The Inclusionary Housing Experience in Southern California:

An Evaluation of the Programs in Los Angeles and Orange Counties

A Research Report for the John Randolph Haynes and Dora Haynes Foundation

August 2006

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Executive Summary

The city of Los Angeles may introduce an inclusionary zoning ordinance to provide affordable housing in the city. The proposal would require developers to set-aside some housing units in new developments for low-income groups. The idea is controversial. It is supported by most housing advocates but criticized by many in the business community. Some City Councilmembers support the proposal but the support is waning. At the same time, seventeen cities in Southern California (Los Angeles and Orange Counties) already have inclusionary housing programs. Their experience, however, is not well documented, the available data are incomplete and inconsistent, and existing analyses are contradictory. In this report we present primary and secondary data on inclusionary housing, and evaluate the efficacy of the existing programs.

The key research question addressed in this report focuses on the experience of inclusionary zoning-based housing programs in Los Angeles and Orange Counties. We attempt a tripartite evaluation to assess how successful the programs are. Our analysis includes an evaluation of the structure and dimensions of inclusionary housing programs; an assessment of their outcomes and direct effects in the production of affordable housing; and an analysis of how the inclusionary housing requirement affects the supply of housing in their cities.

Our research indicates that the seventeen cities have a variety of programs but they are not heavily punitive: the set-aside requirements typically lie within the 10-20% range, with options to contribute in-lieu fees instead of constructing on-site affordable housing, and with cost-offsets, including density bonuses. Depending on the inclusionary housing requirements, we have divided the cities into four categories, ranging from cities with voluntary programs to cities with more demanding programs. We note two key weaknesses in the structure of many of the programs. First, some jurisdictions have low in-lieu fees that

fail to cover even a third of the cost of construction of an affordable unit, and second, few cities target housing for very-low income groups.

The absolute number of affordable housing units produced through the inclusionary programs seems less than impressive. However, when compared with the affordable housing produced through the Low Income Housing Tax Credits, the relative importance and magnitude of the inclusionary housing programs in their jurisdictions becomes more apparent. A key problem in estimating the accomplishments of inclusionary housing programs is the difficulty in calculating the equivalent housing produced through the in-lieu fees collected by cities. The research also shows that some cities are creatively using their in-lieu fees to leverage additional funds. However, some cities have not used the collected fees, and the option of in-lieu fees can detract from the possibility of economic integration that inclusionary zoning presents.

The research shows that cities with voluntary programs are less likely to be successful in producing affordable housing. Irvine is the key exception, but in most of the region's voluntary cities, there is almost no production of affordable housing through the inclusionary programs. In addition, among the mandatory programs, the cities with the less demanding requirements were the least successful in producing affordable housing. Our results show that the cities we classified as more demanding, and the cities we categorize as moderately demanding, are successfully producing affordable housing. With our data, however, we are unable to ascertain what type of program is more productive, and we recommend additional research.

A key concern of the critics of inclusionary housing is that it drives away developers and exacerbates the housing problem by reducing the supply of housing. However, we found that housing construction in our cities is significantly related to the regional housing market. In some of our regression models, inclusionary housing variables (we examined the presence and number of years of inclusionary housing) also have a significant effect on housing production, measured through housing permits. However, where the effect of inclusionary housing variables is significant, their contribution to the robustness of our regression models is very weak. This suggests that the claims and concerns about inclusionary housing's adverse effects on housing production are overplayed. Nonetheless, we recommend additional research and caution against extremely punitive inclusionary housing requirements.

To further understand the effect of inclusionary housing requirements on the market, we also evaluated the performance of the seventeen inclusionary housing cities in meeting their regional housing needs as assessed by the Southern California Association of Governments (SCAG). Almost all cities have issued building permits in excess of their assessed need. There are three exceptions: one city with a demanding inclusionary program, the second with a less demanding program, and the third with a voluntary program. It is not clear, however, that their inability to meet the Regional Housing Needs Assessments (RHNA) is due to the inclusionary housing requirement.

Our evaluations suggest that most of the criticisms against inclusionary housing and the concerns about its negative effects are exaggerated and unsubstantiated. There is some evidence, and economic logic, to suggest that punitive and excessively demanding inclusionary housing programs should be avoided. At the other extreme, weak requirements, including voluntary programs, are likely to be ineffective. Carefully crafted inclusionary housing programs, however, can be key contributors to the supply of affordable housing, and merit support in Los Angeles.

Our research emphasizes the complexity of inclusionary housing requirements, the variation in their rules and implementation success, and the need for additional research on this topic. We recommend multiple avenues of research, including statistical analysis focused on a more exhaustive review of factors that affect housing permit activity; research on the strategies and policies of cities that are more successful in producing affordable housing through inclusionary requirements; research on the private developers' willingness and unwillingness to participate in inclusionary housing programs; analysis of the regulations, design configurations and typologies that make on-site inclusionary housing viable; and a review of Los Angeles' own experience with inclusionary housing requirements in Central City West, and in the Coastal Zone due to the mandates of the Mello Act.

Acknowledgements

We could not have conducted this research without the advice and support of a number of individuals and organizations. We gratefully acknowledge their help. In particular, we are obliged to Ashok Das, Jane Choi, Paavo Monkkonen and Justin Regus. We also wholeheartedly thank the numerous city staff that guided and helped us with access to data. We would like to name some of them, but we realize that many would prefer to remain anonymous. Nonetheless, we are indebted.

Finally, this research would have been impossible without the generous support of the John Randolph Haynes and Dora Haynes Foundation. We are also thankful to the Foundation's staff for recognizing our difficulties in assembling data, and willingness to support us with deadline extensions.

The Inclusionary Housing Experience in Southern California:

An Evaluation of the Programs in Los Angeles and Orange Counties

Introduction

In April 2004, two of Los Angeles' influential City Councilmembers proposed that the city adopt an inclusionary zoning ordinance to provide affordable housing. The inclusionary zoning program would be mandatory and citywide. It would require developers to set-aside a percentage of housing units in all new developments for low-income groups.[1] Because of skyrocketing housing prices in the state, coupled with cuts in public subsidies for affordable housing, many local governments find market-based approaches, such as inclusionary zoning, attractive. In 2003, over a hundred cities and counties in California used housing programs based on inclusionary zoning (National Housing Conference, 2004). Housing advocates in the city have long argued that Los Angeles must also adopt a similar program of affordable housing mandates.

The idea, however, is controversial. While its supporters argue that inclusionary zoning expands the available stock of affordable housing, its critics claim that the program is not only ineffective in delivering affordable housing, but also a disincentive for market actors and reduces the overall supply. The poor, the critics argue, suffer the most from the constrained supply of housing. Although California's first programs are more than thirty years old, the academic literature evaluating their effectiveness is relatively limited and

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[1] Councilmembers Ed Reyes and Eric Garcetti's proposal included the following set-asides:

1. Rental set-aside of 10% for units targeted to households earning 30% of Area Median Income, or a set-aside of 12% for units targeted to households earning 50% of Area Median Income.
2. For-sale set-aside of 20% for units targeted to households earning 80% of Area Median Income, or a set-aside of 40% for units targeted to households earning 120% of Area Median Income.

Instead of developing on-site housing, developers could choose to pay an in-lieu fee equal to the cost of constructing an affordable housing unit. As cost-offsets, developers would be eligible for density bonuses (25-35%), fee waivers, expedited processing, and reduced parking requirements.

many of the debates about inclusionary housing programs are not fully resolved. The Councilmembers in support of inclusionary zoning in Los Angeles recognize the need for additional research. They have indicated that they are in favor of a deliberative process in the city and are willing to spend time building consensus and finding out more about the effects of inclusionary housing (*The Planning Report*, 2004). Our report tries to add to the research and literature on inclusionary housing.

We found seventeen cities within Los Angeles and Orange Counties, including Irvine, Laguna Beach, Long Beach, Pasadena, Santa Monica and West Hollywood, with inclusionary housing programs. We collected primary data and assembled secondary data on these programs to evaluate their effectiveness. Our research focuses on assessing the structure and dimensions of the various programs, their accomplishments in producing affordable housing, and their indirect effects on the supply of housing in each city. Although there are numerous aspects of inclusionary housing that we do not address, and are impossible to be discussed in a single research project, we hope that our findings will help policymakers in the city of Los Angeles, and other cities in the Southern California region (like the city of Burbank, which is also considering adopting an inclusionary housing program), make better-informed decisions.

Inclusionary housing in Los Angeles and Orange Counties

Of the seventeen cities that have inclusionary housing policies, nine are in Los Angeles County and eight in Orange County (See Table 1).[2] Put another way, almost ten percent of the 88 incorporated cities in Los Angeles County have inclusionary housing programs, and almost a quarter of the 34 cities in Orange County have similar requirements. Most inclusionary housing programs try to compensate developers for their affordable housing set-asides through density bonuses, relaxed parking requirements, fast-track approvals and other incentives. Some also allow developers alternatives to including affordable units in new development, such as in-lieu fees, land dedications and off-site construction. We suspected that conducting this research would be a challenge because of the difficulties in

[2] In addition to the cities, Orange County used to have a mandatory inclusionary zoning requirement that was introduced in 1979 but replaced by a voluntary program in 1983.

accurately valuing many of the cost-offsets offered to developers. We were, however, surprised to find out how difficult it is to collect the basic data on inclusionary housing programs. Most cities do not have easily accessible or available data on how often their programs have been revised, how many units of affordable housing have been produced, how many dollars of in-lieu fee have been collected, how the monies have been spent, etc. We were forced to extend our project-end date twice, and we continue to have some gaps in our data. For example, we still do not have the complete details on how most cities calculate and employ their in-lieu fee collections.

Table 1. Cities with Inclusionary Housing in Los Angeles and Orange Counties

City	County	Population (2000)
1. Agoura Hills	Los Angeles	20,537
2. Avalon	Los Angeles	3,127
3. Brea	Orange	35,410
4. Calabasas	Los Angeles	20,033
5. Huntington Beach	Orange	189,594
6. Irvine	Orange	143,072
7. Laguna Beach	Orange	23,727
8. Lake Forest	Los Angeles	58,707
9. Long Beach	Los Angeles	461,522
10. Monrovia	Los Angeles	36,929
11. Newport Beach	Orange	70,032
12. Pasadena	Los Angeles	133,936
13. Rancho Palos Verdes	Los Angeles	41,145
14. San Clemente	Orange	49,936
15. San Juan Capistrano	Orange	33,826
16. Santa Monica	Los Angeles	84,084
17. West Hollywood	Los Angeles	35,716

Sources: Authors' research; Calavita and Grimes (1998); California Coalition for Rural Housing and Non-Profit Housing Association of Northern California (2003); U.S. Census (2000).

In the proposal we had pointed out inconsistencies between, and in, the data of past researchers of inclusionary housing. After having spent well over a year trying to collect and assemble data for this project we have renewed sympathy and respect for the past research, and a better comprehension of the challenges involved in conducting research on inclusionary housing programs. While such hardships in accessing data make it difficult to conduct robust research, they also suggest that most cities need to improve their data collection protocols, policy evaluation and revision practices, and the tracking and monitoring of affordable housing units within their jurisdictions.

Our assessment indicates considerable variation in the structure and dimensions of the inclusionary housing programs of the various cities. Three cities – Lake Forest, Long Beach and Monrovia – have voluntary programs, and developers have the option of including inclusionary housing in return for regulatory incentives like density bonuses (Irvine and Newport Beach used to have voluntary programs, but in 2003 their city governments replaced the programs with mandatory requirements). We divide the cities with mandatory inclusionary programs into "more" (Group A), "moderate" (Group B), and "less" (Group C) demanding jurisdictions. We categorize the cities as more demanding, if they have a low trigger for the inclusionary provision (the inclusionary housing requirement is imposed on developments larger than 10 units), a decent set-aside requirement (developers are required to provide at least 10% affordable housing units), and if they have an in-lieu fee option, it should be priced to cover at least half of the cost of an affordable housing unit. The main reason for cities to be excluded from this category is a low-in lieu fee structure, and we recommend that they revise and increase the fees. Another key weakness in the structure of most of the programs is the paucity of housing targeted for very-low income groups.

The absolute number of affordable housing units produced through the inclusionary programs seems less than impressive when compared to the inclusionary housing produced by the celebrated program of Montgomery County in Maryland. However, when we compare the affordable inclusionary housing units with the affordable housing produced through the Low Income Housing Tax Credit program in the same cities, the numbers are comparable. This highlights the relative importance and magnitude of the inclusionary housing programs in their jurisdictions. A key problem we faced in accurately estimating the accomplishments of inclusionary housing programs is the difficulty in calculating the equivalent housing produced through the in-lieu fees collected by cities. Our research also shows that some local governments, like West Hollywood, are creatively using their in-lieu fees to leverage additional funds and build affordable housing through nonprofit developers. However, in some cities, like Calabasas, the administrations have not used the fees they collected. Moreover, one of the claimed advantages of inclusionary housing is economic integration by mixing high and low-income residents in a single development. The option of in-lieu fees can detract from the possibility of such spatial integration.

The research suggests that cities with voluntary programs are less likely to be successful in producing affordable housing. We found almost no affordable housing produced in Lake Forest, Long Beach or Monrovia. Irvine is the key exception and deserves to be studied in more detail. In 2003, the city amended its inclusionary housing program from voluntary to mandatory; before that, however, it was successful in producing almost 4,000 units of affordable housing. We also found that among the mandatory programs, the cities with the less demanding requirements were the least successful in producing affordable housing. Our results show that the cities we classified as more demanding, and the cities we categorize as moderately demanding, are successfully producing affordable housing. With our data, however, we are unable to ascertain what type of program is more productive. We recommend additional research on this subject.

A key concern of the critics of inclusionary housing is that it drives away developers and exacerbates the housing problem by reducing the supply of housing. According to our analysis we found that the housing construction activity is significantly correlated with the adoption of inclusionary housing programs in some of our regression models. However, the contribution of inclusionary housing variables – we examined the effect of the presence and number of years of inclusionary housing – to the explanatory power of our models is weak. Our inference is that inclusionary housing requirements have little effect on housing permits at the city level. We, nonetheless, recommend additional research, but our extant results suggest the need for some caution against extremely punitive inclusionary housing requirements.

To further understand the effect of inclusionary housing requirements on the market, we also evaluated the performance of the seventeen inclusionary housing cities in meeting their regional housing needs as assessed by the Southern California Association of Governments (SCAG). Almost all cities have issued building permits in excess of their assessed need, however there are three exceptions: West Hollywood, which has a demanding inclusionary program, achieved 92% of its assessed needs; San Juan Capistrano, which has a less demanding program, achieved 62% of the needs; and Lake Forest, which has a voluntary program, met 95% of its assessed needs. It is not clear however, that the inability of these cities to meet the Regional Housing Needs Assessments (RHNA) is due to the inclusionary housing provisions. Nonetheless, the results suggest that inclusionary housing requirements are not driving away developers of housing, and most cities with affordable housing mandates succeed in attracting development activity.

Our evaluations suggest that the concerns about the negative effects of inclusionary housing, and the criticisms against it, are exaggerated and unsubstantiated. There is some evidence, and economic logic, to suggest that cities should avoid punitive and excessively demanding inclusionary housing programs because they might drive development away. We were concerned about the possibility that any inclusionary housing requirement is counterproductive, but we did not find strong evidence to support this position. Our research also suggests that weak requirements, including voluntary programs, tend to be ineffective. Most of the cities in our study with weak or voluntary inclusionary housing policies had almost no success in producing affordable housing. Irvine, however, is the noteworthy exception. We conclude that carefully crafted inclusionary housing programs can be important contributors to the supply of affordable housing in Los Angeles, and deserve policy attention and support.

Methodology and organization

We are interested in assessing the experience of the different inclusionary housing programs in Los Angeles and Orange Counties. We attempt a tripartite evaluation to answer the question. First, we assess the structure of the programs. Second, we evaluate their direct effects, specifically the production of affordable housing and the generation of in-lieu fees. Third, we examine the indirect outcomes by assessing the effect of inclusionary zoning requirements on the supply of housing. To assess the structure of the programs, we contrast the dimensions of the programs – affordable housing requirements, density bonuses, in-lieu fees, etc – and evaluate the rationality of the in-lieu fee options by comparing it to the cost of constructing an affordable unit and the affordability gap. To evaluate the productivity of the inclusionary housing programs we tried to collect information on the affordable housing units produced and compared them with the number of affordable housing units produced through tax credits. We also collected data on the in-lieu fees accumulated, and how they have been spent. For assessing the market effects, we performed multivariate regression analyses to explore the effects of the adoption of inclusionary housing policies, along with additional factors, on housing construction activity in both counties. The two additional factors we examine as independent variables are unemployment rates (county level data) and the regional housing market, measured through the housing construction in the region. Finally, we assessed the ability of cities with inclusionary housing programs to meet their housing needs through new construction.

We have collected primary data through interviews with city planners and other city staff. These interviews were conducted in-person, through emails and on the telephone. Our interviews included both open- and close-ended questions. The in-person and telephone interviews were semi-structured. We also assembled data from academic publications, city websites, public reports and documents, including General Plans (particularly Housing Elements), and reports to City Councils. Collecting the data turned out to be more arduous than we expected. Most cities did not have easily accessible records. For example, the city of Santa Monica could not share data on its inclusionary housing production and accomplishments prior to 1998. From the City, we were only able to access the computerized, post-1998 information.

We also employed data from non-city sources. Our permit data are from the Construction Industry Research Board (CIRB). The Regional Housing Needs Assessments (RHNA) data and the number of affordable housing units produced through the Low Income Housing Tax Credit program are from SCAG. Our housing sale prices are from Dataquick, a real estate and property information provider. The income data we use are from the State Government's Housing and Community Development (HCD) department. Finally, the construction cost data that we use is from interviews with private developers.

After this introduction, the main body of the report is divided into three sections. First, we elaborate on the state of knowledge about inclusionary zoning, particularly in Southern California. We also briefly discuss the political debates and positions in Los Angeles. The section helps explain the academic and policy relevance of our research. Next, we present our analysis. We have divided the analysis into three subsections. The first subsection focuses on the structure and variations in the seventeen inclusionary zoning programs and explains their conditions and requirements. We divide the cities with mandatory programs into categories of more and less aggressive programs. The second subsection details the accomplishments of the programs in delivering affordable housing units, and analyzes the success of the voluntary and more demanding mandatory cities. The third subsection discusses the effect of inclusionary zoning requirements on developers' willingness to build in these cities and the supply of housing. The final section concludes the report, reiterates our findings, discusses policy recommendations, dissemination ideas, and includes topics for future research. A series of appendices that detail information on the inclusionary programs of the seventeen cities follows the main report.

What do we know about inclusionary zoning?

Since Montgomery County, Maryland enacted the first inclusionary housing ordinance in 1974,[3] the use of inclusionary requirements to foster affordable housing production has been a hotly debated practice among policymakers, community representatives, and academics alike. There has been particularly extensive discussion within the academic literature regarding the origins of inclusionary programs and the structural differences between regions and over time. Many sources also predict positive or negative outcomes of such programs. However, few researchers have presented robust production data in order to quantify these claims. As increasing numbers of urban and suburban governments throughout the United States consider inclusionary housing policies, including Los Angeles, the need for an accurate and objective assessment of the effect of inclusionary housing policies on the supply of affordable housing, as well as the wider residential market and the shape of communities is more important than ever.

History and legal basis

Despite the wide variation among modern day inclusionary housing programs, they trace many of their components back to the first implemented policy: Montgomery County's Moderately Priced Dwelling Unit (MPDU) ordinance. As with many programs today, rising housing prices that accompanied rapid urbanization throughout the county in the early 1970s were the major impetus for the ordinance. Opponents suggested that it would decrease builders' profits, depress the value of existing homeowners' properties, and would be vulnerable to legal challenge. Despite this resistance, Montgomery County enacted the MPDU ordinance on January 21, 1974, ushering in a new trend in affordable housing policy (Brown, 2001).

Fears of the impact of urbanization were a major catalyst for the emergence of inclusionary housing programs in California as well. Nico Calavita and Kenneth Grimes identify a correspondence between early inclusionary programs and growth-control

[3] Fairfax County, Virginia initiated an inclusionary ordinance in the late 1960s, making it the first *proposed* ordinance. However, the state supreme court invalidated the program in *Board of Supervisors of Fairfax County et al. v. DeGroff Enterprises, Inc.* (214 VA 235, 198 SE 2d 600).

measures that several Northern California communities began implementing in the 1970s (1998). The authors conclude that communities with slow-growth policies, such as Petaluma, Davis and Palo Alto, included measures to encourage the inclusion of affordable units within new developments to avoid potential legal challenges. Under these early systems, developers competing for a limited number of annual building permits each year earned extra points for mixed-income projects. Although voluntary, the point system made it nearly impossible for a developer to receive a building permit without including affordable units, essentially creating a *de facto* inclusionary requirement.

In Southern California, rapid industrial and commercial development, which exacerbated the imbalance between the location of employment and affordable housing, drove the City of Irvine in 1975 and Orange County in 1979 to adopt inclusionary housing programs. These early Southern California examples were very different in structure in comparison to their Northern California counterparts. The major difference was that both the Irvine and Orange County programs provided cost-offsets, such as reduced parking standards, density bonuses, permitting assistance, and others. Calavita and Grimes attribute this difference to the involvement of the building industry in the inclusionary policy negotiation process in the Southern California examples but not in Northern California (1998).

Calavita suggests that changes in California's Housing Element Law in the 1970s and 1980s may have also played a role in the spread of inclusionary housing ordinances across the state (2004). California's Housing Element Law (Government Code Section 65580) requires local jurisdictions to identify land use strategies to facilitate production of both market-rate and affordable housing based on identified need. In 1975, the Housing and Home Finance Act required housing elements to "make adequate provision for the residents and projected needs of all segments of the community." In 1980, additional legislation strengthened and clarified the housing element process by requiring every locality to plan for its fair share of the region's housing needs at all income levels (Calavita and Grimes, 1998). Although the Housing Element law does not force jurisdictions to adopt inclusionary housing, it does require that local governments "zone affirmatively for regional housing needs." Cities and counties throughout California – particularly in high-cost coastal communities around Los Angeles, Sacramento, San Diego, and San Francisco – are increasingly implementing inclusionary housing programs to meet this requirement (California Coalition for Rural Housing and Non-Profit Housing Association of Northern California, 2003).

California's State density bonus law (Government Code Section 65915) also encourages the inclusion of affordable units concurrent with market-rate residential development. Under the original density bonus law, developers received a 25 percent increase in the density allowed by zoning in exchange for a 10 to 20 percent affordable set-aside. In 2004, the state legislature significantly altered the law with the passage of SB1818 (effective January 1, 2005). The major changes to the original bonus with the passage of SB1818 include: lowering the minimum threshold in exchange for provision of very low- or low-income units; creating a sliding scale based on percentage of affordable units and level of affordability to determine the density bonus; reducing parking requirements; requiring flexibility from local governments on one to three land use regulations; and requiring local governments to approve flexibility in other requested land use rules (Kautz, 2005).

The State Density Bonus law essentially requires all local jurisdictions to adopt voluntary inclusionary programs. For several jurisdictions with voluntary programs, such as Long Beach and Monrovia, local regulations closely follow the density bonus law. The passage of SB 1818, however, has made programs based on the law's regulations prior to 2005 obsolete. Further, many local governments, including the City of Los Angeles, have had difficulty drafting and passing policies or ordinances to implement the updated state law. In June 2005, SB 435 further amended the density bonus. The intent of SB 435 was to clarify the changes to the law brought about by SB 1818. However, Barbara Kautz notes that the bill's language is ambiguous, which has created confusion and raised public concerns (2005). Further, the Assembly and Senate floor analyses of SB 435 present contradictory interpretations of the applicability of the state density bonus to developers in jurisdictions with existing inclusionary requirements (Kautz, 2005). At present, empirical data and analysis of the impact of the density bonus law on affordable housing production is very limited. However, Kautz suggests that the ambiguity of SB 1818 and SB 435 have resulted in minimal additional production (2005).

