

# Effectiveness of Inclusionary Housing Ordinances in the San Francisco Bay Area

A CASE STUDY OF FREMONT, MOUNTAIN VIEW, SAN JOSÉ, AND SAN FRANCISCO

BY **MARIA KISYOVA**

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SAN JOSÉ STATE UNIVERSITY

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# Effectiveness of Inclusionary Housing Ordinances in the San Francisco Bay Area

A CASE STUDY OF FREMONT, MOUNTAIN VIEW, SAN JOSÉ, AND SAN FRANCISCO

A PLANNING REPORT PRESENTED TO  
THE FACULTY OF THE DEPARTMENT OF URBAN AND REGIONAL PLANNING  
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**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE IN  
MASTER OF URBAN PLANNING**

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MARIA KISYOVA  
MAY 2024



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# **EXECUTIVE SUMMARY**

# Executive Summary

## Goal and Purpose

At the heart of this study lies the provision of affordable housing. The San Francisco Bay Area faces significant and persistent challenges relating to both housing affordability and availability. Inclusionary Housing Ordinances (IHOs) are a tool used to create more affordable housing by requiring new market-rate residential development to set aside a percentage of new units as affordable. Oftentimes, IHOs include alternative options such as proposing affordable units at off-site locations or paying fees in lieu of providing affordable units within the project. IHO requirements can vary greatly between jurisdictions. This report aims to assess the efficacy of IHOs in addressing housing affordability challenges and fostering inclusive communities within the Bay Area. The study delves into the dynamics of IHOs across four Bay Area cities: San Francisco, San José, Fremont, and Mountain View.

## Key Findings

This comparative case study reveals distinct approaches to IHO requirements, both on-site and off-site, among the cities. San Francisco has adopted a tiered approach, San José differentiates between rental and ownership projects, Fremont maintains standardized on-site requirements, and Mountain View focuses on ownership projects with specific income level considerations. Each city faces unique

ing markets, marked by varying homeownership rates, rental costs, and geographic housing distribution. Affordable housing concerns are prominent, prompting nuanced strategies to incentivize developers and address specific community needs.

The author reviewed a variety of relevant case studies concerning IHOs, affordable housing, and impact fees. Data from this literature review suggests there is a lack of existing studies reviewing cities in Northern California, making this comparative study one of the first Bay Area studies. In addition, data can be difficult to gather due to a lack of thorough monitoring. Regarding housing provision, existing literature suggests that inclusionary ordinances or inclusionary zoning are useful for increasing affordable housing supply, but cannot be relied upon alone. There are notable equity impacts linked to inadequate supply for all levels of income.

## Recommendations

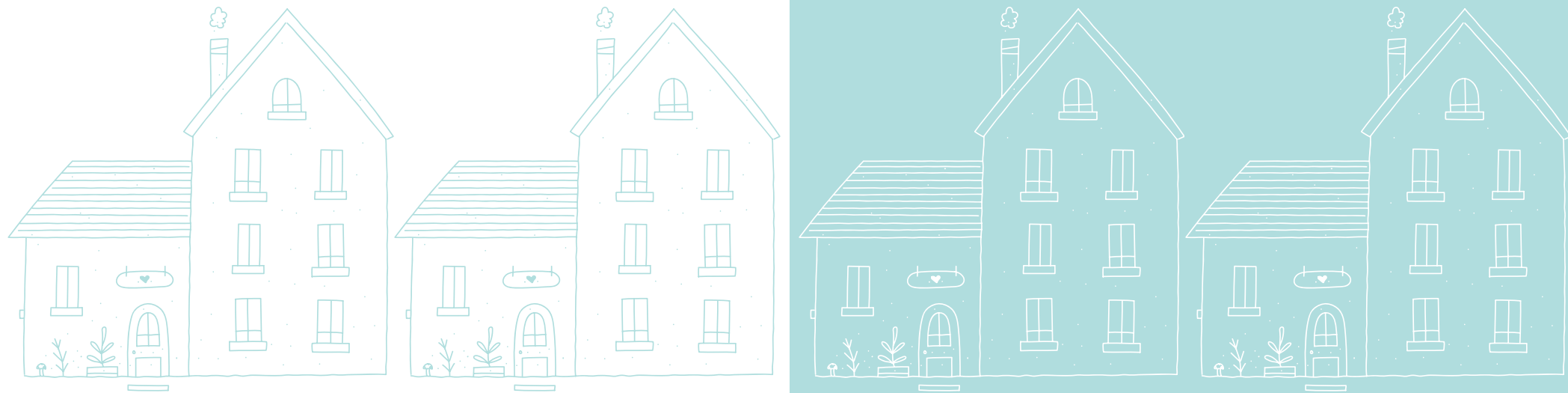
To optimize the effectiveness of IHOs, several key strategies are proposed. Cities are encouraged to diligently monitor the amount and type of affordable housing produced through IHOs, and to continuously review and update IHOs to align with changing economic conditions and demographic trends while prioritizing social equity and inclusion. In addition, cities should maintain a long-term perspective by conducting longitudinal studies to assess the enduring impact of IHOs on housing production, community development, and economic outcomes. Further, policymakers should explore innovative financing models, leverage technology, and encourage collaboration among stakeholders to enhance the effectiveness and sustainability of affordable housing initiatives.



## Implications for Future Research

Due to time and material constraints, this study was limited to a small study sample and exclusive interviews. The paper identifies several avenues for future research that could contribute to a deeper understanding of housing policies and their impact on diverse communities. Future research is encouraged to consider comparative assessments containing a larger sample size to allow for themes to form, longitudinal studies (i.e., data collection and observation over a long period of time), community stakeholder interviews, and deeper investigation of economic and political implications.

Research targeting Bay Area cities would benefit the planning field by providing more insight into the effectiveness of inclusionary housing requirements, particularly in light of recent Housing Element updates and Regional Housing Needs Allocation (RHNA) requirements (which are explained in Chapter .



# CONTENTS

|           |                                             |           |
|-----------|---------------------------------------------|-----------|
| <b>01</b> | <b>INTRODUCTION</b>                         | <b>1</b>  |
|           | Research Question and Relevance to Planning | 2         |
|           | Report Structure                            | 3         |
| <b>02</b> | <b>LITERATURE REVIEW</b>                    | <b>5</b>  |
|           | Inclusionary Housing Effectiveness          | 6         |
|           | Inequity and Segregation                    | 7         |
|           | Developer Perspectives                      | 10        |
|           | Findings                                    | 10        |
|           | Synthesis & Next Steps                      | 11        |
| <b>03</b> | <b>THE CALIFORNIA HOUSING CRISIS</b>        | <b>13</b> |
|           | California and Bay Area Characteristics     | 14        |
|           | History                                     | 15        |
|           | Housing Production and Affordability        | 15        |
|           | Missing Middle Housing                      | 19        |
|           | Contributing Factors                        | 20        |
|           | Policies and Regulations                    | 21        |
| <b>04</b> | <b>METHODOLOGY</b>                          | <b>25</b> |
| <b>05</b> | <b>OVERVIEW OF STUDY CITIES</b>             | <b>29</b> |
|           | Fremont                                     | 30        |
|           | Mountain View                               | 34        |
|           | San José                                    | 39        |
|           | San Francisco                               | 40        |

# CONTENTS

|           |                                         |           |
|-----------|-----------------------------------------|-----------|
| <b>06</b> | <b>INTERVIEW INSIGHTS</b>               | <b>49</b> |
| <b>07</b> | <b>FINDINGS</b>                         | <b>53</b> |
| <b>08</b> | <b>CONCLUSIONS</b>                      | <b>59</b> |
| <b>09</b> | <b>RECOMMENDATIONS</b>                  | <b>63</b> |
| <b>10</b> | <b>IMPLICATIONS FOR FUTURE RESEARCH</b> | <b>67</b> |
|           | <b>BIBLIOGRAPHY</b>                     | <b>69</b> |
|           | <b>APPENDIX A: INTERVIEW RESULTS</b>    | <b>72</b> |

# FIGURES

|                                                                                  |    |
|----------------------------------------------------------------------------------|----|
| Figure 1. Map of Bay Area Counties                                               | 14 |
| Figure 2. Sprawling Suburbs in California                                        | 15 |
| Figure 3. California Affordable Homes Shortfall                                  | 16 |
| Figure 4. Bay Area Affordable Homes Shortfall                                    | 16 |
| Figure 5. California Percent Change in Median Rent and Income                    | 17 |
| Figure 6. Chart of Rent Burdened Renters vs Owners in California                 | 18 |
| Figure 7. Chart of Rent Burdened Renters vs Owners in Bay Area                   | 18 |
| Figure 8. Missing Middle Housing                                                 | 19 |
| Figure 9. Development with and without Inclusionary Zoning                       | 23 |
| Figure 10. Housing Distribution by Predominant Race/Ethnicity in Mountain View   | 36 |
| Figure 11. Housing Sites by Low- and Moderate-Income Households in Mountain View | 36 |
| Figure 12. San Francisco One-Bedroom Median Rent Prices by Neighborhood          | 45 |
| Figure 13. Housing Distribution by Predominant Race/Ethnicity in San Francisco   | 45 |
| Figure 14. Distribution of Affordable Housing in San Francisco                   | 46 |

# TABLES

|                                                                                                      |    |
|------------------------------------------------------------------------------------------------------|----|
| Table 1. Method 1: Case Studies                                                                      | 26 |
| Table 2. Method 2: Interviews                                                                        | 26 |
| Table 3. Method 3: Regression Analysis                                                               | 27 |
| Table 4. Median Rent Trends in Fremont                                                               | 31 |
| Table 5. Rates of Poverty in Different Racial/Ethnic Groups in Fremont                               | 32 |
| Table 6. Fremont’s RHNA Progress                                                                     | 32 |
| Table 7. Summary of Fremont’s Inclusionary Housing Ordinance                                         | 33 |
| Table 8. Median Rent Trends in Mountain View                                                         | 35 |
| Table 9. Mountain View’s RHNA Progress                                                               | 37 |
| Table 10. Summary of Mountain View’s Inclusionary Housing Ordinance Requirements                     | 38 |
| Table 11. Units Produced through Mountain View’s Previous and Current Inclusionary Housing Ordinance | 38 |
| Table 12. Median Rent Trends in San José                                                             | 40 |
| Table 13. San José’s RHNA Progress                                                                   | 41 |
| Table 14. Summary of San José’s Inclusionary Housing Ordinance                                       | 42 |
| Table 15. Median Rent Trends in San Francisco                                                        | 44 |
| Table 16. San Francisco’s RHNA Progress                                                              | 46 |
| Table 17. Summary of San Francisco’s Inclusionary Housing Ordinance                                  | 48 |
| Table 18. Differences Between Study Cities                                                           | 54 |
| Table 19. Differences Between Study City Inclusionary Housing Ordinances                             | 55 |

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**01**

# **INTRODUCTION**

# 01 Introduction

## Research Questions

This study asks two primary questions:

*What is the effectiveness of inclusionary housing ordinances (IHOs) in boosting housing production in the San Francisco Bay Area?*

*How do Bay Area cities differ in their IHO requirements and what methods are most effective?*

The author hypothesizes that IHOs on- and off-site affordable housing requirements do not provide an adequate amount of affordable housing to meet a city's needs, and that in-lieu fees contribute to issues such as lower quality units, lack of mixed-income neighborhoods, and land use patterns that reinforce segregation.

## Relevance to Planning

Despite the Bay Area's well-known housing complexities, there is limited research about the effectiveness of IHOs in Bay Area cities. Similar studies have been completed to assess the effectiveness of impact fees and how they impact

housing prices; however, these did not include an assessment of IHOs or affordable housing fees.<sup>1 2</sup> For reference, impact fees are various fees established by municipalities that developers must pay as a nexus for new infrastructure needed to accommodate new development (including but not limited to water, wastewater, parks/open space, and schools), while IHOs and affordable housing fees more specifically require market-rate development to include or pay for affordable units.

One existing study has evaluated the effectiveness of in-lieu fees and off-site construction for affordable housing production with Boulder, Colorado; Montgomery County, Maryland; and Pasadena, California as case studies.<sup>3</sup> Another has evaluated the effectiveness of inclusionary zoning with Los Angeles and Orange County as case studies.<sup>4</sup>

This study will be the first to conduct an in-depth and comparative analysis of inclusionary housing within the Bay Area. The study focuses on four Bay Area cities: Fremont, Mountain View, San José, and San Francisco. These IHOs differ in the base obligations for on- and off-site affordable housing

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<sup>1</sup> Mathur, Shishir. "Do All Impact Fees Affect Housing Prices the Same?" *Journal of Planning Education and Research*, 33, 4. July 23, 2013. <https://doi-org.libaccess.sjlibrary.org/10.1177/0739456X13494241>

<sup>2</sup> Mathur, Shishir. "Do Impact Fees Raise the Price of Existing Housing?" <https://www-tandfonline-com.libaccess.sjlibrary.org/doi/abs/10.1080/10511482.2007.9521615>

<sup>3</sup> Porter, Douglas R. and Elizabeth B. Davidson. "Evaluation of In-Lieu Fees and Offsite Construction as Incentives for Affordable Housing Production." *Cityscape*, 11, Regulatory Innovation and Affordable Housing (2009): 27-59. <https://www-jstor-org.libaccess.sjlibrary.org/stable/20868702?seq=3>

<sup>4</sup> Mukhija, Vinit, et al. "Can Inclusionary Zoning be an Effective and Efficient Housing Policy? Evidence from Los Angeles and Orange Counties." April 23, 2010. <https://onlinelibrary-wiley-com.libaccess.sjlibrary.org/doi/full/10.1111/j.1467-9906.2010.00495.x>



requirements, in-lieu fee formula costs, and commercial linkage fees, which are fees levied on commercial development for the provision of affordable housing. The variations in these IHO components are crucial, as they reflect the unique policy choices made by each city in response to their specific housing challenges, demographic profiles, and economic considerations. San Francisco, with its dense urban environment, may grapple with different issues compared to the sprawling suburban landscape of San José and Fremont, and understanding these contextual intricacies is vital for a nuanced analysis.

## Report Structure

This study is structured to provide a systematic exploration of the research questions. Following this introductory chapter, Chapter 2 provides a review of relevant literature. Chapter 3 delves into the broader context by examining the history of the California housing market, identifying the factors contributing to the housing crisis, and introducing existing policies and regulations aimed at boosting housing and affordable housing production. Chapter 4 describes the methodologies used for this study. Chapter 5 introduces the four case study cities, exploring their current housing situation and describing their respective IHOs. Subsequent chapters present the findings and conclusions of this study and offer recommendations for enhancing effectiveness. The final chapter discusses this study's implications on future research.



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**02**

**LITERATURE  
REVIEW**

# 02 Literature Review

The literature review prepared for this study evaluated a variety of studies concerning IHOs, affordable housing, and impact fees to answer the following questions:

- Is inclusionary housing effective?
  - How much affordable housing is constructed from IHOs?
- What are the pros and cons of allowing developers to pay in-lieu fees instead of simply requiring affordable units in each development?
- How do IHOs contribute to inequity?
  - Does providing the option for in-lieu fees worsen wealth-based segregation and neighborhood separation?
  - Do IHOs prioritize housing for all income levels?

The reviewed literature has been split into three main themes: Effectiveness of Inclusionary Housing, Inequity and Segregation, and Developer Perspectives.

## Inclusionary Housing Effectiveness

Douglas Porter and Elizabeth Davidson evaluated the effectiveness of in-lieu fees and off-site construction (as alternatives to requiring on-site construction) for affordable housing production. Their research involved three US cities as case studies: Boulder, Colorado; Montgomery County, Maryland; and Pasadena, California. Their major finding was that in-lieu fees and off-site construction can be effective ways for creating affordable units, while allowing developers to offset the financial burdens associated with constructing affordable units in upscale neighborhoods.<sup>5</sup> This financial burden arises because developers aim to maximize profits, and although affordable units cost the same to construct as market-rate units, they yield lower rental income, thus reducing potential profits.

Similarly, Vinit Mukhija, et al., evaluated the effectiveness of inclusionary programs in nine Los Angeles County cities and eight Orange County cities, concluding that inclusionary zoning successfully – albeit modestly – added affordable housing to each city’s housing stock.<sup>6</sup> Sarmiento, et al., studied the so-called Affordable Housing Complex (AHC), which they define as an institutionalized approach to addressing housing affordability involving government agencies, developers, and community organizations working

<sup>5</sup> Porter, Douglas R. and Elizabeth B. Davidson. “Evaluation of In-Lieu Fees and Offsite Construction as Incentives for Affordable Housing Production.” *Cityscape*, 11, Regulatory Innovation and Affordable Housing (2009): 27-59. <https://www-jstor-org.libaccess.sjlibrary.org/stable/20868702?seq=3>.

<sup>6</sup> Mukhija, Vinit, et al. “Can Inclusionary Zoning be an Effective and Efficient Housing Policy? Evidence from Los Angeles and Orange Counties.” April 23, 2010. <https://onlinelibrary-wiley-com.libaccess.sjlibrary.org/doi/full/10.1111/j.1467-9906.2010.00495.x>

to create affordable housing projects, in Santa Ana, California. Sarmiento concluded that while inclusionary policies do establish more affordable housing, it is not entirely equitable (see below for detail).<sup>7</sup> DDawkins studied the effectiveness of inclusionary zoning as an affordable homeownership strategy by performing a quantitative analysis of Montgomery County’s Moderately Priced Dwelling Unit Program (MPDUP). The study found that the MPDUP produced double the number of for-sale units as rental units produced in the same period.<sup>8</sup>

The overwhelming conclusion is that inclusionary ordinances or inclusionary zoning is useful for increasing affordable housing supply, but cannot be relied upon alone. In addition, each study noted or hinted at the importance of prioritizing and maintaining equity towards both low-income residents and developers.

