

South Pasadena IHO In-Lieu Fee Study

South Pasadena Planning
Commission

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The Economics of Land Use

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South Pasadena Inclusionary Housing

- City Council approved an Inclusionary Housing Ordinance in May 2021
- Inclusionary Housing policies require that a certain proportion of dwelling units within a housing development are reserved for sale or rent to extremely low, very low, low or moderate income households by a deed restriction recorded against the property



South Pasadena Inclusionary Housing

- In South Pasadena, residential projects of 3 or more units are required to provide 20% of the base number of housing units as affordable
- Affordability requirements vary by size and tenure:
 - Rental Projects up to 10 units: Low, very low and moderate options
 - Rental Projects with 11+ units – 10% extremely/very low and 10% low
 - Ownership Projects: Moderate for-sale or very low/low rental



Alternatives to On-Site Provision

- Build off-site units
- Rehabilitate existing units
- Donate land (with Council decision to accept offer)
- In-lieu fee option



South Pasadena In-Lieu Fee Policy

- South Pasadena's Inclusionary Housing Ordinance only allows payment of in-lieu fees for (1) fractional required affordable units for rental projects; and (2) all required affordable units for for-sale projects.
- *“The in-lieu fee shall be established in an amount that is equivalent to the cost of providing a comparable unit for each unit that would have been provided in the project based on the requirements of this section.”*



Affordable Housing In-Lieu Fees

- Fee level reflects the financial subsidy (or “gap”) needed to finance construction of the affordable units that the development is not providing on-site
- Financing Gap = Cost to Build Unit – Value of the Unit (at affordable rents/prices)



Financing Gap: Affordable Unit Prototypes

Product Type	Construction Type	Unit Type	Unit Size	Parking
For Sale	20/u acre Townhome	2BR	1,200 SqFt	Attached garage
Rental	55/u acre Wood Frame	2BR	1,000 SqFt	1 per unit



Financing Gap: Affordability Assumptions

Product Type	% Affordable Units	Affordability Levels	% AMI Range	Pro Forma Affordability Target (Max Income for 3 Person HH)	Expense Threshold (% of gross HH income)
For Sale	20%	Moderate (MOD)	80 - 120%	110% AMI (\$79,200) <u>OR</u> 120% AMI (\$86,400)	Not to exceed 30% (PITI + HOA)
Rental	20%	Very Low (VLI)	30 - 50%	50% AMI (\$53,200)	Not to exceed 30% (Rent + Utilities)
		Low (LOW)	50 - 80%	80% AMI (\$85,200)	
		Moderate (MOD)*	80 - 120%	120% AMI (\$86,400)	

* Moderate-income rental units are only allowed for projects with 10 or fewer units.



Financing Gap: Affordable Rents/Prices

Income Category	% of AMI	Adjusted Annual 3-Person HH Income [1]	Total Max Annual Spending on Housing [2]	Annual Spending on Other Housing Costs [3]	Maximum Aff. Monthly Rent or Mortgage Payment [4]	Maximum Affordable Sale Price [5]
Very Low (Rental)	50%	\$53,200	\$15,960	\$2,748	\$1,101	N/A
Low (Rental)	80%	\$85,200	\$25,560	\$2,748	\$1,901	N/A
Moderate (Rental)	120%	\$86,400	\$25,920	\$2,748	\$1,931	N/A
Moderate (For Sale)	110%	\$79,200	\$23,760	\$8,400	\$1,280	\$317,000
Moderate (For Sale)	120%	\$86,400	\$25,920	\$8,400	\$1,460	\$362,000

[1] HUD adjusts the maximum incomes for very-low and low-income households in Los Angeles County up by 148%. This type of adjustment is made in counties with unusually high or low household incomes, uneven housing cost-to-income ratios, or other considerations.

[2] Assumes a housing cost to income ratio of 30 percent.

[3] For rental units, other housing costs include utility expenditures consistent with the Los Angeles County CDA limits for a 2-bedroom unit (assumes use of electricity for heating and cooking). Utility costs effective July 2021. For for-sale units, other housing costs include estimated property taxes, homeowners insurance, and homeowner association (HOA) fees.

[4] Maximum income available to pay for rent or mortgage and interest after allowance for other housing costs.

[5] Affordable sale price is based on a 30-year mortgage with 10% downpayment and 3.5% annual interest rate.