Following the initial appearance of inclusionary housing policies in municipalities in Maryland and California, in the 1970s, New Jersey moved to the forefront of inclusionary housing's evolution in the 1980s. Whereas the programs in Maryland and California were primarily in response to changing market conditions that accompanied increasing urban growth, the proliferation of inclusionary housing programs in New Jersey resulted from a judicial ruling with statewide implications. In the case of *Southern Burlington County N.A.A.C.P. v. Mt. Laurel Township* (Mt. Laurel II), the New Jersey State Supreme Court allowed developers to sue a municipal government if it prevented them from building and approved the use of "affirmative governmental devices," such as inclusionary housing requirements (Calavita, Grimes and Mallach, 1997). In 1985, the state legislature passed the Affordable Housing Act, which required municipalities to produce a minimum number of units within a specified time period. Municipalities that submitted plans for reaching identified goals were exempt from litigation under Mt. Laurel II (Schwartz, 2006). This has had the effect of making inclusionary housing in New Jersey a statewide program – the only one of its kind in the United States.

Alex Schwartz (2006) discusses another statewide legislative incentive that predated both California's Housing Element Law and Mt. Laurel II in New Jersey. In 1969, Massachusetts passed an "antisnob" zoning law (Chapter 40B of Massachusetts General Law) that obligated local governments to provide low and moderate-income housing opportunities. To facilitate this, the law empowered local zoning boards to overturn exclusionary zoning rules provided that "low- and moderate-income housing needs outweigh any valid planning objections" (Schwartz, 2006, 232). Massachusetts strengthened the law in 1982 when it required state agencies to withhold discretionary funding from communities that restricted residential development. Schwartz notes that although some communities responded to the "antisnob" zoning law by implementing inclusionary housing requirements, these policies have failed to produce a significant number of units.

While the Mt. Laurel II ruling paved the way for inclusionary housing in New Jersey, the courts have also been a venue for opponents of inclusionary housing programs to challenge the legality of such policies. Most lawsuits brought against inclusionary housing ordinances question the constitutionality of requiring private developers to provide affordable housing. Courts in California, as well as other states, have ruled in favor of inclusionary housing ordinances and have approved the use of inclusionary requirements as a method for facilitating affordable housing production. As discussed, the 1983 decision by the New Jersey Supreme Court that upheld the use of inclusionary requirements as a legal way to fulfill affordable housing requirements was one of the first to legitimize inclusionary housing policies.

More recent cases in California have also upheld inclusionary housing ordinances. The California Supreme Court in *Santa Monica Beach, Ltd., v. Superior Court*, 19Cal.4th 952 ruled, "assistance of moderate-income households with their housing needs is recognized in this state as a legitimate governmental purpose." In *Homebuilders of Northern California v. City of Napa*, 90 Cal.App.4th 188 (2001), the California Supreme Court ruled that the City of Napa had a legitimate interest in requiring provision of affordable housing. The plaintiffs argued that the City was requiring developers to correct a problem that the City's own zoning regulations had created. However, the Court ruled that there was no precedent to prevent the City from using a new ordinance to address problems created by earlier ordinances, thus legitimizing the use of an inclusionary housing ordinance as a mechanism for addressing affordable housing needs.

An important factor in the Napa ordinance's ability to withstand legal challenge was the provision included in the ordinance that allowed the city to grant exemptions if a developer could prove that the inclusionary requirement did not apply to their specific project. The importance of such a provision has become more apparent following a recent Superior Court decision that voided the City of San Diego's inclusionary housing ordinance. The Court overturned the ordinance on the basis that it constituted an "unconstitutional taking" because it did not include an exemption clause (Weisberg, 2006a; 2006b).

Structure and dimensions of programs

Despite a common objective to provide affordable housing through market forces, there is a great amount of variation among inclusionary housing programs. Most of the existing literature focuses on the structural aspects of inclusionary housing, presenting comparisons of how programs vary along the following dimensions: percentage and level of affordability;

unit threshold; length of affordability; incentives and cost-offsets for developers; and alternatives to on-site development. A few authors examine the basis for these differences, and argue that the key factor is the level of involvement and strength of the building industry at the time of negotiations over the policy.

Nicholas Brunick and his colleagues recently discussed the structure of inclusionary housing programs nationwide (2003). Their paper examines the characteristics of programs in five metropolitan areas: Boston, Denver, Sacramento, San Diego and San Francisco. Similarly, Karen Brown describes inclusionary programs in the Washington, DC metropolitan area, which includes Montgomery and Prince George's counties in Maryland, and Fairfax and Loudon counties in Virginia (2001). All nine of the programs discussed by Brunick and Brown require an affordable set-aside between 6.25 and 15 percent, and most offer incentives to developers. Loudon County and Sacramento require the deepest income targeting, requiring affordability of less than 50 percent of median income (very low-income) for all or most of the units. The rest of the programs target a mix of low and moderate-income households. There is also great contrast among the various programs in terms of the unit threshold. Boston and the three Californian jurisdictions (Sacramento, San Diego and San Francisco) have thresholds of nine to ten units. In contrast, all four Washington, DC area counties have 50-unit thresholds. The Denver threshold of 30 units only applies to for-sale projects.

There are fewer studies that focus specifically on inclusionary housing programs in California. Calavita and Grimes note that in comparison to the literature on inclusionary programs in other states, there is a "dearth of research on the development and operation of inclusionary programs in California" (1998, 151). One explanation for this is how different all of the programs in California are in comparison to other states, like New Jersey. As described above, these structural differences are primarily due to the lack of an overarching, mandatory state inclusionary housing policy in California, whereas Mt. Laurel II and subsequent legislative measures essentially implemented a statewide program in New Jersey.

The most comprehensive summary of program characteristics throughout California is a joint study by the California Coalition for Rural Housing (CCRH) and the Non-Profit

Housing (NPH) Association of Northern California (2004). Based on survey results from 98 out of 107 known programs at the time of the study, the report found that the majority of inclusionary housing programs have the following characteristics: adopted in the past 15 years as a local ordinance; mandatory; require 10 to 14 percent affordable units for both rental and ownership projects; target low- and moderate-income households; offer in-lieu fees or offsite construction as alternatives; and offer incentives to developers, most frequently a density bonus to offset cost increases.

Although most academic sources discuss the structural variations of inclusionary housing programs, there is virtually no explanation of how municipalities determine the shape of their programs. This may reflect the lack of transparency on the part of cities regarding their decision-making process, or the absence of institutional memory or records regarding such decisions, or the arbitrary basis for regulations. While the regulations of individual cities' inclusionary policies are typically available in municipal codes or other regulatory guides, information on how cities establish unit thresholds or percentages of affordability, determine and set in-lieu options, and select which, if any incentives they will include is usually lacking.

Calavita and Grimes (1998) suggest that many of the structural variations reflect differences in the origins and impetus for a jurisdiction's inclusionary housing policy. In their historical survey of inclusionary housing in California, they argue that the structural variation coincides with the level of influence of the building industry at the inception of a municipality's inclusionary policy. For example, the early Northern California programs have lower unit thresholds and require a higher set-aside percentage in comparison to the early Southern California examples, as well as more recently implemented programs. In contrast, the early Southern California programs in Irvine and Orange County provided much greater flexibility and provided a wealth of cost offsets to developers. According to Calavita and Grimes (1998) these structural differences are the direct outcome of the building industry's relatively weak position in slow-growth Northern California communities at the time of implementation versus the industry's strength and dominance in Southern California.

Affordable housing accomplishments

The pervasive structural discussion in the literature contrasts with a conspicuous lack of empirical analysis to support claims about the potential effects of inclusionary housing on the supply of affordable housing. The primarily normative academic literature in support of inclusionary housing asserts that linking affordable housing production with market-rate development will increase the supply of affordable housing with minimal public sector expense. Normative claims against inclusionary requirements suggest that inclusionary requirements are an inefficient way to produce affordable units and the number of households that ultimately benefit from inclusionary housing programs is relatively small compared to need (California Association of Realtors, 2003; Conine, 2000; Powell and Stringham, 2004a; 2004b). But there is little account in the literature of how many affordable units market-rate developers have built in compliance with inclusionary housing policies to support or refute the claims of either side of the inclusionary housing debate.

In one of the few existing reports that provide production numbers, Brown studied the inclusionary housing programs in the Washington, DC metropolitan area (2001). She found that through 1999, Montgomery County and Prince George's County in Maryland and Fairfax County and Loudon County in Virginia produced a total of 11,362 units affordable to households earning between 30 and 70 percent of AMI. Montgomery County produced 93 percent (10,572) of these units. A PolicyLink report on the potential for inclusionary housing in Washington, DC updates Brown's numbers through July 2003, finding that total production for the region has increased to more than 15,000 units (Fox and Rose, 2003).

Brown also compares the inclusionary production figures to housing built through other sources of support for affordable housing production (2001). In Montgomery County, the inclusionary program produced approximately half of the county's total affordable housing production. The findings are somewhat more modest for Fairfax and Loudon Counties, in which inclusionary requirements accounted for 12 percent and 30 percent of total affordable production, respectively (Brown, 2001).

A second national comparison of production numbers focuses on relatively newer inclusionary housing programs in selected urban municipalities: Boston, Massachusetts; Denver, Colorado, Sacramento, California; San Diego, California; and San Francisco, California (Brunick, 2004b). Of the five cities included in the study, Brunick found that Colorado was the most productive, with 3,395 units since passage of the city's ordinance in 2002. Although no other city's program had matched this level of productivity at the time of Brunick's study, each was successfully producing units and, where allowed, collecting in-lieu fees, with many more units in the development pipeline.

The only comprehensive account of production numbers for California comes from a statewide survey of inclusionary programs by the California Coalition for Rural Housing (CCRH) and the Non-Profit Housing Association of Northern California (NPH) (2003). The study found that 107 cities and counties with inclusionary housing programs at the time of the survey had produced a total of 34,000 affordable units over the previous 30 years. Levels of production varied greatly among surveyed jurisdictions, from just one unit in Arroyo Grande (located in San Luis Obispo County) and San Juan Bautista (located in San Benito County) to 4,469 units in Irvine. The report noted that the majority of survey respondents credited inclusionary housing programs for producing affordable units that otherwise would not have been built (CCRH and NPH, 2003).

In a second study, Brunick (2004a) presents the status of inclusionary programs as either voluntary or mandatory as an explanation for differences in productivity. Based on the results of the CCRH and NPH survey, as well as production data from programs in Massachusetts and the Washington, DC metropolitan area, Brunick concludes that mandatory programs are more successful at producing units affordable to low and very low-income households than voluntary programs. The author also suggests that mandatory programs with consistent requirements can be more beneficial to developers as well because uniform regulations allow them to identify and plan for how a project will fulfill the affordable requirement at the beginning of the development process.

Many inclusionary housing programs allow developers to opt out of on-site construction of affordable units by paying an in-lieu fee. For example, the CCRH and NPH survey found that 81 percent of responding programs in California offered payment of fees as an option in-lieu of construction. The study also found that there is wide variation in the fee level and method of calculation. It suggests that the variation in fee levels correlates with the productivity of a municipality's inclusionary program. For example, the study notes that

Patterson, located in San Joaquin County, requires an in-lieu fee of $7,340 per affordable unit. This is well below the average fee of $107,598, which is in itself lower than the subsidy required to construct an affordable unit in most housing markets. As a result, most developers in Patterson have elected to pay the fee rather than construct actual affordable units. The opposite is true in jurisdictions like Monterey County, which calculates fees based on the difference between the average total development cost and the affordable sales price of a unit (CCRH and NPH, 2003).

Although a few authors, (such as Brunick, 2004) include estimates of the total amount of in-lieu fees generated by inclusionary programs, it is difficult to translate these figures into affordable units. This in part results from a lack of information from cities and in part from methodological challenges. The majority of affordable residential developments require a combination of multiple subsidies. A portion of the financing might come from fees collected through a municipality's inclusionary housing program, but if the fees are not the sole source of financing, how should a municipality determine how many units the fees produced. Further, most jurisdictions place collected fees into an affordable housing trust fund from which they allocate subsidies to affordable projects. However many trust funds have multiple sources of financing. In communities where this is the case, it is even more difficult to distinguish subsidies that result from inclusionary housing requirements versus other sources. Perhaps as a result of this situation, few supporters or critics of inclusionary housing attempt to calculate the indirect impact (or lack thereof) of inclusionary requirements on the supply of affordable housing. But as a consequence, the affordable housing productivity of inclusionary housing is consistently underreported.

A lack of monitoring and overall tracking of units produced through the inclusionary program, which researchers have found is common to many jurisdictions, presents an additional challenge to gathering accurate direct and indirect production data (CCRH and NPH, 2003). This is especially relevant as units built through inclusionary housing requirements reach the end of their affordability term. In a recent paper on the loss of affordable homeownership units, Polly Marshall and Barbara Kautz note the importance of annual monitoring and deed restriction requirements to ensure the construction of inclusionary housing and their long-term affordability (2006).

In addition to sheer production of affordable units, many supporters of inclusionary housing assert that inclusionary requirements have the advantage of creating more economically diverse communities by facilitating the construction of affordable units alongside market-rate units in high-growth, low-poverty areas (Brown, 2001; Brunick, 2004b; Fox and Rose, 2003). However, Robert Burchell and Catherine Galley (2000), and Michael Pyatok (2003) raise the criticism that inclusionary housing programs negatively affect poor communities by enabling the most economically mobile residents with the greatest potential to improve the areas to move out. As with claims about the productivity of inclusionary programs in the existing literature, there has been scant empirical study of the effect of inclusionary requirements on the dispersal of affordable housing.

Brown reports that there have been inclusionary units built in all but one planning area in Maryland's Montgomery County (2001). Although the actual number of units has not been evenly distributed across the planning areas, she notes that this is explained by the fact that most of the county's growth has occurred in two planning areas, and it is in these planning areas that most of the affordable inclusionary units have been built. This suggests that by linking affordable development to market-rate projects, Montgomery County has been able to create economically integrated communities in areas at the heart of the real estate boom. The author found similar results in Fairfax County, Virginia and Prince George's County, Maryland. It is possible that this trend is repeated in other communities throughout the nation as well, but it remains an issue in need of additional research. Considering the heated debate surrounding the possible benefits or negative impacts of inclusionary housing programs on the supply of affordable housing, a need to fill the void of empirical findings based on actual production numbers is evident.

Market effects

The primary argument against inclusionary housing requirements is that they are a disincentive to development that stifle the housing market and therefore exacerbate the problems of high prices and undersupply. This position contends that as a result of inclusionary requirements, residential development will slow; developers will pass the added costs of inclusionary requirements on to market-rate renters and buyers; or a combination of both. This will decrease the total supply and increase the cost of new residential units, which will decrease overall market affordability (Powell and Stringham, 2004a; 2004b). Several authors also suggest that inclusionary requirements place an unfair burden on developers, landowners, and in particular market-rate homebuyers and renters (Burchell and Galley, 2000; California Association of Realtors, 2003; Powell and Stringham; 2004a; 2004b; Tetreault, 2000). In opposition to the above claims, Calavita and Grimes focus on the affordable housing produced and its social benefits (1998). Similarly, a PolicyLink article included in the *California Inclusionary Housing Reader* (Institute for Local Self Government, 2003) adds that inclusionary housing is a “doable strategy” in that it does not require a major change to land use laws. Burchell and Galley also note the ability of inclusionary housing programs to increase affordable housing supply with little public subsidy (2000).

As discussed, there are few accurate accounts of the productivity of inclusionary housing programs. There are even fewer empirical analyses that attempt to predict and assess effects of inclusionary requirements on the wider market. The most recent empirical studies on inclusionary housing programs in California use different approaches to assess market effects and present opposing views of the policy’s effectiveness.

In two reports on the effect of inclusionary housing programs in the Bay Area and Southern California (Los Angeles and Orange counties), respectively, Benjamin Powell and Edward Stringham (2004a; 2004b) argue that inclusionary housing programs reduce affordable production; reduce the overall housing supply; increase costs to homebuyers, landowners, and developers; and decrease tax revenues. Based on data for cities with inclusionary housing in the Bay Area, Powell and Stringham calculate that the implementation of an inclusionary housing ordinance decreases construction by 31 percent, and adds between $22,000 and $44,000 to the market sales price (Powell and Stringham, 2004b). Using similar data for thirteen cities in Los Angeles and Orange counties, the authors claim that inclusionary housing in Southern California “discouraged” production of 17,296 units in the first seven years following adoption, and added $33,000 to $66,000 to the price of new homes in the median city (Powell and Stringham, 2004a). They also report a "drastic decrease" in new housing production in the years immediately following implementation of inclusionary requirements.

Victoria Basolo and Nico Calavita question the empirical foundation of these claims (2004). They suggest that there are serious flaws in Powell and Stringham's work: the research design, the data collected, assumptions made about program requirements and the rigidity of policies, and the simplicity of their overall supply-demand analysis. Basolo and Calavita point out that Powell and Stringham examine selected inclusionary housing programs in a vacuum; they do not compare overall production figures before and after implementation of inclusionary housing requirements with non-inclusionary jurisdictions, nor do they project long-term data by year. This has the effect of obfuscating other potential causes for an annual rise or decline in production. Basolo and Calavita also suggest that Powell and Stringham overestimate the effect on builders by assuming that municipalities provide no incentives or subsidies to offset costs. Brunick's (2004a) analysis concurs with these criticisms, in particular echoing the concern that Powell and Stringham fail to include communities without inclusionary zoning in their analysis, and do not account for factors like the prime interest rates, unemployment rates, the availability of land, or the 1986 Tax Reform Act. They ignore the possibility that housing production also declined in communities without inclusionary housing, and the fall was not caused by the adoption of inclusionary zoning.

In sharp contrast to Powell and Stringham (2004a; 2004b), David Rosen found no relationship between the passage of an inclusionary housing program and housing development activity (2004). In a study conducted for the Los Angeles Department of Planning and later included in a compilation of resources on inclusionary policies by the National Housing Conference (Calavita, et al., 2004), Rosen conducted an analysis of annual housing starts from 1981 to 2001 in 28 cities with and without inclusionary housing programs. He did not find a correlation between the adoption of inclusionary zoning policies and housing production. Instead his findings support a strong negative relationship between housing production and unemployment rates. Rosen also argues against the common assumption by opponents of inclusionary housing programs that developers will pass the cost of affordability requirements to landowners and market-rate buyers or renters. He contends that prices are a function of market demand, and therefore developers will bear the brunt of the costs for inclusionary requirements, as intended by such policies.

Recently, David Rusk – the former Mayor of Albuquerque and former member of the New Mexico legislature – conducted a study of five cities in Orange County with inclusionary housing and compared them with the 29 cities and seven unincorporated areas without inclusionary requirements in the county (2005). This comparison revealed a correlation between housing production and relative residential density at the beginning of the study period: cities with relatively low residential density (and therefore high amounts of developable land) produced higher levels of residential construction. Rusk found no correlation with housing production and the enactment of an inclusionary housing requirement.

Inclusionary housing in Los Angeles

The academic debate over inclusionary housing generally corresponds with the debate carried out by policymakers, housing advocates, and developers in the press. This debate is particularly salient for the City of Los Angeles, which has a well-publicized and discussed affordable housing shortage. Although Los Angeles has several programs to support affordable housing production, it is the only major metropolitan coastal area in California without a citywide inclusionary housing policy. The movement to implement inclusionary housing in Los Angeles gained momentum in 2004, culminating in a proposal by two members of the Los Angeles City Council. However, strong opposition to the proposal defeated the effort, and it has since almost completely disappeared from public debate.

Since 1995, the City of Los Angeles has administered the Affordable Housing Incentives Program. In exchange for including affordable units within market-rate projects, developers can build up to 25 percent more units (or 35% more near a major transit stop or large employment center) than the zoning code would otherwise allow. Although this program is still in effect, the City is currently in the process of amending this program to comply with SB 1818, which was signed into law in September 2004 and amended the state density bonus law (Government Code Section 65915). The most significant changes are that developers have to produce fewer units to qualify for the minimum bonus and that developers can earn up to a 35 percent bonus for including a greater number of affordable units. The law also requires municipalities to provide additional incentives, or concessions, beyond the density bonus to participating developers to offset costs. Typical concessions include relaxed parking requirements, height restrictions and setback requirements.

Under the Community Redevelopment Law, community redevelopment agencies (CRAs) like the CRA/LA have a legislative responsibility for providing and protecting housing for low and moderate-income households. The California State Legislature sets CRA funding requirements for affordable housing, including an inclusionary housing provision. For projects developed by the CRA within a redevelopment project area, 30 percent of all units must be affordable to low or moderate-income households. For projects built by any other public entity or private developer within a redevelopment project area, 15 percent of the units must be set aside for low or moderate-income households, with at least 40 percent of the set-aside units affordable to very low-income households. The CRA's inclusionary requirements allow in-lieu options; developers can choose to build twice the number of affordable units outside of the project area or develop the same number of affordable units within another project area (Community Redevelopment Agency of the City of Los Angeles, 2005.)

Further, the Mello Act (California Government Code 65590) requires that new developments in the Coastal Zone include low or moderate-income units. However, the regulations do allow developers to provide housing outside the coastal zone if development of the units within the area is infeasible. In Los Angeles, compliance with the Mello Act requires a set-aside of at least 20 percent of units as affordable for low-income households or 10 percent of units for very low-income households. There is no in-lieu fee option (LAHD 2006).

The only inclusionary housing policy specific to Los Angeles is the Central City West Specific Plan (amended by Ordinance No. 167,944 in June 1992),[4] which includes provisions that require multifamily and mixed-use projects to include at least a 15 percent set-aside for low-income households. The program exempts multifamily developments with ten or fewer units and allows the payment of an in-lieu fee for projects of any size.

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[4] Central City West is to the west of the downtown and east of the MacArthur Park.

Developers are eligible for a density bonus in accordance with state and city regulations (City of Los Angeles 1992).

In the early 2000s, the effort to formally bring mandatory inclusionary housing to all of Los Angeles gained strength. Backed by a coalition of policymakers, affordable housing advocates, and nonprofit developers City Councilmembers Ed Reyes and Eric Garcetti proposed a citywide inclusionary housing ordinance in April 2004. The Reyes-Garcetti Inclusionary Housing Proposal required a 10 to 12 percent set-aside at 30 to 50 percent of area median income (AMI) for rental projects over five units and a 20 to 40 percent set-aside at 80 to 120 percent of AMI for ownership projects over five units. Like many of the existing inclusionary policies discussed in this paper, the proposal also included multiple ways for developers to meet the ordinance's requirements and several incentives to offset costs. But the proposal met with strong opposition from the building industry, business associations, and homeowner and neighborhood groups. Representatives of neighborhood groups voiced concerns that the incentives included in the inclusionary housing proposal would increase density and alter the existing character of neighborhoods (Smith, 2004; Vierick, 2005).

A 2001 position paper by the Central City Association (CCA), the Building Industry Association (BIA), and Valley Industry and Commerce Association presented commonly voiced objections to implementing an inclusionary housing program in Los Angeles. The groups asserted that inclusionary housing is tantamount to a tax on development. As an alternative to inclusionary housing, the position paper proposes "Incentive-Based Mixed-Income Housing," which would offer extensive incentives, including subsidies, fee deferments, and by-right development to encourage, but not require, developers to include affordable units within market-rate residential projects (CCA, et al., 2001). Later editorials by leaders of CCA, the BIA, and their supporters reinforced these assertions, claiming that as a price control, inclusionary housing would discourage development, and as a result fail to produce affordable housing and instead increase housing prices for the overall market (City News Service, 2004a; 2004b; Staley, 2004; Svorny, 2004).