## Inequity and Segregation

### The Paradox of Affordable Housing

Several studies have examined the relationship between inclusionary housing and urban development outcomes, revealing both positive impacts and challenges. Inclusionary housing boosts the production of affordable units, but often fails to meet the needs of extremely low- and very low-income

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<sup>7</sup> Sarmiento, C. S., & Sims, J. R. “Façades of Equitable Development: Santa Ana and the Affordable Housing Complex.” *Journal of Planning Education and Research*, (2015): 35(3), 323-336. <https://doi-org.libaccess.sjlibrary.org/10.1177/0739456X15586629>

<sup>8</sup> Dawkins, C., Jeon, J. S., & Knaap, G.-J. (2017). “Creating and Preserving Affordable Homeownership Opportunities: Does Inclusionary Zoning Make Sense?” *Journal of Planning Education and Research*, 37(4), 444-456. <https://doi-org.libaccess.sjlibrary.org/10.1177/0739456X16659763>

households because these groups are not specified in most city ordinances.<sup>9</sup> Sarmiento found that affordable housing projects sometimes lead to concentrations of affordable housing developments in or around central gentrifying areas, which can revitalize the area in a way that attracts more affluent residents and consumers, resulting in more gentrification and displacement rather than building equity and allowing for generational wealth. This phenomenon illustrates a paradox where efforts to provide affordable housing within gentrifying areas can contribute to further gentrification and displacement, rather than fostering equitable development and enabling generational wealth accumulation.

While Sarmiento’s study focused on 100% affordable projects, the implementation of IHO alternatives (such as the creation of off-site housing or payment of in-lieu fees) ties into this dynamic. Porter and Davidson found that the alternative options of in-lieu fees and off-site units reduce the number of mixed-income units offered in residential development. This can contribute to a lack of mixed-income neighborhoods. However, some IHOs require off-site construction near the proposed project, which serves to widen the neighborhood mix of housing. Off-site development, if properly done, can stimulate rehabilitation of existing housing and revitalization of neighborhoods in a way that benefits lower-income individuals and the entire community.<sup>10</sup>

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<sup>9</sup> Sarmiento, C. S., & Sims, J. R. “Façades of Equitable Development: Santa Ana and the Affordable Housing Complex.” *Journal of Planning Education and Research*, (2015): 35(3), 323-336. <https://doi-org.libaccess.sjlibrary.org/10.1177/0739456X15586629>

<sup>10</sup> Porter, Douglas R. and Elizabeth B. Davidson. “Evaluation of In-Lieu Fees and Offsite Construction as Incentives for Affordable Housing Production.” *Cityscape*, 11, Regulatory Innovation and Affordable Housing (2009): 27-59. <https://www-jstor-org.libaccess.sjlibrary.org/stable/20868702?seq=3>.

Community-based organizations play a significant role in advocating for equitable outcomes in housing development: when community organization and pressure is not a factor, there is consistently more affordability.<sup>11</sup>

On the flip side, residents who strongly oppose development can impact equitable development. Coined after the phrase “not in my backyard”, NIMBYism refers to a phenomenon where residents of a neighborhood oppose new land use developments believe will negatively affect them directly. NIMBYism carries the connotation that residents would support the development if it were built farther away. Commonly opposed by NIMBYs include affordable housing, homeless shelters, schools, infrastructure projects, and transportation projects.

NIMBYism is a global<sup>12</sup> challenge to affordable housing as it can further the potential for housing inequity to occur because of individuals and groups delaying housing development based on a negative perception of low-income individuals and incorrect belief about affordable housing’s impact on property values. This was seen by Mukhija, et al., who cited neighborhood groups in Los Angeles as being anxious about the effects of density bonuses on the character of their neighborhoods.

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<sup>11</sup> Porter, Douglas R. and Elizabeth B. Davidson. “Evaluation of In-Lieu Fees and Offsite Construction as Incentives for Affordable Housing Production.” *Cityscape*, 11, Regulatory Innovation and Affordable Housing (2009): 27-59. <https://www-jstor-org.libaccess.sjlibrary.org/stable/20868702?seq=3>.

<sup>12</sup> Ziebarth, A. (2013). Book Review: Inclusionary Housing in International Perspective: Affordable Housing, Social Inclusion, and Land Value Recapture. *Journal of Planning Education and Research*, 33(3), 367-369. <https://doi-org.libaccess.sjlibrary.org/10.1177/0739456X13492501>

## Impact Fees and Housing

Mathur has completed two studies assessing the effectiveness of impact fees and how they impact housing prices. Though these studies did not specifically include an assessment of inclusionary housing in-lieu fees, they provided significant insights about the actual and potential inequities of impact fees.<sup>13 14</sup>

Mathur (and Crowe, who prepared a comparative analysis to Mathur’s article) found that impact fees can affect home prices in inequitable ways. Both studies showed that impact fees raise the price of high-quality homes but do not impact the price of low-quality homes, which raises equity issues. This differential effect raises equity issues because it disproportionately affects those who can afford high-quality homes, increasing their cost and potentially pricing out middle-income buyers without providing any benefit to the lower-quality housing market. This could exacerbate the divide between different housing tiers, creating a more segmented and inequitable housing market. Similarly, Luger and Temkin found that excessive regulation can raise final home prices in New Jersey by 35%.<sup>15</sup> The findings of these studies demonstrate a link between excessive regulations and rising housing costs, showing that regulatory fees can further housing inequities.

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<sup>13</sup> Mathur, Shishir. “Do All Impact Fees Affect Housing Prices the Same?” *Journal of Planning Education and Research* (2013): 33(4) 442-445. <https://doi-org.libaccess.sjlibrary.org/10.1177/0739456X13494241>

<sup>14</sup> Mathur, Shishir. “Do Impact Fees Raise the Price of Existing Housing?” *Housing Policy Debate* (2007): 18(635-659). <https://www-tandfonline-com.libaccess.sjlibrary.org/doi/abs/10.1080/10511482.2007.9521615>

<sup>15</sup> Luger, Michael Ian, and Kenneth M. Temkin. *Red Tape and Housing Costs: How Regulation Affects New Residential Development*. New Brunswick, N.J.: Center for Urban Policy Research, 2000.

Chapin offers a contrasting perspective, asserting that the intention behind impact fees should be to raise prices across all housing categories, including low-quality units.<sup>16</sup> This approach would generate additional revenue that could be reinvested into community services and infrastructure improvements that would benefit all residents.

Despite the potential for impact fees to make units less affordable, Chapin sees impact fees as opportunities for homeowners to climb the housing ladder and build generational wealth, closing the equity gap. By improving infrastructure and services through these fees, even lower-quality housing areas could see enhancements that might increase property values, providing a pathway for homeowners in these areas to build equity and potentially move up the housing ladder. This process could help close the equity gap by providing lower-income homeowners an opportunity for upward mobility and generational wealth accumulation, although it also risks making initially affordable units less accessible due to increased costs.

Dawkins' MPDUP study underscored the nuanced impacts of housing policies on property values and equity. While MPDUP homes did not appreciate as rapidly as market-rate housing, this slower appreciation also meant that these homes experienced less depreciation during economic downturns. This stability can provide a more reliable equity gain for lower-income homeowners, offering them a safer investment compared to the more volatile market-rate housing. This aspect of MPDUPs contributes to closing the equity gap by

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<sup>16</sup> Chapin, Timothy S. "Comment on Shishir Mathur's 'do impact fees raise the price of existing housing?'" *Housing Policy Debate* (2007): 661-667. <https://www.tandfonline.com.libaccess.sjlibrary.org/doi/abs/10.1080/10511482.2007.9521616>

providing a form of financial security and wealth accumulation for less affluent homeowners, though the gains are modest compared to those in the traditional housing market.

The United States Department of Housing and Urban Development (HUD) substantiates Mathur, Crowe, and Luger's findings that regulatory barriers are an obstacle to the development of affordable housing.<sup>17</sup> The regulatory barriers identified by HUD include impact fee expansion, complex environmental regulations, misused smart growth, NIMBYism, and barriers from building codes.

**However, there is nuance to these barriers.** While these regulations can potentially slow down the development process, they serve critical roles in ensuring both human safety and environmental protection. Environmental regulations such as the National Environmental Policy Act (NEPA) and California Environmental Quality Act (CEQA) are designed to ensure that housing is developed in a manner that is safe for occupants and minimally disruptive to the environment.

These acts require thorough review processes that can prevent potentially hazardous developments or those that would negatively impact ecological systems. Similarly, building codes and smart growth policies, while sometimes seen as impediments, aim to ensure that new housing developments are safe, accessible, and efficiently integrated into existing urban frameworks, promoting long-term sustainability and

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<sup>17</sup> United States Department of Housing and Urban Development (HUD). 2005. "Why Not in Our Community? Removing Barriers to Affordable Housing: An Update to the Report of the Advisory Commission on Regulatory Barriers to Affordable Housing." Washington: Department of Housing and Urban Development. <https://www.huduser.gov/Publications/pdf/wnioc.pdf>

livability. Thus, while these regulatory mechanisms can pose challenges to the pace and cost of housing development, they also provide essential protections and benefits to communities, making the regulatory landscape a complex balance of costs and benefits.

## Developer Perspectives

Kautz, McFarlane, and Johnson provided perspectives from a legal standpoint.<sup>18</sup> McFarlane identifies developers' rights as one primary legal challenge about inclusionary zoning, whereby developers argue that inclusionary zoning requirements 1) violate the takings clause of the fifth amendment, 2) violate their rights by restricting their ability to use their property as they see fit, and 3) can be considered an unconstitutional condition under exactions doctrine.<sup>19</sup>

To offset the legal challenges identified by McFarlane, there is a resounding theme in the literature that providing incentives and alternatives “reflects a common underlying policy [among cities] that the financial burden of providing affordable units should not erase developers' profit margin in their development of residential projects.”<sup>20</sup>

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<sup>18</sup> Kautz, Barbara Ehrlich. "In Defense of Inclusionary Zoning: Successfully Creating Affordable Housing," University of San Francisco Law Review (2002): Vol. 36: Iss. 4, Article 4. <https://repository.usfca.edu/usflawreview/vol36/iss4/4>.

<sup>19</sup> McFarlane, Audry G., and Randall K. Johnson. "Cities, Inclusion and Exactions", 102 Iowa Law Review 2145 (2017). [https://irlaw.umkc.edu/faculty\\_works/349](https://irlaw.umkc.edu/faculty_works/349).

<sup>20</sup> Porter, Douglas R., and Elizabeth B. Davidson. "Evaluation of In-Lieu Fees and Offsite Construction as Incentives for Affordable Housing Production." Cityscape, 11, Regulatory Innovation and Affordable Housing (2009): 27-59. <https://www.jstor-org.libaccess.sjlibrary.org/stable/20868702?seq=3>

This is evident in Mukhija's study, which studied 17 cities' programs and identified two primary consistencies among them: 1) most programs include alternatives for developers, and 2) if developers opt for a deeper income-targeting of their below market rate (BMR) units, they have the benefit of setting aside a lower proportion of their units as affordable.

## Findings

Though there is a lack of case studies reviewing cities in Northern California, several case studies have assessed the effectiveness of inclusionary housing in Southern California and other US states. Research consistently shows that IHOs can contribute to the supply of affordable housing, although their impact varies significantly across different contexts. Studies by Douglas Porter, Elizabeth Davidson, and Vinit Mukhija highlight that while IHOs do increase the affordable housing stock, the extent is often modest and cannot fully address the housing affordability crisis on its own.

Additionally, IHOs do not typically provide adequate housing for people in the very low-income category. The success of these ordinances heavily depends on local market conditions, the specific design of the ordinance, and complementary policies in place. The option for developers to pay in-lieu fees instead of building affordable units on-site can sometimes lead to less integrated, mixed-income communities. Although in-lieu fees provide municipalities with funds to support affordable housing elsewhere, they risk concentrating affordable housing in less desirable areas, potentially exacerbating segregation and limiting the social mobility of lower-income residents.



The literature points to significant equity issues associated with IHOs. While intended to make housing more accessible to lower-income households, the implementation of these policies often does not adequately address the needs of the lowest income brackets. Furthermore, in-lieu fees and off-site options can inadvertently lead to the gentrification and displacement of existing communities, as higher-income developments push lower-income residents to the periphery.

Legal challenges and developer resistance are notable obstacles to the effectiveness of IHOs. Developers often argue that these mandates are a form of takings, infringing on property rights without just compensation. However, providing alternative compliance methods can align developer incentives with housing goals.

## Synthesis & Next Steps

IHOs are a critical tool in the toolkit for addressing housing crises in urban areas. However, they must be implemented alongside a broader strategy of housing and urban policy reforms. Effective IHOs require careful design to balance the interests of developers with the needs of communities, ensuring that the benefits of new development are shared across socioeconomic groups. Additionally, policies must be adaptable to changing market conditions and supported by robust monitoring and enforcement mechanisms to truly impact housing affordability and equity. In addition, it appears data can be difficult to gather due to a lack of thorough monitoring. Mukhija noted that data was not easily available, suggesting that cities are not monitoring the amount and type of affordable housing produced through their inclusionary ordinances.

Existing case studies are outdated and not reflective of more recent Housing Element cycles. New research assessing cities in Northern California would benefit the planning field by 1) providing more insight into the affordable housing stock and effectiveness of inclusionary housing in Northern California cities, specifically in the Bay Area, and 2) evaluating affordable housing stock in the context of updated Housing Elements and RHNA requirements.



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**03**

# **THE CALIFORNIA HOUSING CRISIS**

# 03 Housing Crisis

## California & Bay Area

California is the third largest state in the United States (US) with a total population of 39.5 million people. California has a 57% employment rate and 12% poverty rate (based on total population, not working age population). Approximately 36% of Californians have a bachelor's degree or higher education.

California's racial and ethnic characteristics are as follows: 41% white, 21% some other race<sup>21</sup>, 15% Asian, 15% two or more races, six percent Black, two percent American Indian or Alaska Native, and less than one percent Native Hawaiian or Pacific Islander. Of the total population, 39% of people identify as Hispanic or Latino.<sup>22</sup> In 2022, California was estimated to have over 172,000 people experiencing homelessness, accounting for 30% of the nation's houseless individuals.<sup>23</sup>

<sup>21</sup> The "some other race" category is defined as other responses not included in the five minimum race categories d (White, Black or African American, American Indian or Alaska Native, Asian, and Native Hawaiian or Other Pacific Islander).

<sup>22</sup> United States Census Bureau. "Profile: California." Accessed December 13, 2023.

<https://data.census.gov/profile/California?g=040XX00US06>

<sup>23</sup> CalMatters. "California accounts for 30% of nation's homeless, feds say." December 20, 2022. Accessed December 13, 2023.

<https://calmatters.org/newsletters/whatmatters/2022/12/california-homeless-count-2/>

The San Francisco Bay Area is made up of nine US counties: Santa Clara, San Mateo, San Francisco, Marin, Alameda, Contra Costa, Solano, Napa, and Sonoma. The Bay Area's collective population growth outpaced California and the US from 2010 to 2020. Within that decade, the Bay Area's population increased by 614,901 residents (an 8.6% increase compared to California's 6.1% increase and the nation's 7.4% increase). In 2020, the Bay Area was home to 7.5 million people.<sup>24</sup>



Figure 1. San Francisco Bay Area Counties

<sup>24</sup> San Francisco Chronicle. "Census 2020: Bay Area Population grew at faster rate than California, with big Asian and Latino gains." August 12, 2021. Accessed December 13, 2023. <https://www.sfchronicle.com/bayarea/article/Census-2020-Bay-Area-population-grew-at-faster-16383491.php>.

## History

California is experiencing one of the most severe housing crises in the nation, in terms of both availability and affordability. It is important to first understand the history of development in California to understand the current factors contributing to the housing crisis and efforts in place to solve the issue.

**1945-1968 Post World War II Growth:** Following World War II, California, particularly the Bay Area, underwent rapid suburbanization and industrialization fueled by a booming economy and population growth (see Figure 2). This period set the stage for later challenges. For instance, from 1940 to 1960, California's population nearly doubled from 6.9 million to 15.7 million, intensifying housing demand.

**1990s Technology and Housing Demand:** The rise of the technology sector during the dot-com boom attracted a wave of high-income professionals to the Bay Area. This era saw median home prices in the region climb by over 20% from the early 1990s to the end of the decade.

**2000s Economic Resurgence and Intensified Demand:** The dominance of tech companies continued into the 2000s, further intensifying housing demand. Despite a temporary dip following the 2008 financial crisis, by 2013, Bay Area home prices had not only recovered but were soaring past pre-crisis levels.

**2010s Expansion of Tech and Rising Disparities:** Another tech boom in the 2010s brought unprecedented wealth to the region, exacerbating housing disparities. By 2019, San Francisco's median home price reached an all-time high of over \$1.3 million, making it one of the most expensive housing markets in the United States.



Figure 2. Sprawling Suburbs in California

## Housing Production and Affordability

California tripled its production of affordable housing from 2019 to 2023, but dropped production by 38% from 2023 to 2024 because of declining state and local funding. According to the California Housing Partnership, California is funding only 12% of what is needed to meet its housing goals.<sup>25</sup> In 2022, approximately 1.28 million low-income renter households in California did not have access to an affordable home due to a shortfall in affordability and availability.<sup>26</sup> In the Bay Area, 227,439 low-income renter households did not have access to an affordable home. See Figures 3 and 4.

