



ECONorthwest



**REGIONAL HOUSING &
INFRASTRUCTURE PLAN**



Working With the Market:

Understanding and Supporting
Affordable-by-Design Housing
in San Luis Obispo County

Prepared for
San Luis Obispo Council of Governments

July 12, 2023

| *PUBLIC REVIEW DRAFT*

Acknowledgements

ECONorthwest prepared this report for the San Luis Obispo Council of Governments (SLOCOG). ECONorthwest and SLOCOG thank those who helped develop the Affordable-by-Design Study.

Housing Action Team

- Andrew Perez, Arroyo Grande
- Ani Garibyan, County of SLO
- Cory Hanh, Pismo Beach
- Darcy Delgado, Paso Robles
- Katie Banister, Paso Robles
- Kelly Gleason, Atascadero
- Kyle Bell, City of SLO
- Megan Martin, Grover Beach
- Nancy Hubbard, Morro Bay
- Phil Dunsmore, Atascadero
- Rafael Castillo, Grover Beach
- Teresa McClish, City of SLO

Local Housing Industry Experts that provided input

- Abbott | Reed Inc.
- Z Villages Management and Development
- Coastal Community Builders
- Ambient Communities
- Midland Pacific Homes
- People's Self-Help Housing
- Housing Authority of SLO (HASLO)
- Paso Robles Housing Authority
- North San Luis Obispo County Association of Realtors
- California Association of Realtors Region 31
- Compass Real Estate
- San Luis Obispo County Housing Trust Fund
- Habitat for Humanity
- Home Builders Association
- YIMBY
- SLO Chamber of Commerce
- South County Chamber of Commerce
- Morro Bay Chamber of Commerce
- Paso Robles Chamber of Commerce
- League of Women Voters
- Kovesdi Consulting
- Covelop
- Specialty Construction
- Wallace Group
- The HRM Corp.
- Ten Over Studio
- People's Self-Help Housing
- RRM Design Group
- Vivian Hanover Ventures Real Estate
- California Polytechnic University
- First American Title Company, San Luis Obispo
- Omni Design Group
- Midland Pacific Homes
- NKT Commercial
- San Luis Obispo County Housing Trust Fund

SLOCOG

- Sara Sanders

Consulting Team (ECONorthwest)

- Becky Hewitt
- Emmanuel Lopez
- Rasik Hussain
- Jamil Ditter

Table of Contents

TABLE OF CONTENTS

<i>Executive Summary</i>	<i>i</i>
<i>Introduction</i>	<i>1</i>
<i>Part 1: Understanding ABD Housing in SLO County</i>	<i>2</i>
Identifying Examples and Characteristics of ABD Housing	2
Market and Development Feasibility Analysis	10
Conclusions on Market and Development Conditions for ABD Housing in SLO County	15
<i>Part 2: Supporting ABD Housing in SLO County</i>	<i>17</i>
Barriers to ABD Housing	17
Potential Policy Measures to Support ABD Housing	18
<i>Conclusion</i>	<i>32</i>

EXECUTIVE SUMMARY

Purpose

This study, prepared for the San Luis Obispo Council of Governments (SLOCOG) by ECONorthwest, considers what types of housing could be “affordable-by-design” (ABD) in San Luis Obispo County and how jurisdictions in the county could support this type of development. ABD housing is defined for this study as housing that is affordable to low- or moderate-income households (earning less than 120% of area median income [AMI]) without subsidies or price/rent restrictions. ABD housing is one potential component of an overall strategy to meet jurisdictions’ regional housing need allocation (RHNA) targets; this study does not address other strategies to meet housing needs for low- or moderate-income households or to meet housing needs for other income categories.

What housing is, or could be, affordable-by-design in San Luis Obispo County?

Based on a review of housing market data from CoStar and Redfin, ECONorthwest identified recent developments within San Luis Obispo (SLO) County that appear to meet the ABD criteria for this study. Few recent market-rate developments (built within the last five years) in SLO County appear to have rents or sales prices that are affordable to households earning less than 120% of AMI.