In 2004, the CCA and BIA formalized their proposal as the "Housing For All: Fair Share Program" (CCA and BIA, 2004). The proposal rejected inclusionary housing, as well as the City's existing approach to affordable housing development. It presented a six-part strategy that focused on increasing both affordable and total residential supply, spreading units evenly across council districts but focusing locations in transit and commercial corridors, applying a voluntary inclusionary program citywide, and enabling neighborhoods to individually benefit from tax proceeds created through development.

Through this multi-faceted campaign against inclusionary housing, the BIA and other business leaders convinced Reyes and Garcetti to put their proposal on hold to allow for a 90-day review by neighborhood councils (Green, 2004). Although Reyes and Garcetti presented a revised plan that addressed neighborhood and business concerns, supporters have yet to garner enough City Council votes and a guarantee of mayoral support to pass an inclusionary housing ordinance for the City of Los Angeles (Daily News, 2005a; 2005b; LA Weekly, 2005a; 2005b). Whereas there was regular press coverage of the debate leading up to and immediately following the Reyes-Garcetti proposal, there has been scant discussion since then.

Inclusionary housing programs in Los Angeles and Orange Counties

Structure and dimensions of programs

We found seventeen cities in Los Angeles and Orange Counties with inclusionary housing programs (See Figure 1). Many of these cities passed ordinances to officially implement their inclusionary policies, but others specify the program terms through the Housing Element of the General Plan. Fourteen have adopted “mandatory” policies, where all developments of a particular size (specified by each city) must include a given percentage of affordable units within the development or choose from a handful of other options, such as building the affordable units off-site or paying an in-lieu fee to the city. The remaining three cities have adopted “voluntary” policies, where the set-aside of affordable housing units within a larger market-rate development is not required, but encouraged through various incentives such as a density bonus and other cost offsets, like a reduction in the number of parking spaces required. These voluntary policies are typically quite similar to the density bonus law passed in the California state legislature, which requires every jurisdiction in the state to offer a density bonus to a developer depending upon how many affordable housing units are included in a market-rate development.

A majority of the seventeen cities in the two counties instituted inclusionary housing programs in the mid-1980s and early 1990s, although a few adopted policies in just the last few years.[5] Tables 2 and 3 list each city’s policy history, including its method of adoption.

[5] Irvine and Newport Beach established mandatory inclusionary programs in 2003. However, prior to 2003, both cities maintained policies where inclusion of affordable units in market-rate developments was not required for planning approval, but strongly encouraged. Often, the planning departments of both cities were successful in negotiating with developers to include affordable units in their market-rate projects through developer agreements. In Irvine, these negotiated development agreements were typically made with the Irvine Company, one of the largest and most active developers in the city.

Figure 1. Map of Cities with Inclusionary Housing Policies in Los Angeles and Orange Counties

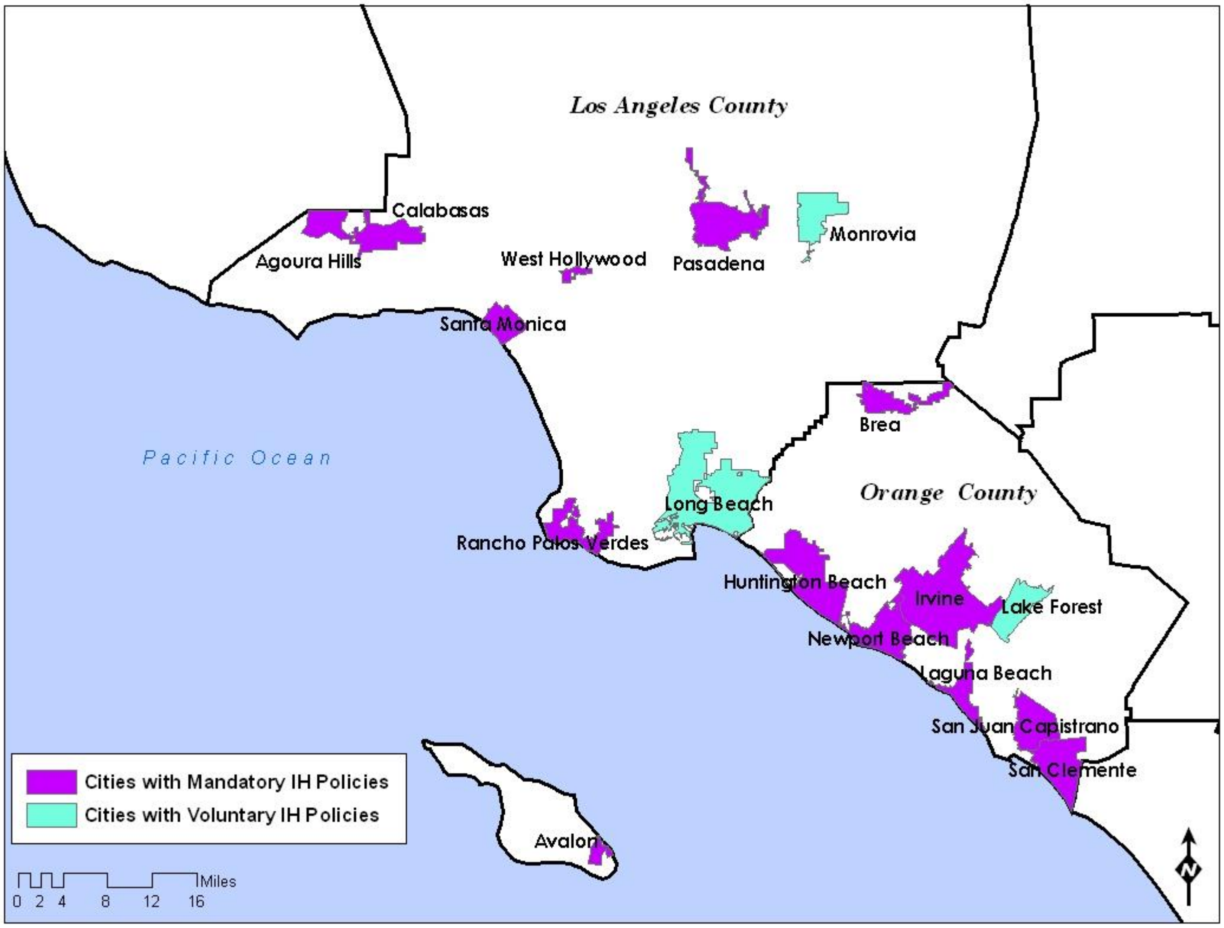

Table 2. Los Angeles County Cities with Inclusionary Housing Programs

City	Policy Type	Year Adopted	Method of Adoption
Agoura Hills	Mandatory	1987	Ordinance
Avalon	Mandatory	1983	Ordinance
Calabasas	Mandatory	1998	Ordinance
Long Beach	Voluntary	1991	Ordinance
Monrovia	Voluntary	1992	Ordinance
Pasadena	Mandatory	2001	Ordinance
Rancho Palos Verdes	Mandatory	1997	Ordinance
Santa Monica	Mandatory	1983	Ordinance
West Hollywood	Mandatory	1986	Ordinance

Table 3. Orange County Cities with Inclusionary Housing Programs

City	Policy Type	Year Adopted	Method of Adoption
Brea	Mandatory	1993	Ordinance
Huntington Beach	Mandatory	1992	Housing Element
Irvine*	Mandatory	2003	Ordinance
Laguna Beach	Mandatory	1985	Housing Element
Lake Forest	Voluntary	2000	Housing Element
Newport Beach	Mandatory	2003	Housing Element
San Clemente	Mandatory	1980	Housing Element
San Juan Capistrano	Mandatory	1995	Housing Element

* From 1975 to 2003 Irvine had a voluntary inclusionary housing program.

Mandatory inclusionary housing programs have three key dimensions: 1) the size of the development subject to the policy; 2) the percentage of units that must be set-aside as affordable; and 3) the income groups targeted as beneficiaries of the set-aside units (See Tables 4 and 5).

The size of a development subject to established inclusionary housing policy terms varies widely between cities. In some cases, only developments with 20 or more units are required to provide for affordable units. In others, all residential developments – regardless of the number of units – are subject to that city's affordable housing requirements.[6] Variation also exists between cities regarding the percentage of affordable units required, ranging from 4 percent at the low end to 25 percent at the high end.[7] In addition, some cities such as Santa Monica, Calabasas, Irvine, and Rancho Palos Verdes offer developers options regarding the number of affordable units required. For example, in the City of Rancho Palos Verdes, developers must set-aside 10 percent of a new development's total units for low-

[6] When development activity involves the construction of just one single-family home but is subject to a city's inclusionary policy, it is infeasible to provide a fraction of the affordable unit. In such situations, the developer, or owner, typically has the option to pay an affordable housing in-lieu fee to the city. We discuss the in-lieu fees later in this paper.

[7] In Santa Monica, developers building in the industrial/commercial districts are required to set-aside 100% of all units for moderate-income households. However, in all other areas of the city, developers must set-aside either 10% of units for very-low-income households, or 20% of units for low-income households.

income households or 5 percent of total units for very-low-income households.[8] These alternatives are intended to provide flexibility to the developer while offering an incentive to create affordable housing opportunities for extremely poor households.

Table 4. Key Components of Mandatory Inclusionary Requirements in Los Angeles County

City	Unit Threshold	Affordable Set-Aside Percentage	Income Groups Targeted
Agoura Hills	11	15%	Low-income (80% AMI or less) and/or Middle-income (81%-100% AMI)
Avalon	5	20%	Low-income (80% AMI or less); Moderate-income (81%-120% AMI)
Calabasas	10	20% or	Households earning 110% AMI or less
		15% or	Households earning 90% AMI or less
		10% or	Households earning 75% AMI or less
		5%	Households earning 50% AMI or less
Pasadena	10	10% + 5% or	Rental units: 10% must be set aside for Lower-income (80% AMI or less); remaining 5% can be for Moderate-income (81-120% AMI) or Lower-income
		15%	Ownership projects: Units can be sold to Lower-income or Moderate-income
Rancho Palos Verdes	5	10% or	Low-income (51%-80% AMI)
		5%	Very low-income (50% AMI or less)
Santa Monica	2	20% or	Low-income (51%-80% AMI)
		10% or	Very low-income (50% AMI or less)
		100%	Moderate-income (81%-120% AMI) in Industrial/Commercial Districts
West Hollywood	1*	20%	Low-income (80% AMI or less) and/or Moderate-income (81%-120% AMI)

* In projects with 10 or fewer units in West Hollywood, at least one unit must be made available to a low or moderate-income household.

[8] The specific definition of "low-income" varies in cities, as some differentiate between "low-income" and "very-low-income." However, in the majority of cities, "low-income" households are defined as those earning between 51% and 80% of the county's Area Median Income (AMI) and "very-low-income" households are considered to be those earning 50% of AMI or less. In addition, households earning between 81% and 120% of AMI are termed "moderate-income" households.

Table 5. Key Components of Mandatory Inclusionary Requirements in Orange County

City	Unit Threshold	Affordable Set-Aside Percentage	Income Groups Targeted
Brea	20	10%	Rental units: Very low-income (50% AMI and less) and Low-income (51%-80% AMI) Ownership units: Median-income (80-100% AMI) and Moderate-income (101%-120% AMI)
Huntington Beach	3	10%	Rental units: Very low-income (50% AMI and less), Low-income (51%-80% AMI) , and Median-income (81%-100% AMI) Ownership units: Median-income (80-100% AMI) and Moderate-income (101%-120% AMI)
Irvine	1	5% + 5% + 5% or	5% Very low-income (50% AMI or less) + 5% Low-income (51%-80% AMI) + 5% Moderate-income (81%-120% AMI)
		10% + 5%	10% households earning 60% AMI or less + 5% Moderate–income households
Laguna Beach	3*	25%	Low-income (80% AMI or less) and Moderate-income (81-120% AMI)
Newport Beach	1	20%	Very low-income (50% AMI or less); Low-income (51%-80% AMI)
San Clemente	6	4%	Very low-income (50% AMI or less)
San Juan Capistrano	2	10%	Very low-income (50% AMI or less); Low-income (51%-80% AMI)

* Laguna Beach's IH policy only applies to residential subdivisions of 3 or more units. It applies to condominium developments but not to apartments.

The cities are fairly similar with regard to the income groups targeted. Most of the cities emphasize housing for low and moderate-income households but fail to focus on very-low income households. Cities like Rancho Palos Verdes, Calabasas and Santa Monica provide developers an incentive for providing housing for very-low income groups. Only Irvine and San Clemente require a set-aside for very-low income households.

Developers constructing projects subject to a city's inclusionary housing requirements are typically afforded a number of ways to comply. In all jurisdictions developers have the option to include the required affordable units on-site with the other market-rate units, or construct the affordable units concurrently but at a different location within the city. In most of the cities, instead of building the affordable units, developers may pay an affordable housing in-lieu fee, or donate an equivalent amount of land to the city. In either of these latter two options, the construction of the desired affordable units becomes the responsibility of the city. In-lieu fees are typically deposited into a city's Affordable Housing Trust Fund until a critical mass of funds is collected that can then be used to build affordable housing. Often these in-lieu fee dollars are commingled with other funds, such as redevelopment agency Tax Increment Financing dollars, and subsequently lent to nonprofit developers in the form of a long-term, low-interest loan to facilitate affordable housing development, usually through the Low Income Housing Tax Credit program.

In-lieu fees charged to developers opting to pay rather than build the required affordable units vary considerably across our study-cities. Some jurisdictions charge a fee based on the square footage of the total project, while others levy fees based on the number of units in a project regardless of size. A few charge fees based on the number of affordable units that the developer would have been required to build. Tables 6 and 7 highlight the various in-lieu fee structures currently in place in the fourteen cities with mandatory inclusionary housing policies.

Some cities establish their fees as a result of a nexus study commissioned to an outside consulting firm, while other cities rely on planning staff to perform the analysis. In some cases, we were unable to confirm how a city's fee level was established, as more than a decade had passed since its initial adoption and the new staff members were unfamiliar with the process that had occurred. A few cities, including Pasadena and Santa Monica, have recently utilized professional consultants to collect and analyze data to establish or adjust their fee schedules.[9]

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[9] Keyser Martson Associates performed a financial analysis in October 2005 to update the fee structure for the City of Pasadena. Hamilton, Rabinovitz & Alschuler, Inc. performed the nexus study for the City of Santa Monica in July 2005. Hamilton, Rabinovitz & Alschuler, Inc. (HRA) discussed the demand for goods and services created by upper-income households purchasing or renting new market-rate units in the city. According to their analysis, delivery of these goods and services, in both the public and private sectors, to the upper-income households requires the employment of workers at all pay scales, including lower-income individuals that require housing at

Table 6. In-Lieu Fee Structure of Los Angeles County's Mandatory Programs

City	In-Lieu Fee Structure	Notes
Agoura Hills	$4,541 per market-rate rental unit, and $6,277 per market-rate ownership unit	In-lieu fee amount remains unchanged since policy originally adopted in 1987.
Avalon	Not Applicable	City does not have an in-lieu fee alternative to building affordable units.
Calabasas	$2,900 per market-rate unit (Please see Notes)	In-lieu fee was recently amended (April 5, 2006) to $19 per square foot for rental units and $25 per square foot for ownership units. Previous fee was unchanged since its adoption in 1999.
Pasadena	Rental projects: fee ranges from $1 to $30 per square foot Ownership projects: fee ranges from $14 to $53 per square foot	Fee amount varies by area of city and size of development.
Rancho Palos Verdes	$1 per square foot, plus 10% administrative fee (Please see Notes)	In-lieu fee recently amended on September 20, 2005 to $201,562 per affordable unit required, plus a 10% administrative fee. Previous fee remained unchanged since its adoption.
Santa Monica	$6.14 per square foot for apartments; $11.01 per square foot for condos (Please see Notes)	Fee recently increased on October 11, 2005 to $22.33 per square foot for apartments and $26.06 per square foot for condos. Previous fee for apartments was unchanged from 1998 until 2005; previous fee for condos was in place from 2000 (revised once from 1998).
West Hollywood	Varies from $6.77 per square foot to $13.54 per square foot, depending on size of development	Fees are typically adjusted each year in line with the housing portion of the CPI.

affordable prices. Thus, HRA made the causal connection between the construction of new market-rate residential developments and the need for new housing affordable to lower-income workers and their families. Based on this premise, HRA performed an analysis to determine estimates of upper-income household spending, lower-income employment effects from that spending, the number of lower-income households associated with those employment impacts, and finally the appropriate affordable housing fee to offset the housing demand created by the upper-income households' expenditures.

Table 7. In-Lieu Fee Structure of Orange County's Mandatory Programs

City	In-Lieu Fee Structure	Notes
Brea	Fee per affordable unit required equals difference between market-rate home and affordable home sales price	Calculated on a case-by-case basis. Last (and only) fee paid in 2003 was $46,875 per required unit.
Huntington Beach	No in-lieu fee structure set. Market-rate developers pay third party developer directly rather than city. Fee amount is negotiated on a case-by-case basis.	Third party developer receives in-lieu fee and is responsible for working to deed restrict existing properties. City is currently working on adopting a formal in-lieu fee schedule and has stopped working with third party arrangement. Currently all developers are required to build affordable units (no in-lieu fee option) until new schedule is established.
Irvine	$12,471 per market-rate unit	When the ordinance was passed in 2003, the fee was set at $6,694 per unit. It was increased to the current amount on May 10, 2005. As of June 2006, City Council is currently considering another in-lieu fee increase.
Laguna Beach	Varies based on average cost of vacant residential land and assumed density per acre	In-lieu fee recently modified in April 2006 to $43,753, a decrease from last in-lieu fee applied of $46,978 per market-rate unit in 2000.
Newport Beach	Fee in 2003 was $8,000 per market-rate unit	Currently in-lieu fees are adjusted with inflation, based on original negotiated fee in 1995 of $5,000 per unit. City Council has recently received results from a professional in-lieu fee study and is expected to increase fees within the next year.
San Clemente	For each market-rate unit constructed, developer must pay 1% of unit's assessed value at the time the building permit is approved	
San Juan Capistrano	For each market-rate unit constructed, developer must pay 1% of unit's assessed value at the time the building permit is approved	

In-lieu fees are designed to allow developers flexibility, but inappropriately structured fees can be problematic. The fee-option will be ineffective or misused if a city sets its fees too high or too low. Typically, cities seek to structure their fees based on the affordability gap: the difference between market-rate prices (rents or sales) and the price that is affordable to a particular income group. Nonetheless, there is wide variation in the existing fee levels as shown above. Several cities have not updated their affordable housing in-lieu fees since their initial adoption, which further exacerbates the wide variation in fee levels. The difference between the affordable housing in-lieu fee and the actual cost of construction can have a significant impact on a developer's decision to build the affordable units or opt out via the in-lieu fee. If the in-lieu fee is well below the construction cost, developers might be reluctant to build the affordable units. Some developers might still be willing to build the affordable units for the incentives – density bonuses, parking relaxations, etc. – offered by local governments.

Using median housing sales prices and income data, we calculated the affordability gap for low-income households in Los Angeles and Orange Counties (See Appendix A). Both counties have a relatively similar gap of around $200,000 per unit. On the basis of this affordability gap, we calculated the various in-lieu fee possibilities (See Table 8). These possibilities are contingent on a city's policy decision of whether it should require the financing of the entire gap or just a fraction. Nicholas Brunick's analysis of the inclusionary housing program in Denver, Colorado, suggests that with in-lieu fees close to half the cost of construction, developers are likely to build the affordable units (2004b).[10] Assuming a prevailing construction cost of around $140,000 per unit, half of the construction cost is equal to 35 percent of the affordability gap. We use 35 percent as one of our thresholds.

[10] In Denver, the affordability term for the inclusionary units is only 15 years. This might also contribute to developers' decisions to build the affordable housing.

Table 8. In-Lieu Fee Calculations (Assuming an Affordability Gap of $200,000 per unit)[11]

If the developer is required to contribute the full cost of the gap:		
Required Affordable Housing Set-Aside	In-Lieu Fee Per Market-Rate Unit	In-Lieu Fee Per Square Foot*
10%	$20,000	$13.34
15%	$30,000	$20.00
20%	$40,000	$26.67
If the developer is required to contribute 50% of the cost of the gap:		
Required Affordable Housing Set-Aside	In-Lieu Fee Per Market-Rate Unit	In-Lieu Fee Per Square Foot*
10%	$10,000	$6.74
15%	$15,000	$10.00
20%	$20,000	$13.33
If the developer is required to contribute 35% of the cost of the gap:		
Required Affordable Housing Set-Aside	In-Lieu Fee Per Market-Rate Unit	In-Lieu Fee Per Square Foot*
10%	$7,000	$4.67
15%	$10,500	$7.00
20%	$14,000	$9.33

*Assumes average market-rate unit is 1,500 square feet in size

To organize our analysis, we categorize the cities with mandatory inclusionary programs into “more” (Group A), “moderate” (Group B), and “less” (Group C) demanding jurisdictions. We categorize the cities as more demanding, if they have a low trigger for the inclusionary provision, which is imposed on all developments with more than ten housing units; a decent set-aside requirement, where developers are required to provide at least 10 percent affordable housing units; and a reasonable in-lieu fee option, which covers more than half of the cost of construction of an affordable housing unit. We found that most of our study-cities met the first two criteria but had too low an in-lieu fee structure to be included in Group A. With the low fee structures it is unlikely that developers will build the required on-site affordable housing, choosing instead to contribute the in-lieu fees. The contributed fees, however, are insufficient to cover the cost of the affordable housing not developed.

[11] See Appendix A for an analysis of income and home prices to calculate the Affordability Gap for Los Angeles and Orange Counties.

Three cities – Calabasas, Rancho Palos Verdes and Santa Monica – recently revised and increased their fees. If we consider their current fee structure, they should be included in Group A. However, since we intend to analyze their past performance, we are categorizing them on the basis of their old in-lieu fees. At the other end of the spectrum, one city – San Clemente – currently has low in-lieu fees but was more demanding in the past. For our analysis, we group it in the top category. Finally, we classify the cities with voluntary programs in Group D (See Tables 9 and 10). As Table 10 indicates, the cities are somewhat evenly distributed in the four groups.

Table 9. Ranking the Inclusionary Housing Programs on the Basis of Key Dimensions (Ranking based on pre-October 2005 data)

City	Unit Threshold	Maximum Set-Aside	Maximum Possible In-Lieu Fee as % of Affordability Gap	Group
Agoura Hills	11	15%	$6,277 <35% of gap	C
Avalon	5	20%	Option unavailable	A
Calabasas	10	20%	$2,900 <35% of gap*	C*
Pasadena	10	15%	$53 per square foot >100% of gap	A
Rancho Palos Verdes	5	10%	$1 per square foot <1% of gap**	C**
Santa Monica	2	20%	$11 per square foot >35% but <50% of gap***	B***
West Hollywood	1	20%	$13.54 per square foot >50% of gap	A
Brea	20	10%	$46,875 per required unit >35% but <50% of gap	B
Huntington Beach	3	10%	Negotiated fee, requires 1 to 1 unit translation	A
Irvine	1	15%	$12,471 per unit is >35% but < 50% of gap	B
Laguna Beach	3 (only Subdivisions)	25%	Varies; last record of $46,978 per market unit is >100% of gap	B
Newport Beach	1	20%	$8,000 per unit <35% of gap	C
San Clemente	6	4%	Today fee varies by value of building constructed; in 1980s no fees were allowed	A****
San Juan Capistrano	2	10%	Fee varies by value of building constructed; record of fees collected indicates average per	C

		unit has not exceeded $4,800 (<35% of gap)

* Although Calabasas recently increased its fee in April 2006 to $19 and $25 per square foot for apartments and condos, the fee level previously in place is used in this analysis. According to our framework, if we consider Calabasas' current fee structure, its program would be categorized in Group A.
** Rancho Palos Verdes increased its in-lieu fee from $1 per square foot to $201,562 per required affordable unit (plus a 10% administration fee) in September 2005. But we use the old fee structure for our analysis. If we consider Ranch Palos Verdes' current in-lieu fees, we would categorize the program in Group A.
*** Santa Monica increased its in-lieu fee in October 2005 to $22.33 and $26.08 for apartments and condos respectively. However, we use the old fee structure for our analysis. If we consider current in-lieu fees only, we would categorize the program in Group A.
**** San Clemente previously did not allow in-lieu fee payments and instead required the construction of 15% affordable units between 1980 and 1989. Based on its current in-lieu fee structure, however, we would place them in Category C.