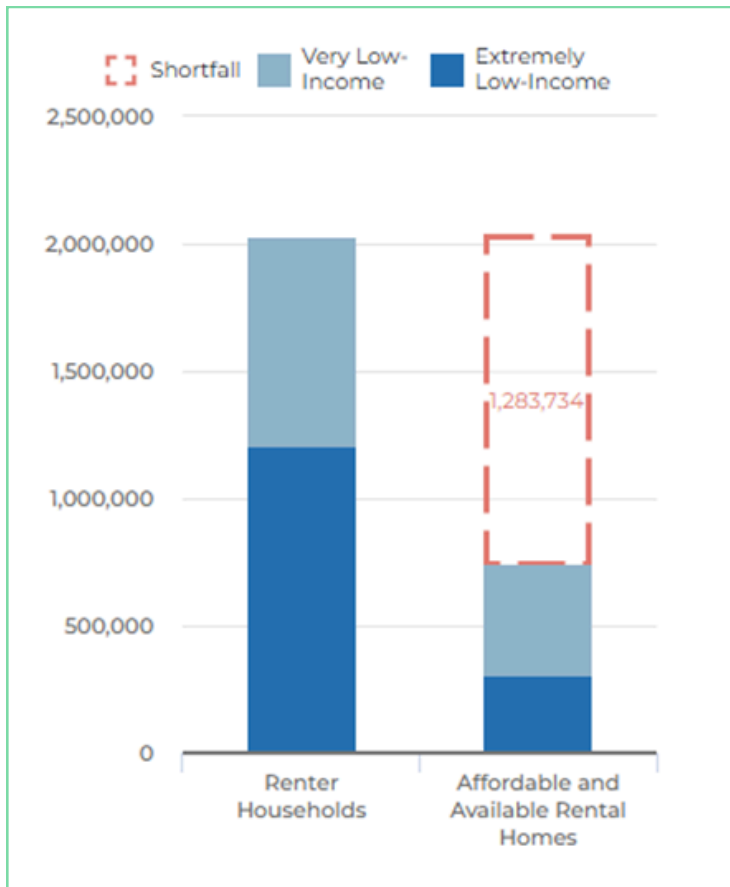


Figure 3. California Affordable Homes Shortfall

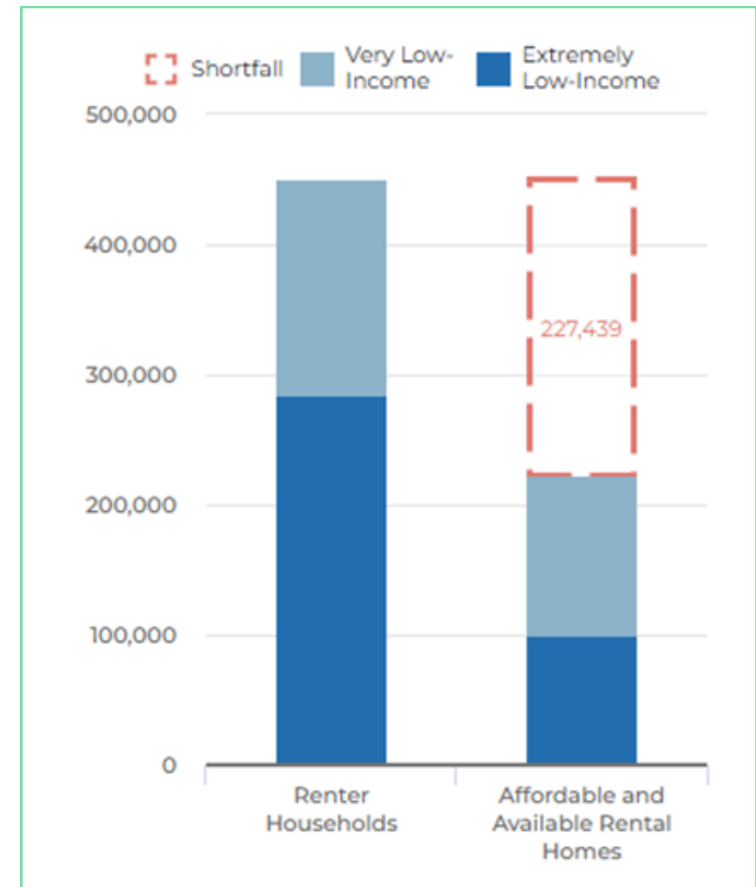


Figure 4. Bay Area Affordable Homes Shortfall

<sup>25</sup> California Housing Partnership. "California Housing Needs Report 2024." <https://chpc.net/wp-content/uploads/2024/03/California-Affordable-Housing-Needs-Report-2024-1.pdf>

<sup>26</sup> California Housing Partnership. "Housing Need: California and Bay Area." Accessed May 9, 2024. <https://shorturl.at/AST36>

From 2000 to 2022, California’s median rent increased 37% while median renter income increased seven percent. See Figure 5.

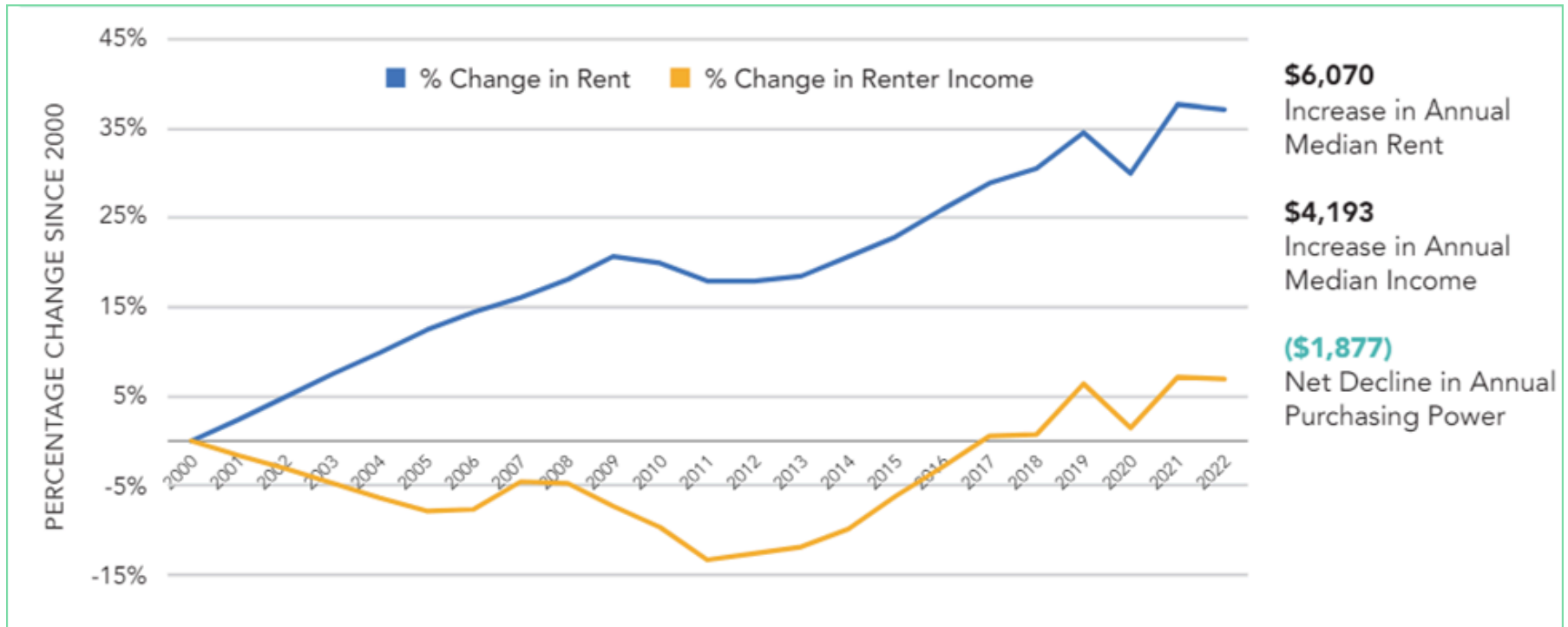


Figure 5. California Percent Change in Median Rent and Income

An individual or household is considered rent-burdened or cost-burdened if over 30% of their gross income goes toward housing, and severely rent-burdened if over 50% of their gross income goes toward housing.<sup>27</sup> Over half of California’s renters and over a third of California’s homeowners with mortgages are rent-burdened. In 2020, 54% of California renters and 31% of California owners were rent-burdened, while 46% of Bay Area renters and 29% of Bay Area owners were rent-burdened.<sup>28</sup> See Figures 6 and 7.

<sup>27</sup> California Budget & Policy Center. “California’s Housing Affordability Crisis Hits Renters and Households With the Lowest Incomes the Hardest.” April 2019. [From 2000 to 2022, California’s median rent increased 37% while median renter income only increased seven percent. See Figure 5.](#)

<sup>28</sup> Bay Area Equity Atlas. “Housing burden: Nine-County Bay Area vs. California.”



Figure 6. Chart of Rent Burdened Renters vs Owners in California

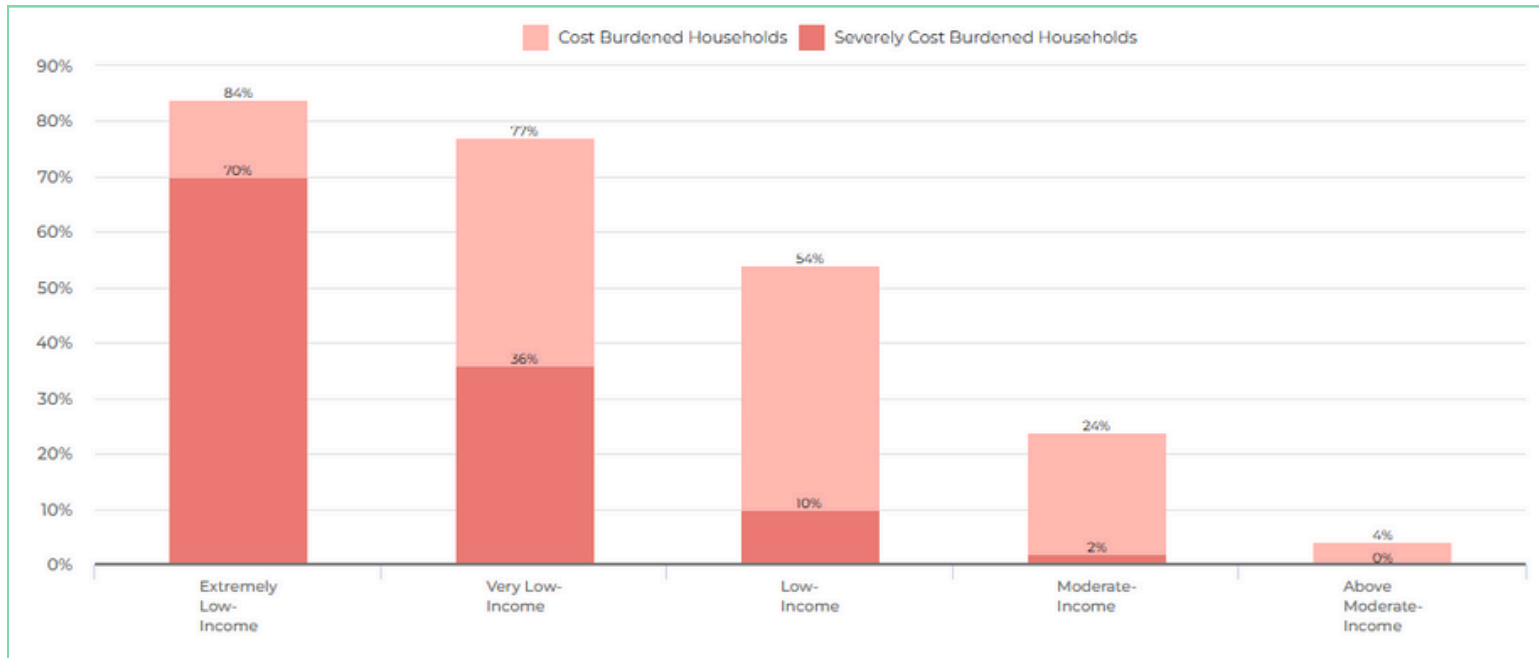


Figure 7. Chart of Rent Burdened Renters vs Owners in the Bay Area



## Missing Middle Housing

"Missing middle housing" is a term that refers to a range of multi-unit or clustered housing types compatible in scale with single-family homes that help meet the growing demand for walkable urban living, affordable housing, and more inclusive communities (see Figure 7). These types of housing are called "missing" because they have been largely absent from many post-World War II urban developments, primarily due to regulatory and economic barriers.<sup>29</sup>

Three characteristics of missing middle housing include:

- **Scale.** Typically, missing middle housing types are not bigger than a large house, even if they contain multiple dwelling units. Examples include duplexes, triplexes, quadplexes, townhomes, courtyard apartments, and smaller apartment buildings.

- **Density.** The density of missing middle housing is higher than that of typical detached single-family homes but lower than mid-rise apartment buildings. This moderate increase in density can significantly contribute to housing supply without altering the character of a neighborhood.
- **Affordability.** By increasing the number of units within a given footprint, missing middle housing can offer more affordable living options without the need for government subsidies. These housing types often appeal to middle-income households, smaller families, and single residents.

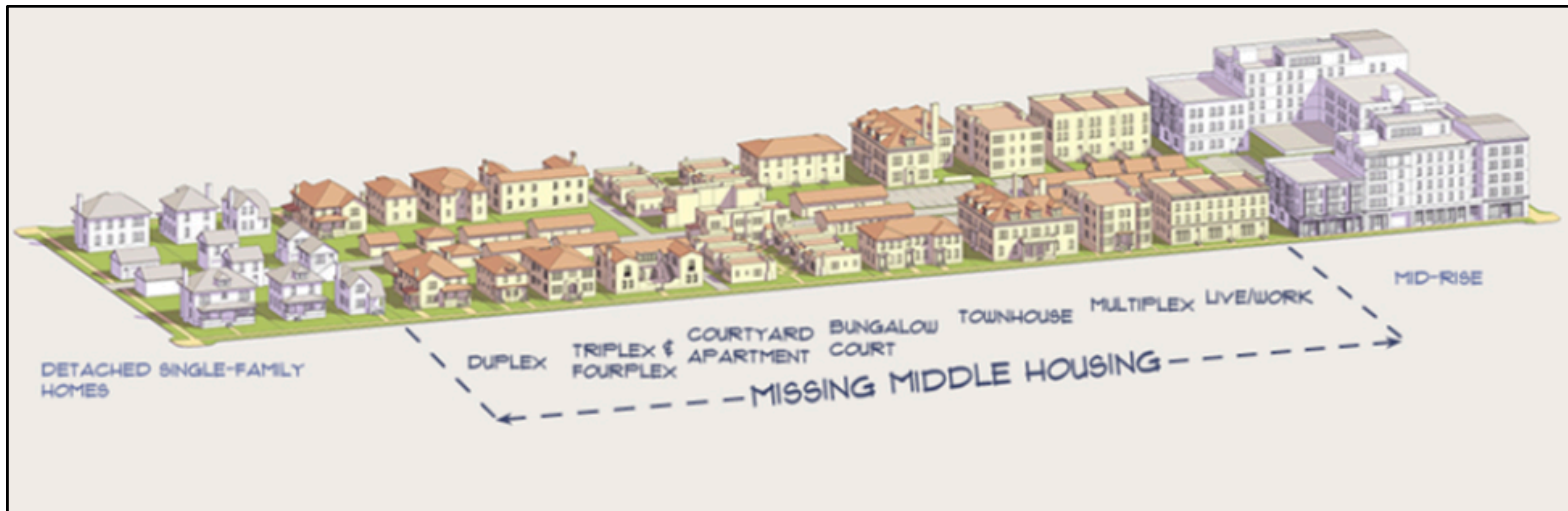


Figure 8. Missing Middle Housing

<sup>29</sup> California Department of Housing and Community Development. California's Housing Future: Challenges and Opportunities. February 2018. [https://www.hcd.ca.gov/policy-research/plans-reports/docs/sha\\_final\\_combined.pdf](https://www.hcd.ca.gov/policy-research/plans-reports/docs/sha_final_combined.pdf)

Missing middle housing plays a crucial role in urban development by providing a variety of housing options suited to a diverse range of demographic groups including young professionals, small families, and older adults seeking to downsize. This diversity in housing helps foster vibrant, inclusive communities where different groups can find suitable living spaces. Beyond expanding housing choices, missing middle housing contributes to affordability by increasing the supply and variety of housing, thereby helping to stabilize or lower housing costs in urban areas, making these areas more accessible to a broader spectrum of the population. These housing types are particularly effective for urban infill projects, which revitalize communities and curb urban sprawl by efficiently utilizing existing spaces within city bounds.

Additionally, missing middle housing promotes sustainability due to its higher density, which typically results in a lower per capita environmental impact compared to single-family homes. This form of housing also enhances walkability in urban environments, reducing reliance on automobiles and encouraging healthier, more active lifestyles among residents.

However, it must be noted that while missing middle housing is important and contributes to higher density than suburban development, it is not the highest and best use of the land as it precludes greater density, which limits the ability to provide sufficient housing.

## Contributing Factors

To summarize the discussion above, current factors contributing to the Bay Area housing crisis include:

- Limited housing inventory
- Shortage of affordable housing
- High construction costs
- Gentrification and displacement
- Development hindered by NIMBYs
- Impacts of the technology industry

Soaring housing costs, and the issues above, contribute further to issues such as displacement and homelessness.

Efforts to address the crisis have included policy initiatives, community advocacy, and attempts to streamline housing development processes. However, the challenges persist, reflecting the complexity of the issue.

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<sup>24</sup> California Budget & Policy Center. “California’s Housing Affordability Crisis Hits Renters and Households With the Lowest Incomes the Hardest.” April 2019.  
[https://calbudgetcenter.org/app/uploads/2019/04/Report\\_California-Housing-Affordability-Crisis-Hits-Renters-and-Households-With-the-Lowest-Incomes-the-Hardest\\_04.2019.pdf](https://calbudgetcenter.org/app/uploads/2019/04/Report_California-Housing-Affordability-Crisis-Hits-Renters-and-Households-With-the-Lowest-Incomes-the-Hardest_04.2019.pdf)

## Policies and Regulations

### Area Median Income and State Income Limits

Area median income (AMI) is a key metric in affordable housing defined as the midpoint of a specific area's income distribution. AMI is calculated on an annual basis by HUD in order to determine income limits for Public Housing and Section 8<sup>30</sup> eligibility. State income limits are updated annually based on HUD's revisions. These income limits reflect updated AMI and household income levels for the following categories:

| HUD AMI CATEGORIES          |                       |
|-----------------------------|-----------------------|
| <b>Acutely Low Income</b>   | <b>0-15% of AMI</b>   |
| <b>Extremely Low Income</b> | <b>15-30% of AMI</b>  |
| <b>Very Low Income</b>      | <b>30-50% of AMI</b>  |
| <b>Lower Income</b>         | <b>50-80% of AMI</b>  |
| <b>Moderate Income</b>      | <b>80-120% of AMI</b> |

<sup>25</sup> Section 8 Housing refers to the federal government's federal housing choice voucher program for assisting very low-income families, the elderly, and the disabled to afford housing.