- **Rental housing examples:** The available data suggests a few newer apartment buildings may meet the affordability criteria for some or all units.¹ Among these example apartments, many of the unit types that met the affordability criteria were for smaller units (e.g., relatively small studios and one-bedroom units). In some cases, larger units within the same development did not meet affordability criteria even when smaller units did. The example developments all were three-story walk-up apartments, but other three-story apartment developments built around the same time did not meet the affordability criteria.
- **For-sale housing examples:** The only recently built for-sale housing identified as meeting ABD criteria in SLO County were newer manufactured homes in manufactured home parks.² Although there have been some recent for-sale housing developments that were intended and marketed as “affordable by design,” their sales prices exceeded the limit set by SLO County for moderate income households.

¹ Due to data limitations, some of the identified examples may reflect lower average rents due to rent-restricted units provided to meet inclusionary housing requirements.

² After accounting for the space rent that these homes would pay in a manufactured home park, even these examples may not all meet affordability criteria for moderate-income households.

ECONorthwest also interviewed several local housing developers. These interviews helped identify barriers to developing ABD housing in SLO County. Several interviewees, upon reviewing the target sales prices, noted that it would be difficult or impossible to meet the sales price targets with any type of new market-rate for-sale housing in SLO County.

ECONorthwest also looked to other regions in California and the United States for examples of market-rate housing developments that offered lower rents or sales prices than typical for that market. This search yielded several examples of developments with small units, simple design and construction, and/or lower-cost locations that allowed them to achieve lower prices or rents than most new construction in their area.

Based on the local and national market research and input from local developers, ECONorthwest selected three illustrative example developments most likely to meet ABD criteria in SLO County for further analysis of how affordability and development feasibility could vary in different parts of SLO County:

- A 3-story walk-up apartment with typical unit sizes (roughly 880 sq. ft. per unit on average) and typical site layout for the region
- A more compact 3-story walk-up apartment with smaller unit sizes (roughly 620 sq. ft. per unit on average), less parking, and less landscaping/setbacks
- A 4-story microunit development with very small units (roughly 300 sq. ft. per unit on average) and no parking

Given local market conditions and developer input, the for-sale examples from other regions were unlikely to be viable or affordable in SLO County and were not further analyzed.

This analysis suggested that microunits can help achieve affordability for moderate-income households in the most expensive parts of the county and could be viable to develop in dense, walkable areas where potential renters would be willing to forego owning a car or having convenient parking. Compact walk-up apartments appear to offer a balance that could be both affordable and potentially feasible in some parts of the county. In lower-cost parts of the county, market rents may be affordable to moderate-income households even for larger units but may not be high enough to cover the cost of new construction. Overall, the rental market may be able to produce ABD housing in at least some parts of the County and is likely within a range where regulatory changes could make a difference. However, on the for-sale side, the gap between market sales prices and the target sales prices for moderate-income households is likely too large to overcome through design and regulatory measures alone.

How can jurisdictions in San Luis Obispo County support affordable-by-design housing?

For jurisdictions that identify ABD housing as a way to meet part of their RHNA obligations and local housing needs, there are a variety of ways to facilitate this type of development without providing direct financial subsidy or imposing rent/price limits. Based on stakeholder feedback, ECONorthwest and SLOCOG identified six policy areas for further evaluation:

1. Objective Design Standards
2. Ministerial Approvals and Streamlined Approval Processes
3. Density Limits and Parking Requirements
4. Zoning Vacant Land for Multifamily Housing
5. Aligning Infrastructure Investments with Land for Multifamily Housing
6. Adjusting Impact Fee Policies or Rate Structures to Incentivize ABD Housing

Based on current planning practices among the SLOCOG jurisdictions and research on how other jurisdictions outside SLOCOG have approached these policy areas, ECONorthwest developed recommendations for SLOCOG jurisdictions to consider in support of ABD housing within each of these six policy areas:

Objective Design Standards

- **Adopt simple objective design standards (ODS):** Avoid overly detailed requirements when adopting ODS, and provide flexibility where possible (e.g., through a menu-based approach).
- **Simplify minor adjustments:** Offer a process for minor deviations from the ODS that can still be reviewed by staff.

