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California's A.B. 2345, *A Bill to Enhance the State of California's Density Bonus and Other Incentives Law*

Assemblymembers Lorena Gonzalez (D-80) and David Chiu (D-17)

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August 5, 2020

INTRODUCTORY NOTE

In the following pages, we analyze A.B. 2345, a Bill to Enhance the State of California's Density Bonus and Other Incentives Law. Our analysis considers the specific provisions laid out in the bill and the potential impact of the bill on housing production and deed restricted affordable units. This work is done by Up for Growth, a 501(c)(3) pro-housing policy and research member network, and is not intended to serve as an endorsement of any specific legislation.

BACKGROUND

California is experiencing a major housing crisis, driven largely by a shortage of homes. Up for Growth estimates that from 2000-2015, the state fell 3.4 million homes short relative to demand (Up for Growth, 2018). This underproduction has economic, environmental, and equity consequences, and leaves millions of Californians unable to access quality homes that are affordable to them. Currently, an average of only 0.74 homes are built for each new household formed in the state, and this extreme supply and demand imbalance forces Californians to outbid each other on increasingly expensive homes, leaving at least 30% of renters in every country in the state paying more than 30% of their income on rent. Innovative and targeted solutions are critical for overcoming this crisis.

Density bonuses, which offer developers the opportunity to build additional units in exchange for setting aside deed restricted low-income affordable units, are one such solution. The extra density allows developers to reduce per-unit construction costs and pass the cost savings on to renters in the deed restricted low-income affordable units. Financing incentives like a density bonus help chip away at both the shortage of market rate units, by enabling feasibility for larger projects, and the need for income-based affordable homes, through requiring a certain percentage of the total project to be low-income affordable.

California has a statewide Density Bonus Law, but utilization of the program has been mixed. In many higher cost markets, the current density bonus structure does not provide a deep enough financial offset to developers, and as a result, many projects do not meet the feasibility threshold and do not get built. Recognizing this underutilization, in 2016 the City of San Diego expanded the density bonus beyond the statewide program through its Affordable Homes Bonus Program (AHBP). This expansion lead to a sharp uptake in use of the density bonus and the creation of many more market rate and affordable units. Up for Growth estimates a 75% average monthly increase in the production rate of deed restricted affordable homes, a 98% average monthly rate increase in production of market rate and affordable homes, and an average 94% monthly increase in base density in the period directly after enactment compared to the period directly before.[1]

LEGISLATIVE ANALYSIS CONTACTS

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Importantly, both California's existing statewide Density Bonus Law and San Diego's AHBP include concessions for developers that allow them to bypass certain zoning and land use regulations for projects using the density bonus. Concessions can be used to reduce setback requirements, change building envelopes, or implement other regulatory changes that result in a lower cost of development. These concessions are important for ensuring the success of the projects and for reducing costs to make income-restricted affordable units feasible.

In response to the growing housing crisis and drawing upon the success of the San Diego density bonus expansion, Assemblymembers Lorena Gonzalez and David Chiu introduced A.B. 2345. This bill would expand the statewide density bonus tables and concession structure to mirror the San Diego program.

LEGISLATIVE SUMMARY

A.B. 2345 would amend Sections 65400 and 65915, the statewide Density Bonus Law. The bill largely keeps the current Density Bonus Law intact but would expand upon the existing density bonus tables to allow for a maximum 50% density bonus in exchange for an increased deed restricted affordable unit set aside. The enhanced bonus preserves the current density bonus structure but scales up to reach a new maximum bonus of 50%. Projects that set aside 15% very low-income units or 24% low-income units would receive the maximum 50% density bonus. The bill would also expand the maximum number of concessions available to projects from three to six. The additional incentive structure adds on to existing incentive tables, such that projects receive:

A. Four incentives for projects with 31% low-income, 13% very low-income, or 31% moderate-income units

B. Five incentives for projects with 33% low-income, 15% very low-income, or 33% moderate-income units

C. Six incentives for projects that are 100% affordable

Existing law allows 100% affordable projects to exclude density bonus units from the deed restricted affordability requirement. This bill would revise those rules and require that 100% of total units, including those added via the density bonus, are affordable, except for up to 20% which can be for moderate-income households. Projects that are 100% affordable and located within one-half mile of transit will also receive a height increase of up to three stories or 33 feet.

LEGISLATIVE ANALYSIS

Solving the housing crisis in California requires multipronged innovative solutions that address both the underproduction of homes, which leaves millions of families and individuals cost burdened, and the need for additional assistance for low- and very low-income families and individuals. Density bonuses are an important tool for addressing both concerns simultaneously.

After policies and laws are enacted, analysis into how the policy is functioning must be done to ensure that the programs are properly calibrated. Sometimes, as is the case with the statewide Density Bonus Program, the data suggest that density levels and affordability set asides should be recalibrated to maximize the program's effectiveness. The success of the San Diego density expansion should indicate that a statewide expansion of the density bonus will unlock the program's potential. The expanded bonus and incentive structure will likely make many more projects feasible across the state, which will lead to the creation of both market rate and affordable units.

The proposal in A.B. 2345 is a modest adjustment to the existing density bonus program, but based on the San Diego experience (Parent & Rosas, 2020), expansion of the tables will likely have an outsized impact on spurring creation of homes. A.B. 2345 also allows localities to maintain control over housing production as projects will still need to go through the standard approval process. Expansion of the density bonus allows for localities to capitalize on a production tool that has proven to be effective at spurring production and increasing market rate and deed restricted affordable units.

ABOUT UP FOR GROWTH®

Up for Growth® is a 501(c)(3) pro-housing policy and research member network that forges policies and partnerships to achieve housing equity, eliminate systemic barriers, and create more homes.

REFERENCES

A.B. 2345, California Legislature 2019-2020 Regular Session. (2020). http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB2345

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[1] Estimates are based off a comparison of monthly unit production for projects in the 8 months directly before the implementation of the program and the 6 months directly after the implementation of the program. 100% affordable buildings are excluded from the calculation.

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