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Paradise no longer limited by pay More cities using inclusionary housing

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She's been a renter all her life.

For the past 14 or so years, she handed over monthly rent checks to the Mahara Townhouse apartment complex in North Monterey, where she lives with her granddaughter. For two bedrooms, she pays \$1,200 a month, supported by her job of 16 years as the public face of Sand City's Costco.

But Thelma Howard, 51, has written her last rent check.

Howard, whom many local shoppers would recognize as the wholesale store's cheerful greeter, expects to close escrow this week on the same two-bedroom unit she has been renting, as the former rental units are upgraded under new ownership and resold as condominiums.

The market value for a 920-square-foot space with a washer/dryer and stainless steel kitchen appliances in what is now called Cypress Park Monterey Bay is \$475,990, said Frank Olivaria, sales representative for Cypress Park, with smaller units starting at \$337,990. But Howard's home and 31 others were priced below market rate — from \$215,833 to \$242,586 — in an inclusionary housing deal the city requires of developers.

As a resident in one of the country's most expensive housing markets, Howard is getting a good deal.

It is a type of deal more and more cities in California are turning to in an effort to deal with rising housing costs. According to a report released this week by a coalition of housing agencies, 32 percent of California's cities and counties now have some kind of inclusionary housing policy, up from 20 percent in 2003.

Without such programs, according to the report, much of the work force population — schoolteachers, traffic cops and typists, people like Thelma — would be hard-pressed to ever make the leap from the rental market to home ownership.

Those policies have helped California make progress in dealing with the state's high housing costs: 170 jurisdictions have adopted some kind of inclusionary housing policy,

up from 107 in 2003, according to the report, "Affordable By Choice: Trends in California Inclusionary Housing Programs," by the California Coalition for Rural Housing, the Non-Profit Housing Association of Northern California, the San Diego Housing Federation, and the Sacramento Housing Alliance.

Second least affordable

While the specifics of each policy may vary, inclusionary housing — sometimes called inclusionary zoning — requires builders to price a percentage of homes at "affordable" levels.

The Monterey region ranked as the second least affordable region in the state for the first quarter of 2007, according to a report released in May by the California Association of Realtors. The report, which measures the ability of first-time homebuyers to afford an entry-level home in California, showed that only 19 percent of households could afford to purchase a home equal to 85 percent of the prevailing median price for the area, based on an adjustable interest rate of 6.3 percent and assuming a 10 percent down payment.

Only Santa Barbara, with a first-time buyer index of 12 percent, ranked above the Monterey region, according to the report. Statewide, the percentage of households able to afford an entry-level home was 25 percent for that same time period, and 26 percent the previous year.

The median home price in Monterey County was \$660,000 for the first quarter of 2007, and that figure climbed to \$725,000 in the second quarter, according to Monterey County Association of Realtors data.

Earnings, for most folks, just can't keep pace with housing costs. The median income for the Salinas Metropolitan Statistical Area, which includes Monterey County, is \$63,400, according to the U.S. Department of Housing and Urban Development.

That disparity has priced a significant percentage of those who work in Monterey County out of the housing market. That is the case with much of California, according to the report. Those conditions mean longer commutes for workers forced to seek affordable housing further outside of city centers and employers who struggle to retain employees who can afford nearby housing.

Patchwork programs

Inclusionary housing programs created an estimated 30,000 long-term affordable housing homes statewide from 1999 through mid-2006, providing housing for at least 80,000 Californians, the report showed, with nine of 10 of those homes indistinguishable from market-rate housing.

That progress has resulted in a patchwork of city and county programs that require developers to set aside affordable units.

While there is much room for improvement, the growth of inclusionary housing programs in recent years is good news, said Rob Wiener, executive director of the California Coalition for Rural Housing, a Sacramento-based nonprofit organization that works to ensure affordable housing opportunities for low-income households.

Inclusionary housing policies originated in suburban Washington, D.C., suburbs, in Montgomery and Fairfax counties, with Petaluma being the first county in California to adopt inclusionary policies, in 1973, said Wiener.

"Since then, especially in the 1990s and 2000s, we've seen a real proliferation of these programs," he said. "Since 2003, there's been an amazing increase in these policies."

Social network

Statewide, 71 percent of housing created through inclusionary policies are rentals, and more than a third of homes built as inclusionary housing are done so in partnership with affordable housing organizations such as CHISPA, a nonprofit home builder based in Salinas.

"This is only a drop in the bucket — we need many more affordable units than are produced through these inclusionary units," he said. "However, absent of these programs, not a single one of these affordable units would have been provided."

Because of the programs, units are being built at prices that otherwise would not have existed, primarily in new growth areas, and often with new schools and new services.

"That's a positive thing in terms of achieving not only increased supply," he said, "but also achieving social and economic integration."

"We need housing that provides a diverse source of housing for various income groups that are necessary for a community to survive," said Wiener. "Without these, patterns would be quite different. All of the homes would be built for homeownership and for higher-income populations."