Ministerial Approvals and Streamlined Approval Processes

- **Expand eligibility for Ministerial Approvals:** For jurisdictions that currently limit availability of ministerial approvals based on the number of units, this threshold could be increased (e.g., to 150 units) or eliminated for multifamily developments in medium and high-density residential zones.
- **Have staff review projects using ODS:** Even if the review is not considered truly ministerial, avoiding having a body accustomed to doing discretionary reviews serve as the approval body for projects subject to ODS could help streamline the process and avoid raising concerns that cannot be addressed.

Density Limits and Parking Requirements

- **Adjust density limits in high-density residential and mixed-use zones:** This could take several different forms:
 - For density limits expressed in dwelling units per acre, increase the maximum density allowed by-right. Allowing at least 35 units per acre will generally allow for three-story walk-up apartment development, which may meet ABD criteria. Higher densities may be appropriate for downtown areas and mixed-use development.
 - Use floor area ratio (FAR) or other physical form limits (e.g., height) to regulate the amount of development. This can serve as an incentive for building smaller units.
 - Use fractional density or a density bonus to encourage smaller units.
- **Reduce or eliminate parking minimum requirements for smaller units:** Require less than one space per unit for small units and/or exempt microunits in downtown or mixed-use areas from parking requirements.

Zoning Vacant Land for Multifamily Housing

- **Zone vacant buildable sites large enough to accommodate multifamily development:** Zone buildable sites to allow by-right at an appropriate density. Ideally, this would include sites over an acre with access to infrastructure.

Align Infrastructure Investments with Land for Multifamily Housing

- **Use the ongoing HIP process to prioritize infrastructure investments:** Use the HIP process and prioritize investments that can unlock multifamily development in appropriate areas.

Adjusting Impact Fee Policies or Rate Structures to Incentivize ABD Housing

- **Scale by unit size:** Wherever reasonable, adjust impact fees by unit size to reflect lower impacts from smaller units. This could also mean increasing fees for larger units so that the change is revenue neutral.
- **Defer collection:** Allow deferral of the impact fee until occupancy for multifamily development regardless of whether it includes affordable units.
- **Adjust for infill locations:** Set fee rates lower where infrastructure needs are lower due to proximity to existing facilities. This can offset some of the higher cost of building in close-in, more developed areas.

These recommendations should be considered alongside other housing strategies to meet local housing needs and RHNA targets based on each jurisdiction's needs, market conditions, and existing policy context.

INTRODUCTION

The intention of the Affordable-by-Design (ABD) Study is to determine whether certain types of market-rate housing units are likely to be affordable to low- or moderate-income households in San Luis Obispo County “by design” and what jurisdictions in San Luis Obispo County can do to support this type of housing. Identifying physical characteristics that are commonly associated with the targeted level(s) of affordability could allow the jurisdictions to count these developments toward RHNA requirements in annual reports to Housing and Community Development (HCD) and align local policies to support this type of housing production.

For the purposes of this study, “affordable by design” is defined as new housing that is not income or rent restricted, but where typical market rents or sales prices would be affordable to low or moderate-income households (earning 50-120% of San Luis Obispo County’s AMI). The study encompasses the seven incorporated Cities and unincorporated San Luis Obispo (SLO) County.

The study included the following components:

Part 1: Understanding ABD Housing in San Luis Obispo County

- Identify common physical characteristics for ABD housing based on a review of market data and development examples from SLO County as well as other regions.
- Market and financial feasibility analysis to determine whether housing built with the identified physical characteristics would meet ABD criteria and be financially feasible for a market-rate developer to build in the different parts of the county.