Table 10. Categorizing the IH Cities of Los Angeles and Orange Counties (Ranking based on pre-October 2005 data)

Group A	Group B	Group C	Group D
Avalon	Brea	Agoura Hills	Lake Forest
Huntington Beach	Irvine	Calabasas*	Long Beach
Pasadena	Laguna Beach	Newport Beach	Monrovia
San Clemente	Santa Monica*	Rancho Palos Verdes*	
* West Hollywood		San Juan Capistrano	

* Please see the notes above, under Table 9.

In order to encourage developers to set-aside a percentage of total units for lower income groups rather than pay an in-lieu fee, cities generally offer a "menu" of incentives from which to choose. While never explicitly quantified in a jurisdiction's zoning code or housing element, the various incentives offered represent real financial savings to the developer, and are intended to offset the cost of building units with restricted sales prices or rents. For example, in the City of Brea, Section 20.40.040 of the municipal code indicates that the city, or its planning agency, will approve "any or all of the following incentives:

1. A density bonus;
2. Flexible development standards, such as, a reduction in unit square footage, on-site requirements, and off-site improvements;
3. Deferral of development impact fees;

4. Use of Building Code alternatives;
5. Assistance in application for public funds, such as rent subsidies, bond financing, community development block grants;
6. Redevelopment set-aside funds;
7. Any other lawful means of offering the costs of providing affordable units"

In addition, Brea's code states that if the appropriate incentives do not offset the cost of the required affordable units, then the "number of required affordable units shall be reduced until the city determines a break even point has been met." Regardless of the city and incentives involved, it is the developer's responsibility to request the desired incentives, which often involves an analysis of how the specified incentives are necessary to make projects financially feasible. In all jurisdictions, this incentive negotiation process generally requires approval of the planning commission.

Although not every ordinance or housing element adopted by cities with mandatory inclusionary housing lists the array of incentives available as Brea does, all developers are entitled to request as many incentives as desired. Furthermore, the state's new density bonus law requires all jurisdictions to offer an appropriate density bonus, and one to three regulatory incentives (concessions) to facilitate the inclusion of affordable housing units, provided that the developer sets aside at least 5 percent of units for very-low income households, or 10 percent of units are set-aside for low-income households. This minimum set-aside requirement automatically covers the mandatory requirements of all cities discussed in this analysis except San Clemente, which mandates only a 4 percent set-aside for very-low income households.

Voluntary inclusionary housing programs

Long Beach, Lake Forest, and Monrovia have voluntary inclusionary housing programs. While Long Beach and Monrovia have adopted ordinances to specify and implement their voluntary policies, Lake Forest has yet to do so. Lake Forest's 2000-2005 Housing Element specifies a policy of "encouraging" the incorporation of a minimum of 15 percent affordable units within residential developments in order to help meet the city's goal of having adequate housing to meet existing and future needs.[12] However, the city has yet to adopt the expected ordinance or further specify incentives for encouraging the 15 percent set-aside. As a result, there is no information available on the income groups approved for habitation in the affordable units, the required term of affordability, or the minimum-sized development eligible for participation in the program.

The Voluntary Incentive Program (VIP) established by Long Beach in 1991 is a three-tiered program. Its first tier mimics the state density bonus law that was in place at the time of VIP's adoption.[13] The other two tiers offer a density bonus of 100 percent to projects that set-aside all units for senior citizens and the disabled, or a 200 percent density bonus to projects that restrict all units for low-income senior citizens and the disabled. All affordable housing units created through the VIP must remain affordable for 30 years.

The City of Monrovia adopted an Affordable Housing Owner-Occupied Incentive Program (AHOIP) in 1992 that also mimics the state density bonus law in place at the time of adoption. The program grants a 25 percent density bonus to ownership-based projects with 20 percent or more of total units reserved for low and moderate-income households, and offers incentives such as the permitting of attached units, reduction in off-street parking, unit size reductions, less required recreation space, increase in floor area ratios, and modified setback standards. Nearly identical to the state program, AHOIP differs in its explicit listing of the available incentives, but the listed incentives are for ownership-based housing only. However, Monrovia's 2000-2005 Housing Element makes reference to the city's intent to amend the AHOIP provisions to extend the same incentives to affordable

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[12] See 2000-2005 Housing Element of Lake Forest General Plan (page H-4), adopted December 19, 2000.

[13] The state density bonus law at the time of VIP' provided a 25% density bonus to any mixed-income development that set aside: 1) 20% of units for very-low and low-income households, 2) 10% of units for very-low income households, or 3) 50% of units for income-eligible seniors. The state law was recently revised in early 2005 – SB1818 – to offer a more flexible, sliding-scale approach to the amount of density bonus offered and the required corresponding set-aside amount.

rental housing. As in the case of Long Beach, all affordable housing units must remain restricted for 30 years.

For more details on the inclusionary housing programs of the seventeen cities, please see Appendix B.

Affordable housing accomplishments

To understand the accomplishments of the inclusionary housing programs in the two counties, we assembled data on the number of affordable units produced; the amount of money collected through the in-lieu fee options; and the number of affordable units developed with funding from the fee collections. We present our data on accomplishments in the following four tables, and discuss our experience and analysis.

We faced a number of unexpected challenges in collecting and assessing information on the accomplishments of inclusionary housing programs in Southern California. First, many cities do not have accessible data that can be shared with researchers. For example, the City of Santa Monica was only able to provide us with data for its inclusionary housing programs after 1998. According to the staff we interviewed, the pre-1998 data were not computerized and not easily available. While our data from the city indicates that Santa Monica has 375 units of affordable housing produced or under development, this figure, we assume, does not include the 377 affordable units that Calavita and Grimes list as the city's production prior to 1998 (1998, p. 161).

Second, as many cities amend and revise their inclusionary programs, it becomes difficult to collect data on housing developed through earlier versions of the programs. For example, Irvine had a voluntary program prior to 2003. Our data from the city only accounts for units produced following programmatic changes implemented in 2003 and does not include the over 4,000 affordable units that had been developed by 1998 (Calavita and Grimes, 1998, p. 159). Third, in addition to the inclusionary housing programs, many cities have active Community Redevelopment Agencies. As in the city of Los Angeles, these redevelopment agencies have independent affordable housing programs that include inclusionary housing requirements. These factors make the task of counting housing produced through a city's inclusionary program difficult. For example, for cities like Laguna Beach and Monrovia, our research did not reveal much affordable housing production through the inclusionary programs but secondary sources list substantial inclusionary units in these cities. We list four affordable units produced in Laguna Beach (and an unspecified amount of in-lieu fee collections) but Calavita and Grimes list 310 units by 1998 (1998, p. 159) and Powell and Stringham list 139 units (2004a, p.4).

Fourth, another explanation for discrepancies in data is that the affordability term of the housing units is finite. For example, we list 36 units produced in Agoura Hills, while Calavita and Grimes list 50 units (1998, p. 159). However, our research indicated that one development originally included affordable units but their affordability term has since expired. The affordability term in Agoura Hills is fifteen years. (Similarly, the affordability term in Laguna Beach is only ten years, which might explain some of the differences in data discussed above). Fifth, our analysis, like the past research on inclusionary housing, does not disaggregate and distinguish between rental and ownership units; or between housing for very-low income and moderate income groups; or between affordable housing deed restricted for ten years and affordable housing preserved for thirty years. Ignoring such differences is problematic.

Finally, we are critical of past researchers that ignored the in-lieu fee collections in their analysis of accomplishments. Robustly assessing the significance of fees, however, is tricky. The fees are rarely used directly, and separately, to develop affordable housing. Sometimes they are creatively used to leverage additional funds (For example, see notes on West Hollywood in Table 13); or used to partially underwrite affordable developments (See Pasadena in Table 13); or used to fund homeless shelters (See Laguna Beach in Table 14). Another potential problem is that the listed funds might include other sources, such as fees collected from commercial developments through linkage fees (See Calabasas in Table 13).

Tables 11 and 12 present the details on the affordable housing units produced and in development through the inclusionary programs. Tables 13 and 14 provide information on the in-lieu fees collected and their expenditure.

Table 11. Affordable Housing Accomplishments of IH Programs in Los Angeles County

City (Policy Inception Date)	Affordable Inclusionary Units Completed	Affordable Inclusionary Units in Development*	Notes
Agoura Hills (1987)	36	0	Currently, only 1 building, with 36 units, in Agoura Hills provides affordable units, at the Archstone Apartments. This building was constructed with Multifamily Revenue Bonds issued by the city in exchange for the developer setting aside affordable

			units. One other building in the city previously included inclusionary affordable units (townhomes) but the affordability term has since expired. It probably had 14 units as Calavita and Grimes (1998) list 50 affordable units completed in the city
Avalon (1983)	88	4	The four units under construction are in two almost complete developments. Calavita and Grimes (1998) list 135 affordable units completed in the city
Calabasas (1998)	0	0	All developers subject to city's inclusionary housing policy have chosen to pay in-lieu fees
Long Beach (1991)	0	0	No developers of market-rate projects have chosen to participate in the city's Voluntary Incentive Program for affordable housing
Monrovia (1992)	0	0	No developers of market-rate projects have chosen to participate in the city's voluntary affordable housing program
Pasadena (2001)	346	357	Of the completed units, 324 are rental and 22 are ownership units; 16 are set-aside for very-low income, 62 for low-income, and 268 for moderate-income households
Rancho Palos Verdes (1997)	0	9	Only one inclusionary affordable unit for a project currently in the approval stages has been required as a result of the ordinance passed (two other developments subject to policy have chosen to pay in-lieu fees). However, one 75-unit single-family development has been required to build eight affordable units as a result of a lawsuit filed shortly after the project's approval (the development was approved prior to the ordinance's adoption and was not technically required to build any affordable units). Four affordable rental units (two duplexes) have been built on-site, and another four units will be built off-site before the second phase of market-rate homes is completed
Santa Monica (1998)**	303	72	Of 375 total units, 96 are reserved for very-low income households, 79 are reserved for low-income households, and 200 are reserved for moderate-income households. 55 units have been or will be built off-site (all very-low income units). According to Calavita and Grimes (1998, p. 161) by 1998, Santa Monica had 377

			affordable housing units
West Hollywood (1986)	91	50	Of the 91 units completed, 57 are reserved for low-income households and 34 are reserved for moderate-income households; all are rental units. Only one developer has built inclusionary units off-site, although total provided in that case was more than the amount required (3 units were required but developer bought an existing building of 10 units and converted all to affordable)
Total	864	488	

* Approved or under construction
** Although Santa Monica has had an inclusionary housing policy in place since 1983, only data from FY 1998-99 through 2004-05 was available from the city.

Table 12. Affordable Housing Accomplishments of IH Programs in Orange County

City (Policy Inception Date)	Inclusionary Affordable Units Completed	Affordable Inclusionary Units in Development*	Notes
Brea (1993)	150	Not Available	All 150 affordable inclusionary units completed are ownership units
Huntington Beach (1992)	428	78	Of the 428 units, 29% are rental units for very-low and low-income households; 71% are ownership units for moderate-income households
Irvine (2003)	0	171	Of 171 total units, 78 are rental and 93 are ownership units. Inclusionary figures reported are only since city adopted a mandatory inclusionary policy in 2003. According to Calavita and Grimes (1998, p. 159) by 1998, 4,469 affordable inclusionary were built
Laguna Beach (1985)	4	0	One developer of a 13-unit project has chosen to set-aside 4 affordable units (built in 1996). All other projects paid in-lieu fees
Lake Forest (2000)	6	0	In 2003, city staff negotiated with the developer of a 131-unit townhome development to set-aside 6 units with a 15-year deed restriction. 4 are for low-income and 2 are for moderate-income households
Newport Beach (2003)	0	16	One 79-unit project currently pending is required to build affordable units, on- or off-site. Since adoption of mandatory policy, all other developers have chosen to pay in-lieu fees
San Clemente (1980)	630	0	All inclusionary units built are apartments for very-low income households and a result of three large developments in the city. All other developments paid in-lieu fees.
San Juan Capistrano (1995)	0	0	All developers of market-rate projects have chosen to pay in-lieu fees
Total	1,218	265	

* Approved or under construction

Table 13. In-lieu Fee Activities of IH Programs in Los Angeles County

City (Policy Inception Date)	In-Lieu Fees Collected	Use of Funds	Housing Created via In-Lieu Fees	Notes
Agoura Hills (1987)	$1.61 million	First-Time Homebuyer Program	Not Available	We were unable to collect data on how many households have been assisted through the first-time homebuyer program
Avalon (1983)	N/A	N/A	N/A	City does not have an in-lieu fee alternative to building affordable units
Calabasas (1998)	$1 million	TBD	0	In-lieu fees consist of approximately 80% residential payments and 20% commercial impact fees. City has yet to decide on how to use in-lieu fees collected but is currently considering options
Long Beach (1991)	N/A	N/A	0	City does not have an in-lieu fee component to its voluntary affordable housing incentive program
Monrovia (1992)	N/A	N/A	0	City does not have an in-lieu fee component to its voluntary affordable housing incentive program
Pasadena (2001)	$12.23 million	Underwriting	128	Thus far, the city has spent $2.3 million of in-lieu fee money to underwrite development of 128 units on two projects. The first is the “Trademark Project” consisting of 8 units with a $1.3 million loan. The second is the “Heritage Square” project where the land to house 120 units was purchased for $1 million. City is expected to release an RFP for development of Heritage Square, and will likely spend more fees on the project’s development
Rancho Palos Verdes	$853,177	TBD	0	To date, two developments have paid in-lieu fees instead of constructing units. The first, the

(1997)				Oceanfront Estates 79-unit single-family development, paid $596,494 in in-lieu fees. The second project, the Seabreeze 63-unit single-family development, paid $256,683 in in-lieu fees. (Both of these developments had their fee payments approved before the new fee schedule was adopted in September 2005). In-lieu fees are currently earning interest along with redevelopment agency funds
Santa Monica (1998)*	$8.7 million	Underwriting	534	City typically uses in-lieu fees and other housing funds to underwrite construction of affordable housing managed by local nonprofits. From FY 1998-99 through 2004-05, 534 affordable units at 17 properties have been financed in part using in-lieu fees collected
West Hollywood (1986)	$10.2 million	Underwriting	224	City has leveraged in-lieu fee money and other housing funds to underwrite affordable housing activities of West Hollywood Community Housing, a nonprofit developer, to create 224 affordable units
Total	$34.6 million		886	

N/A: Not applicable; TBD: To be decided.

Table 14. In-lieu Fee Activities of IH Programs in Orange County

City (Policy Inception Date)	In-Lieu Fees Collected	Use of Funds	Affordable Housing Created via In-Lieu Fees	Notes
Brea (1993)	$750,000	Not Available	Not Available	In-lieu fees have only been collected from one development: developer was required to build

				23 units but built 7 and paid in-lieu fees for remaining 16 units
Huntington Beach (1992)	See notes	Affordable Housing Development	111	Since policy was adopted in 1992, city has not established an in-lieu fee schedule and has instead required market-rate developers to negotiate a fee paid directly to Bridges America Foundation. The funds were then used to place 30-year affordability covenants on 111 existing units at two apartment buildings owned by Bridges. A record of specific fees paid was unavailable, but according to city staff, in the early years average negotiated fee was around $20,000 and last negotiated amount, approximately 2 years ago, was near $45,000 per required unit. Bridges America is no longer involved and city now requires all market-rate developers to build units on- or off-site[14]
Irvine (2003)	$10.5 million	Underwriting	221	$8.25 million has been extended in loans to two 100% affordable housing developments. One loan is for $2.85 million on a 71-unit development. The other is $5.4 million on a 150-unit development. In addition, rather than pay an in-lieu fee, one developer has chosen to extend the affordability term of 84 existing units
Laguna Beach (1985)	Not Available	Varies	See notes	Since 1990, in-lieu fees collected have been used for the following: 1) To subsidize the

[14] However, the city has also recently received the results of an in-lieu fee study by Keyser Marston Associates and the City Council is expected to adopt a two-tiered fee schedule so that the fee option is again available. One fee level will be used for developments with 3-9 units, and a higher fee level will be used for developments with 10 or more units

				development of Hagan Place (24 units for disabled persons) in conjunction with CDBG funds; 2) To assist in the purchase of a building for the Friendship Shelter, which provides transitional housing for the homeless; 3) To provide rental subsidies to low-income seniors who were relocated from Treasure Island; 4) To subsidize a mortgage for the City's Community Services Program to provide temporary housing for young people in need; and 5) To purchase a site for the development of approximately 20 very-low income housing units
Lake Forest (2000)	$348,000	TBD	TBD	Although the city does not have an in-lieu fee component to its voluntary affordable housing policy, city staff recently negotiated with the developer of a newly approved 29-unit single-family development to pay $12,000 per market-rate unit to support the city's affordable housing goals
Newport Beach (2003)	$3 million	Underwriting	120	$1.5 million of in-lieu fees have been spent to underwrite development of a 120-unit senior affordable housing project through the tax credit program
San Clemente (1980)	$4.1 million	Underwriting	6	Mary Erickson Community Housing received a loan of $593,000 with in-lieu fee money to acquire a dilapidated property and rebuild 6 units of housing for very-low-income large families. Remainder of money has yet to be spent, although city is working with a nonprofit developer to find and purchase site(s) for affordable housing

				development. According to city staff, 6 sites have been identified for potential acquisition
San Juan Capistrano (1995)	$1.4 million	Underwriting	84	In-lieu fees collected have been used to underwrite development of an 84-unit senior housing development. The city also received a land donation valued at $1.8 million from the developer of a 179-unit condo project.
Total	$20.1 million*		542	

*Total in-lieu fees collected does not include the total amount paid directly to a third party by market-rate developers in Huntington Beach (data unavailable).

As we noted, it is difficult to robustly assess the affordable housing accomplishments because of some inconsistencies in the data; the lack of disaggregation based on tenure, income groups targeted or affordability terms; and the challenge of translating collected in-lieu fees into equivalent housing units. With these caveats, Table 15 summarizes the accomplishments of the seventeen cities.

Earlier, we had divided our study-cities into four categories (Groups A, B, C, and D), on the basis of the quality of their requirements, to understand how different kinds of inclusionary housing programs perform (See Table 10). We are unable to present definitive results of this analysis, but our research suggests that the cities with voluntary programs (Group D) and cities with less demanding programs (Group C) tend to be ineffective. The City of Irvine used to have an effective voluntary program; it is a key exception and requires further study. The cities that we classify as more demanding (Group A) and moderately demanding (Group B) – the shaded rows in Table 15 – tend to be more successful in developing affordable housing. However, discerning and explaining differences in their productivity to understand how more demanding or moderately demanding inclusionary regulations affect success, requires additional research and analysis.

Table 15. Summary of Accomplishments of Inclusionary Housing Programs

City	Population	Affordable Housing Units		In-lieu Fees		Total Units (A+B+C)
		A*	B**	Dollars	C***	
1. Agoura Hills	20,537	36	0	1,610,000	NA	36
2. Avalon	3,127	88	4	N/A	N/A	92
3. Brea	35,410	150	NR	750,000	NA	150
4. Calabasas	20,033	0	0	1,000,000	0	0
5. Huntington Beach	189,594	428	78	NA	111	617
6. Irvine	143,072	4,469	171	10,500,000	221	4,861
7. Laguna Beach	23,727	4	0	NA	NA	4
8. Lake Forest	58,707	6	0	348,000	NA	6
9. Long Beach	461,522	0	0	N/A	N/A	0
10. Monrovia	36,929	0	0	N/A	N/A	0
11. Newport Beach	70,032	0	16	3,000,000	120	136
12. Pasadena	133,936	346	357	12,230,000	128	831
13. Rancho P. V.	41,145	0	9	853,177	0	9
14. San Clemente	49,936	630	0	4,100,000	NA	630
15. San J. Capistrano	33,826	0	0	1,400,000	84	84
16. Santa Monica	84,084	680	72	8,700,000	534	1,286
17. West Hollywood	35,716	91	50	10,200,000	224	365
Total		6,928	757	54,691,177	1,422	9,107

A* = Affordable units developed; B** = Affordable units in production; C*** = Affordable units from in-lieu fees.
NA: Not available; N/A: Not applicable.
Notes: 1. Data for Irvine and Santa Monica draws from Calavita and Grimes (1998) and includes pre-2003 production in Irvine, and pre-1998 production in Santa Monica.
2. Cities in Groups A and B are highlighted.

Should we consider these inclusionary housing programs productive and significant? This is difficult to answer without comparing the number of housing units produced with some other benchmark. We chose to compare the housing productivity with the number of affordable units produced through the Low Income Housing Tax Credit (LIHTC) program, the primary source for affordable housing development in most jurisdictions (See Table 16). (It is worth noting that in-lieu fees collected through the inclusionary housing requirements enable part of the LIHTC production.) In the table, we highlight the cities with the more and moderately demanding inclusionary programs, and focus on them in our analysis.

Overall, the programs are comparably productive. In some cities the inclusionary programs are leading to more affordable housing than the tax credit program. Irvine and

Laguna Beach appear to have less success. However our data for Irvine does not include the inclusionary units built before 2003; post-2003 housing was still in development and is therefore not included. In Laguna Beach, the inclusionary program's success has been concentrated in collecting in-lieu fees, but fees are not included in this analysis. In summary, the data and the comparison indicate the importance and magnitude of inclusionary programs in the production of affordable housing.

Table 16. Affordable Units Produced: 1998-2005

City	Inclusionary Affordable Housing*	Low-Income Housing Tax Credit Units**	Total
Agoura Hills	0	0	0
Avalon	88	36	124
Brea	105	0	105
Calabasas	0	0	0
Huntington Beach	380	295	675
Irvine***	0	686	686
Laguna Beach	0	96	96
Lake Forest	6	0	6
Long Beach	0	1,968	1,968
Monrovia	0	77	77
Newport Beach***	0	119	119
Pasadena	346	480	826
Rancho Palos Verdes	0	0	0
San Clemente	229	304	533
San Juan Capistrano	0	66	66
Santa Monica	303	166	469
West Hollywood	37	42	79

Sources: Low-Income Housing Tax Credit unit data from "Housing Element Compliance and Building Permit Issuance in the SCAG Region," distributed by Southern California Association of Governments, April 2006. Inclusionary affordable unit data from authors' research.
*Reflects only affordable units built directly by market-rate developers on- or off-site pursuant to the inclusionary housing rules in each jurisdiction; figures do not include units in approval or incomplete at end of 2005.
**Development of some low-income tax credit units supported in part with inclusionary housing in-lieu fees collected in various jurisdictions.
***Figures reported for Irvine and Newport Beach do not include any affordable units produced through voluntary programs prior to 2003.
Note: Cities in Group A and B are highlighted.