Sources: Los Angeles County Community Development Authority; California Housing and Community Development; Economic & Planning Systems, Inc.

Market Rate Estimates for South Pasadena:

➤ \$3,900/month rent for two-bedroom apartment

➤ \$912,000 sale price for two-bedroom townhome



Financing Gap: Results

Item	Very Low Income Rental (50% AMI)	Low Income Rental (80% AMI)	Moderate* Income Rental (120% AMI)	Moderate Income For Sale (110% AMI)	Moderate Income For Sale (120% AMI)
Development Cost per Unit (incl. land, construction, soft costs, and profit/return)	\$670,000	\$670,000	\$670,000	\$588,000	\$588,000
Maximum Affordable Monthly Rent or Mortgage Payment (net of other housing costs)	\$1,101/ month	\$1,901/ month	\$1,931/ month	\$1,280/ month	\$1,460/ month
Value per Unit (NOI/Cap Rate or Sale Price)	\$181,000	\$421,000	\$355,000	\$317,000	\$362,000
Financing Gap per Unit	(\$489,000)	(\$249,000)	(\$315,000)	(\$271,000)	(\$226,000)
Financing Gap per Affordable Unit SqFt	\$489 (1,000 SqFt)	\$249 (1,000 SqFt)	\$315 (1,000 SqFt)	\$226 (1,200 SqFt)	\$188 (1,200 SqFt)

* Moderate-income rentals are assumed to pay property taxes, low- and very low-income rentals are not



South Pasadena In-Lieu Fee Calculations

- Rental projects may only pay in-lieu fees for fractional required units
 - E.g. 32-unit project owes 6.4 units; can either build 7 units OR build 6 units, pay fee on 0.4
- For-sale projects have the option to pay in-lieu fees for all required affordable units
 - E.g. 32-unit project could build 7 units, OR build 6 units and pay fractional fee on 0.4 units, OR could pay in-lieu fee for all 6.4 units required
- Any project paying the fee would calculate the fee as follows:
 - Affordable units required
 - Affordable units provided
 - = Units on which In-Lieu Fee must be paid
 - X Avg. Project Unit Size (Sq. Ft.)
 - X In-Lieu Fee (Financing Gap per Affordable Unit Sq. Ft.)
 - = Total In-Lieu Fee



In-Lieu Fee: Preferred Direction from Council

- Rental Housing
 1. Fee on project up to 10 units based on low-income subsidy
 2. Fee on projects 11+ units based on income requirement of specific fractional unit required (low-income or very-low income)
- For-Sale Housing
 - Fee based on MOD Income units
 - Can be based on 110% or 120% of AMI – not yet determined



Rental In-lieu Fee Calculation Examples

(based on 1,000 square-foot average unit size)

Project Size	Affordable Units Required	On-site units in project	Unit Fraction for Payment	Fee Level	Fee Owed
3 units	0.6	0	.6	\$289/sq. ft.	\$149,400
9 units	1.8	1	.8	\$289/sq. ft.	\$199,200
22 units	4.4 (2 LOW, 2.4 VLI)	4 (2 LOW, 2 VLI)	.4	\$489/sq. ft.	\$195,600
27 units	5.4 (2.4 LOW, 3 VLI)	5 (2 LOW, 3 VLI)	.4	\$289/sq. ft.	\$99,600
54 units	10.8 (5.8 LOW, 5 VLI)	10 (5 LOW, 5 VLI)	.8	\$489/sq. ft.	\$391,200 (VLI)
59 units	11.8 (5.8 LOW, 6 VLI)	11 (5 LOW, 6 VLI)	.8	\$289/sq. ft.	\$195,600 (LOW)



For-Sale In-lieu Fee Calculation Examples (based on 1,500 square-foot average unit size)

Project Size	Affordable Units Required	On-site units in project	Unit Fraction for Payment	Options	
				#1a: Based on 110% AMI \$226/SqFt	#1b: Based on 120% AMI \$188/SqFt
3 units	0.6	0	.6	\$203,400	\$169,200
9 units	1.8	1	.8	\$271,200	\$225,600
22 units	4.4	4	.4	\$135,600	\$112,800
27 units	5.4	5	.4		
54 units	10.8	10	.8	\$271,200	\$225,600
59 units	11.8	11	.8		



Next Steps

- Receive comments from Planning Commission
- Draft resolution including proposed fee levels will be brought to the City Council for action in May



Discussion / Q&A



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Thank You!



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