Part 2: Supporting ABD housing in San Luis Obispo County

- Identification of barriers to ABD development and a range of potential policy measures that could help support ABD housing based on interviews with local housing developers and ECONorthwest’s analysis.
- Stakeholder feedback on the study’s findings and on priorities for policy measures to explore further through this study, resulting in selection of six policy measures for further evaluation.
- Additional analysis of the selected policy measures, including a survey of current planning practices among the SLOCOG jurisdictions related to these policies and research on how other jurisdictions outside SLOCOG have implemented the selected policy measures.
- Draft recommendations for SLOCOG jurisdictions to consider in support of ABD housing.

The balance of this report summarizes the results of this analysis and the recommended policy measures for consideration.

PART 1: UNDERSTANDING ABD HOUSING IN SLO COUNTY

Identifying Examples and Characteristics of ABD Housing

Rent and Sales Price Limits for ABD Housing in SLO County

San Luis Obispo County's published rent and sale price limits by income level define the rent and price range affordable at this income level (see Figure 1).³

Figure 1: San Luis Obispo County's Rent and Sale Price Limits (May 2022)

Source: San Luis Obispo County Department of Planning and Building, Affordable Housing Standards, May 2022⁴

Maximum rents: (see footnotes)

Unit Size (Bedrooms)	Acutely Low	Extremely Low Income	Very Low Income	Low Income	Moderate Income	Workforce
Studio	\$287	\$573	\$956	\$1,147	\$2,102	\$2,867
1	\$328	\$655	\$1,092	\$1,310	\$2,402	\$3,276
2	\$369	\$737	\$1,229	\$1,475	\$2,703	\$3,686
3	\$410	\$819	\$1,365	\$1,638	\$3,003	\$4,095
4	\$442	\$885	\$1,474	\$1,769	\$3,244	\$4,423

Note 1: The maximum rent limits shown above do not include adjustments for utilities. Refer to the utility allowance bulletin posted on the website of the Housing Authority of the City of San Luis Obispo.

Note 2: Rent limits are updated when the State issues its annual update to median incomes, generally in April of each year.

Sample maximum sales prices: (see footnotes)

Unit Size (Bedrooms)	Acutely Low	Extremely Low Income	Very Low Income	Low Income	Moderate Income	Workforce
Studio	17,000	\$54,000	\$100,000	\$151,000	\$292,000	\$406,000
1	23,000	\$64,000	\$120,000	\$175,000	\$337,000	\$466,000
2	28,000	\$75,000	\$137,000	\$199,000	\$381,000	\$527,000
3	33,000	\$85,000	\$154,000	\$224,000	\$426,000	\$587,000
4	37,000	\$93,000	\$168,000	\$243,000	\$461,000	\$636,000

Note 1: Homeowner association due (HOA) assumption per month is 150.00

Note 2: Mortgage financing assumed at a fixed rate for 30 years (HSH Associates) is 6.43%

Note 3: Prices shown are preliminary estimates and may be revised. Round to the nearest 1000th.

³ The City of San Luis Obispo has its own way of calculating maximum sale prices for its inclusionary housing program, which results in somewhat higher maximum sales prices. However, for consistency across the County, this analysis uses the County's price limits.

⁴ "Affordable Housing Standards." San Luis Obispo County Department of Planning and Building, June 1, 2022. [https://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Housing-Forms-and-Documents/Informational-Documents/Affordable-Housing-Standard-\(Post-2009\).pdf](https://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Housing-Forms-and-Documents/Informational-Documents/Affordable-Housing-Standard-(Post-2009).pdf).

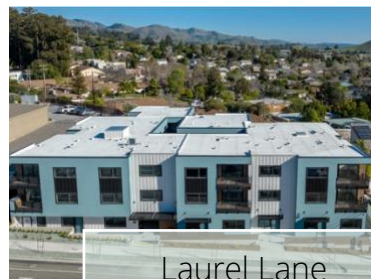
Examples of ABD Rental Housing

Rental Housing Examples from SLO County

ECONorthwest used data from CoStar, a proprietary market data service, to identify recently constructed (within the last five years) market-rate multifamily rental housing in SLO County where rents appear to meet the rent limits shown in Figure 1 by unit type (number of bedrooms). This search yielded five properties where at least some unit sizes appear to meet moderate-income rent limits.⁵ Properties were included as examples even if some unit sizes did not meet affordability criteria. These example properties are shown in Figure 2 below, and their characteristics are summarized in Figure 3.