Market effects

Critics argue that affordable housing mandates, like inclusionary housing, drive away developers and reduce the supply of housing. The reduction in supply, they contend, ends up hurting the poor rather than helping them. In order to investigate this possibility, we performed multivariate regression analyses to explore the effects of the adoption of inclusionary housing policies along with additional factors. Two of these other factors, identified in the literature, which we use as independent variables, are unemployment rates (county level data) and the regional housing market. We recognize that the effect of a regional housing market is difficult to capture as a single variable since it would require the consideration of several factors, including income levels, population change, and mortgage or interest rates. Given our limited access to data, we use the yearly median number of permits issued in a county (COMEDU) as a proxy measure for the regional housing market. Our assumption is that the volume of housing construction in a region is a reasonable indicator of its housing market. We utilize permit data for the cities in Los Angeles and Orange counties from the Construction Industry Research Board (CIRB). We have permit data from 1980 (which, for our dataset, is also the first year when a city exercised inclusionary housing policies) to 2005 for all cities, except four: Agoura Hills (data available from 1983); Calabasas (from 1991); Lake Forest (from 1992); and West Hollywood (from 1984).[15]

Prior to conducting our regression analyses we also plotted the trends of permit activity in the two counties from 1980 to 2005 for a visual reading to help us understand significant patterns and relationships. We plotted the permits issued for both counties for median total housing units, median multi-family units, and median single-family to compare three trends – those of the overall county; all cities without inclusionary housing policies; and all cities that currently have inclusionary housing requirements (see Figures 2 to 7). In the graphs for median total housing units (Figures 2 and 5), we also explore a fourth trend – of the median number of housing permits in cities with inclusionary housing policies at that

[15] The permit data is available from later dates for these cities because they were incorporated only later.

time (indicating housing construction permitted after inclusionary housing requirements were instituted).

Figure 2. Median Total Housing Permits in Los Angeles County (LAC)

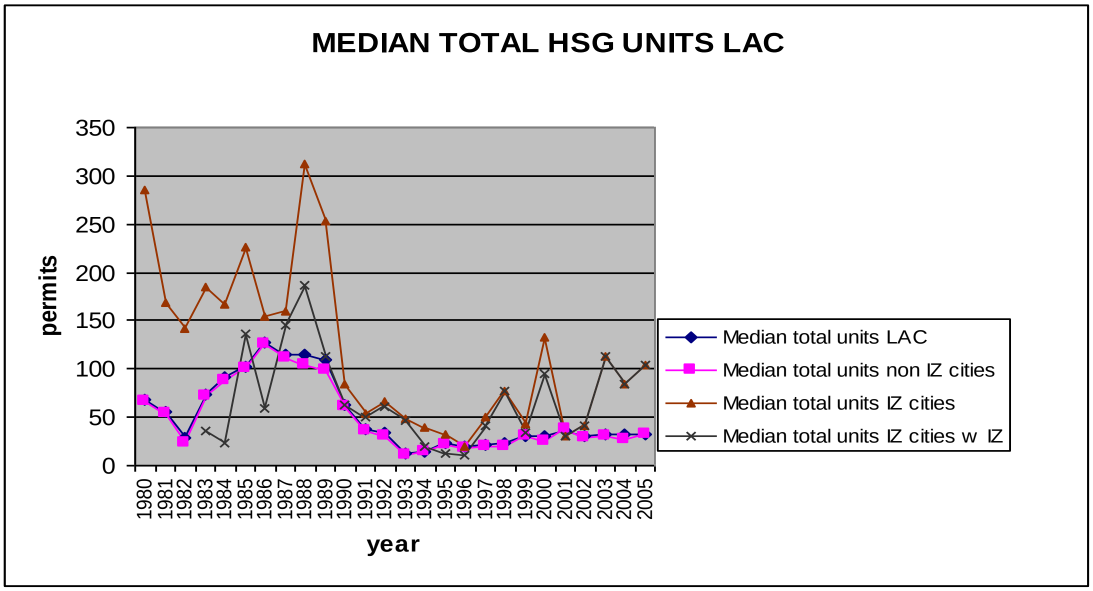


Figure 3. Median Multi-family Housing Permits in Los Angeles County (LAC)

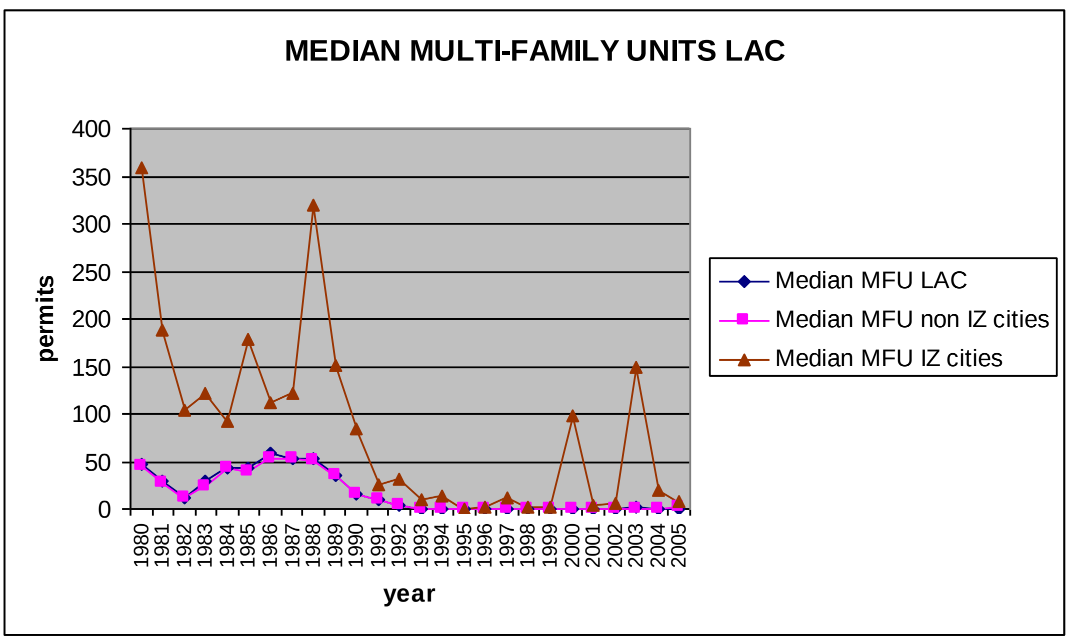


Figure 4. Median Single-family Housing Permits in Los Angeles County (LAC)

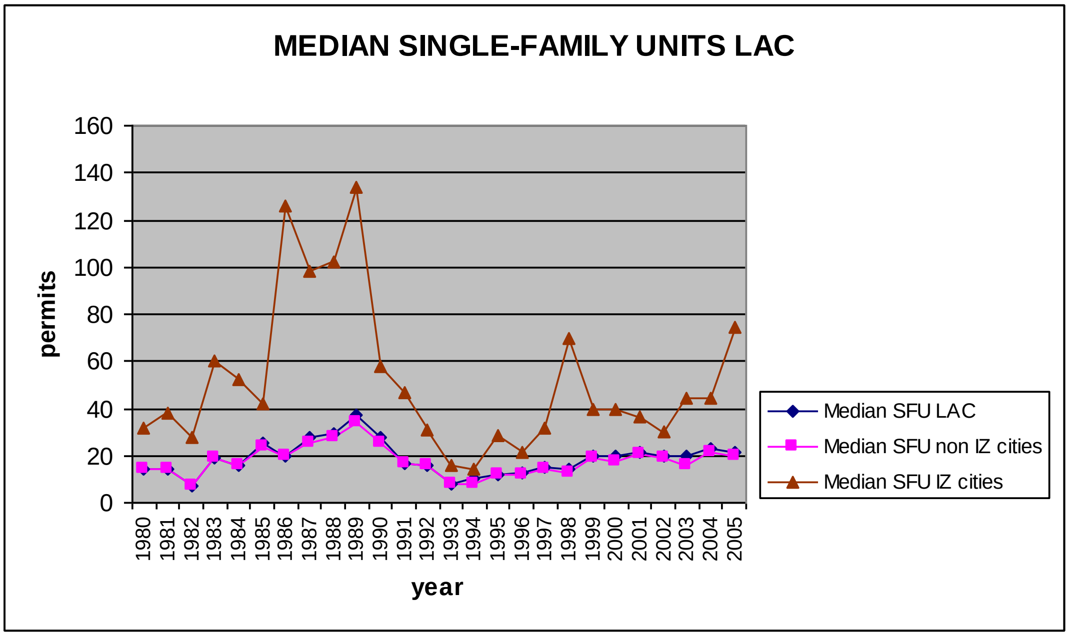


Figure 5. Median Total Housing Permits in Orange County (OC)

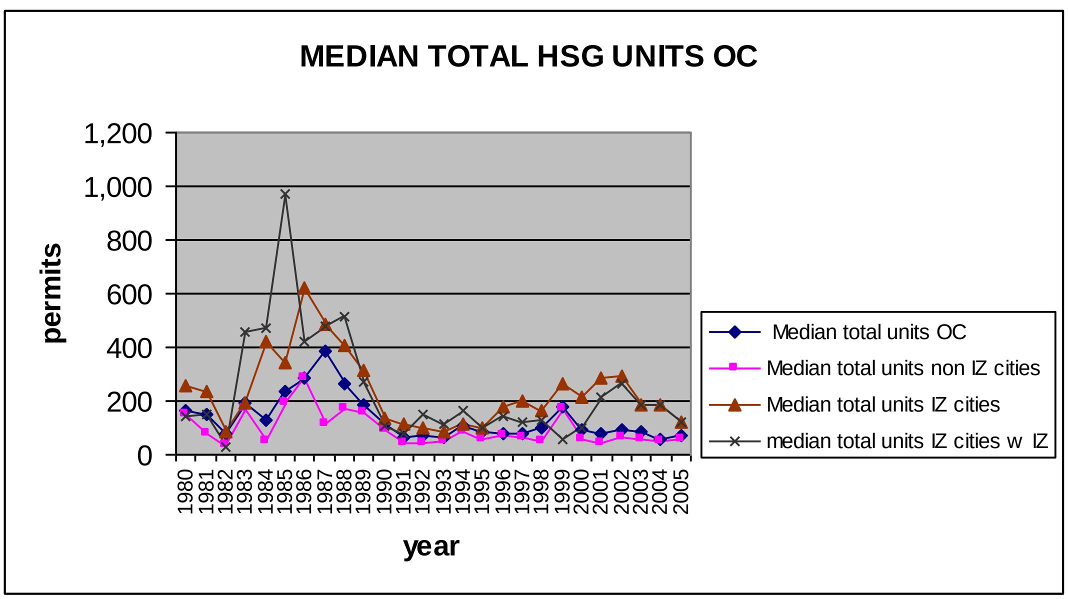


Figure 6. Median Multi-family Housing Permits in Orange County (OC)

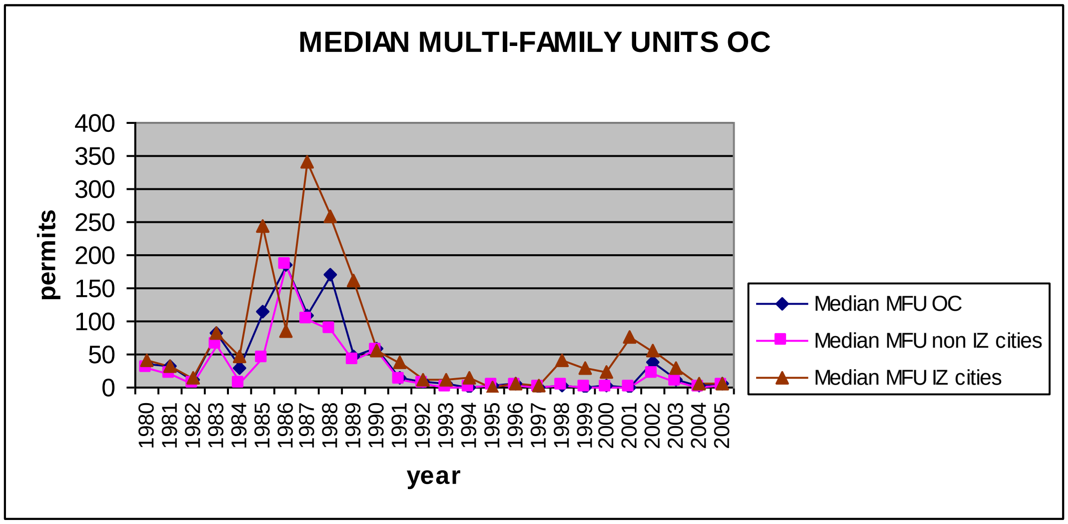
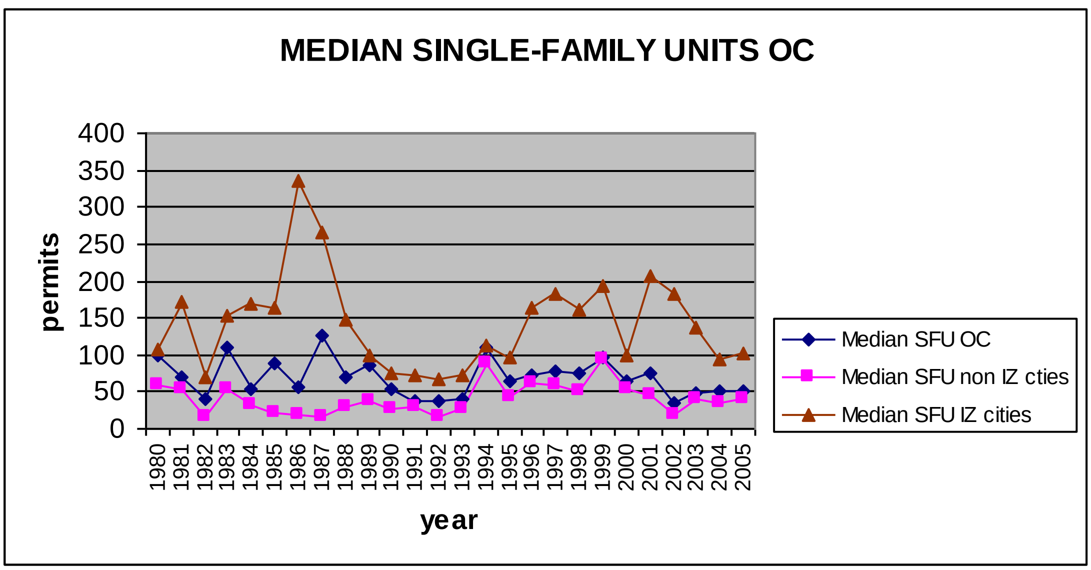


Figure 7. Median Single-family Housing Permits in Orange County (OC)



The above graphs suggest that the trends followed by the cities without inclusionary housing requirements and cities with inclusionary are similar to the county trends for total housing units, multi-family, and single-family units. Overall, the median number of permits, in all the above graphs, shows a rising trend till the late 1980s, and, thereafter, during the early 1990s permit activity seems to decline to the lowest level and only begins to rise slightly or stays, more or less, unaffected during the later years of the 1990s and up to 2005. Generally, the median values for cities without inclusionary housing requirements have always been very close to the median values for their respective counties. Also, generally, while in the 1980s the median values for cities with inclusionary housing were markedly higher than the median values for the county and cities without inclusionary housing, the differences seem to decrease considerably during the 1990s, and again seem to rise above the county median values during the present decade. This also suggests that variables linked to time elapsed might be important for our regression analyses. The sharp decline, seen above in most graphs, during the latter half of the 1980s might have been affected by the passage of the Tax Reform Act of 1986; and we investigate its correlations to, and effects upon, permit activity in our analyses.

We decided to test the effects of the regional housing market (COMEDU) and the regional (county level) unemployment rates (COUNEMP),[16] as the main independent variables, on the numbers of housing permits in a city as the dependent variable. We did this separately for Los Angeles and Orange counties. While we were initially interested in, and looked at, total housing permits (TOTU) as the primary dependent variable, we also examined the effects of the independent variables on just single-family unit permits (SFU) and multi-family unit permits (MFU) as distinct dependent variables. We do this because it is possible that inclusionary housing requirements might affect single-family and multi-family housing markets in different ways. Additionally, we also considered SFU, MFU, and the respective proportions of single- and multi-family permits to total units (SFPROP and MFPROP) as independent variables that act as proxies for the effects of the local (city-level) housing market. In order to test the effect of inclusionary housing requirements on permits issued, we developed the dummy variable IZ indicating the presence or absence of inclusionary zoning policies in a city in a particular year. To test whether the length of time since the initial incorporation of inclusionary housing policies in a city also bears upon permits issued, we created another variable named YRSIZ. We also developed and explored

[16] We could not find data for Orange County's unemployment rates for the period 1980-89, and use the state data for these years.

some other variables for possible inclusion in our regression models. Table 17 provides a description of all those variables.

Table 17. Descriptive List of Variables Explored for Analysis

		Los Angeles County (N=2266)		**Orange County** (N=798)	
Variable	***Description***	***Mean***	***Standard Deviation***	***Mean***	***Standard Deviation***
YR	Year				
TIMELN	Timeline: numeric identifier for year (1 for 1980, 2 for 1986, 3 for 1987, and so on, to 26 for 2005)				
CITY	Name of city				
CITYNUM	Numeric identifier for city				
IZ	Dummy variable: if a city in a given year had inclusionary zoning requirement in effect then 1, else 0	0.06	0.24	0.12	0.33
YRSIZ	Number of years since a city introduced inclusionary zoning requirement	0.50	2.47	1.09	3.71
IZLAG	Dummy variable: similar to IZ but the year of introduction of inclusionary zoning requirement gets a value of 0 (assuming that the effect of the requirement is felt at least a year after its introduction) and subsequent years get values of 1	0.05	0.22	0.11	0.31
SFU	Number of single family unit permits issued in a city in a given year	112.07	414.81	212.85	522.06
SFPROP	Proportion of single family to total housing permits in a city in a given year	0.65	0.37	0.67	0.34
SFYC	Change in number of single family units in a city each year (over preceding year)	2.45	219.06	5.68	228.33
SFYPC	Percentage change in single family units in a city each year (over preceding year)	0.89	4.78	1.36	6.33
MFU	Number of multi-family unit permits issued in a city in a given year	176.34	1086.52	185.41	530.56
MFPROP	Proportion of multi-family to total housing permits in a city in a given year	0.35	0.37	0.33	0.34
MFYC	Change in number of multi-family units in a city each year (over preceding year)	2.22	437.27	19.76	280.99
MFYPC	Percentage change in multi-family units in a city each year (over preceding year)	1.45	10.21	1.45	6.98
TOTU	Number of total housing permits issued in a city in a given year	288.41	1337.83	398.26	978.72
TOTYC	Change in total housing permits in a city each year (over preceding year)	4.67	530.31	-5.54	470.23
TOTYPC	Percentage change in total housing permits in a city each year (over preceding year)	1.20	8.71	1.65	17.87
COUNEMP	County unemployment rate for each year (Data unavailable for Orange County from 1980-1989)	7.15	1.48	4.48	1.20
COMEDU	Median total housing permits for all cities in Los Angeles county	51.81	35.08	129.11	77.64
TAXACT86	Dummy variable: if year is 1986 (year of Tax Reform Act) or later then 1, else 0	0.78	0.42	0.80	0.40
PCOTOT	Proportion of total housing permits in a city to total housing permits in [Los Angeles] county for each year	573.64	2296.06	0.03	0.07
COMEDU2	Square of median total housing permits for all cities in Los Angeles county	3914.90	4814.40	22689.20	30682.44

Based on our assumptions, we explored bivariate correlations among the proposed dependent and independent variables. Correlation matrices for the two counties with the pertinent variables are reproduced below in Table 18. While the preliminary correlation analyses did not always yield significant correlations of IZ and YRSIZ with the proposed dependent variables, we, nevertheless, decided to test them in the regression models because they displayed significant correlations with some other variables, and because it is the effect of inclusionary housing that we are, especially, interested in ascertaining.

Table 18. Matrices of Correlations Explored

	Los Angeles County			Orange County		
	SFU	**MFU**	**TOTU**	**SFU**	**MFU**	**TOTU**
SFU		0.485***	0.704***		0.729***	0.929***
SFPROP	0.004	-0.193***	-0.155***	-0.002	-0.306***	-0.167***
MFU	0.485***		0.963***	0.729***		0.931***
MFPROP	-0.004	0.193***	0.155***	0.002	0.306***	0.167***
TOTU	0.704***	0.963***		0.929***	0.931***	
PCOTOT	0.645***	0.759***	0.816***	0.857***	0.812***	0.898***
COUNEMP	-0.072***	-0.049**	-0.062***	-0.053	-0.047	-0.055
COMEDU	0.116***	0.128***	-0.023***	0.128***	0.229***	0.193***
YRSIZ	-0.040	-0.013	-0.023	0.019	-0.066	-0.026
IZ	-0.047**	-0.017	-0.028	0.007	-0.049	-0.022
TIMELN	-0.030	-0.069***	-0.066***	-0.068	-0.117***	-0.099***

Scores indicate Pearson Correlation values
*** Correlation is significant at the 0.01 level (2-tailed).
** Correlation is significant at the 0.05 level (2-tailed).

We emphasize that our regression models are not authoritative predictors of permit activity at the city level. On the contrary, they are straightforward multivariate models to explore the existence of significant relationships among the hypothesized independent and dependent variables. The results obtained from these models might, however, suggest ways in which further research could investigate causal relationships using more variables and exhaustive data.

To help understand the relative correlations between the independent and the dependent variables better, as well as the overall contribution of inclusionary housing variables (IZ and YRSIZ) to that of the county-level unemployment (COUNEMP) and housing market (COMEDU) variables, we used a basic hierarchical regression model. We ran three pairs of models (with total units, multi-family units, and single-family units, respectively, as the dependent variables) each for Los Angeles and Orange Counties (see

Tables 19 to 24). In the first model in each pair (Model A), we use COUNEMP and COMEDU as the two main independent variables to test the effect of regional employment and housing market trends. In the second model in each pair (Model B), we add the variables IZ and YRSIZ, as well as the variable TIMELN (to see if time elapsed since 1980 is significant – the assumption being that the influence of inclusionary housing regulations change over time), to test whether they help, along with regional factors, explain variations in city-level permit activity. In the models (1A and 1B, and 4A and 4B) where total housing permits (TOTU) is the dependent variable, we also add PCOTOT (proportion of total units in city to total units in county) as a measure of the relative strength of the local housing market. Similarly, in the models where we test SFU and MFU as the dependent, we added, respectively, SFPROP and MFU, and MFPROP and SFU as additional independent variables to also consider the effects of the local (city-level) housing markets. Considering the proportion of single- or multi-family units to total units in a city together with the number of multi- or single-family units when testing SFU or MFU, respectively, as the dependent variables, may provide a more reliable indication of the local housing market.

All the twelve models we test are significant (Tables 19 to 24). In some cases, when we add the inclusionary housing related variables, they are significant too, and they improve the R^2 values of almost every model. Nonetheless, it is likely that the inclusionary housing policies have an extremely weak influence on permit activity in the cities. In our models where inclusionary housing variables are significant, their contribution to augmenting the explanatory power (R^2) of the models is very feeble – less than 1 percent in all the models.[17] On the other hand, the influence of the regional housing market (as tested using COMEDU as the proxy independent variable) appears to exert a significant influence in all the models. This implies that housing production or the issuance of housing permits, at least, in cities in Los Angeles and Orange counties is still affected more by the trends of the regional

[17] For example, Table 19 (Regression results with Total Units in Los Angeles County) indicates that the R^2 for Model A is 0.733, and the R^2 for Model B, with the additional inclusionary housing variables, is 0.734. Similarly, in Table 22 (Regression results with Total Units in Orange County) the R^2 for Model A is 0.9430 and the R^2 for Model B, with the additional inclusionary housing variables, is 0.9432.

