

# COUNTY OF SANTA CRUZ

## Planning Department Housing Division

### MEMORANDUM

**Date:** January 2, 2020  
**To:** Housing Advisory Commission (HAC)  
**From:** Julie Conway, Housing Manager  
**Re:** Update on Rental Housing Development Activity

### SUMMARY

The HAC has considered the County's affordable housing policies for multi-family rental project development in recent years and today's staff report is a scheduled review of the inclusionary housing program's policies for rental projects. In 2015, the County made significant changes to its inclusionary policies for both rental and for-sale projects, which are codified in County Code Chapter (SCCC) 17.10. At that time, in response to slowing development activity, and supported by findings of an economic analysis and nexus study, the Board approved changes to Chapter 17.10 which broadened the emphases from the creation of on-site affordable units for projects of five or more units to an impact fee approach. The creation of a new Affordable Housing Impact Fee (AHIF) takes an "everyone pays" approach and applies the AHIF to all types of new development, including commercial and industrial projects, as well as housing projects.

At the time the AHIF was created the Board required new multi-family rental developments of 5 or more new units to participate in the affordable housing program at a nominal rate in order to avoid presenting an obstacle to development. Between 1979 and 2009 multifamily rental projects were required to provide 15% of the units as affordable "Measure J" units. During that period, there were very few market-rate multi-family rental properties developed. In 2009, the *Palmer v. Los Angeles* court case struck down such rental inclusionary policies throughout California, and Santa Cruz County had no affordable housing requirements for market-rate rental projects (although no such projects were proposed). Starting in 2015, rental development projects became subject to the new AHIF, at a relatively low rate of \$2/habitable square foot because virtually no new market rental projects had been proposed or constructed in recent years, and the mandatory inclusionary requirement of 15%, which had been in effect in prior years, was a significant feasibility challenge to development in current market conditions. In addition, the HAC recommendation noted that there was a significant shortage of available and affordable rental units in the County, and therefore County policies should be encouraging rental developments rather than imposing challenging requirements on them.

In March 2018, a follow-up report on the AHIF to the Board included a HAC recommendation that the Board of Supervisors continue charging the AHIF at \$2/habitable square foot on multifamily rental developments, rather than imposing on-site inclusionary requirements, and requested that staff provide on-going reports on market rate rental projects seeking development approval, so the issue could be revisited in two years to determine whether the market can be demonstrated to be producing rental housing developments. Two years has now elapsed since that recommendation was made, so staff is providing this update to the HAC on recent rental development activity.

## **BACKGROUND**

For additional background on this topic, please review the prior reports to the Board and associated materials, available at the links below:

October 24, 2017 Board Meeting

[https://santacruzcountyca.iqm2.com/Citizens/Detail\\_LegiFile.aspx?Frame=&MeetingID=1596&MediaPosition=2577.282&ID=4418&CssClass=](https://santacruzcountyca.iqm2.com/Citizens/Detail_LegiFile.aspx?Frame=&MeetingID=1596&MediaPosition=2577.282&ID=4418&CssClass=)

December 12, 2017 Board Meeting (continued to March 20, 2018)

[https://santacruzcountyca.iqm2.com/Citizens/Detail\\_LegiFile.aspx?Frame=&MeetingID=1600&MediaPosition=8357.168&ID=4585&CssClass=](https://santacruzcountyca.iqm2.com/Citizens/Detail_LegiFile.aspx?Frame=&MeetingID=1600&MediaPosition=8357.168&ID=4585&CssClass=)

March 20, 2018 Board Meeting

[https://santacruzcountyca.iqm2.com/Citizens/Detail\\_LegiFile.aspx?ID=5179](https://santacruzcountyca.iqm2.com/Citizens/Detail_LegiFile.aspx?ID=5179)

April 10, 2018 Board Meeting (2<sup>nd</sup> Reading of Ordinance)