HUD uses data from the Census and American Community Survey to calculate AMI for a family of four for cities and regions across the US. The income limit statute requires adjustments for family size; according to legislative history, income limits are intended to be higher for larger families and lower for smaller families. The 2023 state median income was \$109,200.<sup>31</sup>

### Regional Housing Needs Allocation

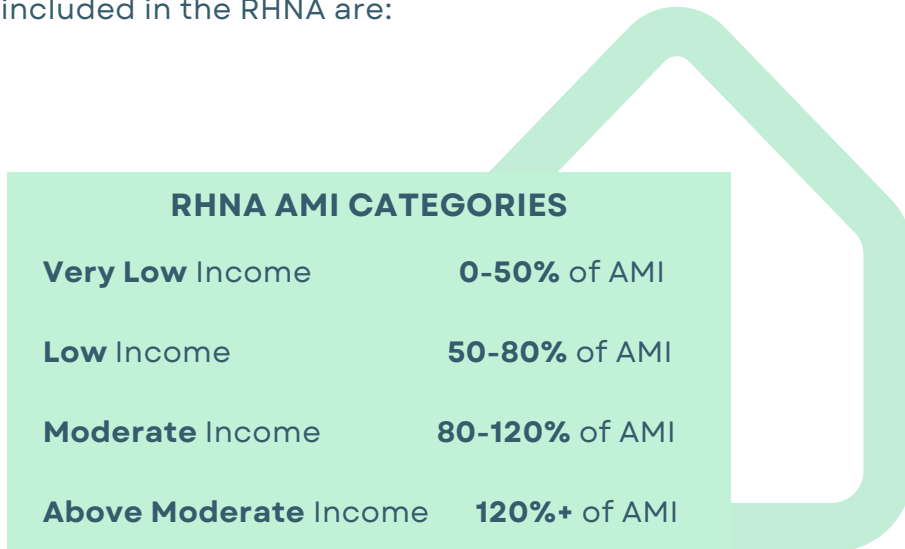
The Association of Bay Area Governments' (ABAG) RHNA is a state-mandated process that requires each region to assess its housing needs and allocates a specific number of housing units for jurisdictions to develop over the course of eight years. This process aims to ensure equitable distribution of responsibility for accommodating projected housing growth. The California Department of Housing and Community Development (HCD) is responsible for determining the regional housing need for each region's planning body. HCD provides each region with a statewide housing needs projection, which is determined through consideration of factors such as population growth, job growth, and demographic trends. Subsequently, regional councils develop a methodology for distributing the housing need among individual cities and counties within their designated region.<sup>32 33</sup>

<sup>31</sup> Department of Housing and Community Development: Division of Housing Policy Development. "2023 State Income Limits." June 6, 2023. <https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/income-limits-2023.pdf>

<sup>32</sup> Association of Bay Area Governments. "Regional Housing Needs Allocation: Frequently Asked Questions." July 2020. [https://abag.ca.gov/sites/default/files/abag\\_2023-2031\\_rhna\\_faq\\_-\\_july\\_2020.pdf](https://abag.ca.gov/sites/default/files/abag_2023-2031_rhna_faq_-_july_2020.pdf)

<sup>33</sup> California Department of Housing and Community Development. "Regional Housing Needs Allocation (RHNA)." <https://www.hcd.ca.gov/planning-and-community-development/regional-housing-needs-allocation>.

Following the regional allocation, local jurisdictions, including cities and counties, receive their specific housing allocation targets. These targets are typically categorized based on income levels, reflecting the need for housing at various affordability tiers. The four income categories included in the RHNA are:



| RHNA AMI CATEGORIES          |                       |
|------------------------------|-----------------------|
| <b>Very Low</b> Income       | <b>0-50%</b> of AMI   |
| <b>Low</b> Income            | <b>50-80%</b> of AMI  |
| <b>Moderate</b> Income       | <b>80-120%</b> of AMI |
| <b>Above Moderate</b> Income | <b>120%+</b> of AMI   |

Notably, the RHNA's income categories differ than the HUD-defined income categories. The RHNA lumps together acutely low, extremely low, and very low income into one category, and adds above moderate income as a category. This presents a potential issue with the RHNA in that it does not set requirements for acutely low- or extremely low-income units, creating a gap in meeting the needs of these households, as seen in Sarmiento's study.

Local jurisdictions are then required to incorporate their RHNA allocation into their Housing Element, a mandatory component of their General Plan. The Housing Element serves as a comprehensive policy document outlining a jurisdiction's housing goals, policies, and programs over a defined planning period, typically eight years.

The intrinsic relationship between the RHNA process and the Housing Element is crucial within the state's planning framework. Local jurisdictions must demonstrate compliance with their allocated housing targets as part of their Housing Element to adhere to state law. The Housing Element, in turn, establishes the strategies and policies that a jurisdiction intends to implement to address its RHNA allocation, including goals related to affordable housing.

To ensure ongoing alignment with evolving housing needs, Housing Element updates coincide with the RHNA process. Certification of local Housing Elements by the state is a key step in the process, verifying that they adequately address the assigned RHNA targets. Until the most recent RHNA Cycle (Cycle 6, beginning in 2023), the RHNA lacked administrative teeth to drive compliance with targets.

With the 6th RHNA Cycle, there is greater oversight from the HCD. Failure to comply with RHNA requirements may now result in legal consequences and potential loss of state funding. Jurisdictions that did not have an adopted/compliant Housing Element by January 1, 2023 are subject to the Builder's Remedy (introduced in 2023) which allows developers to propose housing projects in areas not designated for housing under the requirement that they include 15% affordable housing.

## Land Use Policies

Suburbanization and developing for the "American Dream" largely resulted in significant urban sprawl, characterized primarily by single-family zoning and car-centric roadways. Reforming land use policies is essential to accommodate more innovative and higher-density housing developments. California encourages localities to update zoning codes to increase density, particularly near transit corridors and job centers.

The state has also promoted the use of accessory dwelling units (ADUs) as a strategy to increase housing supply. Recent legislation has reduced barriers to ADU construction, allowing homeowners to convert garages or build small cottages in backyards without cumbersome approvals. These policies are part of a broader effort to address the housing shortage in California by increasing the housing supply, making housing more affordable, and ensuring faster delivery of new housing units. Each policy targets different aspects of the housing development process, from planning to construction, reflecting a comprehensive approach to tackling the housing crisis. Through these measures, California aims to facilitate the development of diverse housing options that are accessible to residents across various income levels.

## Inclusionary Housing Ordinances

IHOs are a policy tool used by cities to support affordable housing production. IHOs were instituted as a response to exclusionary zoning, severe shortages of affordable housing, and reduced availability of federal housing subsidies. The dissolution of 400+ local redevelopment agencies (RDAs) by the state in 2012 was also a major contributor to the creation of IHOs.

The decision to dissolve RDAs was made as part of the 2011 Budget Control Act, the purpose of which was to increase the nation's debt ceiling, and in order to protect funding for public services at the local level.<sup>34</sup> RDAs were instrumental in developing affordable housing through the allocation of tax increment financing (TIF). With their elimination, cities

lost a tool for directly funding housing projects and were constrained in their ability to meet affordable housing through traditional means (i.e., public investment, subsidies, and TIFs).<sup>35</sup> In response, many jurisdictions turned to IHOs as an alternative mechanism to ensure the continued production of affordable housing.

Generally, IHOs require new market-rate multi-family housing development projects to set aside a percentage of on-site units as affordable. Most IHOs offer alternatives, such as building affordable units at a location off-site or paying an in-lieu fee. The required percentage of units and in-lieu fee calculations vary between jurisdictions.

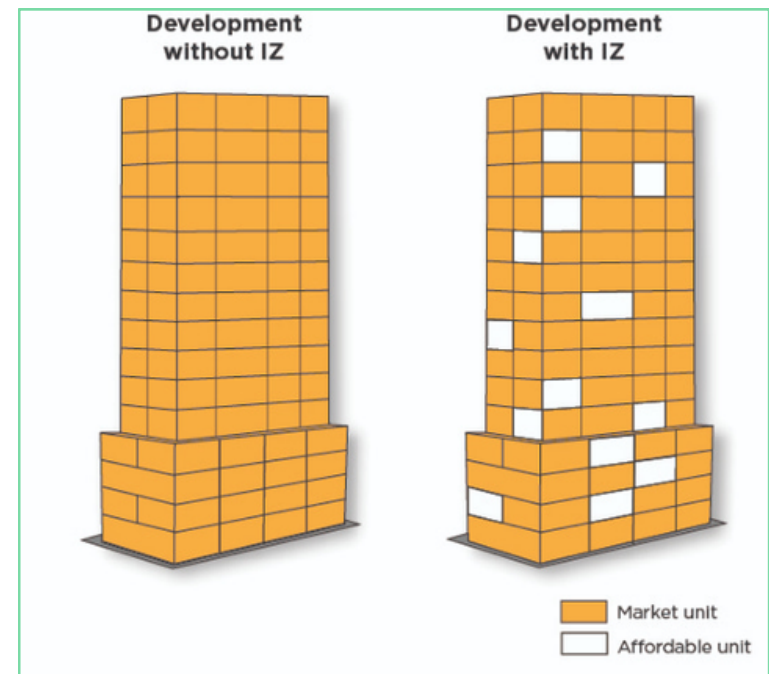


Figure 9. Development with and without Inclusionary Zoning

<sup>34</sup> California Department of Finance. "Redevelopment Agency Dissolution." Accessed May 9, 2024. <https://dof.ca.gov/programs/redevelopment/>.

<sup>35</sup> U.S. Department of Housing and Urban Development. "Redevelopment Agencies in California: History, Benefits, Excesses, and Closure." January 2014. [https://www.huduser.gov/portal/publications/redevelopment\\_whitepaper.pdf](https://www.huduser.gov/portal/publications/redevelopment_whitepaper.pdf)

## Density Bonuses

Enacted in 1979, California's density bonus law encourages the construction of affordable housing units by allowing developers to exceed standard density requirements in certain circumstances (e.g., in transit-oriented areas).<sup>36</sup> The law was amended in 2021, allowing developers to obtain a maximum density bonus of 50% if one of the following three conditions are met: 1) at least 15% of all units are reserved for very low income housing; 2) at least 24% of all units are reserved for low income housing; or at least 44% of all units are reserved for moderate income housing. Implementing density bonus programs permits developers to build more units than typically allowed in exchange for including a certain percentage of affordable housing units in their projects. This incentivizes developers to include affordable housing while increasing overall housing stock.

## Streamlined Permitting Processes

Streamlining the permitting and approval processes for housing developments can reduce bureaucratic hurdles (i.e., exhaustive fees, permit applications, and public hearings) and expedite the construction of new housing units. This includes establishing clear timelines, reducing unnecessary requirements, and improving coordination among relevant departments. California has implemented several measures to expedite this process, especially for projects that include affordable housing. For example, Senate Bill (SB) 35 mandates a streamlined approval process for developments in cities that have not met their RHNA targets, requiring minimal discretionary review if the projects meet certain criteria.

<sup>36</sup> Super Lawyers. "What is California's Density Bonus Law?" May 4, 2023.

[https://www.superlawyers.com/resources/land-use-and-zoning/california/what-is-californias-density-bonus-law/#the\\_background\\_of\\_californias\\_density\\_bonus\\_law](https://www.superlawyers.com/resources/land-use-and-zoning/california/what-is-californias-density-bonus-law/#the_background_of_californias_density_bonus_law)



**04**

**METHODOLOGY**

# Methodology

## Research Design

Three approaches considered for studying the research question were: conducting case studies, conducting interviews with staff and developers, and conducting a regression analysis. Tables 1, 2, and 3 identify the pros and cons of each approach.

Table 1. Method 1 - Case Studies

| Pros                                                                                                                                                                                     | Cons                                                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Policy implications – findings from case studies can offer practical insights and policy recommendations                                                                                 | Limited generalization – each case study is unique and it may be challenging to apply the results broadly                                    |
| In-depth understanding – case studies would allow for a detailed examination of specific cities or developments                                                                          | Subjectivity and bias – case studies generally involve a degree of subjectivity as researchers interpret and analyze data                    |
| Contextual analysis – case studies allow me to consider the unique social, economic, and political contexts of each case, which helps identify factors influencing effectiveness of IHOs | Resource intensive – conducting case studies can be time-consuming and resource-intensive                                                    |
| Qualitative insights – case studies allow for the collection of qualitative data, including interviews, observations, and document analysis, providing rich, context-specific insights   | Incomplete picture – focusing on 3-4 specific cases might provide an incomplete picture of the overall effectiveness of IHOs in the Bay Area |
| Comparative analysis – can compare and contrast different cities' approaches to identify best practices that can be applied more broadly                                                 | Difficulty in causation – may be difficult to establish a clear cause-and-effect relationship                                                |

Table 2. Method 2 - Interviews

| Pros                                                                                                                                                                                                     | Cons                                                                                                                                                                                                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interviews with City Staff Members                                                                                                                                                                       |                                                                                                                                                                                                              |
| Policy understanding – city staff members can provide in-depth insights into the design, implementation, and enforcement of IHOs, as well as insight into how in-lieu fees are used                      | Biased perspectives – city staff members may have a vested interest in presenting IHOs in a positive light                                                                                                   |
| Contextual information – city staff members can provide contextual information, including political and economic factors influencing development and revision of IHOs                                    | Limited awareness – city staff members may not have a complete understanding of the on-the-ground impact of IHOs, especially if they are primarily involved in policy development rather than implementation |
| Regulatory challenges – city staff can shed light on any challenges or barriers they face in administering and enforcing IHOs, helping to identify areas for improvement                                 | Political sensitivity – some information could be politically sensitive and staff may be limited in what they can share                                                                                      |
| Interviews with Developers                                                                                                                                                                               |                                                                                                                                                                                                              |
| Implementation challenges – developers can provide insights into the practical challenges of implementing IHOs, including financial considerations, project feasibility, and impact on development plans | Conflict of interest – developers may have a vested interest in reducing an IHO's effect on the profitability of their projects, and their perspectives may be influenced by their business priorities       |
| Market dynamics – developers can offer perspectives on how IHOs interact with broader market dynamics, such as housing demand, land prices, and construction costs.                                      | Limited representation – views from developers may not represent the entire industry, as opinions can vary among different types and sizes of development firms                                              |
| Feedback on effectiveness – can help assess the perceived effectiveness of IHOs in achieving their intended goals; insight into whether IHOs incentivize or hinder housing production                    | Reluctance to share information – developers may be hesitant to share financial information or other sensitive details, limiting depth of understanding regarding the economic implications of IHOs          |
| Suggestions for improvement – developers may have constructive suggestions for improving IHOs or alternative approaches that could align development interests and housing affordability goals           |                                                                                                                                                                                                              |



Table 3. Method 3 - Regression Analysis

| Pros                                                                                                                                                                                | Cons                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Quantitative relationships – quantify relationships between variables, providing a measure of strength and direction of associations                                                | Assumption of causation – establishing causation may be challenging because correlation does not equal causation                                                                        |
| Statistical significance – help determine whether observed relationships are statistically significant                                                                              | Data requirements – requires high-quality data, and the results are only as good as the data input. Inaccurate or incomplete data may lead to biased or unreliable results              |
| Identification of key factors – regression analysis can help identify key factors that significantly influence housing production, affordability, or other outcomes related to IHOs | Model complexity – need to make sure the model is balanced with enough variables (i.e., not too many variables to make it over-complex but not too little variables to make it useless) |
| Predictive capability – if longitudinal data found, regression models can help make predictions about future trends or potential impact of changes in IHO policies                  | Inaccuracy of results – regression analysis assumes constant variance of errors; violations of assumptions can affect the accuracy of results                                           |
| Control for variables – control of confounding variables helps isolate the specific impact of IHOs on housing production while accounting for other influential factors             | Interpretation – regression results can be challenging to interpret                                                                                                                     |

Methods 1 and 2, case studies and interviews, were used for this study. Method 3, regression analysis, refers to a statistical modeling process that shows the relationship between two or more variables. This method was not used due to limited availability of quantitative data (i.e., number of affordable units built per year from IHO per city, amount of in-lieu fees collected per year per city, number of projects meeting on-site affordable housing requirements per year per city, number of projects meeting off-site affordable housing requirements per year per city).

## Data Collection

This study involved a comprehensive approach to gather relevant data on the housing markets and IHOs of San Francisco, San José, Fremont, and Mountain View. The data collection process included a thorough review of existing academic papers, government reports, and policy documents related to housing markets, IHOs, and housing production in the Bay Area. This provided a foundation for understanding the context and challenges faced by each city. Data on demographics, socioeconomic characteristics, housing market dynamics, and IHO requirements were compiled from various sources, including the U.S. Census Bureau, city government websites, housing affordability reports, and reputable research institutions. This follows in Chapter 5.

## Interviews

Interviews were conducted with city staff in each of the study cities to gather insights into the implementation and impact of IHOs on housing development. These interviews provided qualitative data and offer a deeper understanding of the challenges and opportunities associated with IHOs. Interviews are summarized in Chapter 6 (full interviews are shared in Appendix A in Q&A format). Interviews with developers were not conducted for this study due to time constraints.

## Interview Design

Interviews were performed in March through May of 2024 via virtual meetings with city staff members. Generally, the following questions were prepared for city staff:

1. How are the IHO percentages determined? What goes into increasing them and how difficult is it? Economics and politics?
2. [for relevant cities] Why does the IHO not include an off-site alternative requirement?
3. [for relevant cities] What is the reasoning behind the commercial linkage fee?
4. How does the City use in-lieu fees?
5. How does the city monitor the amount and type of affordable housing produced through the IHO?
6. Looking at spatial distribution of affordable housing, do you see it being concentrated or is it evenly spread out?
7. Are you able to provide data showing units built and fees paid through the program over the last 5-10 years?

Additional questions were asked during interviews as conversations progressed. Interview insights are summarized in Chapter 6 and interview results/notes are shared in Appendix A.

