

INCLUSIONARY HOUSING DOWNTOWN EXEMPTION [SALINAS MUNICIPAL CODE SECTION 17-8(d)]





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Background of Downtown Exemption

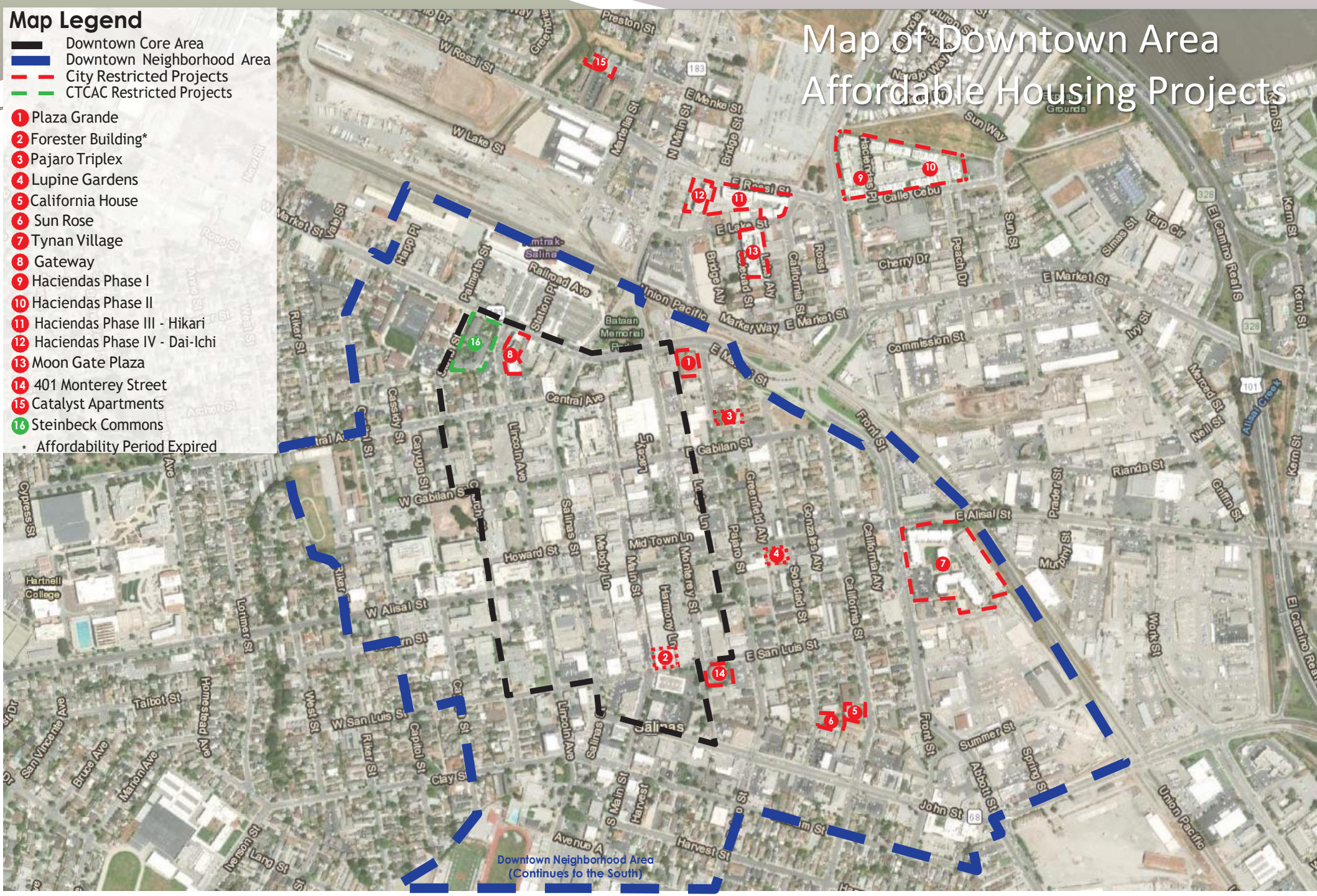
- 2015 Downtown Vibrancy Plan identified a high concentration of affordable, deed restricted housing units in Downtown area and encouraged development of market-rate housing as desirable for retail businesses.
- 2017 HTMA identified significant market risks to Downtown housing development including crime/public safety, homelessness, lack of open space, low school performance, traffic, and an untested market.