[https://santacruzcountyca.iqm2.com/Citizens/Detail\\_LegiFile.aspx?Frame=&MeetingID=1651&MediaPosition=5809.393&ID=5328&CssClass=](https://santacruzcountyca.iqm2.com/Citizens/Detail_LegiFile.aspx?Frame=&MeetingID=1651&MediaPosition=5809.393&ID=5328&CssClass=)

April 10, 2018 Board Meeting (AHIF Updates to Unified Fee Schedule)

[https://santacruzcountyca.iqm2.com/Citizens/Detail\\_LegiFile.aspx?Frame=&MeetingID=1651&MediaPosition=8226.393&ID=5200&CssClass=](https://santacruzcountyca.iqm2.com/Citizens/Detail_LegiFile.aspx?Frame=&MeetingID=1651&MediaPosition=8226.393&ID=5200&CssClass=)

## **ANALYSIS**

Staff has examined recent planning application data and found three multi-family project applications of 5 or more units submitted in the calendar years of 2017 through 2019. All three requested a density bonus in return for voluntarily providing one or more affordable units within the project.

### **Market-Rate Rental Project Planning Applications Submitted, 2017 through 2019 \***

<b>Project</b>	<b>Application Date</b>	<b>Total Rental Units Proposed</b>	<b>Total Rental Units Approved</b>	<b>Density Bonus?</b>	<b>Affordable Units Included</b>	<b>Project Status</b>
<i>Planning App #171265</i> 432 Capitola Road Ext., Santa Cruz	9/18/17	6 (4 net new)	Pending	Yes	1 (possibly 2) Low	In Review
<i>Planning App #181170</i> 2606 Paul Minnie Ct., Santa Cruz	6/21/18	15	15	Yes	2 Very Low	Entitled 4/24/19
<i>Planning App #181263</i> 3911 & 3946 Portola Dr., Santa Cruz	8/6/18	33	33	Yes	4 Very Low	Entitled 12/10/19
<b>Total Units</b>		<b>54</b>	<b>48</b>		<b>7 or 8</b>	

\* This summary does not include 100% affordable rental projects, existing occupied units (PRH projects) or ADUs.

Assuming the 6-unit project above provides 2 affordable units, the three projects as a whole will include 8 affordable units, which equals 15% of the total 54 units in these projects. However, due to the incentives included in the density bonus codes, the units will be provided at the Very Low, rather

than Low income level, which is what would have been required under the old Chapter 17.10 policy. Very low income rental units, particularly those in mixed-income projects, are in very high demand.

Neither of the two approved projects listed above have submitted building permit applications yet, so it is unclear when or if they will be constructed. The table below provides data on building permits issued for market-rate, multi-family rental projects during the same time period (calendar years 2017 through 2019). The Brommer Street project was entitled in 2007, with an amendment approved in 2014.

#### **Building Permits Issued for Market-Rate, Multi-Family Rental Projects, 2017 – 2019**

<b>Calendar Year</b>	<b>Project Name</b>	<b>Units Permitted</b>	<b>Affordable Units Included</b>	<b>Project Status</b>
2017	N/A	0	0	N/A
2018	N/A	0	0	N/A
2019	Brommer St. Mixed-Use Project	13	0	Under Construction
<b>Total Units</b>		<b>13</b>	<b>0</b>	

*\* This summary does not include 100% affordable rental projects, existing occupied units (PRH projects) or ADUs.*

#### **RECOMMENDATION**

For the first time in many years, the County has received several market-rate, multi-family rental development applications, and one project approved in earlier years is under construction. So far, all of the rental project applications received in the past three years have requested a density bonus pursuant to SCCC Chapter 17.12, two of which have been approved and one of which is pending review. Staff recommends that the current AHIF fee rate for rental projects be continued, no further action be taken at this time, and that the HAC continue to monitor changes in market-rate rental development activity annually following publication of the County's annual progress report (APR) on implementation of the General Plan, which is published each April.