## Comparative Analysis

The gathered data were analyzed to identify commonalities and differences among the four cities in terms of demographic profiles, housing market dynamics, and IHO requirements. Key metrics such as median household income, homeownership rates, rent trends, and affordability indices were compared to assess the effectiveness of IHOs in addressing housing production needs.



**05**

**OVERVIEW OF  
STUDY CITIES**



**5.1**

**FREMONT**

# 5.1 Fremont

## Demographics & Socioeconomics

Fremont, located in the southern part of the Bay Area in Alameda County, covers an area of 78 square miles. Fremont has a population of 223,871. The city's demographic makeup has a significant presence of Asian (62%) and white (20%) residents. Approximately 60% of Fremont residents hold a bachelor's degree or higher. The city's employment rate is 67% and the poverty rate stands at seven percent.

Fremont's median household income is \$169,023, higher than the countywide Alameda AMI of \$147,900 for a four-person household.<sup>37</sup> An estimated 1,500 people were experiencing homelessness in Fremont in 2022.

## Housing Market

The city has a high homeownership rate, with 60% of units owner-occupied and 40% renter-occupied. The cost of living, although elevated, is lower compared to nearby cities. Table 4 provides a summary of median rents and their trends from 2022 to 2023 for various unit types in Fremont.

<sup>37</sup> City of Fremont. "Income Requirements: Income Limits for Affordable Housing." Accessed May 9, 2024. <https://www.fremont.gov/government/departments/housing/affordable-housing/income-requirements>

Table 4. Median Rent Trends in Fremont

| Unit Type     | Median Rent | Percent Increase from 2022 to 2023 |
|---------------|-------------|------------------------------------|
| Studio        | \$2,200     | 3%                                 |
| One Bedroom   | \$2,600     | 2%                                 |
| Two Bedroom   | \$3,100     | 1%                                 |
| Three Bedroom | \$3,800     | 5%                                 |
| Four Bedroom  | \$4,200     | 4%                                 |

Source: Zumper. "Fremont, CA Rent Prices." Accessed March 10, 2024. <https://www.zumper.com/rent-research/fremont-ca>

Fremont's neighborhoods exhibit varying rent prices, with areas like Mission San José typically commanding higher rents compared to more suburban locations. The Irvington and Centerville neighborhoods are known for lower median rents. In Fremont, 23% of renters and 15% of homeowners are rent burdened, and 15% of renters and 8% of homeowners are severely rent burdened.<sup>38</sup>

The largest proportion of the housing stock was built from 1960 to 1979, with 32,139 units constructed during this period. Nearly as many units were built between 1980 and 1999, with that period witnessing a growth of 30,330 units. The vast majority of Fremont's housing stock was built within these two periods. The western and southern parts of the city contain more single-family homes, while multi-family units are prevalent in the central and northern areas.

<sup>38</sup> City of Fremont. 2023-2031 Housing Element. Adopted January 10, 2023. Certified March 22, 2023. Page 4-43.

## Geographic Distribution of Housing

Fremont's housing distribution is diverse, with single-family homes dispersed across various regions. The northern and eastern parts of the city feature more single-family homes, while multi-family units are prevalent in the central and southern areas. Racial and ethnic distribution plays a role in housing patterns, with certain areas inhabited by specific groups. See table 5 for rates of poverty in Fremont.

**Table 5. Rates of Poverty in Different Racial/Ethnic Groups in Fremont**

| Racial/Ethnic Group                                                 | Rate of Poverty |
|---------------------------------------------------------------------|-----------------|
| American Indian or Alaska Native (Hispanic and Non-Hispanic)        | 9.5%            |
| Black or African American                                           | 8.5%            |
| Multiple Race and Hispanic or Latinx                                | 5-5.7%          |
| Asian/Asian Pacific Islander                                        | 3.4%            |
| Source: City of Fremont. 2023-2031 Housing Element. March 22, 2023. |                 |

## Housing Element and RHNA

During the 5th RHNA Cycle (2015 to 2023), Fremont was required to develop 5,455 total units. The city exceeded its goal by 2,768 units. They did not meet the targets for very low-income, low-income, or moderate development; however, this was the most affordable housing ever created in Fremont. The 2023 to 2031 Cycle calls for the development of nearly 13,000 total units. See Table 6 for a summary of Fremont’s allocation and production during the 5th Cycle and a breakdown of Fremont’s allocation for the 6th cycle.

**Table 6. Fremont’s RHNA Progress**

| Income Category                                                                                         | 2015-2023 Allocation | 2015-2023 Production | 2023-2031 Allocation |
|---------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| Very Low                                                                                                | 1,714                | 697                  | 3,640                |
| Low                                                                                                     | 926                  | 517                  | 2,096                |
| Moderate                                                                                                | 978                  | 91                   | 1,996                |
| Above Moderate                                                                                          | 1,837                | 6,918                | 5,165                |
| Total                                                                                                   | 5,455                | 8,223                | 12,897               |
| Source: City of Fremont. 2023-2031 Housing Element. Adopted January 10, 2023. Certified March 22, 2023. |                      |                      |                      |

Approximately 40% of Fremont is zoned for single-family housing. The city has over 700 planned districts, many of which currently mirror single-family residential zoning districts. According to the Housing Element, the city plans to rezone many of these districts to allow for more multi-family development and greater density; up-zone different areas of the city for missing middle housing and multi-family housing; promote development of underutilized/vacant sites; and amend its zoning ordinance to require by-right approval of housing projects that include 20% affordable units.

The city’s Housing Element notes that extremely low-income households are disproportionately impacted by housing challenges such as substandard housing, cost burden, and overcrowding. The city has implemented various programs to prevent displacement of low-income households, but 450 low-income households still experienced displacement between 2010 and 2017.

## Inclusionary Housing Ordinance

Fremont’s IHO was adopted in 2002. Initially requiring affordable units for projects of 10 units or more, the IHO was amended in 2007 to increase the percentage of affordable units to 15% for larger developments. In 2015, the city implemented a commercial linkage fee requiring all non-residential developers to pay fees based on the need for affordable housing generated by new commercial and industrial construction. In January 2022, the IHO was updated to require 15% affordable units, payment of an in-lieu fee, or another alternative such as a land donation. All affordable rental units produced through the IHO are required to be deed-restricted for at least 55 years.

In December 2022, the city updated the ordinance to include a live/work preference policy for city-regulated affordable housing developments (see Table 7). The update codifies the city’s longstanding practice to require that affordable housing units required as part of an affordable housing agreement with the city provide a local priority preference for those applying for units.<sup>39</sup>

Fremont’s IHO does not include an alternative for developers to construct affordable housing off-site. The city’s IHO contains on-site requirements, an in-lieu fee alternative, and a commercial linkage fee requiring non-residential development to contribute to the city’s affordable housing fund.

**Table 7. Summary of Fremont’s Inclusionary Housing Ordinance**

| Fremont Inclusionary Housing Ordinance                                                                                                                                                                                                                                                                                              |                      |                                                          |                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| On-Site Requirements                                                                                                                                                                                                                                                                                                                | Off-Site Alternative | In-Lieu Fee Alternative                                  | Commercial Linkage Fee                                                                                              |
| Rental projects: 10% on-site                                                                                                                                                                                                                                                                                                        | N/A                  | Rental units over 700 sf: \$17.50/sf                     | Light Industrial, Manufacturing, and Warehouse: \$5.67/sf until 12/31/23 (rate indexed each January 1st thereafter) |
| Ownership projects: 15% on-site                                                                                                                                                                                                                                                                                                     |                      | Rental units up to 700 sf: \$8.75/sf                     |                                                                                                                     |
| Combination rental and ownership projects: 10% for rental portion and 15% for ownership portion                                                                                                                                                                                                                                     |                      | Rental units with underlying subdivision map: \$27.00/sf | Ownership units (excluding stacked flats): \$44.00/sf<br>Ownership units (stacked flats only): \$27.00/sf           |
| Source: City of Fremont. “Affordable Housing Ordinance.” Accessed March 13, 2024. <a href="https://www.fremont.gov/government/departments/housing/affordable-housing-developers/affordable-housing-ordinance">https://www.fremont.gov/government/departments/housing/affordable-housing-developers/affordable-housing-ordinance</a> |                      |                                                          |                                                                                                                     |

<sup>39</sup> City of Fremont. “Affordable Housing Ordinance.” Accessed March 13, 2024. <https://www.fremont.gov/government/departments/housing/affordable-housing-developers/affordable-housing-ordinance>

An aerial photograph of a suburban neighborhood with numerous houses and trees. In the background, there are rolling hills and mountains under a clear blue sky with some light clouds. The scene is captured from a high angle, looking down on the residential area.

**5.2**

**MOUNTAIN VIEW**



# 5.2 Mountain View

## Demographics & Socioeconomics

Mountain View covers an area of 12 square miles and has a population of 81,059. Mountain View's demographic makeup includes a considerable proportion of white (41%) and Asian (33%) residents. Approximately 71% of its residents hold a bachelor's degree or higher. The city has an employment rate of 70% and a poverty rate of five percent.

Mountain View's median household income is \$174,156, lower than the countywide Santa Clara AMI of \$181,300 for a four-person household.<sup>40</sup> An estimated 1,000 people were experiencing homelessness in Mountain View in 2022.

## Housing Market

In Mountain View, 40% of units are owner-occupied and 60% are renter-occupied. Table 8 provides a summary of median rents and their trends from 2022 to 2023 for various unit types in Mountain View.

<sup>40</sup> United States Census Bureau. QuickFacts. "Mountain View City, California." Accessed May 9, 2024.  
<https://www.census.gov/quickfacts/fact/table/fremontcitycalifornia,mountainviewcitycalifornia/INC110222>

Table 8. Median Rent Trends in Mountain View

| Unit Type     | Median Rent | Percent Increase from 2022 to 2023 |
|---------------|-------------|------------------------------------|
| Studio        | \$2,800     | 3%                                 |
| One Bedroom   | \$3,200     | 2%                                 |
| Two Bedroom   | \$3,800     | 1%                                 |
| Three Bedroom | \$4,500     | 4%                                 |
| Four Bedroom  | \$5,000     | 3%                                 |

Source: Zumper. "Mountain View, CA Rent Prices." Accessed March 10, 2024.  
<https://www.zumper.com/rent-research/mountain-view-ca>

The city's neighborhoods exhibit varying rent prices, with areas like downtown Mountain View typically commanding higher rents compared to more suburban locations. The Old Mountain View and Moffett Boulevard neighborhoods are known for lower median rents. Eighteen percent of renters and 17% of homeowners are rent burdened, and 19% of renters and 11% of homeowners are severely rent burdened.

## Geographic Distribution of Housing

Approximately 35% of Mountain View is zoned for single-family housing. Figure 10 shows housing distribution by predominant race/ethnicity. No maps showing the distribution of affordable housing are available at this time; the city is working through a website update that would include maps showing the distribution of different types of housing. However, Figure 11 below shows housing sites by share of low- and moderate-income households.

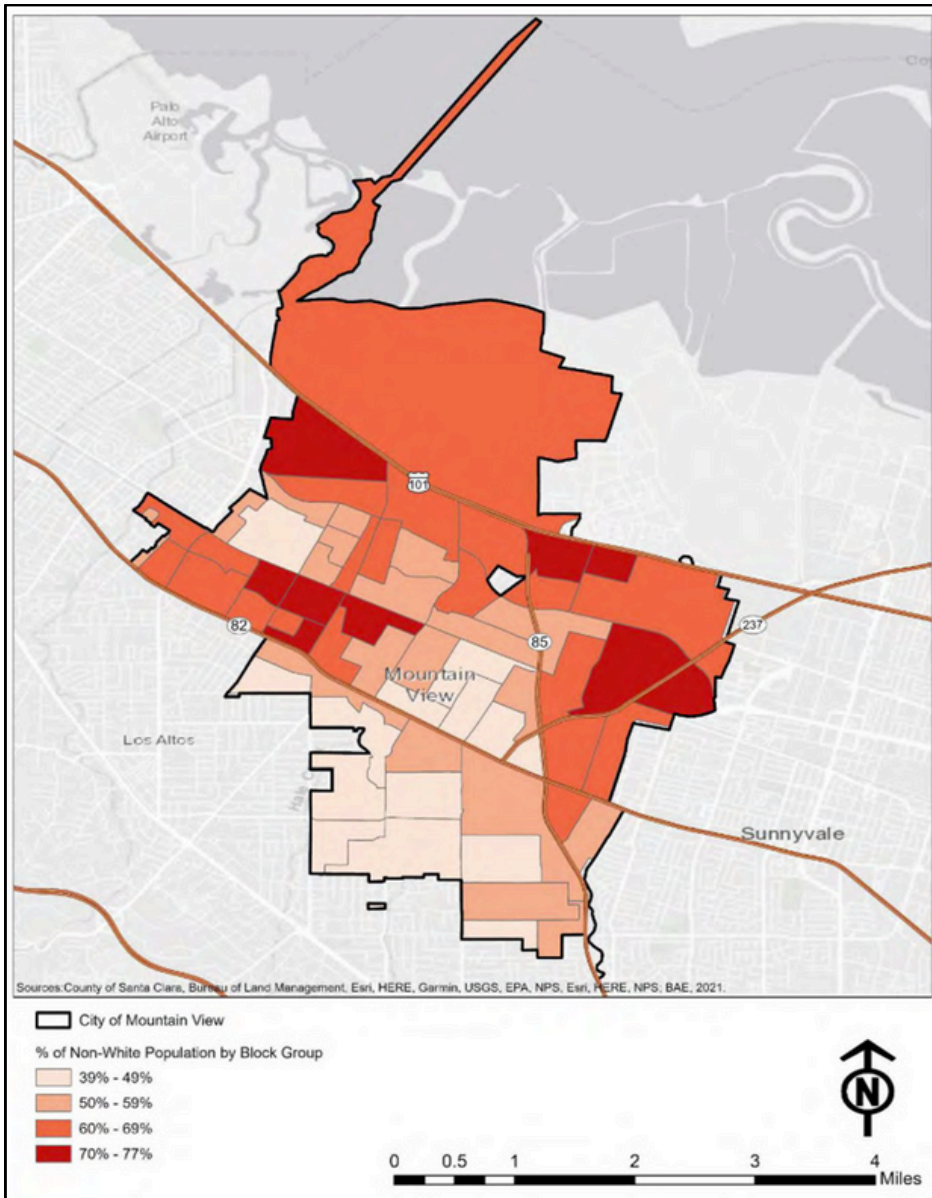


Figure 10. Housing Distribution by Predominant Race/Ethnicity in Mountain View

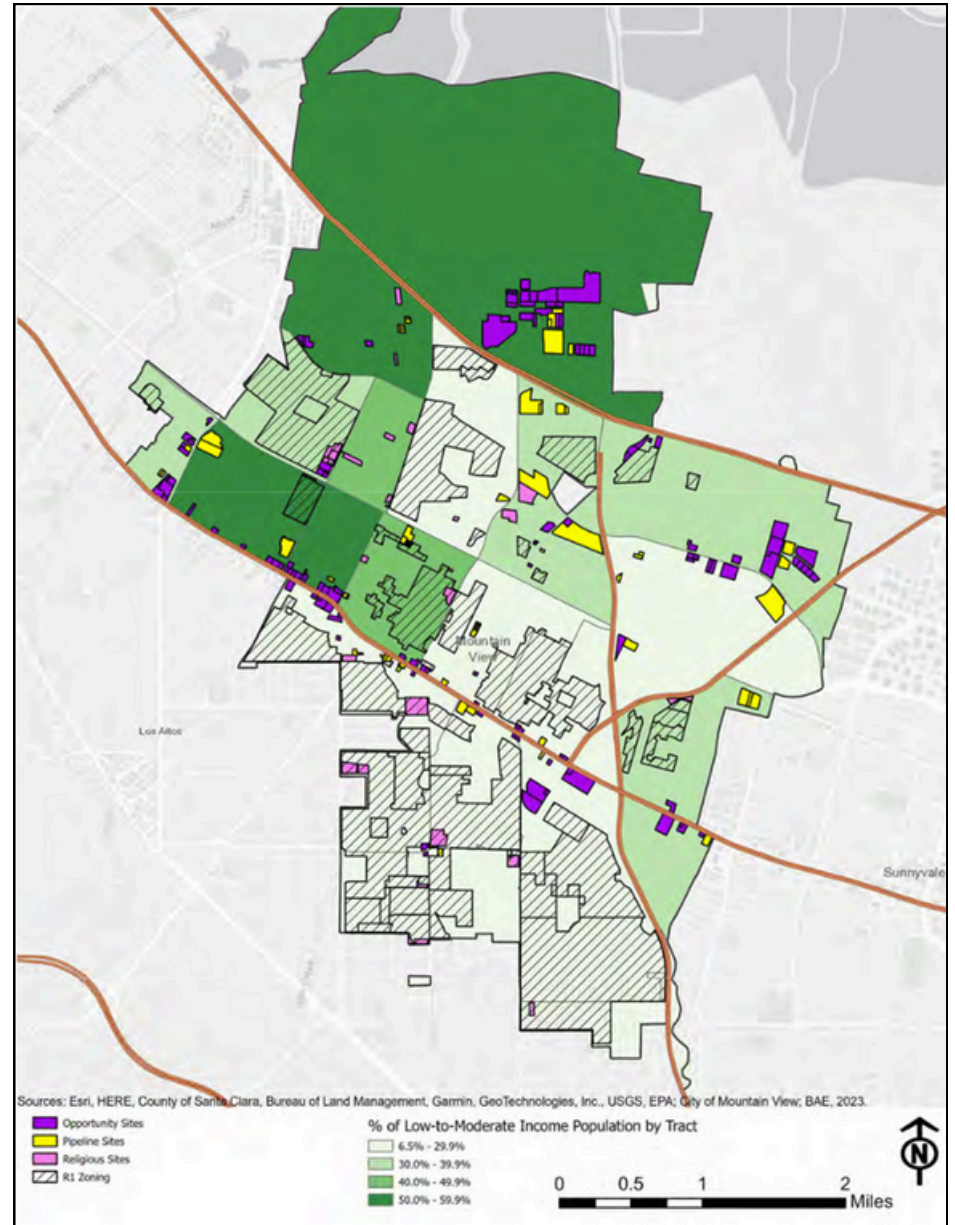


Figure 11. Housing Sites by Low- and Moderate-Income Households in Mountain View

## Housing Element and RHNA

During the 5th RHNA Cycle, Mountain View exceeded its targets for above moderate-income units and technically exceeded its total allocation by 1,566 units, but did not meet its targets for any other income category. Notably, Mountain View constructed 72 extremely low-income units. The current 2023 to 2031 cycle aims for the development of 11,135 residential units (see Table 9).