(county-level) housing markets, and much less by the presence (IZ) or prevalence (YRSIZ) of inclusionary housing requirements at the local level.

In the models for Los Angeles County with TOTU as the dependent variable (see Table 19), COMEDU (regional housing market) as well as PCOTOT are significant. The addition of independent variables to test the effect of inclusionary housing requirements leads to TIMELN showing up as significant but not IZ or YRSIZ. For Los Angeles County, when we test for SFU or MFU as the dependent variable (Tables 20 and 21), we find that the effect of the local housing market is significant in both cases but the regional housing market effect (COMEDU) is significant only for SFU as the dependent variable. None of the variables to ascertain the influence of inclusionary housing requirements (IZ, YRSIZ, and TIMELN) on SFU or MFU turn out to be significant. Also, the regional unemployment rate (COUNEMP) is not a significant factor in any of the models tested for Los Angeles County.

In the case of Orange County though, the results are somewhat different. As in the case of Los Angeles County, when TOTU was tested as the dependent variable for Orange County (see Table22), the local (PCOTOT) and regional (COMEDU) housing market indicators were significant. However, as opposed to Los Angeles County, COUNEMP shows up as significant for Orange County but TIMELN does not appear significant. Interestingly, when we look at SFU and MFU as the dependent variables (see Tables 23 and 24), both the regional employment (COUNEMP) and the regional market trends (COMEDU) are insignificant but the inclusionary housing variables (YRSIZ and IZ) are both significant (YRSIZ at the 1 percent level; IZ at the 10 percent level), although the R^2 values of the models increase modestly with the addition of these variables. In Table 23, it increases from 0.497 to 0.505, and in Table 24 it increases from 0.562 to 0.570. Increases in the Adjusted R^2 values are of a similar magnitude.[18]

[18] It is possible that the inclusionary housing requirements appear significant in some of the models for Orange County but not for Los Angles County because a greater proportion of the cities in Orange County (8 out of 34, instead of 9 out of 88 in Los Angeles County) have instituted inclusionary housing requirements.

Table 19. Regression Results: Models with TOTU as the Dependent Variable (Los Angeles County)

	Model 1A (with primary independent variables)			Model 1B (with dummy and additional variables)		
	b	β	t	b	β	t
Constant/Intercept	-159.325		**-1.829***	-449.316		**-2.751*****
PCOTOT	26043.433	0.845	**77.785*****	26044.851	0.845	**77.798*****
COUNEMP	-15.088	-0.017	-1.438	4.259	0.005	0.306
COMEDU	4.957	0.130	**11.201*****	6.122	0.161	**8.654*****
YRSIZ				6.208	0.011	0.622
IZ				-61.131	-0.011	-0.592
TIMELN				6.706	0.037	**2.061****
R^2		0.733			0.734	
Adjusted R^2		0.733			0.733	
Standard error of the estimate		691.431			691.165	
F		2072.505			1037.842	
Change Statistics						
R^2					.001	
F					-1034.663	

*** Significant at the 0.01 level (2-tailed).
** Significant at the 0.05 level (2-tailed)
* Significant at the 0.10 level (2-tailed).

Table 20. Regression Results: Models with SFU as the Dependent Variable (Los Angeles County)

	Model 2A (with primary independent variables)			Model 2B (with dummy and additional variables)		
	b	β	t	b	β	t
Constant/Intercept	-24.287		-0.454	-80.455		-0.893
SFPROP	147.747	0.128	**6.343*****	140.143	0.121	**5.866*****
MFU	0.189	0.497	**25.986*****	0.189	0.495	**25.875*****
COUNEMP	-5.894	-0.021	-1.019	-1.831	-0.006	-0.240
COMEDU	1.032	0.085	**4.006*****	1.263	0.104	**3.246*****
YRSIZ				0.513	0.003	0.095
IZ				-52.344	-0.030	-0.946
TIMELN				1.694	0.030	0.938
R^2		0.252			0.253	
Adjusted R^2		0.251			0.251	
Standard error of the estimate		368.397			368.427	
F		180.183			103.325	
Change Statistics						
R^2					.001	
F					-76.858	

*** Significant at the 0.01 level (2-tailed).

Table 21. Regression Results: Models with MFU as the Dependent Variable (Los Angeles County)

	Model 3A (with primary independent variables)			Model 3B (with dummy and additional variables)		
	b	**β**	**t**	**b**	**β**	**t**
Constant/Intercept	-140.748		-1.138	-358.789		-1.540
MFPROP	580.909	0.192	**9.762*****	596.682	0.197	**9.787*****
SFU	1.267	0.483	**25.985*****	1.264	0.482	**25.875*****
COUNEMP	-5.718	-0.008	-0.382	8.330	0.011	0.422
COMEDU	0.238	0.007	0.355	1.056	0.033	1.046
YRSIZ				-0.095	0.000	-0.007
IZ				-57.031	-0.012	-0.398
TIMELN				5.381	0.036	1.151
R^2		0.272			0.273	
Adjusted R^2		0.271			0.270	
Standard error of the estimate		953.175			953.485	
F		199.911			114.391	
Change Statistics						
R^2					.001	
F					-85.52	

*** Significant at the 0.01 level (2-tailed).

Table 22. Regression Results: Models with TOTU as the Dependent Variable (Orange County)

	Model 4A (with primary independent variables)			Model 4B (with dummy and additional variables)		
	b	**β**	**t**	**b**	**β**	**t**
Constant/Intercept	-19.788		-0.398	-35.026		-0.454
PCOTOT	9754.441	0.968	**92.488*****	9761.091	0.969	**92.325*****
COUNEMP	-20.854	-0.037	**-3.078*****	-19.756	-0.035	**-2.540****
COMEDU	1.273	0.050	**4.196*****	1.294	0.051	**4.062*****
YRSIZ				2.383	0.015	0.865
IZ				-42.125	-0.022	-1.256
TIMELN				0.591	0.004	0.329
R^2		0.9430			0.9432	
Adjusted R^2		0.9427			0.9426	
Standard error of the estimate		163.378			163.579	
F		2868.903			1431.208	
Change Statistics						
R^2					.0002	
F					-1437.695	

*** Significant at the 0.01 level (2-tailed).
** Significant at the 0.05 level (2-tailed)

Table 23. Regression Results: Models with SFU as the Dependent Variable (Orange County)

	Model 5A (with primary independent variables)			Model 5B (with dummy and additional variables)		
	b	β	t	b	β	t
Constant/Intercept	-144.100		-1.503	-164.977		-1.214
SFPROP	257.162	**0.206*****	5.863	246.676	0.197	**5.604*****
MFU	0.743	**0.752*****	21.470	0.748	0.758	**21.685*****
COUNEMP	3.375	0.011	0.285	6.020	0.019	0.450
COMEDU	0.324	0.023	0.612	0.381	0.027	0.692
YRSIZ				12.359	0.147	**2.644*****
IZ				-96.310	-0.092	**-1.671***
TIMELN				0.355	0.004	0.114
R^2		0.497			0.505	
Adjusted R^2		0.493			0.498	
Standard error of the estimate		272.871			271.516	
F		117.607			68.985	
Change Statistics						
R^2					.008	
F					-48.622	

*** Significant at the 0.01 level (2-tailed).
* Significant at the .1 level (2-tailed)

Table 24. Regression Results: Models with MFU as the Dependent Variable (Orange County)

	Model 6A (with primary independent variables)			Model 6B (with dummy and additional variables)		
	b	β	t	b	β	t
Constant/Intercept	-48.448		-0.588	-60.163		-0.479
MFPROP	407.318	0.322	**10.548*****	396.297	0.313	**10.207*****
SFU	0.662	0.654	**21.470*****	0.666	0.658	**21.685*****
COUNEMP	-11.890	-0.037	-1.063	-11.781	-0.037	-0.934
COMEDU	0.058	0.004	0.116	0.063	0.004	0.122
YRSIZ				-12.755	-0.150	**-2.896*****
IZ				113.937	0.108	**2.099***
TIMELN				0.816	0.010	0.277
R^2		0.562			0.570	
Adjusted R^2		0.559			0.564	
Standard error of the estimate		257.677			256.190	
F		152.994			89.663	
Change Statistics						
R^2					.005	
F					-63.331	

*** Significant at the 0.01 level (2-tailed).
* Significant at the .1 level (2-tailed)

As a complementary analysis, Table 25 lists the performance of inclusionary housing cities in achieving their Regional Housing Needs Assessment (RHNA) goals.

Table 25. SCAG Regional Housing Needs Assessment Allocation and Housing Performance by Jurisdiction: January 1998 – June 2005

City	Very Low Income	Low Income	Moderate Income	Above Moderate Income	Total Need	New Housing Units Permitted (1/98 – 6/05)	Building Permit Issuance as a Percent of Total Need
Agoura Hills	12	8	13	44	77	583	757%
Avalon	8	6	5	10	30	68	227%
Brea	203	136	212	502	1,052	1,385	132%
Calabasas	NA	NA	NA	NA	NA	624	-
Huntington Beach	388	255	400	972	2,015	3,004	149%
Irvine	1,942	1,186	2,049	5,605	10,782	22,519	209%
Laguna Beach	3	2	3	8	15	470	3,133%
Lake Forest	73	7	27	76	183	174	95%
Long Beach	411	251	296	506	1,463	3,157	216%
Monrovia	76	52	70	106	303	390	129%
Newport Beach	86	53	83	254	476	3,171	666%
Pasadena	462	284	338	693	1,777	3,815	215%
Rancho P. Verdes	8	5	8	31	53	244	460%
San Clemente	545	308	550	1,317	2,719	5,094	187%
San Juan Capistrano	164	116	167	393	839	523	62%
Santa Monica	513	335	431	929	2,208	2,920	132%
West Hollywood	75	107	81	147	410	379	92%

Source: "Housing Element Compliance and Building Permit Issuance in the SCAG Region" distributed by Southern California Association of Governments, April 2006
Note: Cities in Group A and B are highlighted.

The cities classified in Groups A and B are highlighted. The RHNA goals are established by the Southern California Association of Governments (SCAG). Analyzing the relative success and failure of our seventeen study-cities in meeting these goals provides another opportunity to understand the effect of inclusionary housing requirements on the market. If inclusionary housing requirements deter housing developers from development activity in cities with such regulations, it is likely that these cities will fail to meet their housing goals calculated by SCAG.

Most of the cities in this analysis, however, including almost all cities in Groups A and B, have issued building permits in excess of their assessed needs. This suggests that the inclusionary housing requirements are not adversely affecting the supply and production of housing. Among Group A and B cities, West Hollywood is the only exception. It only met 92% of is target. It is, however, not evident that the city’s inability to meet its RHNA goals is due to its inclusionary housing program. But it does suggest the need for some caution and additional research.

Conclusion

Of the 88 cities in Los Angeles County, nine have existing inclusionary housing programs. In Orange County, eight out of 34 cities have inclusionary housing. We have analyzed the structural differences, accomplishments and market effects of these seventeen programs to assess the validity of normative and empirical claims for and against inclusionary housing within the existing academic literature.

Based on our analysis, we have found that several of the existing inclusionary housing programs in Los Angeles and Orange Counties have successfully added to the affordable housing stock. Contrary to claims against inclusionary housing, we found no strong evidence supporting the purported negative effects of inclusionary housing policies on the housing market. However, our findings suggest that the relative success of a program depends in part on several structural dimensions of the policy. First, cities considering a new or revised inclusionary policy should take caution against making program requirements too punitive. Overly restrictive requirements may result in the contraction of housing development predicted by critics of inclusionary housing. Second, appropriate in-lieu fees are critical to the productivity of an inclusionary policy. When paying an in-lieu fee is considerably cheaper than constructing on-site affordable units, the in-lieu option will subvert the productivity of the program. In addition, cities need to regularly update fees to keep them current with changes in housing market conditions, such as through a nexus study. Finally, cities need to monitor their inclusionary programs through data collection so they can assess program productivity and make necessary policy amendments to foster success. This should include long-term tracking of affordable units built through their inclusionary requirements.

There are also several caveats that cities looking to inclusionary housing requirements as a generator of affordable housing need to consider. One of the strengths of inclusionary housing is that it links the production of affordable housing with market-rate development and maintains a balance even in real estate boom times. However, because inclusionary housing depends on the vibrancy of the local and regional housing market, cities should not rely upon it to the exclusion of other policy avenues for affordable housing. Large cities with wide variation in local housing prices and markets, like Los Angeles, may also want to consider the implications of implementing one standard set of requirements across all areas of the city. It may be more appropriate to have requirements that vary by location and are more sensitive to variation in real estate economics because of the importance of local housing prices.

Future research

While our research and analysis has demonstrated the feasibility of inclusionary housing as a source of affordable housing production, it also underscores a need for further investigation of inclusionary housing. For example, our analysis focuses on the correlation between program structure and productivity. The normative literature raises additional factors that warrant further study. These include the availability of public funding support for developers; the use of building types that allow for affordable units to be easily accommodated in the design layout; the aggressiveness and policy entrepreneurship of housing or planning department staff; and the ease with which developers can capitalize on the regulatory incentives and concessions offered to them.

A more in-depth examination of the implementation and administration of inclusionary housing programs in successful cities, like Pasadena and Santa Monica, is one potential avenue for examining the above factors. Research questions could explore the origins of successful programs, how staff decided on the details of their requirements, as well as how they keep programs current through revision and change. A similar look at a city like Irvine, which successfully implemented a voluntary inclusionary housing program, would help to elucidate the differences between mandatory and voluntary programs, and how this difference impacts productivity. This could answer whether Irvine was an anomaly or whether a city facing strong resistance to a mandatory policy could use a voluntary program to replicate Irvine's accomplishments.

Focusing on individual cities also provides an opportunity for a robust statistical analysis of the housing market with a more exhaustive review of independent variables (including availability of land, local support for housing density, income, population size, interest rates, property taxes, etc.) that might affect housing permits. Such an analysis would improve our understanding of how inclusionary housing requirements affect housing permit activity at the local level.

The participation of private developers is critical to the success of an inclusionary housing program. However, our review of the literature did not find any comprehensive study of why developers have chosen to participate in inclusionary housing programs more readily in some cities than others. As discussed in our summary of the existing academic work, critics, including developers, raise several objections to inclusionary housing based on economic, ideological, and administrative reasons. Future research could examine which of these factors drive developers' opposition to inclusionary requirements. For example, are developers' objections based on financial reasons? Are the density bonuses and other inclusionary housing incentives offered meaningless and too difficult to capitalize on and implement? Or does a mistrust of public interference and suspicion of cumbersome bureaucracy drive opposition? This research should also look at what aspects motivate developers to participate in inclusionary housing programs, particularly what incentives or concessions are valuable and what incentives are too difficult to implement.

Finally, very little research has examined existing inclusionary programs in Los Angeles that apply to specific geographies or types of projects, including the Affordable Housing Incentives Program, CRA/LA redevelopment project area requirements, the Mello Act (Coastal Zone requirements), and the Central City West Specific Plan. To better inform the decision-making process in the City of Los Angeles, further research into these existing programs should examine the same questions that we have attempted to answer at the regional level in our current study.

Appendix A: Affordability Gap

To calculate the affordability gap, first we computed the affordability of different income groups in Los Angeles and Orange Counties (See Table A1), and focused on the low-income group (51%-80% of AMI). We assumed affordability to be four times the income. Second, we collected data on the price of housing in both counties (See Table A2 and A3). Instead of using the median home sale price, we decided to use the median price of condominiums, at the county-level, as our benchmark. Finally, we subtracted the affordable purchase price from the median condominium sale price (See Table A4). Both Los Angeles and Orange County have a relatively similar gap of around $200,000 per unit.

Table A1. Income and Affordability in Los Angeles and Orange Counties (2006)

Los Angeles County

Income Category	Income Limit for a Four-Person Household	Affordable Home Purchase Price (4 x Income)
Extremely-low Income	$20,800	$83,200
Very-low Income	$34,650	$138,600
Low Income	$55,450	$221,800
Median Income	$56,200	$224,800
Moderate Income	$67,400	$269,600

Orange County

Income Category	Income Limit for a Four-Person Household	Affordable Home Purchase Price (4 x Income)
Extremely-Low Income	$24,350	$97,400
Very-Low Income	$40,650	$162,600
Low Income	$64,900	$259,600
Median Income	$78,300	$313,200
Moderate Income	$94,000	$376,000

Sources: 2006 Income Limits, Department of Housing and Community Development (HCD), State of California; Affordable Home Purchase Price figures are authors' calculations.

Note: The household income limits for the Extremely-low, Very-low, and Low Income categories are published by the United States Department of Housing and Urban Development (HUD) and adopted by HCD; the limits for the median and moderate levels for the State limits are determined by HCD on the basis of the HUD limits. Since Los Angeles and Orange Counties are considered to have high housing costs, HUD has made income limit adjustments for the three lower categories.

Table A2. Southern California Home Resale Activity: Median Price Data – May 2006

Jurisdiction	Single Family Homes	Condominiums
Los Angeles County	$540,000	$417,000
Agoura Hills	$880,000	$387,000
Calabasas	$1,500,000	$545,000
Long Beach*	$553,2666	$375,566
Monrovia	$587,000	$425,000
Pasadena*	$710,575	$517,625
Rancho Palos Verdes*	$1,195,000	$650,000
Santa Monica	$1,918,350	$779,613
West Hollywood	$1,160,929	$568,941
Orange County	$705,000	$468,000
Brea*	$729,429	$528,000
Huntington Beach*	$910,556	$541,250
Irvine*	$942,198	$593,594
Laguna Beach	$1,693,000	$923,000
Lake Forest	$720,000	$388,000
Newport Beach*	$1,705,158	$851,600
San Clemente*	$956,556	$608,200
San Juan Capistrano	$690,000	$461,000

Source: DQNews.com www.dqnews.com/ZIPLAT.shtm
*Because median resale price is reported by zip code for cities in the table indicated with an asterisk, we calculated the weighted average of the median resale price per zip code in each of those cities.

Table A3. Median Home Sale Price for all Homes (New & Resale): Sales Recorded in May 2006

Jurisdiction	Median Home Sale Price
Los Angeles County	$515,000
Agoura Hills	$660,000
Calabasas	$1,130,000
Long Beach	$485,500
Monrovia	$565,000
Pasadena	$626,000
Rancho Palos Verdes	$1,144,000
Santa Monica	$1,162,500
West Hollywood	$667,000
Orange County	$634,000
Brea	$695,000
Huntington Beach	$700,000
Irvine	$714,000
Laguna Beach	$1,692,000

Lake Forest	$530,000
Newport Beach	$1,336,000
San Clemente	$945,000
San Juan Capistrano	$572,500

Source: DQNews.com, <<www.dqnews.com/ZIPCAR.shtm >>

Table A4. Affordability Gap for Low-income Households in Los Angeles and Orange Counties (2006)

County	2006 Income Limit (4-Person Household)	Affordable Purchase Price (4x Income)	Median Condo Sale Price (May 2006)	Affordability Gap
Los Angeles County	$55,450	$221,800	$417,000	$195,200
Orange County	$64,900	$259,600	$468,000	$208,400

Sources: 2006 Income Limits from Department of Housing & Community Development, State of California; Median Condo Sale Prices from DQNews.

Appendix B: City Summaries

1. Agoura Hills

Inclusionary Housing Policy Status: Mandatory
Date Adopted: September 3, 1987, by Ordinance 137

Inclusionary Policy Application
Applies to all residential developments with 11 or more units.

Affordable Units Required
Developers must construct on-site at least 15% of total units for low-income (80% of AMI or less) and middle-income households (81%-100% AMI). In determining the number of affordable units, any fractional amount is disregarded.

All affordable units must be constructed concurrently with or prior to construction of market-rate units in project. All affordable units must be reasonably dispersed throughout the project, and shall contain on average the same number of bedrooms as the market-rate units. The materials and finished quality of the affordable units shall also be comparable to market-rate units.

Affordability Term
All affordable units set-aside by this program shall be reserved for low- and middle-income households for a minimum of 15 years.

Off-site Option
At the discretion of the planning commission, developers may meet the inclusionary requirements by building units off-site if on-site provision of affordable units is found to be economically infeasible. Development of affordable off-site units must be completed prior to the issuance of certificate of occupancy for the market-rate housing development.

In-lieu Fee Option
At the discretion of the planning commission, developers may meet inclusionary requirements by paying an in-lieu fee, although off-site building is preferable to payment of in-lieu fees. In-lieu fees must be paid in full before a certificate of occupancy is issued for any unit in the development. Fees collected are deposited into the city's affordable housing trust fund and used to support the city's first-time homebuyer program.

Current in-lieu fees are as follows:
a) Single-family, condominium and townhome developments: $6,277 per unit for all project units
b) Apartments: $4,541 per unit for all project units

Note: The city's municipal code states that in-lieu fees (adopted in 1987) should be increased with the CPI. However, in a telephone conversation, a planner on staff indicated the in-lieu fee amount has remained unchanged.

Density Bonus and Incentives

The city offers a density bonus and various incentives for building affordable housing through the use of a 'low and moderate income housing conditional use permit.' The minimum density bonus available is 25% and requires that the developer agree to provide at least 20% of total units for occupancy by low- and/or moderate-income households. To be eligible, the development must contain at least 5 or more dwelling units.

Section 9674.2 of the municipal code states that the planning commission may also approve the following:

a) A density bonus of at least 25% but not to exceed 50%, as long as at least one-half of the units granted as a density bonus shall be reserved for occupancy by low- or moderate-income households; or

b) At least two alternatives including but not necessarily limited to:

a. Exemption of the development from one or more of the requirements of the general provisions;

b. Construction by the city or waiver of public improvements appurtenant to the proposed development, which may include, but shall not be limited to, streets and sidewalks;

c. Utilization of federal or state grant moneys or local revenues to provide land for the project at a reduced cost;

d. Exemption of the project from any provisions of other city ordinances other than the zoning ordinance which may cause an increase in the cost of the housing units to be developed:

e. Waiver of fees related to zoning, environmental impact and subdivision application;

f. Expedited case processing.

Historical Production

The Archstone Apartments on Agoura Road (178 total units, rental) is the only development in the city that continues to provide for affordable units on-site: 20% of units (36) are set-aside for low- and moderate-income tenants. This project was financed with multifamily revenue bonds issued by the City of Agoura Hills in exchange for the developer agreeing to maintain 20% of the total units for low-income households. This affordability term expires in 2010. City staff also indicated that one other multifamily townhome development had previously set aside affordable for-sale units. However, the 15-year affordability term has since expired on that development and the units are no longer income-restricted. However, information on the total number of previously affordable units in this development was not provided from the city.

All other market-rate developments constructed in the city and subject to the inclusionary housing policy have chosen to pay in-lieu fees rather than build the affordable units on-/off-site. Approximately $1.61 million has been collected in in-lieu fees since the ordinance was adopted. Information on how many households have been assisted with in-lieu fees through the first-time homebuyer program was unavailable from the city.

2. Avalon

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 1983, by ordinance

Inclusionary Policy Application
Applies to developments of five (5) or more units.

Affordable Units Required
Developers must set-aside 20% of total units for Low Income (80% AMI or less) and Moderate-Income (81%-120% AMI) households. Restricted units must remain affordable for 35 years.

Note: City ordinance also requires hotels/motels/resorts to provide affordable rental space for at least 50% of employees in peak season.

Off-Site Option
Developers may meet requirements by constructing affordable units off-site at a different location.

In-Lieu Fee Option
There is no in-lieu fee option available as an alternative to the required construction of affordable units. However, per city staff, the City Council is currently considering adopting an in-lieu fee option for the future.

Historical Production
Since the city’s mandatory policy was adopted, a total of 88 inclusionary affordable units have been built at two developments. Of the 88 units total, 26 were created as affordable housing for employees of a hotel project that ultimately was not constructed. The other 62 units were built off-site from a large condominium development. Currently there are 4 affordable units under construction connected to two different developments.