Figure 2: Examples of Rental Housing in SLO County that May Meet or Partially Meet ABD Criteria

Source: CoStar



⁵ Note that CoStar reports rents on average by unit type and does not separate rents for affordable units from those for market-rate units within mixed-income buildings.

Figure 3: Characteristics of Rental Housing Examples in SLO County that May Meet or Partially Meet ABD Criteria

Source: ECONorthwest analysis of CoStar data, February 2023.

	Connect SLO	La Plaza	Laurel Lane	Ramona Gardens	The Junction
Jurisdiction	San Luis Obispo	Atascadero	San Luis Obispo	Grover Beach	San Luis Obispo
Land Area (AC)	Not Available	1.83	Not Available	0.51	1.58
# Units	78	42	22	19	69
# Stories	3	3	3	3	3
Studio Affordability	Above Moderate	Moderate	N/A	Moderate	Above Moderate
Studio Unit Count	45	1	0	1	43
Studio Unit Size	477 sf	534 sf	N/A	400 sf	531 sf
1 BR Affordability	Moderate*	Moderate	Low/Moderate*	Moderate	Moderate*
1 BR Unit Count	26	27	1	4	17
1 BR Unit Size	664 sf	721 sf	514 sf	800 sf	568 sf
2 BR Affordability	Above Moderate	Above Moderate	Moderate*	Moderate	Above Moderate
2 BR Unit Count	7	12	3	14	9
2 BR Unit Size	1,032 sf	1,537 sf	877 sf	800 sf	799 sf
3 BR Affordability	N/A	Above Moderate	Above Moderate	N/A	N/A
3 BR Unit Count	0	2	18	0	0
3 BR Unit Size	N/A	2,808 sf	1,288 sf	N/A	N/A

*CoStar does not isolate market rents in mixed-income buildings. Reported average rents may be artificially low due to some units being below market rate, particularly where inclusionary housing regulations apply.

This analysis suggests that some new apartments offer units that are affordable at moderate-income rents in at least some parts of the County. In communities with inclusionary housing policies, this may be skewed by mixed-income buildings. Among these examples, one-bedroom units were most likely to be affordable and no three-bedroom units met affordability criteria.

This suggests that even for developments that do include some units affordable to moderate-income households, the largest units are unlikely to meet affordability targets.

A review of the physical characteristics of these developments shows that design plays a role in making them affordable, but it does not guarantee affordability. Most of the examples are three-story buildings, and most have small average unit sizes; however, many other apartments built in the County are also three stories and not all small units are affordable to moderate-income households.

ABD Rental Housing from Other Regions

ECONorthwest looked at examples of other types of rental housing recently developed in other housing markets for housing types that could potentially meet ABD criteria if built in SLO County. The primary type of housing that consistently achieved moderate-income affordability (or below) in similar housing markets is microunits. These typically have:

- Unit sizes between 150 and 350 sq. ft. with individual kitchenettes and shared kitchens⁶
- No vehicle parking but onsite bike storage
- Generally four or more stories, high density, with minimal setbacks/landscaping
- Highly walkable and desirable locations

Figure 4: Examples of Microunit Developments

Image credits: Alcove PDX (<https://pdxalcove.com>); Stenberg Hart (<https://www.stenberghart.com/design/projects/mccadden-place-micro-units/>)



⁶ Because of the shared kitchens, groups of four to eight microunits are often regulated as a single-dwelling unit under the zoning codes where these developments have been permitted.