He calls inclusionary housing an intervention in a broken housing market. It can't fix the problem, but it's a start.

Call for change in policies

The report, released Wednesday, calls on cities and counties without inclusionary housing policies to adopt them, and for municipalities to provide incentives and flexibility to make inclusionary requirements feasible to developers. It called for those municipalities to better track in-lieu fees and inclusionary housing production, and for greater use of partnerships with nonprofit housing developers.

A range of inclusionary housing programs exist throughout Monterey County, and several cities have amended their ordinances to better serve their housing goals in recent years.

The city of Monterey is in the midst of something of an inclusionary housing boom, with 120 affordable housing units allocated among several projects that turned 598 rental units to condominiums in the past 18 months.

"I think it means a lot for this community," said Sandra E. Reeder, administrative analyst for housing with the city of Monterey. "This community was one of the first cities to have an inclusionary program."

The city's policies, adopted in the early 1980s, call for a standard 20 percent set-aside for low-income and moderate-income units, although the city negotiates with development projects on a case-by-case basis.

Projects in the works

Implementing such policies can be a challenge for small cities, particularly those with little room for growth. Pacific Grove, for example, has no inclusionary housing program. But those that exist can be a particularly effective tool in helping cities provide affordable housing for the local work force.

"What gives us a lot of our opportunities are our redevelopment areas that we created in the 1970s and mid-1980s," said Reeder.

Soledad, which experienced rapid growth in recent years, adopted an inclusionary housing ordinance in August 2006. But because no projects have been granted approval since then, the city can't yet count any inclusionary housing units as a result of the ordinance, said Soledad Economic Development Director Izzy Rodriguez, whose department handles housing.

But new projects are on the horizon. The first with 16 units could be 18 months away, and Miravale III, now in the environmental review stage, could bring 4,400 housing units to town. At 20 percent, that works out to 880 below-market-rate homes, he said.

They won't likely happen all at once, because construction is typically done in phases, and a city may negotiate for inclusionary units to be built in one of the later stages to give a developer incentive to recoup some of his expenses.

In all, Rodriguez expects the city to gain about 50 inclusionary units in the next five years or so.

Formula for affordability

Qualifying for inclusionary housing has less to do with the cost of housing in any particular city than with median income figures. Municipalities use HUD formulas to classify income categories. HUD defines moderate-income families as those with incomes 81 percent to 120 percent of the median income, low-income households as 51 percent to 80 percent of the median, and very-low-income households at below 50 percent. So a family of four is considered very low income by Housing and Urban Development standards at \$32,250; the same family earning \$51,600 is considered low income, said Rodriguez.

Monterey County adopted an inclusionary housing ordinance in 1980 requiring 15 percent of developments in unincorporated county area to be inclusionary units, then boosted its mandate to 20 percent in 2003.

The county has between 350 and 375 households that fall under that category, said Marti Noel, senior administrative analyst in the county's Housing and Redevelopment Office, and a waiting list of about 400 households.

The county expects an inclusionary housing swell as the 1,400-unit East Garrison development proceeds. With a proposed 1,400 new housing units to be created, that will add 280 inclusionary units, primarily rentals, she said.

Prices out of line

Since adopting inclusionary housing provisions in 1992, Salinas has gained about 600 affordable housing units, about 75 percent of which are rental units, said Salinas Planning Manager David Swanson.

Two years ago, the city revised its policies to a 20 percent standard, adding a trio of development options that range from a 25 percent set-aside to in-lieu fees or 35 percent inclusionary housing with the option of partnership with a nonprofit housing agency. Those variables are designed to balance the city's need for affordable housing with the need to keep development viable, he said.

New inclusionary units in development include 20 percent of Tynan Village, a 171-unit residential development, and 25 percent of Sherwood Village, a 124-unit senior housing development going up on the site of the former Travelodge on North Main Street.

The new units are sorely needed.

"Our economy is based on agriculture, and because we're on the coast and we're close enough to the Bay Area, our housing prices are much too high," said Swanson. "They're out of sync for an area based on agriculture and tourism."

Howard is grateful for the inclusionary housing program that allowed her to buy her home and keep her granddaughter from having to change schools.

Had the city not had an inclusionary housing ordinance, she might have had to transfer out of the area or out of state to find a home she could afford.

"It saves us from moving out of the area, it stopped us from having to leave family and friends," said Howard. "We got to stay in paradise."

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Access information about the U.S. Department of Housing and Urban Development income limits at www.huduser.org/datasets/il/il07/index.html

For information about Monterey's inclusionary housing program, see www.monterey.org/housing/purchaseresale.html

For information about Salinas' inclusionary housing program, see www.ci.salinas.ca.us/CommDev/DEcd.html

For information about Soledad's inclusionary housing program, see www.cityofsoledad.com/departments/economicdev/index.cfm

For more information about the California Coalition for Rural Housing, see www.calruralhousing.org/