Map Legend

-  Downtown Core Area
-  Downtown Neighborhood Area
-  City Restricted Projects
-  CTCAC Restricted Projects

- 1 Plaza Grande
 - 2 Forester Building*
 - 3 Pajaro Triplex
 - 4 Lupine Gardens
 - 5 California House
 - 6 Sun Rose
 - 7 Tynan Village
 - 8 Gateway
 - 9 Haciendas Phase I
 - 10 Haciendas Phase II
 - 11 Haciendas Phase III - Hikari
 - 12 Haciendas Phase IV - Dai-Ichi
 - 13 Moon Gate Plaza
 - 14 401 Monterey Street
 - 15 Catalyst Apartments
 - 16 Steinbeck Commons
- * Affordability Period Expired

Map of Downtown Area Affordable Housing Projects



2017 Housing Target Market Analysis

- There is substantial demand for near-term ownership and rental residential projects in Downtown.
- Consumer preference exists for market rate infill housing opportunities.
- There is traction for Downtown adaptive reuse projects.
- There are significant market risks to Downtown housing development including crime/public safety, homelessness, lack of open space, low school performance, traffic, and an untested market.
- The City should incorporate housing incentives that might contribute to development cost reductions to improve the market for downtown development including the exemption to the Inclusionary Housing Ordinance.

Background of Downtown Exemption

- 2018 Adaptive Reuse Ordinance incentivizes the conversion of older, underutilized commercial buildings to residential use, but alone these incentives may not be enough to encourage housing development.
- 2022 HTMA updated in response to City Council request to repeal the Downtown Exemption.

2022 Housing Target Market Analysis Update

- Implementing inclusionary housing in the Downtown Area would constrain the current momentum of residential development in the Downtown.
- The housing market in Salinas has become more expensive since the onset of the Covid-19 pandemic.
- Home ownership is becoming less affordable as housing prices continue to increase, rental units generally present a more affordable option for residents.
- Current construction costs are extremely high.
- Market rate rental and ownership RD-60 prototypes both have a negative residual value land value.
- Micro-rental units show the best project feasibility.

Alternatives Available to City Council

1. Leave the downtown exemption in place pending a more comprehensive review of the entire Inclusionary Ordinance as a part of the Housing Element Update.

- Inclusionary Housing Ordinance to be re-evaluated every 5 years
- Review of ordinance due in 2022
- Staff capacity severely limited:
 - Homeless Services Implementation and Grant Administration
 - Emergency Rental Assistance Program
 - Housing Production
 - 6th Cycle of Housing Element
- Scheduled to begin update of ordinance in summer 2023
- During update of ordinance, ability to conduct “deeper dive” into Downtown Exemption

Alternatives Available to City Council

2. Repeal the downtown exemption.

a. Based on findings supported by an analysis of market conditions.

- The 2022 HTMA update findings recommend downtown exemption should remain in place.
- Current market conditions do not support a repeal.
- Therefore, staff does not recommend the City Council choose this option.

b. Repeal Section 17-8(d) in its entirety, thereby removing it from the Municipal Code.

- Action must still be based on findings, but findings are not required to be based on an analysis of market conditions.
- Council no longer to approve an exemption based on then current market conditions by Resolution. A new ordinance would be required.

Alternatives Available to City Council

3. Amend Section 17-8(d) to apply only to adaptive reuse residential developments in the downtown. The downtown exemption would no longer apply to new construction residential development.

- Conversion of older, in some cases historic, commercial buildings to a residential use is costly.
- 2017 HTMA identified incentives needed to reduce costs.
 - Adaptive Reuse Ordinance (2018)
- 2022 HTMA found micro-rental units show best project feasibility.
 - Still an unproven market – The conversion of The Californian to 40 units unable to pencil.
- City-owned surface parking lots are opportunity sites for new construction.
 - Disposition and Development Agreement would include terms and conditions, including an Affordable Housing Plan.

Alternatives Available to City Council

4. The City Council may otherwise direct staff how to proceed regarding the downtown exemption.