Costs (planning, design, fees)

Hard Costs (Construction)
Inclusionary Housing Feasibility

Net operating income from multifamily rents

OR

Sales value of ownership units

DEVELOPMENT VALUE

Residual Land Value (RLV)

Soft Costs (planning, design, fees)

Hard Costs (Construction)

DEVELOPMENT COST

Residual Land Value: The maximum amount that a developer can pay for land ("land budget")
Inclusionary Housing Feasibility

Policy Impact: Reduction in achievable value

DEVELOPMENT VALUE

Net operating income from multifamily rents
OR
Sales value of ownership units

RLV

DEVELOPMENT COST

Soft Costs (planning, design, fees)

Hard Costs (Construction)
Policy Impact:
Reduction in achievable value

Net operating income from multifamily rents
OR
Sales value of ownership units

DEVELOPMENT VALUE

RLV

Soft Costs (planning, design, fees)

Hard Costs (Construction)

DEVELOPMENT COST

Land budget must meet the reduction in value (all else equal)
Landowners are willing to accept lower prices (not common)

Other uses outbid residential

Development does not occur at all (common)
Inclusionary Housing Feasibility

**DEVELOPMENT VALUE**

- Net operating income from multifamily rents
- OR
- Sales value of ownership units

**DEVELOPMENT COST**

- Soft Costs (planning, design, fees)
- Hard Costs (Construction)

**RLV**

**Incentive Impact:** Policy that offsets all or a portion of foregone income
Inclusionary Housing Feasibility

Development Value

- Net operating income from multifamily rents
- OR
- Sales value of ownership units

Development Cost

- Hard Costs (Construction)
- Soft Costs (planning, design, fees)

RLV

Residential development with incentives is more feasible
Milestones

Policy Review
Existing Conditions Analysis
Market Assessment

Developer Interviews
Feasibility Testing

Public and Developer Feedback

Policy Recommendations

July - August
September - October
November
Spring 2024
Community Meeting Tomorrow

Join us for a more affordable tomorrow in GILROY

Are you passionate about making our beautiful city more affordable and inclusive for all? We invite you to a public meeting to introduce the concepts of inclusionary housing, where new developments must include units that are affordable, promoting fairness and prosperity within our community. By attending, you can help shape the future of Gilroy’s housing landscape.

The City of Gilroy is looking for ways to make the city a more affordable place to live. One solution might be an INCLUSIONARY HOUSING POLICY that requires new developments to reserve a percentage of the total units for lower-income households.

Let’s unite, share ideas, and pave the way for an affordable tomorrow.

CITY OF GILROY COUNCIL CHAMBERS
7351 Rosanna Street
Tuesday November 7th, 6–7:30pm

gilroy.city/AHP
See you there!

For more information:

Únase con nosotros para un mañana más asequible en GILROY

¿Estás apasionado por hacer que nuestra hermosa ciudad sea más asequible e inclusiva para todos? Lo invitamos a una reunión pública para poder presentar los conceptos de la vivienda incluyente, donde los nuevos desarrollos deben incluir unidades que sean asequibles, promoviendo la equidad y la prosperidad dentro de nuestra comunidad. Al asistir, puede ayudar a dar forma al futuro de la vivienda en Gilroy. Únámonos, compartamos ideas y hagamos el camino para un mañana asequible.

La ciudad de Gilroy está buscando formas de hacer la ciudad más asequible para vivir. Una solución podría ser una POLÍTICA DE VIVIENDA INCLUYENTE que requiera que los nuevos desarrollos reserven un porcentaje de las unidades para hogares de bajos ingresos.

La reunión estará en inglés con traducción al español.

Habrá comida ligera.

¡Hasta entonces!

cámaras de consejo de la ciudad de gilroy
7351 Rosanna Street
el martes, 7 de noviembre, 6–7:30pm

gilroy.city/AHP
Para más información
Key Features of Inclusionary Housing Ordinance (IHO)

- Set Aside: % of units that are required to be affordable

- Below market rate (BMR): Below moderate income (120% of AMI)
  - Area Median Income (AMI): Typical regional household income defined and annually updated by the U.S. Department of Housing and Urban Development (HUD) and California Department of Housing and Community Development (HCD)

- “Affordable”: Generally defined as no more than 30% of annual household income is spent on housing-related expenses (e.g., rent and utilities)

- Term of affordability: Minimum number of years units need to be affordable for

- Alternative compliance methods: Options for supporting housing affordability without an on-site development of affordable units