3. Brea

Inclusionary Policy Status: Mandatory
Date adopted: March 2, 1993, by ordinance

Inclusionary Policy Application
Applies to all residential developments of 20 or more units.

Affordable Units Required
Developers must set-aside at least 10% of all units to very-low income, low-income, median-income and moderate-income households.

1) For rental units, the inclusionary affordable units must be made available to very-low (50% AMI or less) and low-income (51%-80% AMI) households.
2) For ownership units, the inclusionary affordable units must be made available to median-income (81%-100% AMI) and moderate-income (101%-120% AMI) households

Affordability term: 55 years for rental units, 45 years for ownership units

Note: apartment complexes of 20 or more units converting to condos that are not already participating in the affordable housing program will be required to convert one apartment unit to an affordable condo for every 10 apartments converted to market-rate condos.

Affordable Units Credit
Any project that provides more affordable units than required shall receive an Affordable Units Credit for each unit provided in excess of the required number. An applicant for a development project may apply any credits that it holds to reduce the number of affordable units required. The credits may also be sold or transferred to other landowners on a one-time basis.

Off-Site Option
Developers may provide the required affordable units off-site at a location approved by the city council. The off-site affordable units can be new or existing (rehab) units.

In-Lieu Fee Option
Developers may pay a fee in-lieu of providing the required affordable units, pending case-by-case approval by the city council. In-lieu fees collected are deposited into the city's affordable housing trust fund. The in-lieu fee is calculated as follows:

Median sales price of new home MINUS Affordable 3-BR sales price*
= In-Lieu fee per required affordable unit

*Max affordable sales price for a comparable unit as determined by income level and affordable expense based on AMI figures adopted for the year the project is approved.

Affordable Housing Incentives

Per Section 20.40.040 of the city's municipal code, to off-set the costs of the required affordable units, the city may approve any or all of the following incentives:

1. A density bonus;
2. Flexible development standards, such as, a reduction in unit square footage, on-site requirements, and off-site improvements;
3. Deferral of development impact fees;
4. Use of building code alternatives;
5. Assistance in application for public funds, such as rent subsidies, bond financing, community development block grants;
6. Redevelopment set-aside funds;
7. Any other lawful means of offering the costs of providing affordable units.

The municipal code also states that if the appropriate incentives do not offset the cost of the required affordable units, then the number of required affordable units shall be reduced until the city determines a break-even point has been met.

Historical Production

Since the city's inclusionary housing ordinance was passed, 150 affordable inclusionary units (all for-sale) have been built at various market-rate developments. Note: there have been other affordable units built at mixed-income developments in the city; however, those units are not included in 150 total provided by city staff as the additional units are not strictly "inclusionary" and were likely built with redevelopment agency financing or other affordable housing set-aside government funds.

The only development to pay in-lieu fees thus far (Tomlinson Park) paid $750,000 in-lieu of the 16 affordable units required (23 total affordable units were required, but the developer chose to build 7 affordable units on-site). This amount equals an average fee of $46,875 per required affordable unit.

4. Calabasas

Inclusionary Policy Status: Mandatory
Date adopted: 1998, by Ordinance 98-132

Policy Application
Applies to all residential developments with 10 or more housing units.

Affordable Units Required
Developers must set-aside the following number of affordable housing units:

a) 20% of units for households at 110% of AMI or below; or
b) 15% of units for households at 90% of AMI or below; or
c) 10% of units for households at 75% of AMI or below; or
d) 5% of units for households at 50% of AMI or below.

Off-site Options
If the community development director determines that on-site provision of affordable housing is not feasible, the review authority may approve one or more of the following alternatives:

a) Off-site construction: developer may construct new affordable units off-site equal to the number that would have been required on-site
b) Special Needs Housing: developer may construct new off-site units specifically designed for an identified special needs population. Each unit created under this alternative shall satisfy the requirement for 2 affordable units
c) Conversion of Market Rate Housing: developer may convert market-rate housing to affordable through a "buy-down" mechanism, and establishing restrictive covenants of affordability on the converted units
d) Rehabilitation of Existing Housing Stock: developer may rehab structures that currently don't comply with building and housing code standards and have been deemed uninhabitable by the city. Housing appropriate for rehab need not be price restricted, but must be determined by the review authority to be affordable based on its age and/or condition.
e) Preservation of Existing Affordable Housing: developer may extend the lifetime of an existing restrictive covenant on affordable units that have been identified as "at risk" of conversion to market rate housing within a five-year period

Design Requirements
Projects that provide affordable housing must meet the following requirements:
- The number of assisted housing units in any project, except for those designed for the elderly or disabled, should not exceed 40% of the total number of units in the project.
- Assisted housing should be located within reasonable proximity to public facilities, including convenient shopping, public schools, park and recreation facilities, transportation services, and employment centers.

- Assisted units, except those for the elderly, should be distributed throughout the project site and not grouped together in a single area.

In-Lieu Fee Option

Also at the discretion of the community development director, payment of a fee in-lieu of building the affordable units on-site is also an option included in the menu of off-site alternatives listed above. The fee must be paid to the city prior to the issuance of any building permits. In-lieu fees paid will be deposited into the city's housing trust fund to be used for preservation and development of affordable housing.

The in-lieu fee has very recently been changed on April 5, 2006 to $19/sq.ft. for multifamily developments and $25/sq.ft. for single-family developments. The prior fee was $2,900 per unit and remained unchanged since its adoption in 1999.

Non-residential Development

To ensure employers provide affordable housing for new jobs created, all new commercial/industrial developments must do one of the following:

a) Design the development as a mixed-use project, providing housing affordable to employees within the project site; or
b) Pay an impact fee of $0.90 per square foot to be deposited into the housing trust fund.

Density Bonus and Incentives

The city utilizes the state's mandated density bonus levels (an updated version based on SB 1818 has not yet been added to the municipal code), which allowed for a max density bonus of 25%. In addition, developers qualifying for the density bonus are eligible for at least one of the following incentives:

a) A reduction in the site development standards including, but not limited to, setback, coverage and/or parking requirements;
b) Approval of mixed-use zoning in conjunction with the housing project if nonresidential land uses will reduce the cost of the housing project, and the nonresidential land uses are compatible with the housing project and surrounding development; and
c) Other regulatory incentives or concessions proposed by the developer or the city that will result in identifiable cost reductions.

The community development commission shall approve one or more of the above incentives unless it makes a written finding that the additional concession or incentive is not required in order for the targeted rents to be set.

Affordability Term

Projects that receive a density bonus and at least one other concession shall maintain the availability of lower-income density bonus units for a minimum of 30 years.

Projects that receive only a density bonus and no other incentives from the city shall maintain the availability of lower-income density bonus units for a minimum of 10 years.

Historical Production

To date, no developers have chosen to provide affordable units on- or off-site. Instead, all have chosen to pay in-lieu fees. According to a city planner, as of June 28,2006, the city had collected $1,002,691 in in-lieu fees. Of that total, approximately $800,000 is from residential in-lieu fees, and $200,000 is from commercial impact fees. [Note: according to the recent in-lieu fee study performed by Stanley R. Hoffman Associates, Inc. and Karen Warner Associates for the City of Calabasas, the Housing Trust Fund had a balance of $1,545,412 as of November 2, 2005. This total includes all fees collected as well as interest income earned over time.]

The city has yet to expend any money from the trust fund, and it has not decided how exactly the funds will be spent. As a point of reference, there have also been no LIHTC tax credit projects done by nonprofit developers, so it is unlikely that the city will use the funds as a long-term, low-interest loan to nonprofit developers to support tax credit projects as other cities often do with in-lieu fees.

5. Huntington Beach

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 1992, as required by zoning administrator, planning commission, and city council.
Note: city has never adopted an inclusionary housing ordinance.

Inclusionary Policy Application
Applies to all new residential projects of three (3) or more units.

Affordable Units Required
Developments with three (3) or more units must provide a minimum of 10% of total units as affordable housing units.

1) Rental units shall be made available to very-low income (50% AMI or less) or low-income (51%-80% AMI) households.
2) For sale units shall be made available to very-low income, low-income or median-income (81%-100% AMI) level households.

Affordability term: 60 years for all housing types.

Off-Site Option
Developers of residential projects may elect to provide the affordable units at an off-site location in the city unless otherwise outlined as part of a specific plan project. Off-site projects may be new construction or major physical rehabilitation, equal to more than one-third the value of the existing improvement, excluding land value, of existing non-restricted units conditioned upon being restricted to long-term affordability. "At Risk" units identified in the Housing Element or mobile homes may be used to satisfy this requirement.

In-Lieu Fee Option
Per the municipal code, developers of residential projects consisting of nine (9) or fewer units may elect to pay a fee in lieu of providing the units on-site to fulfill the requirement unless the affordable housing requirement is outlined as part of a specific plan project.

- Fees paid to fulfill the requirements shall be placed in the City's Affordable Housing Trust Fund.

- The amount of the in-lieu fees shall be calculated using the fee schedule established annually by resolution of the City Council.

- Affordable Housing Trust Funds shall be used for projects which have: a minimum of fifty (50) percent of the dwelling units affordable to very-low- and low-income households, with at least twenty (20) percent of the units available to very-low-income households.

- The funds may, at the discretion of the City Council, be used for pre-development costs, land or air rights acquisition, rehabilitation, land write downs, administrative costs, gap financing, or to lower the interest rate of construction loans or permanent financing.

Historical Production

Since the city's inclusionary housing policy was adopted, 428 affordable units have been built on-/off-site of developments subject to the policy. An additional 78 affordable units are expected from one large market-rate development within the next few years.

Since the inclusionary policy has been in place, the city has not established an in-lieu fee schedule or an Affordable Housing Trust Fund, and has instead required market-rate developers to negotiate a fee paid directly to Bridges America Foundation. These in-lieu funds were then used to place 30-year affordability covenants on 111 existing units at two apartment buildings owned by Bridges. A record of specific fees paid was unavailable, but city staff believes that in the early years of this arrangement, the average negotiated fee was around $20,000 and the last negotiated amount (approximately 2 years ago) was near $45,000 per required affordable unit. Bridges America is no longer involved in this kind of arrangement, and the City of Huntington Beach has since required all market-rate developers to build required units on- or off-site (no in-lieu fee option). However, the city has also recently received the results of an in-lieu fee study by Keyser Marston Associates and the City Council is expected to adopt a two-tiered fee schedule so that the fee option is again available. One in-lieu fee level will be used for developments with 3-9 units, and a higher in-lieu fee level will be used for developments with 10 or more units.

6. Irvine

Inclusionary Housing Policy Status: Mandatory
Date Adopted: March 25, 2003, by ordinance.

Inclusionary Policy Application
Applies to all residential developments regardless of size.

Affordable Units Required
All residential developments must make 15% of total units affordable to very-low income (50% AMI or less), low-income (51%-80% AMI) and moderate-income households (81%-120% AMI) as follows:

1. Scenario A
   a. 5% of units must be affordable as rental or ownership units to very-low income households
   b. 5% of units must be affordable as rental or ownership units, with an emphasis on ownership units, to low-income households
   c. 5% of units must be affordable as rental or ownership units, with an emphasis on ownership units, to moderate-income households
2. Scenario B
   a. 10% of all units must be affordable to households earning 60% or less of AMI, and
   b. 5% of all units must be affordable to moderate-income households

Note: The planning commission maintains discretion to consider and approve other ratios than those listed above on a case-by-case basis. According to a city planner, the city has often waived the 5% requirement for moderate-income units.

Affordable Housing Credit Program
The city also offers an elaborate affordable housing credit program that reduces the number of affordable units required when the units are offered as for-sale, when three- and four-bedroom units are available to very-low income households, or when units are offered to extremely low-income households (30% AMI or less). Example: To the degree ownership units are provided to low-income households, a 2:1 credit will be attributed toward achievement of the 5% goal.

Alternatives
Developments with less than 50 units have the option to select from a “menu” of options for meeting the affordability requirement in-lieu of building on-site. The menu is as follows:
1. Convert existing market rate housing to affordable housing for at least 30 years
2. Extend the term of affordability for affordable units for a period of at least 40 years.
3. Payment of in-lieu fees

4. Transfer control of units to a nonprofit housing agency
5. Transfer of off-site credits for affordable units not provided on-site
6. Provision of alternative housing
7. Dedication of land for affordable housing
8. An alternative option acceptable to the city.

<u>In-Lieu Fee Menu Option</u>
As indicated above, developers of less than 50 units may pay a fee in-lieu of providing affordable units on-site.

The total fee required = $12,471 x total number of units in development

Note: When the ordinance was passed in 2003, the fee was set at $6,694 per unit. It was increased to the current amount on May 10, 2005. As of June 2006, the City Council is again considering an increase to the in-lieu fee amount.

<u>Historical Production</u>
Because the city's ordinance establishing mandatory participation was just passed in 2003, most developments subject to the inclusionary housing regulations are still either in predevelopment or construction phases.

Five developments have chosen to build affordable inclusionary units on-site:

- 2,471 market-rate units
- 171 inclusionary units
  - 93 for-sale
  - 78 rental
- Two developments received credits for providing large, for-sale units, so the total percent of inclusionary units required was reduced from 15 percent

Seven developments (1,796 units) have been approved to pay in-lieu fees totaling $10,487,112. Thus far, a total of $8.25 million in in-lieu fees has been extended in loans to support the construction of 221 units at two 100% affordable developments. One loan is for $2.85 million on a 71-unit development, the other is $5.4 million on a 150-unit development.

In addition, one development (535 total units) has chosen the menu option to extend the term of affordability for 84 existing affordable units, rather than pay an in-lieu fee.

<u>Special Notes</u>
Prior to 2003, the city had affordable housing "goals" for years (15% set-aside) and "encouraged" the development of affordable housing. Usually the city would enter into an agreement with developers (usually The Irvine Company) to provide affordable housing. Compiled information on total affordable units created and any in-lieu fees paid to the city by market-rate developers was unavailable. Figures reported above are only since the adoption of the city's mandatory policy in 2003.

7. Laguna Beach

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 1985, via the Housing Element. The city has not adopted an ordinance, but is expected to in the near future.

Inclusionary Policy Application
Applies only to new *subdivisions* of three (3) or more units.

Affordable Units Required
Subdivisions with three (3) or more lots/units must designate 25% of all units for low-income (80% AMI or less) or moderate-income (81%-120% AMI) households.

In-Lieu Fee Option
Developers may meet the affordable housing requirement by paying a fee in-lieu of building affordable units on-site. The current in-lieu fee is $43,753 per market-rate unit as of April 2006. This fee is a reduction from the previous $46,978 because of the lack of buildable residential land in the city (see explanation of calculations below). To calculate the total in-lieu fee payment due to the city, the total number of units in the development is multiplied times the per unit fee.

Note: The in-lieu fee has changed over time. When the city's inclusionary housing policy was originally adopted, the fee was set at $12,000/market-rate unit. The in-lieu fee is calculated based on the average cost of residentially-zoned vacant land in the city.

The *previous* fee of $46,978/unit was set using the following formula/reasoning:

*1999 average cost of residential vacant land = $2,067,041 per acre. Multi-family properties typically built at max density of 22 units/acre. However, cost of land per unit for low- and moderate-income units may be reduced by increasing the density allowed. If max density were doubled to 44 units/acre, land costs would be reduced in half based on density bonuses allowed by the state. Therefore, the in-lieu housing fee for 2000 = $2,067,041 per acre divided by 44 units per acre = $46,978/unit.

Per city staff, the fee should be recalculated annually based on changes in vacant residential land values, but in practice, it is only recalculated when there is a new subdivision planned that is subject to the inclusionary policy.

Historical Production
Since the inclusionary policy was adopted, only 4 inclusionary affordable units have been set-aside within a 13-unit subdivision (Hidden Valley). These affordable units have been reserved for low-to-moderate income households for 30 years. The rest of the market-rate developments subject to the inclusionary policy have paid in-lieu fees. The total amount of in-lieu fees collected to date was unavailable from city staff.

According to the 2000-05 Housing Element (written in 2001), since 1990, in-lieu fees collected have been used for the following:

1. To subsidize the development of Hagan Place (24 units for disabled persons) in conjunction with CDBG funds
2. To assist in the purchase of a building on PCH for the Friendship Shelter, which provides transitional housing for the homeless
3. To provide rental subsidies to low-income seniors who were relocated from Treasure Island
4. To subsidize a mortgage for the City's Community Services Program to provide temporary housing for young people in need
5. To purchase a site for the development of approximately 20 very-low income housing units

In addition to the above, according to a city planner, an additional 27 affordable units have also been constructed at Alice Court with in-lieu and CDBG funds. All of these units have been made affordable to very-low income persons with disabilities or HIV/AIDS.

8. Lake Forest

Inclusionary Housing Policy Status: Voluntary
Date Adopted: 2000, via the city's 2000-2005 Housing Element. No ordinance has yet been passed.

Inclusionary Policy Application
Policy does not indicate specific residential development types or sizes.

Affordable Housing Required
Since city operates a voluntary policy, no inclusionary housing is required. However, the city "encourages" developers to set aside 15% of total units for affordable housing. No specific income targets have been identified in this policy, although the 2000-05 Housing Element indicates a need for 73 very-low income units and 7 low-income units based on SCAG's RHNA estimates.

Incentives
Per the 2000-05 Housing Element, the city will offer incentives to development projects that include affordable housing. Incentives will include modified parking standards and open space requirements, flexibility in height and setback requirements, and reduced development fees. Density bonuses are also available according to the program outlined by state law.

Historical Production
Lake Forest was incorporated in 1991 in a nearly built-out stage. As a result, there are few opportunities available for new residential development. The 2000-2005 Housing Element identified only three (3) remaining vacant sites for new residential development, totaling 24 acres. They are as follows:

- Site #1: total of 6 acres designated as Medium Density (maximum 25 units/acre). Assuming an average density of 20 units/acre, the site could accommodate 120 units. At the time of the Housing Element's publishing, the city was evaluating an application for the development of 132 apartments on the site and was negotiating with the developer to include deed-restricted units affordable to low-income households in exchange for a reduction in development fees.

- Site #2: Saddleback Ranch Apartments. Currently has 305 multi-family units on site and is zoned for Medium Density (maximum 25 units/acre). There are 12.2 acres currently vacant on the site. Assuming an average density of 20 units/acres, the vacant land could support approximately 244 multi-family units.

- Site #3: total of 6 acres currently vacant and zoned for Low Density (maximum 7 units/acre). An estimated 30 single-family dwellings could be accommodated on the site.

Historical Production
According to the city planner, two small housing developments have been built since 1991 when the city incorporated:

- One development was in process at the time the city formed, and no inclusionary units were included
- The other development was built in 2003, in which a few affordable units were built via negotiations between staff and the developer. The developer received a reduction in building permit fees, but did not receive a density bonus or any other typical cost offset.
    - 131 townhomes total
    - 6 affordable units
        - 4 low-income
        - 2 moderate-income
        - 15-year deed restriction

According to city planner, one 29-unit development of single-family detached homes has recently been approved for construction (this is only the third development to be approved since the city's incorporation). As part of the approval process, the City Council required the developer to participate in a negotiated "Affordable Housing Implementation Program." As a result of the negotiation process between the developer and city staff, the developer has agreed to pay an affordable housing in-lieu fee of $12,000 per market-rate unit to support the city's 15% affordable housing goal.

9. Long Beach

Inclusionary Housing Policy Status: Voluntary, known as the "Voluntary Incentive Program (VIP)"
Date Adopted: June 1991, by ordinance, incorporated into Section 21.60, Division IV, of municipal code

Inclusionary Policy Application
Applies to any development project with five or more residential units on sites with zoning permitting 30 units per acre or greater.

Affordable Units Required
The city utilizes a three-tiered density bonus program to encourage production of affordable housing. Tier 1 mimics the state's [old] density bonus law.
Tier 1: A development may receive a 25% density bonus if:

- 20% of total units are for very-low or low-income households, or
- 10% of total units are for very-low income households, or
- 50% of total units are for income-eligible seniors

Tier 2: A development may receive a 100% density bonus if 100% of units are set aside for senior and disabled housing.

Tier 3: A development may receive a 200% density bonus if 100% of units are set aside for low-income, senior/disabled persons.

In return for the density bonus, the required units must remain affordable for 30 years.

Note: information on this three-tiered program is from the city's 2001 Housing Element. The incentives for the program were revised sometime between 1997 and 2001, because according to an April 3, 1997 report to the planning commission, the incentive structure was as follows:
A development that meets one of the following criteria is entitled to a 25% max density bonus:
1) 25% of total units affordable to very-low income households, or
2) 50% of total units affordable to low-income households
By application, a density bonus of less than 25% may be granted to a developer of housing units offering less than the percentage of new units set forth above, provided that the density bonus is reduced proportionately to the reduction of units provided.

Off-site Option
Developers wishing to participate in the program may choose to provide the required affordable units off-site through new construction or through rehabilitation of existing units.

In-Lieu Fee Option
Developers wishing to participate in the program may also choose to pay a fee in-lieu of building the required units. Developers may also choose to combine alternative options and provide some housing units and pay an in-lieu fee to cover the remainder required.

Other Options
In cases where increased density cannot be physically accommodated on the site, the city may relax development standards in-lieu of the density bonus. The priority order is:
1) compact parking
2) tandem parking design
3) privacy standards
4) private open space
5) common open space
6) height
7) distance between buildings
8) side and read yard setbacks
9) parking spaces
10) front setbacks

Additional financial incentives may also be granted to make the project feasible. Also, the city waives the parks impact fee for new low-income units.

Historical Production
According to city staff, since the Voluntary Incentive Program was established in 1991, no market-rate developers have chosen to participate in the voluntary affordable housing program.

10. Monrovia

Inclusionary Housing Policy Status: Voluntary, known as the Affordable Housing Owner-Occupied Incentive Program (AHOIP).
Date Adopted: 1992, by ordinance

Inclusionary Policy Application
Applies to developments with 5 or more residential units.

Affordable Units Required
Developments that include 20% or more of total units for low-income (50% AMI or less) and/or moderate-income (51%-120% AMI) households can receive a 25% density bonus, as well as other incentives including an increase in FAR, permitting of attached units, reduction in off-street parking, unit size reductions, less recreation space, and modified setback standards.

Ordinance originally intended for affordable units to be ownership housing and covenant restricted for 30 years. However, city's Housing Element indicates that city will extend same provisions for rental housing developments.

Historical Production
Per city's principal planner, no market rate developers have opted to participate in the voluntary affordable housing program. Further, the last two developments to participate did so in 1994, and are described as:

- a 110-unit senior housing development (tax credit project)
- a "partial city participation" project with the Redevelopment Authority

Note: any affordable units created and restricted to low- or moderate-income households in mixed-income developments through a partnership between a market-rate developer in conjunction with the city's Redevelopment Agency are not categorized as "inclusionary" in this analysis.

11. Newport Beach

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 2003, through the city's Housing Element. The inclusionary program has not yet been incorporated into the municipal code, although staff has recommended to city council that it do so.

[Note: prior to 2003, the city had a "negotiated" inclusionary housing program through its housing element (written in 1989, adopted in 1992), which allowed the city and developers to negotiate on the 20% affordable housing goal and in-lieu fee amounts for developments with 10 or more units. Between 1983 and adoption of the negotiated policy in 1992, the city had a voluntary policy where affordable units were often created through various development agreements.]

Inclusionary Policy Application
Applies to all residential developments, regardless of size.

Affordable Housing Required
Developers of new residential projects must make 20% of total units affordable to very-low income (50% AMI or less), low-income (51%-80% AMI) households, or moderate-income households (81%-120% AMI).

Further guidelines:

- Projects with 10 or fewer units are required to pay an in-lieu fee rather than build on-site.
- Projects with 11 to 50 units have the option to build units or pay an in-lieu fee.
- Project with 51 or more units must build affordable units.