**Table 9. Mountain View's RHNA Progress**

| Income Category | 2015-2023 Allocation | 2015-2023 Production | 2023-2031 Allocation |
|-----------------|----------------------|----------------------|----------------------|
| Extremely Low   | N/A                  | 72                   | N/A                  |
| Very Low        | 814                  | 146                  | 2,773                |
| Low             | 492                  | 196                  | 1,597                |
| Moderate        | 527                  | 18                   | 1,885                |
| Above Moderate  | 1,093                | 4,060                | 4,880                |
| Total           | 2,926                | 4,492                | 11,135               |

Source: City of Mountain View. 2023-2031 Housing Element. Adopted April 11, 2023.

The public engagement process showed that residents were concerned about displacement as well as the impact that non-residential development has on housing costs in Mountain View. The city's Housing Element identifies housing development for lower-income households in transit-oriented development (TOD) areas with convenient access to jobs, ensuring lower-income housing would not be concentrated.

<sup>32</sup> City of Mountain View. 6th Cycle Housing Element 2023-20231. April 11, 2023.

## Inclusionary Housing Ordinance

Mountain View's IHO (officially called the BMR Program) was adopted in 1999. The program originally required market-rate rental and ownership residential projects to include 10% of units as deed-restricted affordable units. BMR rental units were allowed between 50-80% of the AMI and BMR ownership units were allowed between 80-100% AMI. Developers could also opt to pay an in-lieu fee, which was typically the preferred option.

The IHO was amended in two phases in 2018 and 2019. Phase 1 updates involved increasing the affordable housing requirement for rental developments to 15% but keeping the 10% requirement for ownership projects; increasing the in-lieu fee for rental projects to \$34.57 per square foot and providing alternative mitigations; and rescinding the rental housing impact fee program. Phase 1 went into effect April 2018. Phase 2, effective 2019, revised the program to apply for all residential projects creating one or more units; require units to be affordable in perpetuity; require 15% BMR for rental and ownership market-rate projects and 25% BMR requirement for rowhouse and townhouse projects; and allowed for alternative mitigations including in-lieu fee, land dedication, and development of off-site units.

Mountain View's IHO distinguishes between rental projects and ownership projects. Within ownership projects, the IHO has separate requirements for rowhouses and townhouses. Rental projects are required to include 15% affordable units for 50-120% of the AMI. Ownership projects that do not include rowhouses or townhouses are required to include 15% affordable units for 80-120% of the AMI. Ownership projects that include rowhouses and townhouses are required to include 25% affordable units.

Like Fremont, Mountain View has a commercial linkage fee for non-residential projects. The linkage fee is dependent on proposed land use and, depending on the proposed new gross floor area, the project would pay either a half or full fee. The IHO is summarized in Table 10.

**Table 10. Summary of Mountain View’s Inclusionary Housing Ordinance**

| Mountain View Inclusionary Housing Ordinance                                                 |                                                                                                                                                                            |                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| On-Site Requirements                                                                         | Off-Site Alternative                                                                                                                                                       | Land Dedication Alternative                                                                                                                                                | Commercial Linkage Fee                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Rental projects: 15% for low- and moderate-income households (50-120% AMI)                   | Applicant must make request, satisfy finding requirements, and demonstrate why proposed alternative furthers housing opportunities to a greater extent than on-site units. | Applicant must make request, satisfy finding requirements, and demonstrate why proposed alternative furthers housing opportunities to a greater extent than on-site units. | Linkage fee is dependent on proposed land use (i.e., office/high tech/industrial, commercial/retail/entertainment, or hotel). The project pays either half-fee or full-fee depending on proposed new gross floor area. For office, the first 10k square feet is \$16/square foot and above 10k square feet is \$33/square foot. For hotel/retail, first 25k square feet is \$2/square foot, or \$3/square foot if above 25k square feet). |
| Ownership projects (excluding rowhouses and townhouses): 15% for 80-120% AMI                 |                                                                                                                                                                            |                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Ownership rowhouses and townhouses: 25% (split as 15% for 80-120% AMI, 10% for 120-150% AMI) |                                                                                                                                                                            |                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                           |

The 1999 IHO applied to 15 housing projects over the course of 20 years. Of 3,676 total units, the program produced 172 on-site affordable units (less than five percent). In four years, the current IHO has applied to seven projects, and resulted in 298 on-site affordable units (14%). See Table 11.

**Table 11. Units Produced through Mountain View’s Previous and Current Inclusionary Housing Ordinance**

|                                                                                                                                     | 1999 IHO                        | Current IHO                                           |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|-------------------------------------------------------|
| <b>Projects</b>                                                                                                                     | 15                              | 7                                                     |
| <b>Market Rate Units</b>                                                                                                            | 3,504                           | 1,869                                                 |
| <b>On-Site Affordable Units</b>                                                                                                     | 172                             | 298                                                   |
| <b>Total Units</b>                                                                                                                  | 3,676                           | 2,167                                                 |
| <b>BMR Percent of Total</b>                                                                                                         | 4.7%                            | 14.0%                                                 |
| <b>Alternative Mitigations</b>                                                                                                      | Most projects paid in-lieu fees | 6 of 7 projects subject to IHO provided on-site units |
| Source: City of Mountain View. “Study Session Memo: Review of the Below-Market-Rate Affordable Housing Program.” December 12, 2023. |                                 |                                                       |

<sup>33</sup> City of Mountain View. “Affordable Housing Ordinance.” Accessed March 13, 2024.



5.3

SAN JOSE

# 5.3 San José

## Demographics & Socioeconomics

San José is the third largest city in California and covers an expansive area of 180 square miles. The city has a population of 971,233. The city has a considerable proportion of Asian (36%), Hispanic/Latino (32%), and white (267%) residents. Approximately 51% of San José residents hold a bachelor's degree or higher. The employment rate is 65% and the poverty rate is eight percent.

San José's median household income is \$136,010, lower than the countywide Santa Clara AMI of \$181,300.<sup>41</sup> Homelessness is a concern, with an estimated 6,210 people experiencing homelessness in 2022.

## Housing Market

San José's housing market is characterized by 56% owner-occupied and 54% renter-occupied units. Table 12 provides a summary of median rents and their trends from 2022 to 2023 for various unit types in San José.

Table 12. Median Rent Trends in San José

| Unit Type     | Median Rent | Percent Increase from 2022 to 2023 |
|---------------|-------------|------------------------------------|
| Studio        | \$2,450     | 4%                                 |
| One Bedroom   | \$2,850     | 2%                                 |
| Two Bedroom   | \$3,450     | 1%                                 |
| Three Bedroom | \$4,200     | 6%                                 |
| Four Bedroom  | \$4,800     | 5%                                 |

Source: Zumper. "San José, CA Rent Prices." Accessed March 10, 2024.  
<https://www.zumper.com/rent-research/san-jose-ca>

The city's neighborhoods exhibit varying rent prices, with areas like downtown San José typically commanding higher rents compared to more suburban locations. The Almaden Valley and Evergreen neighborhoods are known for lower median rents.

## Geographic Distribution of Housing

The western and southern parts of the city feature more single-family homes, while multi-family units are prevalent in the central and northern areas. Racial and ethnic distribution plays a role in housing patterns, with certain areas predominantly inhabited by specific groups. Affordable housing tends to concentrate in areas with higher rates of homelessness, such as downtown and the eastern part of the city.

## Housing Element and RHNA

Approximately 30% of the city is zoned for single-family housing. During the 5th RHNA Cycle, San José exceeded its targets for above moderate-income units, but did not meet its allocated units for any other income category. The city was 13,183 units below its total goal. The 2023 to 2031 cycle requires the development of 62,200 residential units (see Table 13).

**Table 13. San José's RHNA Progress**

| Income Category | 2015-2023 Allocation | 2015-2023 Production | 2023-2031 Allocation |
|-----------------|----------------------|----------------------|----------------------|
| Extremely Low   | N/A                  | 72                   | N/A                  |
| Very Low        | 814                  | 146                  | 2,773                |
| Low             | 492                  | 196                  | 1,597                |
| Moderate        | 527                  | 18                   | 1,885                |
| Above Moderate  | 1,093                | 4,060                | 4,880                |
| Total           | 2,926                | 4,492                | 11,135               |

Source: City of Mountain View. 2023-2031 Housing Element. Adopted April 11, 2023.

## Inclusionary Housing Ordinance

Inclusionary housing policies have existed in San José since the late 1980s, but a citywide IHO was not adopted until 2010. The IHO became operational in 2013 but was suspended until 2015 due to legal challenges. In 2015, the California Supreme Court upheld the City's IHO, holding as constitutionally valid the IHO's purpose of increasing affordable housing and of locating such housing in economically diverse developments (*California Building Industry Association v. City of San José*).

The IHO was amended in February 2021 to account for more varied AMI levels, provide more options (on-site, off-site, in-lieu, mixed compliance, land dedication, credits and transfers, acquisition and rehabilitation of units, HUD restricted units, or a combination of methods). The IHO was amended again in May 2021 to update the unit threshold for new developments that must comply with the ordinance, restructure the in-lieu fee option to apply the fee on a square foot basis methodology and provide for annual fee increases using the same index other City fees were using, update household income levels to serve a wider range of incomes, and changed the in-lieu fee escalation.

The IHO currently offers three alternatives for developers: on-site affordable housing requirements, off-site affordable housing requirements, and in-lieu fees. The IHO differentiates between rental and ownership projects. The IHO starts with a base obligation of 15% for affordable housing provided on-site and 20% for affordable housing provided off-site. Within the base obligations, the IHO contains specific requirements for AMI within the overall percentage of affordable housing provided. For example, a project complying with the 15% on-site requirement would split that 15% at 100% AMI, 5% at 60% AMI, and 5% at 50% AMI.

**Table 14. Summary of San José’s Inclusionary Housing Ordinance**

| San José Inclusionary Housing Ordinance |                                                                                |                                                  |                                                                                                             |                                                                                                                                                                                     |                                                                      |
|-----------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
|                                         | On-Site Requirements                                                           | Off-Site Alternative                             | In-Lieu Fee Alternative                                                                                     | Mixed Compliance Option                                                                                                                                                             | Commercial Linkage Fee                                               |
| <b>Base Obligation</b>                  | 15% on-site                                                                    | 20% off-site                                     | 20% (applied to all units, based on sf)                                                                     | 20%                                                                                                                                                                                 |                                                                      |
| <b>Rental Projects</b>                  | - 5% at 100% AMI<br>- 5% at 60% AMI<br>- 5% at 50% AMI<br>OR<br>10% at 30% AMI | 5% at 80% AMI<br>5% at 60% AMI<br>10% at 50% AMI | Per square foot and dependent on market<br><br>Strong market: \$49.99/sf<br><br>Moderate market: \$21.74/sf | Strong market: 5% at 100% AMI an pay in-lieu fee of \$21.74/sf for all rentable areas<br><br>Moderate market 5% at 100% AMI an pay in-lieu fee of \$13.80/sf for all rentable areas | \$19.61 per square foot but applied selectively<br><br>Retail exempt |
| <b>For-sale/Ownership Projects</b>      | Purchasers must be at or below 110% AMI                                        | Purchasers must be at or below 110% AMI          | \$29.07/sf applied to interior residential square foot                                                      | N/A                                                                                                                                                                                 |                                                                      |







5.4

SAN FRANCISCO

# 5.4 San Francisco

## Demographics & Socioeconomics

The County and City of San Francisco is almost 50 square miles, making it the smallest county in California from a geographic perspective, though it is a dense and highly populated city. According to 2020 US Census data, San Francisco has a population of 873,965 people. The majority of its population is white and Asian. Approximately 60% of San Francisco residents have a bachelor's degree or higher education. San Francisco has a 63% employment rate and 11% poverty rate.

The median household income in 2021 was \$121,826, over 43% higher than the statewide income. The cost of living in San Francisco is about 79% higher than the national average.<sup>43</sup> In 2022, San Francisco was estimated to have 7,754 people experiencing homelessness.<sup>44</sup>

<sup>43</sup> Payscale. "Cost of Living in San Francisco, California." Accessed December 13, 2023. <https://www.payscale.com/cost-of-living-calculator/California-San-Francisco>.

<sup>44</sup> City and County of San Francisco. "City Performance Scorecards: Homeless Population." Accessed December 13, 2023. <https://sfgov.org/scorecards/safety-net/homeless-population#:~:text=POINT%2DIN%2DTIME%20HOMELESS%20COUNTS,homeless%20population%20from%202019%20%E2%80%93%202022>.

## Housing Market

San Francisco's rental market is the highest priced in the Bay Area and California, and second nationwide after New York City. California has a statewide homeownership rate of 56 percent; in San Francisco, 38% of units are owner-occupied while 62% of units are renter-occupied. Table 15 shows a summary of median rents and trends in studio to four-bedroom apartment units from 2022 to 2023 in San Francisco.

**Table 15. Median Rent Trends in San Francisco**

| Unit Type     | Median Rent | Percent Increase from 2022 to 2023 |
|---------------|-------------|------------------------------------|
| Studio        | \$2,095     | 5%                                 |
| One Bedroom   | \$2,922     | 3%                                 |
| Two Bedroom   | \$3,922     | 0%                                 |
| Three Bedroom | \$4,995     | 10%                                |
| Four Bedroom  | \$5,817     | 7%                                 |

Source: Zumper. "San Francisco, CA Rent Prices." Accessed December 13, 2023. <https://www.zumper.com/rent-research/san-francisco-ca>

Housing submarkets in San Francisco are dictated by neighborhood or region of the City. To provide perspective, Figure 12 on the following page shows a map of one-bedroom median rent prices mapped by neighborhood, reflective of 2019 data. According to current 2023 data, the South of Market (SOMA) neighborhood offers the highest median rents while the Tenderloin neighborhood offers the lowest. There is a stark contrast in rent price between these neighborhoods – the median price for a one-bedroom unit is \$3,250 in SOMA and \$2,195 in the Tenderloin.

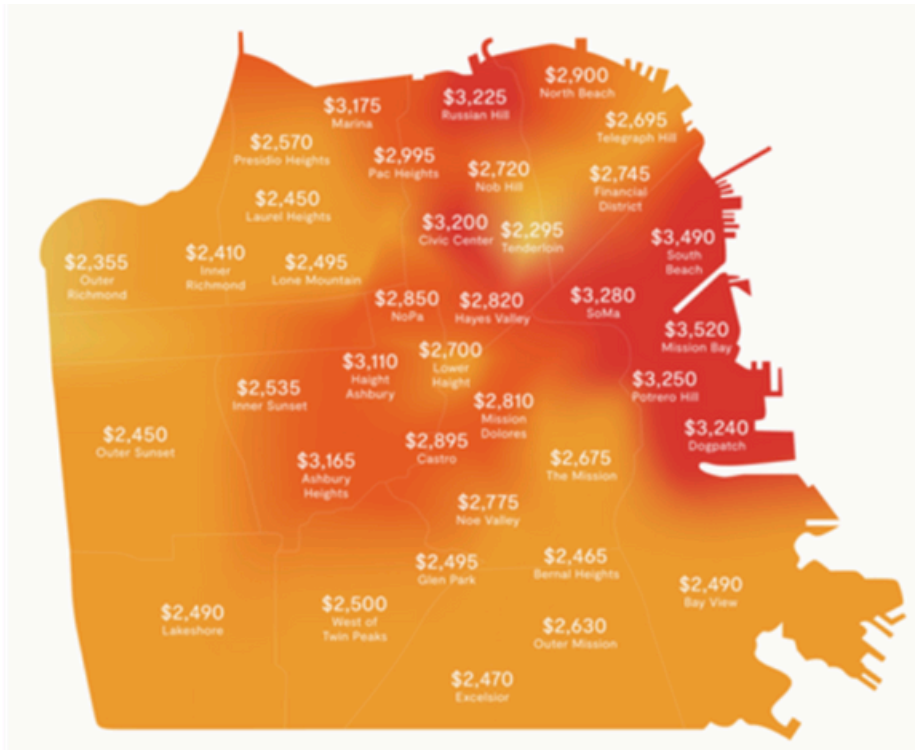


Figure 12. San Francisco One-Bedroom Median Rent Prices by Neighborhood (2019 Data)

## Geographic Distribution of Housing

Single-family homes are primarily located in the western and southern areas of the city. Most multi-family homes are in the central, northern, and eastern areas of the city. Homes in the central, northern, and southwestern portions of the city are owned or rented by white people. Homes in the west, southwest, and some blocks in the northeast are owned or rented by Asian people. There is a small portion of homes that are owned or rented by Black or Hispanic/Latino people. Refer to Figure 13 for a graphic showing citywide housing distribution by predominant race/ethnicity per block group.

