

Inclusionary Housing in Santee

Is there a need for a Program to Produce Deed Restricted, Publicly Subsidized Housing to Meet the City's RHNA allocation

January 7, 2021



BIA's Position

- **The imposition of fees and/or price controls on a single industry cluster in the name of affordable housing is unjust and economically punitive, and ultimately *fails to address* the community's affordable housing needs.**
- **Incentive based, providing targeted regulatory relief to reduce costs will expedite housing creation.**
- **Increased supply will reduce overall housing costs**

What is Inclusionary Housing

- Targeted to incomes below 120% of AMI
- Intended to alleviate *societal* need (affordability)
- **Government price controls**
- Most projects target incomes below 60% AMI
- Intended to be indistinguishable from surrounding development
- Costs more to build than market rate housing
- Results never meet demand

Definitions

Inclusionary Housing

- refers to a broad range of practices and policies directed at securing affordable housing in mixed-income projects through development regulations and approval process.
- A policy **mandating** a certain type of housing built, based on income

Affordable Housing

- is housing deemed affordable to those with a median household income as rated by country, province, region or municipality by a recognized Housing Affordability Index
- A description of a ***type*** of housing, based on income

Difference Between Inclusionary and Market Rate For Sale Housing

Market Rate

- Market dictates size & type
- Combination of equity and borrowed funds to build
- Efficient to build & sell (responds to market demands)
- Simple to find buyers
- Buyer benefits from increase in equity

Affordable

- Ordinance dictates size & type
- Combination of equity, borrowed funds, and ***public subsidy*** to build
- Difficult to sell (find qualified buyers)
- Buyer prevented from benefitting from increase in equity
- Inefficient to build at smaller size projects

Housing Affordability Problem in San Diego Region

- **General Data**
 - **C.A.R. Housing Affordability Index at 27% (C.A.R., 3rd quarter 2020)**
 - **San Diego ranks 170th out of 174 metro markets in terms of Housing Affordability (National Assn of Realtors, 3rd quarter 2019)**
- **Market driven costs (land, labor & materials)**
- **Regulatory costs – 40% (or more) of housing costs** (source: PLNU Study, 2015)
- **Government must assist in affordability issue**

Cost of Housing

1. Essential Costs – Market Driven

- Land
- Building Materials, Labor
- Indirect Costs – e.g. architecture, engineering, financing costs, legal fees

2. Optional Costs – Controllable by buyer

- Upgrades - finishes

3. Regulatory costs – Controllable by State & Local Governments

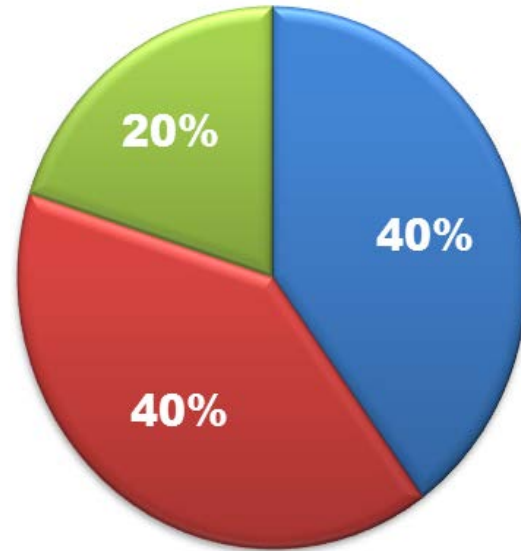
- CEQA Compliance
- Code compliance, inspections
- Impact Fees
- Carrying costs during entitlement process

Regulatory Costs

- 1. Regulatory Costs contribute 25% (NAHB Study) to 47% of the cost of housing.**
Source, PLNU Study
- 2. Cities are required to provide affordable housing---Should not exacerbate the problem with regulatory hurdles.**
- 3. Regulations should be subject to cost-benefit analysis.**
- 4. Eliminate costs that don't add value-e.g. prepayment of Impact Fees vs. payment at C of O.**
- 5. Cities must be part of the solution of the housing affordability problem.**

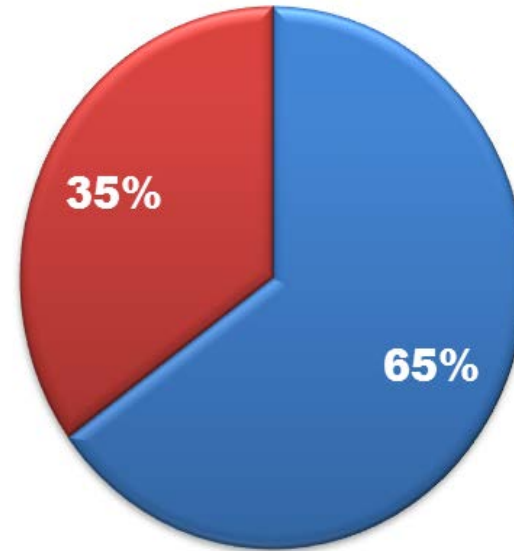
Understanding Housing Financing

Affordable Housing



■ Bank Loan ■ Tax Credits ■ Gap (subsidy)