Affordable units must remain income restricted for 30 years.

Off-Site Option
Developments of 11 or more units may meet affordable housing requirements by building units off-site. However, city policy does not specify that affordable units be of the same type or quality as the market-rate units. Thus, developers of for-sale properties can meet affordability requirements by providing rental instead of ownership units.

In-Lieu Fee Option
As noted above, projects with 10 or fewer units must pay the in-lieu fee, and projects with 11-50 units have the option to pay the in-lieu fee. The city has yet to establish a formal in-lieu fee schedule, but recently commissioned a study in order to ultimately set an accurate in-lieu fee. The most recent fee paid (2003) was set at $8,000 per market-rate unit. To calculate the total in-lieu fee owed to the city, the base fee is multiplied times the total number of units in the development. Between 1995 and 2003, the in-lieu fee has increased from $5,000/unit to $8,000/unit. According to city staff, the existing in-lieu fee amount should be increased with inflation until the formal fee schedule is set by the city.

Historical Production

Since the mandatory policy was adopted in 2003, no inclusionary affordable units have been built, as all developers have chosen to pay the fee, or are currently in the planning stages and are determining how to meet the affordable requirements.

Total in-lieu fees collected to date: $3,035,898 from 558 market-rate units at four developments. To date, the city has committed $1.5 million of in-lieu fees collected toward the development of a 120-unit senior affordable housing tax credit project.

Development	Date	Market-Rate Units	Fee per unit	Total Fees
Ford	1995/96	404	$5,000	$2,020,000
Sailhouse	2000	90	$6,000	$540,000
Cannery Lofts	2002	22	$6,359	$139,898
15th St. Townhomes	2003	42	$8,000	$336,000
Total or Average		558	$5,441	$3,035,898

12. Pasadena

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 2001, by ordinance. Note: city's policy has been revised since, in 2003, 2004, and 2005.

Inclusionary Policy Application
Applies to all residential developments of 10 or more units.

Affordable Units Required
All residential developments must include 15% of total units for low-income (51%-80% AMI) and moderate-income (81%-120% AMI) households. In calculating the required number of inclusionary units, fractional units of .75 or above will be rounded up to a whole unit if the Residential Development consists of ten (10) to twenty (20) units; fractional units of .50 or above will be rounded-up to a whole unit if the Residential Development consists of twenty-one (21) or more units.

If the residential development consists of rental units:

- 10% of total units must be rented to low-income households
- 5% of total units can be rented to low- or moderate-income households

If the development consists of ownership units, 15% of total units must be sold to low- or moderate-income households. An inclusionary unit that is for sale shall remain reserved for the target income level group for a period of 45 years. Rental units will remain affordable in perpetuity. If a density bonus is used to comply with the inclusionary housing regulations, the units must be restricted in perpetuity.

Inclusionary units for-sale may be sold to an above moderate-income purchaser in accordance with procedures set forth in the Regulations, provided that the sale shall result in a recapture by the City or its designee of a financial interest in the unit equal to: (1) the difference between the initial affordable sales price and the appraised value at the time of the initial sale, and (2) a proportionate share of any appreciation. However, the city has first right of refusal to purchase the unit before an above-moderate income owner can purchase the unit.

The City of Pasadena has also recently adopted a Local Preference priority system for any affordable housing unit that becomes available in the city. The priority system is as follows:

1) First priority given to eligible households that reside and work in Pasadena;
2) Second priority given to eligible households that reside in Pasadena;
3) Third priority given to eligible households that work in Pasadena;
4) Fourth priority given to eligible households that have been involuntarily displaced from Pasadena

[Note: During the first 12 months after the ordinance was passed, the 15% requirement was reduced to 6%. During that time, 4% of rental units had to be set aside for low-income households, while the remaining 2% could be made available to either low- or moderate-income households.]

Affordable Unit Credits

If very-low income (50% AMI or less) units are provided in lieu of required low-income units:

- a credit of 1.5 units to every 1 unit shall be provided.

If very-low income units are provided in lieu of required moderate-income units:

- a credit of 2 units to every 1 unit shall be provided.

If low-income units are provided in lieu of required moderate-income units:

- a credit of 1.5 units to every 1 unit shall be provided.

Off-site Option

By application and at the discretion of the planning director, the developer may satisfy the inclusionary requirement by constructing or substantially rehabilitating units off-site.

Land Donation Option

By application and at the discretion of the planning director, the developer may satisfy the inclusionary requirement in whole or in part, by a conveyance of land to the City for the construction of the required units.

In-Lieu Fee Option

The developer may meet the inclusionary requirements by paying a fee in-lieu of providing the required affordable units. The base fee per-square-foot varies depending upon the area of the city where the market-rate units are being developed, as well as the size of the development. Fees collected are deposited into the city's Housing Trust Fund. Developers that pay only half of the in-lieu fees at the time of building permit issuance and the other half at the time of occupancy permit issuance are subject to a 10% surcharge. However, if the developer opts to pay 100% of the in-lieu fee at the time of building permit issuance, a 10% fee discount will be automatically granted. The in-lieu fee schedule will be adjusted annually based upon changes in the CPI, and the city will adopt a new in-lieu fee schedule every five years based upon a real estate market study.

The current fee schedule for rental developments in 2006 is as follows:

Location	10-49 Units	50+ Units
Sub-Area A	TBD*	TBD*
Sub-Area B	$1	$1
Sub-Area C	$22	$30
Sub-Area D	$20	$28

*At the time the in-lieu fee schedule was published, no base fee was given for Sub-Areas A & B based on a lack of "market data".

The current fee schedule for for-sale developments in 2006 is as follows:

Location	10-49 Units	50+ Units
Sub-Area A	$38	$53
Sub-Area B	$14	$19
Sub-Area C	$23	$32
Sub-Area D	$18	$25

Historical Production

For the time period when the affordable requirement was set at 6%, a total of 60 inclusionary rental units were built (16 very-low income, 30 low-income, and 14 moderate-income). No ownership inclusionary units were constructed. A total of $2,862,462 was collected in in-lieu fees during this time, representing 43 affordable units required.

Under the 15% requirement, a total of 286 inclusionary units have come under agreement as of 3/27/06. Of those 286 units, 32 are set-aside for low-income households and 254 units are set-aside for moderate-income households. There were no units set-aside for very-low income households. A total of $9,371,086 in in-lieu fees is required (partially collected thus far), representing 83 required affordable units under the 15% plan.

As of 3/27/06, there were 44 different developments currently listed as pending, representing 1,825 market rate units. Based on that market rate total, 357 affordable units will be required to be built or paid for with in-lieu fees.

Grand Totals:

- Inclusionary Housing = 346 units
- In-Lieu Fees = $12,233,548 (representing 126 required units)
- Pending = 1,825 market rate units; 357 affordable units (number of affordable units to be built vs. paid for with in-lieu fees still to be determined)

In-Lieu Fees Spent by City

Per city staff, as of March 2006 the city has spent $2.3 million dollars of in-lieu fee money to underwrite development of 128 units at two developments. The first is the “Trademark Project”, consisting of 8 units with a $1.3 million loan. The second project is the “Heritage Square” project where the land to house 120 units was purchased for $1 million. The city will be shortly releasing an RFP for development of that land, and staff indicates the project may require additional in-lieu fee.

Summary: $2.3 million for 128 units = $17,969 subsidy per affordable unit

13. Rancho Palos Verdes

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 1997, by ordinance

<u>Inclusionary Policy Application</u>
Applies to all residential developments with 5 or more units, and all applications for demolition or conversion of 3 or more units in the coastal specific plan district.

(Note: there is also an inclusionary housing policy that applies to all non-residential projects where more than 30 new full-time or part-time jobs are created in the city, or more than 10,000 sq.ft. of space will be created or converted within a 12-month period. Developers of commercial projects must pay a residential impact fee adequate to provide one very-low or low-income unit for each 10 employees to be generated by the non-residential development, or one unit for every 5,000 sq.ft. of commercial space. Projects that provide for very-low and low-income housing are exempt from the housing impact fee).

<u>Affordable Units Required</u>
Developers of market-rate developments must construct on-site the following:
1) 10% of total units for low-income households (51%-80% AMI), or
2) 5% of total units for very-low income households (50% AMI or less)

Where a mixture of affordability levels is provided, each very-low income affordable unit will be weighted so that it equals two low-income affordable units, resulting in a total weighted count equal to 10 percent of total units.

<u>Off-site Option</u>
Developers will have the option to build required affordable units off-site only with the approval of the planning director.

<u>In-Lieu Fee Option</u>
Upon city council approval, developers may pay fees in-lieu of building the required affordable units.

Current in-lieu fee amount: $201,562 plus a 10% administrative fee per affordable housing unit required (adopted 9/20/05)

Note: The city council originally adopted an in-lieu fee of $1/sq.ft. of buildable area plus a 10% administrative on June 3, 1997. This fee remained in place until the council adopted the current fee in September 2005.

<u>Historical Production</u>
To date, only one development has chosen to create affordable units pursuant to the city's inclusionary housing regulations (the development is required to provide one unit, which will involve conversion of an existing unit to an affordable unit). However, one 75-unit

development (Trump National Golf Club) has been required to build 8 affordable units as a result of a lawsuit filed shortly after the project's approval (the development was approved prior to the ordinance's adoption and thus was not technically required to build any affordable units). Thus far, 4 affordable rental units (duplexes) have been built on-site at the project, and another 4 will be built off-site before the second phase of the market-rate homes are completed. While these units are technically not a result of the policy's implementation, the terms agreed to as a result of the lawsuit mirror the inclusionary policy's regulations.

To date, only two developments have paid in-lieu fees. The first, the Oceanfront Estates 79-unit single-family development, paid $596,494 in in-lieu fees. The second project, the Seabreeze 63-unit single-family development, paid $256,683 in in-lieu fees. (Both of these developments had their fee payments approved before the new fee schedule was adopted in September 2005).

Total in-lieu fees collected equals $853,177.

All in-lieu fees collected thus far have been sitting in an account earning interest along with redevelopment agency set-aside funds. According to city planner, staff is currently working on how to allocate in-lieu funds for affordable housing in Rancho Palos Verdes.

14. Santa Monica

Inclusionary Housing Policy Status: Mandatory
Date Adopted: City has had some variation of an inclusionary housing policy since its 1983 Housing Element. The policy has been revised multiple times since 1983, most recently with Ordinance 1918 adopted in July 1998 to re-establish in-lieu fee system (fees updated in 2000 and again in 2005—see below).

<u>Inclusionary Policy Application</u>
Applies to all multi-family developments, regardless of size.

<u>Affordable Units Required</u>
Developers of market-rate multi-family projects must construct on-site at least:
1) 20% of total units for low-income households (51%-80% AMI), or
2) 10% of total units for very-low income households (50% AMI or less), or
3) 100% of total units in the Industrial/Commercial District for moderate-income households (81%-120% AMI)

On-site affordable housing units must be rental units in rental projects. In ownership projects, affordable housing units required may be either rental units or ownership units.

<u>Off-Site Option</u>
Developers may meet affordable housing obligation by building units off-site.

<u>Land Dedication Option</u>
Developers may also meet affordable requirements by donating equivalent land to the city or selling land to a nonprofit developer at a below-market price.

<u>In-Lieu Fee Option</u>
Developers may pay a fee in-lieu of building the required inclusionary affordable housing units. As of October 11, 2005, the following fees were adopted:
$22.33/ sq.ft. for apartment developments
$26.08/ sq.ft. for condo developments

Previous fees were as follows:
$6.14/sq.ft. for apartment developments (adopted 7/98, unchanged until 10/05)
$11.01/sq.ft. for condo developments (adopted 3/00, increased from 1998 level of $7.13/sq.ft, unchanged between 3/00 and 10/05)

How fee is applied (per municipal code):
*For multi-family projects in multi-family residential districts:
= affordable housing unit base fee x floor area of multi-family project

*For multi-family projects in multi-family residential districts on vacant parcels:

= affordable housing unit base fee x floor area of multi-family project x 75%

*For multi-family projects in Industrial/Commercial Districts on parcels that are either not already developed with multi-family housing or are already developed with multi-family housing, but the multi-family project preserves the existing multi-family housing or a Category C Removal permit has been obtained for the existing multi-family housing:

= affordable housing unit base fee x floor area of project devoted to residential uses x 50%

Density Bonuses & Incentives

Projects that include affordable housing units in residential districts and meet the requirements for a density bonus under state law are also entitled to a separate local density bonus of 25 percent. In no event shall total density bonus under local provisions exceed 25 percent or the total density bonus including the state density bonus exceed 50 percent.

Affordable housing projects located in non-residential zoning districts may have a Floor Area Ratio equal to the applicable FAR plus 0.5 times the floor area devoted to such units.

Properties in the C3-C District shall be four stories, fifty-six feet and 2.5 FAR, except that floor area devoted to residential uses shall be discounted by 50 percent.

Affordable projects located on a corner parcel, the street frontage dimensions of which requires that the property line adjacent to the alley be deemed a side parcel line, may count one-half of the width of the alley as a portion of the required side yard setback, as long as a minimum setback of four feet from the property line is maintained.

Parking requirements for multifamily projects with restricted units are:
Studio = 1 space per unit
1 BR = 1 space per unit
2 BR or larger = 1.5 spaces per unit
Visitor parking = 1 space per 5 units (applies to projects with 5 or more units)

In addition to reduced parking requirements, projects which qualify for a state density bonus are eligible to apply for a variance to side yard setback requirements, to front or rear yard setback requirements and to parcel coverage requirements.

Projects that contain a minimum of 80% of floor area devoted to multi-family residential use with 15% of units restricted to households at 80% AMI or less or 10% restricted for 60% AMI or less shall be exempt from “development review thresholds.” (Same for projects in which 100 percent of housing units are restricted to households at 80% AMI or less).

Projects of 3 units in OP-2 District may receive a bonus of one unit when the density bonus unit is permanently deed-restricted for a middle-income household. (Same for projects of 3 or 4 units in OP-3 and OP-4 Districts).

Historical Production

Although the city has had some kind of inclusionary housing policy since 1983, consolidated residential development data with specific inclusionary housing information was available from the city for the time period of Fiscal Year 1998-99 through Fiscal Year 2004-05.

FY 98/99 – 04/05

Inclusionary Housing:

- 375 units (55 off-site, all VLI))
  - 96 Very Low Income
  - 79 Low Income
  - 200 Moderate Income

- 41 Total Developments
  - 3 condo properties
  - 48 rental properties
  - 1,260 total market rate units
    - 64 market rate condo units
    - 1,196 market rate rental units

In-Lieu Fees:

- 120 total developments paid in-lieu fees
  - 78 condo properties
  - 42 rental properties
  - 1,163 total market rate units
    - 442 market rate condo units
    - 721 market rate rental units

- 269 total Low-Income units would have been required from the 120 properties (233 units required without rounding all fractions up)
  - 164 affordable units required from rental properties
  - 105 affordable units required from condo properties

- $8,697,747 total in-lieu fees (some still to be collected)
  - Median total fee per development = $58,053
  - Average total fee per development = $72,481
  - Average fee per required affordable unit = $32,334
  - Average fee per market rate unit built = $7,479

- $3,214,571 total in-lieu fees from rental properties
  - Average fee per required rental unit = $19,601

- $5,483,176 total in-lieu fees from condo properties
  - Average fee per required condo unit = $52,221

Completed Developments during FY 98/99 – 04/05

- 92 developments completed
  - 1,341 market rate units
  - 656 affordable units
    - 303 inclusionary units built
      - 258 inclusionary built on-site
      - 45 inclusionary built off-site
    - 353 affordable units were city assisted and not inclusionary

- 50 of 92 (57%) completed developments paid in-lieu fees totaling $3,065,590

Developments Still Under Construction (as of end FY 04/05)

- 47 total developments under construction
  - 25 rental properties
  - 22 condo properties

- 749 total market rate units
- 155 affordable units
  - 129 affordable units city-assisted and not inclusionary
  - 26 inclusionary units on-site
- 39 of 47 (83%) developments paying in-lieu fees totaling $3,321,988

Developments With only Planning Approval (as of end FY 04-05)

- 42 total developments
  - 18 rental properties
  - 24 condo properties

- 386 total market rate units
  - 247 market rate rental units
  - 139 market rate condo units

- 98 affordable units
  - 46 inclusionary units
    - 36 on-site
    - 10 off-site
  - 52 affordable units are city loan-assisted and not inclusionary

- 30 of 42 (71%) developments paying in-lieu fees totaling $2,448,148

<u>In-Lieu Fee Expenditure</u>

The city typically spends its in-lieu fees collected by making long-term, low-interest loans to nonprofit developers to build affordable housing in Santa Monica. In-lieu fee funds are collected and deposited into the Citywide Housing Trust Fund and are used in conjunction with other city monies to support affordable housing development.

According to the data provided to our research team, Housing Trust Funds have been used from 1991 to mid-2005 to help create 894 affordable housing units at 30 different properties (some of them are still under construction or yet to begin). However, the income breakdown was available only for the more recent units (since FY 98-99). Total in-lieu fees expended also were unavailable.

City loan data for recent period (FY 98-99 through 04-05) is as follows:

- 17 properties
- 554 total units
  - 20 market rate
  - 534 affordable

Of the affordable units: 350 (66%) are Very-low Income units
58 (11%) are Low Income units
126 (23%) are Moderate Income units.

15. San Clemente

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 1980, through the Housing Element. The city's inclusionary policy has been revised multiple times, most recently in 2000 (as reflected below).

Inclusionary Policy Application
Applies to all new residential developments of six (6) or more units.

Affordable Housing Required
Developers of projects with six (6) or more units must make at least 4% of total units affordable to very-low income households (50% AMI or less). Units must be rental only and affordable for a minimum of 30 years (if other public financing involved with longer affordability terms, then longest term applies).

Important to note that percentage of affordable units required and income groups targeted has changed over time with policy revisions:

- 1980: 15% set-aside (5% for households at 80% AMI or less, 5% for households at 81%-100% AMI, and 5% for households at 101%-120% AMI)
- 1989: 15% set-aside (For rental developments: 7.5% very-low income, 7.5% low-income; For ownership developments: 3% very-low income, 4% low-income, 4% moderate-income I (81%-100% AMI), 4% moderate-income II (101%-120% AMI)
- 2000: 4% set-aside, all for very-low income households

Off-Site/Land Donation Option
Developers may meet affordable requirements by providing an equivalent amount of land (on-site or off-site) and development fees to a non-profit developer to own and build the required number of inclusionary housing units.

In-Lieu Fee Option
Developers may also meet affordable requirement by paying a fee in-lieu of building the inclusionary units. The total in-lieu fee payment equals 1% of the building's construction value times each market-rate unit.

In-lieu fee option was unavailable between 1980 and 1989. A negotiated fee arrangement on a case-by-case basis was introduced with 1989 revision; the formal in-lieu fee schedule was established with the 2000 policy revision.

Historical Production
Based on the spreadsheet provided by city staff, the following production has resulted between 1980 and 2005:

- 10,423 total units
- 630 inclusionary units, all apartments (at 3 developments)
- $4,091,265 in in-lieu fees collected (representing 96 required units)
  - Mary Erickson Community Housing received a loan of $593,000 of in-lieu fees to acquire a dilapidated property and rebuild 6 units of housing for very-low-income, large families

- The remaining in-lieu fees have yet to be spent, although city is working with a nonprofit developer to find and purchase site(s) for affordable housing development. According to city staff, 6 sites have been identified for potential acquisition.

- $1,000,000 in in-lieu fees (representing 13 required units) expected from Marblehead Coastal Development yet to be paid

16. San Juan Capistrano

Inclusionary Housing Policy Status: Mandatory
Date Adopted: 1995, through the Housing Element (no ordinance has yet been passed).

Inclusionary Policy Application
Applies to all new residential developments of two (2) or more units.

Affordable Housing Required
Developers or new residential projects with two (2) or more units must provide at least 10% of total units as affordable to very-low income (50% AMI or less), low-income (51%-80% AMI) and very-low/low-income senior households.

Depending upon housing type and financing involved, affordable units must remain affordable anywhere from 10 to 55 years.

Off-Site Option
With city council approval, developers can meet affordable requirements by building affordable units off-site.

Land Dedication
With city council approval, developers can meet affordable requirements by donating land to city/nonprofit for the development of affordable units required.

In-Lieu Fee Option
With city council approval, developers can meet affordable requirements by paying a fee in-lieu of building affordable housing required. Fee calculation: For every unit constructed, the developer must pay 1% of the assessed valuation indicated on each building permit at the time the developer pulls a building permit.

Historical Production
According to city staff, since the inclusionary policy was adopted, no inclusionary units have been built, as all market-rate developers have chosen to pay in-lieu fees. (One developer chose to donate land rather than pay in-lieu fee). Per city staff, in-lieu fees collected have been used as a loan (amount unavailable) to the developer of an 84-unit senior apartment building in 2003:

- 31 very-low income units
- 37 low-income units
- 16 moderate-income units

Some in-lieu fees (specific amount unavailable) were also spent in FY 2003-04 to assist with the purchase of a 2.7-acre property for an affordable housing project. The city is looking to partner with Mercy Housing on future development of a 60-unit affordable housing project.

17. West Hollywood

Inclusionary Housing Policy Status: Mandatory
Date Adopted: June 1, 1986, by ordinance

Inclusionary Policy Application
Applies to all residential developments except single-family homes.

Affordable Units Required
In residential projects with 10 or fewer units, one unit must be made available to low-income (80% AMI or less) and/or moderate-income (81%-120% AMI) households.

In residential projects with 11 or more units, 20% of total units must be available to low- and moderate-income households.

When only one affordable unit is constructed, it may be allocated for a low- or moderate-income household. When two or more affordable units are constructed, they should be allocated for low-income households, then moderate-income households, alternately.

All inclusionary units must remain affordable for the life of the property. The development agreement runs with the title of the property.

Off-site Option
Developers of residential projects with 21 or more units may apply for an exception and request opportunity to provide the required inclusionary units off-site.

In-Lieu Fee Option
Only developers of residential projects with 20 or fewer units may pay a fee in-lieu of providing the affordable units on-site (larger projects must provide affordable units on- or off-site). The fee payment is based on a sliding scale depending on the total number of units in the development. To calculate the in-lieu fee payment due to the city, the base fee per square foot is multiplied times the amount of livable space in the entire project. The current fee schedule for 2005-06 is as follows:

Number of Units	1 or 2	3	4	5	6	7	8	9+
Fee Per Square Foot	$6.95	$7.95	$8.93	$9.92	$10.94	$12.77	$12.93	$13.91

Per city staff, in-lieu fee amounts were originally set to try and meet the city's target subsidy for the construction of affordable units. The fees are now updated annually for inflation, based upon the CPI. Specifically, 75% of the housing component of the CPI is used to update/increase the fees.

In-lieu fees collected are deposited into the city's Affordable Housing Trust Fund. As of February 2006, $10,209,570 had been collected in in-lieu fees since the program was adopted.

Historical Production

As of March 2, 2006, a total of 91 inclusionary units have been built or rehabbed at 20 different properties by developers in the City of West Hollywood. Of those 91 units, 57 are set-aside for low-income households, and 34 are set-aside for moderate-income households. Only one developer has built inclusionary units off-site, although he provided more than number required (3 required, bought entire building of 10 units and converted all).

An additional 50 on-site, affordable inclusionary units are expected upon completion of the Sunset Millennium Development in the next few years.

In-Lieu Fee Expenditure

The city has been able to leverage the $10.2 million collected in in-lieu fees to build 224 affordable units in partnership with West Hollywood Community Housing (WHCH), a nonprofit affordable housing developer. Funds have been offered to WHCH in the form of long-term loans.

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