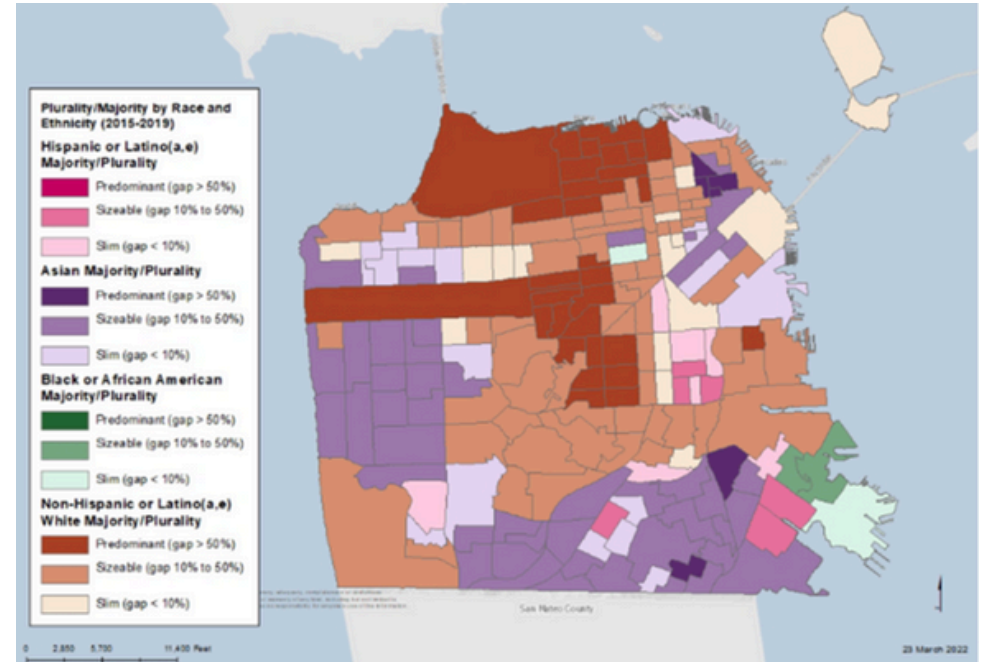


Figure 13. Housing Distribution by Predominant Race/Ethnicity in San Francisco

Affordable housing tends to be concentrated in the Tenderloin and Market areas, which contain the most prominent populations of people experiencing homelessness. Figure 14 on the following page shows a map of the distribution of affordable housing in San Francisco.

**Subsidized Affordable Housing**

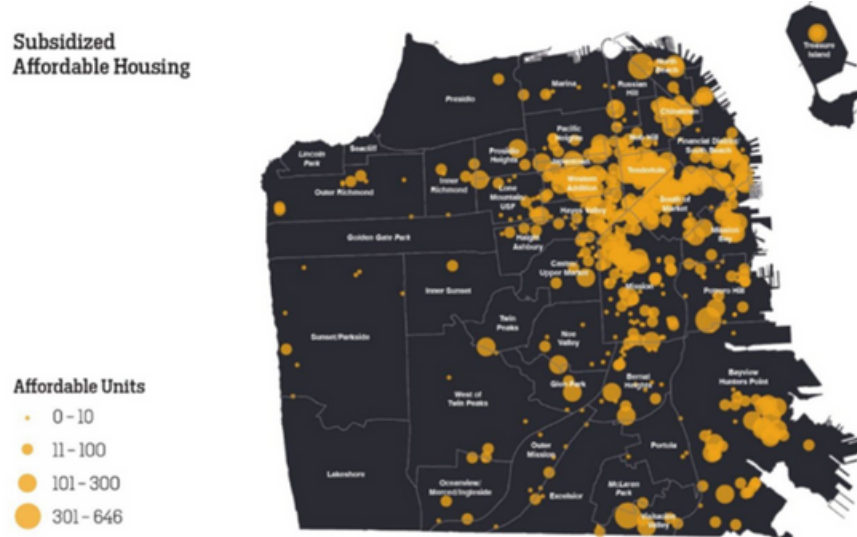


Figure 14. Distribution of Affordable Housing in San Francisco

## Housing Element and RHNA

Density requirements in San Francisco vary depending on zoning district. Though San Francisco is widely seen as a dense city, an estimated 40% of the city is zoned for single-family housing<sup>45</sup> and the City’s 2014 Housing Element established a policy preventing the demolition of single-family housing. Combined, these factors limit the number of multi-family residences that can be developed in the City, thereby limiting density. The City implements the California State Density Bonus Law. Additionally, San Francisco adopted an ordinance allowing for the development of fourplexes on parcels currently zoned for one to three residential units.

<sup>45</sup> City of San Francisco. “San Francisco Zoning Map April 2020.” [https://sfplanning.org/sites/default/files/resources/2019-02/zoning\\_use\\_districts.pdf](https://sfplanning.org/sites/default/files/resources/2019-02/zoning_use_districts.pdf).

During the 5th RHNA Cycle, San Francisco surpassed its allocated goal for above moderate-income housing and built over 6,000 total more units than allocated; however, the city did not meet its goals for other income categories (see Table 16).<sup>46</sup> During the 2023 to 2031 cycle, San Francisco is required to develop 82,069 residential units. See Table 16.

**Table 16. San Francisco’s RHNA Progress**

| Income Category | 2015-2023 Allocation | 2015-2023 Production | 2023-2031 Allocation |
|-----------------|----------------------|----------------------|----------------------|
| Extremely Low   | N/A                  | N/A                  | N/A                  |
| Very Low        | 6,234                | 4,729                | 20,867               |
| Low             | 4,639                | 3,816                | 12,014               |
| Moderate        | 5,460                | 3,761                | 13,717               |
| Above Moderate  | 12,536               | 23,044               | 35,471               |
| Total           | 28,869               | 35,350               | 82,069               |

Source: City of San Francisco. 2023-2031 Housing Element. Adopted January 31, 2023.

The city’s updated Housing Element Update sets forth goals of implementing a rezoning plan to implement those residential units, fostering racially and socially inclusive neighborhoods, and eliminating homelessness.

<sup>46</sup> California Department of Housing and Community Development. “Annual Progress Reports – Data Dashboard and Downloads: Housing Element Implementation and APR Dashboard.” Accessed May 11, 2024. <https://www.hcd.ca.gov/planning-and-community-development/housing-open-data-tools/housing-element-implementation-and-apr-dashboard>

## Inclusionary Housing Ordinance

San Francisco's IHO was adopted in 1991 and City required affordable units for certain projects of 10 units or more. In 2022, the city revised the IHO to include requirements for market-rate development to include affordable units at 12% of the total number of units proposed. A 2007 Nexus Study demonstrated the necessity of affordable housing to mitigate the impacts of market-rate housing, and the IHO requirements were increased to 15% of total units.

Prior to 2011, the San Francisco Redevelopment Authority had been the city's largest provider of affordable housing funds. In 2012, in response to the dissolution of RDAs and the loss of the San Francisco Redevelopment Authority, voters amended the San Francisco Charter to create the Affordable Housing Trust Fund, which included a provision to lower and to set the on-site inclusionary requirement at 12%. As a Charter amendment, the inclusionary rate could only be revised again by the voters.

In March 2016, the Board of Supervisors unanimously adopted a resolution declaring that it shall be City policy to maximize the economically feasible percentage of inclusionary affordable housing in market rate housing development. In June, as housing prices rose drastically, San Francisco voters approved a Charter Amendment (Proposition C), which restored the City's ability to adjust affordable housing requirements for new development by ordinance.

In 2017, the Board of Supervisors passed a Consensus Ordinance, which increased the required on-site, off-site, and fee rates for residential projects. The Ordinance introduced a variety of new requirements, including income

tiers, annual rate increases, area-specific rates, and minimum unit sizes. In 2019, the IHO was modified to change the methodology of calculating the in-lieu fee on a per-square-foot basis.

Today, the City of San Francisco's IHO sets forth three alternatives for developers: on-site affordable housing requirements, off-site affordable housing requirements, and affordable housing in-lieu fees for small, large rental, and large ownership projects. Small projects are defined as projects proposing fewer than 25 dwelling units. Large rental and large ownership projects are defined as projects proposing 25 or more units. In-lieu fees of \$199.50 per square foot (sf) of gross floor area (GFA) of residential use, are applied to the applicable percentage based on project size. The requirements are summarized in Table 17.

**Table 17. Summary of San Francisco’s Inclusionary Housing Ordinance**

| San Francisco’s Inclusionary Housing Ordinance                           |                                                           |                                                            |                        |
|--------------------------------------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------|------------------------|
| On-Site Requirements                                                     | Off-Site Alternative                                      | In-Lieu Fee Alternative                                    | Commercial Linkage Fee |
| Small projects: 12% of units must be affordable to low-income households | Small projects: 20% of units must be constructed off-site | Small projects: 20% of project’s residential GFA           | N/A                    |
| Large rental: 18% affordable units                                       | Large rental projects: 30% affordable units off-site      | Large rental projects: 30% of project’s residential GFA    |                        |
| Large ownership projects: 20% affordable units                           | Large ownership projects: 33% affordable units off-site   | Large ownership projects: 33% of project’s residential GFA |                        |

Source: City of San Francisco. “Inclusionary Affordable Housing Program.” Accessed March 10, 2024. <https://sfplanning.org/project/inclusionary-affordable-housing-program>

From 1990 to 2023, the city has produced a total of 31,618 affordable units through various programs. Of these units, 3,533 were produced through the city’s IHO.<sup>47</sup>

<sup>47</sup> City and County of San Francisco. “MOHCD Affordable Housing Dashboard.” Accessed May 11, 2024. <https://www.sf.gov/data/mohcd-affordable-housing-dashboard>



**06**

**INTERVIEW  
INSIGHTS**

# Interview Insights

## City of Fremont

### Dan Schoenholz, Community Development Director (March 15, 2024)

In Fremont, the IHO is shaped by practical and legal considerations aimed at balancing the development of affordable housing with market feasibility. Initially, the city employed a nexus study to justify the IHO percentages, which determine the proportion of affordable housing required in new developments. This approach was necessitated by legal challenges to inclusionary housing policies. However, recent legal clarifications have simplified these requirements, leading to a straightforward 15% affordable housing requirement for ownership projects, with a lower percentage for rentals, to avoid discouraging market-rate development.

Additionally, Fremont's IHO once included off-site alternatives for fulfilling affordable housing requirements, but this was abandoned due to its complexity. Now, developers often opt to pay in-lieu fees instead. These fees, along with commercial linkage fees, are crucial funding sources for affordable housing, reflecting the city's focus on transit-oriented development and economic sustainability.

Monitoring and distribution of affordable housing are also key aspects of Fremont's strategy. The city staff conducts annual reviews to ensure compliance with the IHO, focusing on developments funded by the city for easier oversight. Historically, affordable housing was located on the outskirts, but newer projects are concentrated in Priority Development Areas and historic districts, aligning with the General Plan's emphasis on growth in these regions. Despite the challenges posed by market conditions and regulatory frameworks, Fremont has seen significant affordable housing development in recent years, driven by strategic zoning and an understanding of economic impacts on housing development.

## City of Mountain View

### Wayne Chen, Housing Director, and Anna Reynoso, Housing Specialist II (March 15, 2024)

Mountain View's approach to their IHO is dynamic, reflecting changes in state legislation and local needs. The city has increased its IHO requirements from 10% to 15%, facilitated by Assembly Bill 1505, with developers often proposing alternative mitigation strategies that exceed this baseline. Mountain View's IHO allows for off-site development and land dedication as alternative compliance methods, integrating affordable housing into various development projects. The commercial linkage fee, a major funding source for affordable housing, is tiered based on the type of commercial development, encouraging economic diversity while funding housing needs.

Rent control measures for BMR units cap increases at 3% annually. Geographically, affordable housing is not concentrat



concentrated but is spread across growth areas identified in city planning documents, like the Precise Plan areas with TOD features. This distribution strategy ensures that affordable housing benefits are shared across the community, supporting social and economic diversity.

## City of San José

### Darius Brown, Senior Development Officer (April 30, 2024)

San José's IHO framework has evolved significantly since its inception, influenced by legal, economic, and political factors. The city's approach has shifted to accommodate various compliance options, including on-site development, off-site development, and in-lieu fees, with adjustments in affordable housing percentages to address different income levels. This flexibility aims to make projects economically viable while ensuring the provision of affordable housing. The commercial linkage fee is applied selectively, exempting retail spaces to balance economic growth with housing affordability.

The monitoring of IHO compliance in San José is managed through detailed record-keeping, with a significant portion of new developments opting for on-site affordable housing provision. The city's strategy for affordable housing distribution aims to avoid concentration in specific areas, but is not always a reality.

## City of San Francisco

### Bridget Hicks, Senior Planner (May 9, 2024)

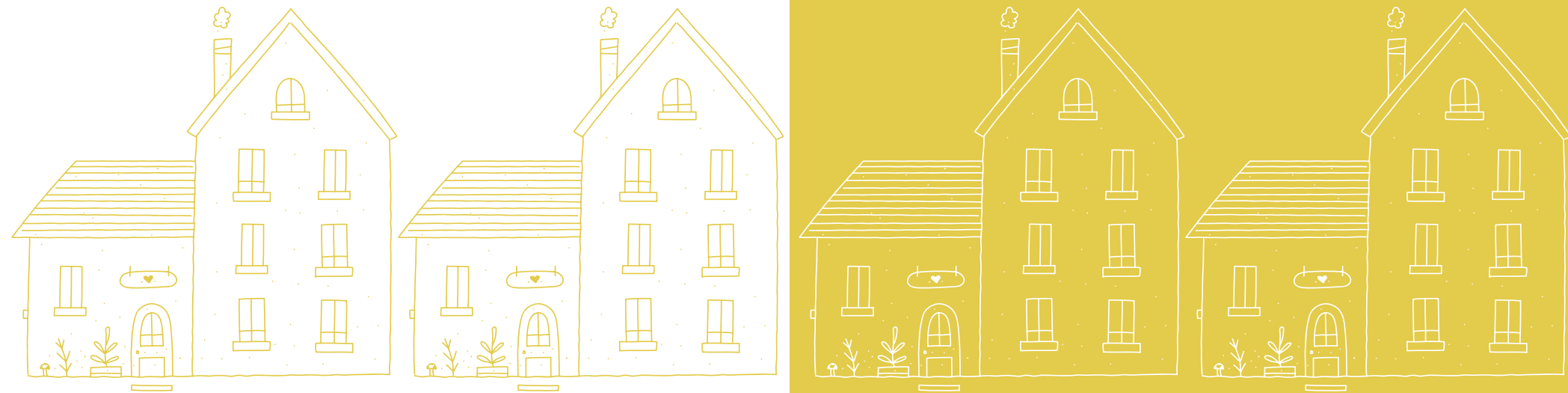
San Francisco's IHO percentages have evolved over time, initially lacking standardization across different city regions due to different district leaders, but are now refined by renter and ownership rates along with AMI levels. Notably, in response to recent economic downturn and fact that units at 120% AMI units are not renting, the city has lowered all IHO rates. Additionally, most projects are utilizing the state density bonus for a lower inclusionary rate, primarily at the low-income level. Developers previously opted for in-lieu fees, but the state density bonus has shifted preferences to on-site affordable housing provisions.

Geographically, affordable housing distribution is carefully managed within developments. However, challenges remain in integrating affordable housing into areas consisting of single-family homes, particularly on the city's east side (refer to Figure 12). The city aims to bolster affordable housing near transit-oriented and newly planned development areas to distribute benefits more evenly, though this is often hindered by the scarcity of market-rate development.

To meet the Housing Element's 80,000-unit goal, the city is exploring rezoning options, as mentioned in Chapter 5.4. However, development has significantly slowed, with a notable decline in housing project proposals attributed to decreased demand following population decline in the post-COVID-19 era. Many approved projects have yet to break ground, hindered by high construction costs, prevailing

wages, and union labor expenses. The majority of these projects are intended for rental units; the feasibility of condominium projects is affected by high interest rates. The permitting process further complicates development. With each permit subject to discretionary review, NIMBYism can be a significant barrier to construction. In response, the city is initiating neighborhood meetings to educate and shift negative perceptions of affordable housing developments.

The challenge of unrealized projects due to high costs might be alleviated through proposed tax breaks and refinancing options. A significant regional approach includes a potential BAHFA bond aimed at generating \$10 to \$20 billion for housing across the Bay Area.[1] The bond will be included in the November 2024 ballot.



**07**

# FINDINGS

# Findings

The Bay Area cities of Fremont, Mountain View, San José, and San Francisco share common demographic and socioeconomic characteristics. The cities exhibit shared challenges in their housing markets, characterized by high costs of living, homelessness concerns, and a need for affordable housing solutions. Despite variations in homeownership rates, rental costs, and spatial housing distribution, the commonality lies in the persistent need to address affordability and homelessness across the region. Each city implements an IHO with distinct requirements and strategies to combat housing affordability issues.

**Table 18** below summarizes residential units, IHO units, in-lieu fees collected (if available), city population and geographic size, and incomes within each city. **Table 19** on the following page summarizes each study city’s IHO.