Market Rate Housing



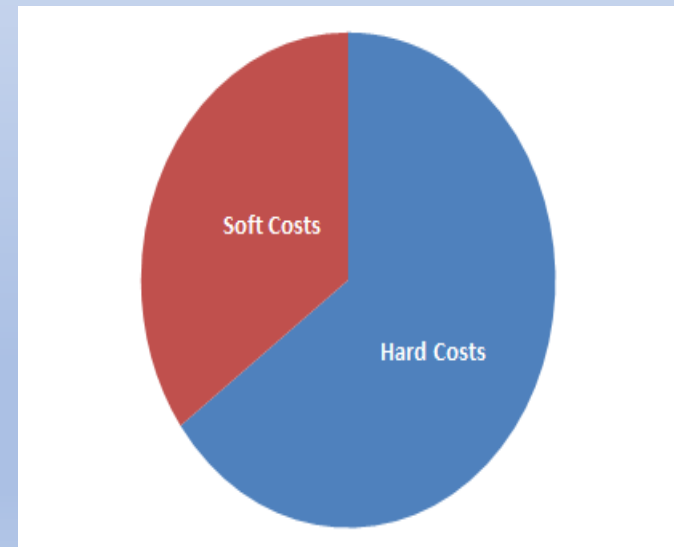
■ Bank Loan ■ Builder Equity

Understanding Affordable Housing Financing

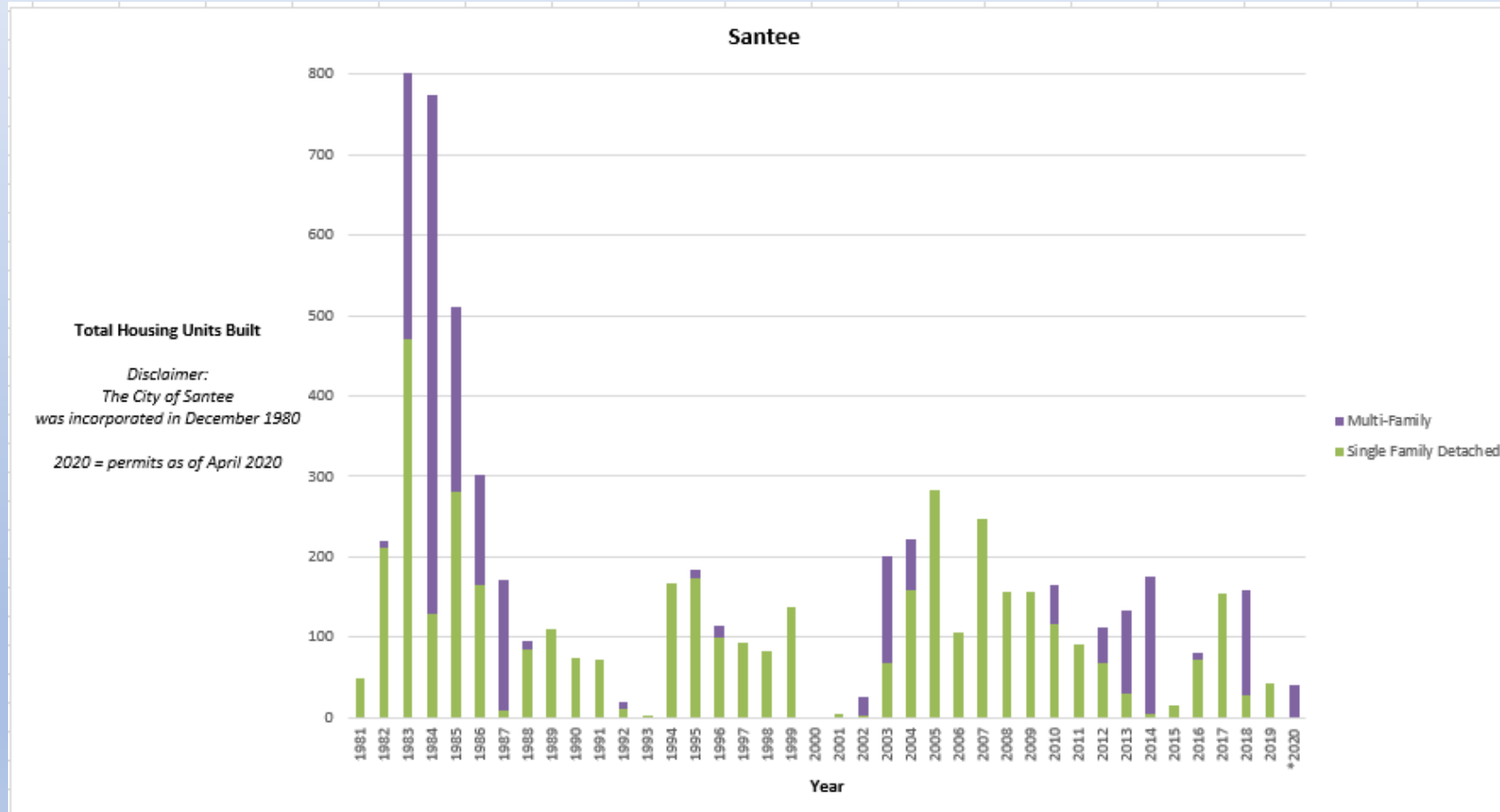
Mechanics of Affordable Housing

- Lower AMI → reduced rents → lower leverage
(ability to borrow)
- Net Operating Income (NOI) & interest rates determine amount of debt financing available
- Affordable housing development hinges on the ability to “fill the financing gap.”
- Financing gap in typical garden apartment is approx. \$90-150K/unit (if done efficiently)

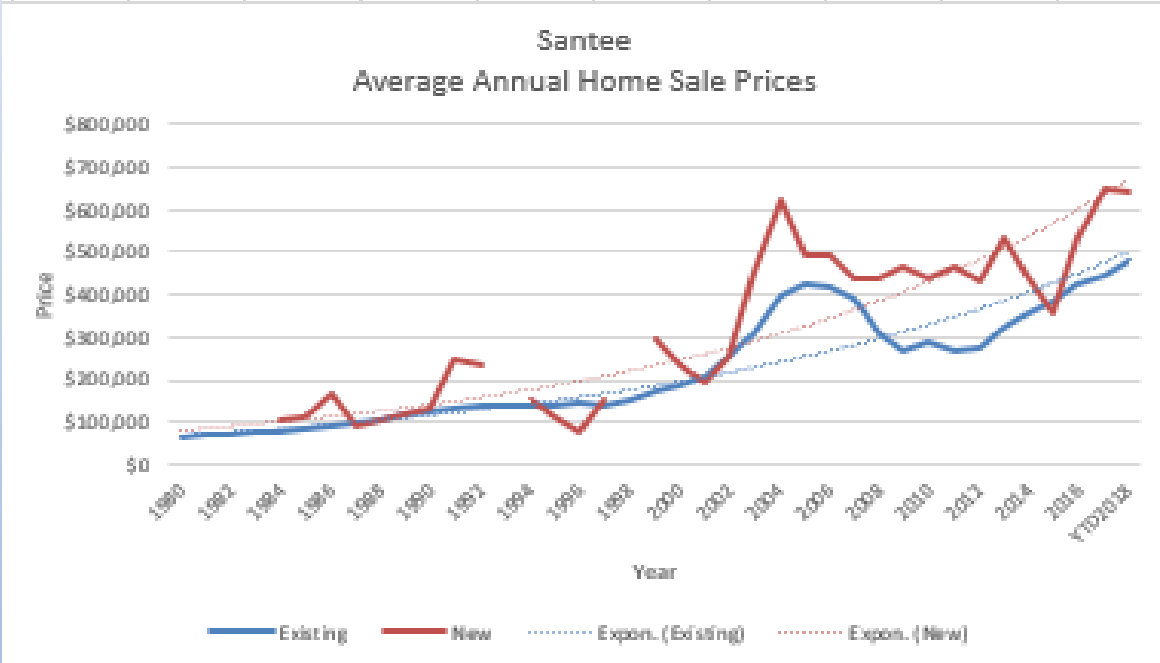
Actual Construction Costs



Building Permit Activity in Santee 1981-2020



Housing Affordability in Santee



Current Inclusionary Housing Programs

- **Do they work----why/why not?**
 - Do they produce needed units?
 - Do they meet the need?
 - Is it efficient?
 - Do they contribute to the problem?
 - Is it user friendly (for builders, staff & residents)?
 - Is it fair? (do all City residents pay or only new buyers/renters?)

So, Who Pays For Inclusionary Housing?

- Mandate costs are spread over entire development
- Costs are passed on to end user (BUYER/RENTER)
- **Developer never pays, just passes on the cost!**