**Table 18. Differences Between Study Cities**

|                                          | Fremont       | Mountain View | San José      | San Francisco |
|------------------------------------------|---------------|---------------|---------------|---------------|
| <b>Total Residential Units</b>           | 78,667        | 38,230        | 340,392       | 408,198       |
| <b>Residential Units Built 1990-2023</b> | 17,343        | 10,019        | 90,446        | 68,869        |
| <b>IHO Units Built 1990-2023</b>         | Not Available | 470           | 1,896         | 3,533         |
| <b>In-Lieu Fees Collected 2014-2023</b>  | Not Available | Not Available | Not Available | \$416,267,004 |
| <b>In-Lieu Fees Collected 2005-2014</b>  | Not Available | Not Available | Not Available | \$116,843,359 |
| <b>Population (2022)</b>                 | 223,871       | 81,059        | 971,233       | 808,437       |
| <b>Geographic Area (square miles)</b>    | 89            | 12            | 181           | 47            |
| <b>Median Household Income</b>           | \$169,023     | \$174,156     | \$136,010     | \$136,689     |
| <b>Per Capita Household Income</b>       | \$68,357      | \$102,077     | \$59,913      | \$86,186      |
| <b>AMI 4-person household (2023)</b>     | \$147,900     | \$181,300     | \$181,300     | \$144,100     |

**Table 19. Differences Between Study City Inclusionary Housing Ordinances**

| On-Site Requirements                                                                            | Off-Site Alternative                                                                                                                                                       | In-Lieu Fee Alternative                                                                                                                  | Commercial Linkage Fee                                                                                                                                                                                                                                                                                                                                                                                                     | Other Alternatives |
|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| <b>FREMONT</b>                                                                                  |                                                                                                                                                                            |                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                            |                    |
| Rental projects: 10% on-site                                                                    | N/A                                                                                                                                                                        | Rental units over 700 sf: \$17.50/sf<br>Rental units up to 700 sf: \$8.75/sf<br>Rental units with underlying subdivision map: \$27.00/sf | Light Industrial, Manufacturing, and Warehouse: \$5.67/sf until 12/31/23 (rate indexed each January 1st thereafter)                                                                                                                                                                                                                                                                                                        | N/A                |
| Ownership projects: 15% on-site                                                                 |                                                                                                                                                                            | Ownership units (excluding stacked flats): \$44.00/sf<br>Ownership units (stacked flats only): \$27.00/sf                                | Hotel, Office, R&D, and Retail/Service: \$11.33/sf until 12/31/23 (rate indexed each January 1st thereafter)                                                                                                                                                                                                                                                                                                               |                    |
| Combination rental and ownership projects: 10% for rental portion and 15% for ownership portion |                                                                                                                                                                            |                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                            |                    |
| <b>MOUNTAIN VIEW</b>                                                                            |                                                                                                                                                                            |                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                            |                    |
| Rental projects: 15% for low- and moderate-income households (50-120% AMI)                      | Applicant must make request, satisfy finding requirements, and demonstrate why proposed alternative furthers housing opportunities to a greater extent than on-site units. | \$34.57 per square foot                                                                                                                  | Dependent on proposed land use (i.e., office/high tech/industrial, commercial/retail/entertainment, or hotel). The project pays either half-fee or full-fee depending on proposed new gross floor area. For office, the first 10k square feet is \$16/square foot and above 10k square feet is \$33/square foot. For hotel/retail, first 25k square feet is \$2/square foot, or \$3/square foot if above 25k square feet). | Land dedication    |
| Ownership projects (excluding rowhouses and townhouses): 15% for 80-120% AMI                    |                                                                                                                                                                            |                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                            |                    |
| Ownership rowhouses and townhouses: 25% (split as 15% for 80-120% AMI, 10% for 120-150% AMI)    |                                                                                                                                                                            |                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                            |                    |

| Type of Project          | On-Site Requirements                                                                   | Off-Site Alternative                                   | In-Lieu Fee Alternative                                                                                     | Commercial Linkage Fee                                           | Other Alternatives                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------|----------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>SAN JOSE</b>          |                                                                                        |                                                        |                                                                                                             |                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Base Obligation          | 15%                                                                                    | 20%                                                    | 20% (applied to all units)                                                                                  | \$19.61 per square foot but applied selectively; retail exempted | <ul style="list-style-type: none"> <li>- Dedication of land</li> <li>- Credits and transfers</li> <li>- Acquisition and rehabilitation of units</li> <li>- HUD restricted units</li> <li>- Combination of methods where developers may propose any combination of methods that city deems satisfactory</li> <li>- Purchase property and dedicate entitled property to city</li> <li>- Partnership for clustered units</li> </ul> |
| Rental projects          | - 5% at 100% AMI<br>- 5% at 60% AMI<br>- 5% at 50% AMI<br><br>OR<br><br>10% at 30% AMI | - 5% at 80% AMI<br>- 5% at 60% AMI<br>- 10% at 50% AMI | Per square foot and dependent on market<br><br>Strong market: \$49.99/sf<br><br>Moderate market: \$21.74/sf |                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Ownership projects       | Purchasers must be at or below 110% AMI                                                | Purchasers must be at or below 110% AMI                | \$29.07/sf applied to interior residential square foot                                                      |                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>SAN FRANCISCO</b>     |                                                                                        |                                                        |                                                                                                             |                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Small projects           | 12% of units must be affordable to low-income households                               | 20% of units must be constructed off-site              | 20% of project's residential gross floor area                                                               | Jobs-housing linkage fee                                         | N/A                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Large projects           | 18% affordable units                                                                   | 30% affordable units off-site                          | 30% of project's residential gross floor area                                                               |                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Large ownership projects | 20% affordable units                                                                   | 33% affordable units off-site                          | 33% of project's residential gross floor area                                                               |                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                  |

## Housing Production & IHO Units

Fremont, with a total of 78,667 residential units and 17,343 units built between 1990 and 2023, does not have available data on IHO units. This lack of data makes it challenging to assess the direct impact of IHOs in Fremont.

In Mountain View, out of 38,230 total residential units, 10,019 were built from 1990 to 2023, with 470 IHO units produced. According to the difference in units produced through Mountain View's previous and current IHO (see Table 11), the amended IHO produced almost triple the amount of inclusionary housing in four years than in the previous 20 years.

San José has 340,392 total residential units, with 90,446 units built between 1990 and 2023, and 1,896 IHO units. This translates to around 2.1% of new units being IHO units, showing limited effectiveness in boosting affordable housing.

In San Francisco, with 408,198 total residential units, 68,869 units were built from 1990 to 2023, including 3,533 IHO units. This represents about 5.1% of new residential units, indicating a slightly better but still limited contribution of IHOs to affordable housing.

## In-Lieu Fees

In-lieu fees are common across all four cities but vary in calculation and deployment. Effective monitoring and implementation of IHOs are crucial, with cities showing different capacities and mechanisms in this regard. San Francisco collected \$416,267,004 from 2014 to 2023 and \$116,843,359 from 2005 to 2014. The significant amount of in-

lieu fees collected could suggest that developers often opt to pay fees instead of building on-site affordable units. This preference could lead to lower quality affordable units and reinforce segregation, as the fees might not adequately compensate for the lack of mixed-income developments. Although the amount of fees collected in Mountain View was not available, it is notable that city's amended IHO has resulted in more developers choosing to include affordable units on-site rather than opt for alternative mitigations.

The other two cities did not share in-lieu fee collection data, have it available on their websites, or listed in their Housing Elements.

## Population Considerations

With a population of 223,871 spread across 89 square miles, Fremont has a much lower population density compared to Mountain View, San José, and San Francisco. This lower density potentially makes it easier to find space for new developments, but also may reduce the immediate need for IHO requirements due to less pressure on housing markets.

Mountain View, with a population of 81,059 covering just 12 square miles, has a much higher population density. This higher density necessitates more stringent IHO requirements to ensure that new developments contribute adequately to the affordable housing stock and address the intense demand for housing in a small area.

San José, with its vast population of 971,233 and an area of 181 square miles, presents unique challenges for affordable housing. Housing developments are spread out, potentially making it harder to implement and enforce IHOs uniformly

across the city. The vastness also implies varying needs and pressures in different neighborhoods, complicating the application of a one-size-fits-all housing policy.

San Francisco, housing 808,437 people within just 47 square miles, has an exceedingly high density. This density puts significant pressure on the housing market, highlighting the need for effective IHOs. The limited space for new developments and the high demand for housing highlight the critical role of IHOs in ensuring that affordable housing is integrated into new residential projects to mitigate housing shortages and affordability issues.

## Geographic Distribution of Housing

The geographic analyses from the case studies illustrate how existing affordable housing is situated in specific districts. However, it should be noted these trends tend to be based on a historical segregation of people and housing that furthered socioeconomic divides. With current planning practices focusing on promoting TOD and mixed-use/mixed-income neighborhoods, geographic housing segregation is expected to be less of an issue with future development. Additionally, each city's IHO offers an off-site alternative with proximity requirements that would ensure affordable units are located near market-rate development.

## Key Takeaways

- **Limited Impact of IHOs on Affordable Housing Production:** The percentage of IHO units built relative to total new units is relatively low across the cities, supporting the hypothesis that IHOs alone do not provide sufficient affordable housing.
- **Variability in IHO Implementation:** The differences in IHO units built and in-lieu fees collected indicate variability in IHO effectiveness and implementation across cities. Factors like population density, geographic area, and local housing markets play significant roles.
- **Effectiveness Varied by City:** The effectiveness of IHOs varies significantly across the cities studied, influenced by local market conditions, specific ordinance requirements, and the broader economic and demographic context.
- **Need for Tailored Approaches:** There is a need for tailored approaches to IHOs that consider the unique characteristics and challenges of each city. A one-size-fits-all strategy is less likely to be effective across different urban contexts.
- **Importance of Continuous Monitoring and Adaptation:** Continuously monitoring the impact of IHOs and adapting policies in response to changing conditions to ensure they remain effective and equitable.
- **Need for Better Monitoring Strategies:** Some study cities were not able to share how many IHO units were developed through different IHO options which speaks to a need for monitoring strategies.
- **Potential for Collaboration:** The insights from city staff suggest that collaboration among stakeholders, including local governments, developers, and community organizations, is crucial for the successful implementation and optimization of IHOs.



**08**

**CONCLUSIONS**

# Conclusions

The findings from this study clearly indicate that the current IHOs are inadequate in meeting the affordable housing needs of cities. Data from the case studies consistently show that both on-site and off-site affordable housing requirements fall significantly short of addressing the demand. This shortfall is particularly evident in the quantitative analyses, which reveal that the existing affordable housing stock fails to meet the needs of low-income households, leaving many without viable housing options.

Moreover, the reliance on in-lieu fees has contributed to several critical issues. Affordable housing units funded by these fees are often of lower quality compared to those integrated within market-rate developments. This discrepancy in quality is coupled with the geographic concentration of affordable units in less desirable areas, perpetuating land use patterns that reinforce segregation. Geographic analyses from the case studies illustrate how affordable housing is predominantly situated in specific districts, thereby failing to create mixed-income neighborhoods and furthering socio-economic divides.

The lack of mixed-income neighborhoods as a result of current IHO practices is another significant issue. Data reveals that affordable housing is largely sited in isolated areas, preventing the formation of truly diverse communities. This segregation is exacerbated by land use

policies that do not incentivize the integration of affordable units within market-rate developments. Consequently, IHOs inadvertently contribute to socio-economic segregation, limiting opportunities for low-income households to access diverse and vibrant neighborhoods.

To address these shortcomings, it is imperative to reconsider and refine the implementation of IHOs. Ensuring that affordable housing is distributed more evenly across various neighborhoods, improving the quality of units funded by in-lieu fees, and fostering the development of mixed-income communities are critical steps toward creating a more equitable and effective affordable housing strategy.

Ultimately, the success of IHOs hinges on continuous collaboration, transparent communication, and a commitment to adapting policies to meet the evolving needs of residents. As cities navigate the complex landscape of housing affordability, the insights and recommendations presented in this study can serve as a foundation for future research, policy development, and community-driven initiatives in the pursuit of accessible and inclusive housing.

Overall, the findings highlight the complex interplay between housing policy, market forces, and community needs in shaping the effectiveness of inclusionary housing ordinances in the San Francisco Bay Area. The subsequent chapter will provide recommendations for enhancing the efficacy of IHOs and conclude the study with key takeaways and implications for future research and policy development.

What is the effectiveness of inclusionary housing ordinances (IHOs) in boosting housing production in the San Francisco Bay Area?

Hypothesis 1: IHOs on- and off-site affordable housing requirements do not provide an adequate amount of affordable housing to meet a city's needs.

Data from the case study shows that IHOs have consistently failed to meet affordable housing needs in cities. Quantitative analyses reveal a significant gap between intended goals and actual outcomes, with the current housing stock falling short of demand. Interviews with city officials and developers confirm this persistent shortfall in affordable housing availability for low-income households. Despite the intention of IHOs to increase affordable housing within market-rate projects, they are inadequate in meeting city plans and demands.

Hypothesis 2: In-lieu fees contribute to issues such as lower quality units, lack of mixed-income neighborhoods, and land use patterns that reinforce segregation.

The geographic analyses reveal that these units are typically located in less desirable areas, leading to a lack of mixed-income neighborhoods and perpetuating land use patterns that reinforce socio-economic segregation. The data shows that affordable housing is concentrated in specific districts, further entrenching divides and limiting the formation of diverse, mixed-income communities.

How do Bay Area cities differ in their IHO requirements and what methods are most effective?

Table 19 succinctly summarizes the cities' different methods. San Francisco's higher off-site and in-lieu fee requirements discourage developers from opting out of on-site obligations, ensuring more equitable distribution of affordable units. San José's varied in-lieu fees based on market conditions also incentivize developers to build on-site affordable housing where feasible.

San José's approach of offering mixed compliance options and various alternatives, and Mountain View's approach of offering off-site and land dedication alternatives, introduce flexibility.

Effective enforcement and monitoring systems, as seen in San Francisco and Mountain View, are crucial. Fremont's indexed commercial linkage fees ensure that contributions keep pace with inflation and development costs, providing a steady funding source for affordable housing.

Tailoring requirements to specific project types and market conditions, as done in San José, helps address varying affordability needs across different income levels and market strengths. This targeted approach ensures a broader reach and greater impact on housing affordability.

The most effective methods among Bay Area cities involve a combination of stringent on-site requirements, flexible alternatives that genuinely enhance housing opportunities, robust accountability and transparency measures, and adaptive policies responsive to market conditions.

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**09**

# **RECOMMENDATIONS**

# 09 Recommendations

To address the identified shortcomings of IHOs and enhance their effectiveness, several key strategies should be implemented.

First, it is crucial to enhance monitoring and data collection. Modern technology can be leveraged to implement robust systems that track the production of affordable housing units and ensure compliance with IHO requirements. A centralized database can facilitate accurate data collection and help monitor progress to identify gaps in housing provision.

It was notably difficult to gather information from all of the cities regarding the amount of in-lieu fees collected over time and how they were utilized. Though city staff explained in-lieu fees are typically used to fund affordable housing projects through an RFP process, staff were not able or willing to provide this data, and it could not be found online. Improved transparency would be beneficial for improving city accountability regarding in-lieu fee utilization.

Next, strengthening accountability mechanisms for the collection and utilization of in-lieu fees is essential. Establishing transparent processes, including community oversight and regular audits, can ensure that these fees are used effectively to create high-quality affordable housing in diverse neighborhoods. The accountability frameworks

employed by cities like San Francisco can serve as a model, demonstrating how to ensure that funds are spent appropriately and effectively.

Promoting inclusive development and mitigating gentrification requires implementing anti-displacement strategies such as rent stabilization, rent control, support for existing affordable housing, and incentives for inclusive development. Preserving existing affordable housing through measures like community land trusts can help mitigate the negative impacts of gentrification. Policies should incentivize the integration of affordable units within market-rate developments to create mixed-income neighborhoods. Mixed-use developments that foster community diversity and economic integration should be encouraged. Such policies can help reduce segregation and create more vibrant, inclusive communities.

Improving the implementation of current IHOs should be prioritized over creating new policies. Providing training programs for city staff and clear guidelines for developers can ensure effective enforcement of existing IHO policies. Regular reviews and updates of IHOs are necessary to respond to changing economic conditions and community needs. Emphasizing the importance of ongoing evaluation and adaptation can lead to better policy outcomes and more effective housing strategies.

Finally, fostering community engagement is vital. Local communities should be actively involved in the planning and implementation of IHOs. Establishing forums for residents to provide input and feedback on affordable housing initiatives can lead to more inclusive and widely accepted housing policies. Ensuring that the needs of all stakeholders are

considered can enhance the effectiveness and sustainability of IHOs.

By adopting these recommendations, cities can address the shortcomings of current IHOs, promote more equitable development, and better meet the affordable housing needs of their residents. Effective implementation and continuous evaluation will be key to achieving these goals.

Lastly, it is crucial to maintain a long-term perspective when evaluating the impact of IHOs. Conducting longitudinal studies to assess the effects of these ordinances on housing production, community development, and economic outcomes is paramount. By tracking trends and outcomes over time, policymakers can gain valuable insights into the efficacy of IHOs and identify areas for improvement.

By implementing these recommendations, policymakers can enhance the effectiveness of IHOs in promoting equitable housing opportunities and fostering vibrant, inclusive communities across the San Francisco Bay Area.

## Key Recommendations

- **Gentrification:** To address gentrification concerns, cities could consider implementing stronger anti-displacement measures alongside IHOs. This could include tenant protection, such as rent control and just-cause eviction policies, as well as programs to support existing residents in rapidly changing neighborhoods.
- **Budget Constraints and Tracking:** Given ongoing budget constraints, cities could prioritize cost-effective tracking mechanisms for IHOs. This might involve leveraging existing data systems, collaborating with regional partners to share resources, and exploring technology-driven solutions for monitoring and evaluation.
- **Accountability for In-Lieu Fees:** To ensure accountability for in-lieu fees, cities could establish clear guidelines for the use of these funds, such as earmarking them for affordable housing development or related programs. Regular audits and public reporting on the use of in-lieu fees could also enhance transparency and accountability.
- **Effective Implementation:** Improving the implementation of current IHOs is crucial. This could involve streamlining approval processes, providing technical assistance to developers, and enhancing outreach and education efforts to increase awareness and compliance with IHO requirements.
- **Evaluation Before Policy Changes:** Before considering new or modified policies, cities should conduct a thorough evaluation of existing IHOs to identify areas for improvement. This could include assessing the impact of IHOs on housing production, affordability, and neighborhood diversity, as well as soliciting feedback from stakeholders to inform future policy decisions.

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**10**

**IMPLICATIONS FOR  
FUTURE RESEARCH**

# Future Research Implications

While this study provides valuable insights into the effectiveness of IHOs in the Bay Area, it was limited to a small study sample of four cities. This allowed for in-depth analysis, but does not allow for common themes to emerge. As such, future IHO research should conduct comparative assessments of a larger sample size to allow for theme development. Extending the comparative analysis to include additional cities or regions beyond the Bay Area would contribute to a broader understanding of how diverse local contexts influence the outcomes of IHOs.

Perhaps most notably, this study lacked quantitative data. When initially preparing the research design and methodology, the author planned to gather extensive data from city staff about IHOs, such as the number of on-site and off-site affordable units developed from IHOs or the amount of in-lieu funding received over a course of 5-10 years. While cities were able to provide some quantitative data, the author did not receive like-for-like data that could be directly compared. Thus, future researchers are strongly encouraged to seek out cities that have this data readily available, or to work with cities over a longer period to track specific quantitative data. Future research could consider a more long-term assessment, i.e., a longitudinal study tracking the impact of IHOs on housing production and community well-being over time.

Additionally, this study's interviews were limited to specific city staff members. Future research is encouraged to explore more community stakeholder perspectives, including those of developers, residents, and more policymakers, to understand the lived experiences associated with IHO implementation.





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# APPENDICES