Examples of ABD For-Sale Housing

ABD For-Sale Housing Examples from SLO County

ECONorthwest used sales transaction data from Redfin to identify sales within the last year of recently constructed housing units that sold for less than the sales price threshold listed in Figure 1. Only manufactured housing in manufactured home parks met these target price points (see examples in Figure 5).⁷

Figure 5: Examples of ABD For-Sale Housing in SLO County

Source: Redfin



A few small detached homes (such as the examples shown in Figure 6) came close to meeting the County's affordability standards and would meet the County's workforce housing price limits, but they exceeded the County's moderate-income sales price limits.

Figure 6: Examples of Small Detached Homes Close to ABD Sales Limits

Source: Redfin



⁷ Because these manufactured homes must pay space rent for the manufactured home park, when this space rent is accounted for, even these units may not be affordable for moderate-income households.

ABD For-Sale Housing from Other Regions

Looking at examples from other regions, ECONorthwest identified three types of for-sale housing that tended to offer the lowest price points in other relatively high-cost housing markets. These include the following:

- **Very small detached units** (roughly 350-800 sq. ft.) with shared yards and clustered parking. The smallest units may be affordable at close to 120% of AMI in that market, but the most comparable units in SLO County exceed the target price. It is possible that the smallest detached units (e.g., under 800 sq. ft.) could meet the affordability targets in some cases.

Figure 7: Examples of Very Small Detached Units from Other Markets

Image credits: Redfin⁸; Connect Architecture⁹; South Park Cottages¹⁰



- **Small condo units** (roughly 325-600 sq. ft.) with little or no onsite parking. These can be affordable for moderate-income households in portions of some high-cost regions, but may not be viable in SLO County's market given the small size and lack of parking.

Figure 8: Examples of Small Condo Units from Other Markets

Image Credits: Portland's Best Real Estate¹¹; Redfin¹²



⁸ <https://www.redfin.com/OR/Bend/61301-Benham-Rd-97702/unit-1/home/167021238>

⁹ <https://www.connectarchitecture.us/posh-pockets>

¹⁰ <https://southparkcottages.com/>

¹¹ <https://www.portlandsbestrealestate.com/division-43-studio-condo>

¹² <https://www.redfin.com/OR/Portland/7360-N-Atlantic-Ave-97217/unit-3/home/185141446>

- **Simple condo development** with simple design, medium-sized units (roughly 600-1000 sq. ft.), little or no onsite parking, and few shared amenities. These units can be affordable to moderate-income households in portions of some high-cost regions but may not be viable in SLO County's market given high development costs.

Figure 9: Examples of Simple Condo Developments from Other Markets

Image Credits: Redfin¹³



- **Small town house units** (roughly 1,000-1,600 sq. ft.). These can be affordable to moderate-income households in portions of some high-cost regions, but comparable units in SLO County exceed the target price.

Figure 10: Examples of Small Town House Units from Other Markets

Image Credits: Redfin¹⁴



¹³ <https://www.redfin.com/CO/Federal-Heights/1401-W-85th-Ave-80260/unit-B101/home/176995897>;
<https://www.redfin.com/OR/Portland/1801-N-Rosa-Parks-Way-97217/unit-303/home/172577477>;
<https://www.redfin.com/OR/Portland/5025-N-Minnesota-Ave-97217/unit-102/home/185246763>

¹⁴ <https://www.redfin.com/CO/Denver/2206-E-38th-Ave-80205/home/185222737>;
<https://www.redfin.com/OR/Portland/7308-NE-11th-Ave-97211/home/185109359>

- **Smaller single-family detached homes** (“starter homes”) that are typically three-bedroom units roughly 1,200-1,500 sq. ft. These can be affordable to moderate-income households in moderate-cost areas (e.g., California’s Central Valley), but comparable units in SLO County exceed the target price.

Figure 11: Examples of Small Single-Family Detached Homes from Other Markets

Image Credits: Redfin¹⁵



Based on developer interviews and review of market data from SLO County, none of the examples of ABD for-sale housing from other markets seemed likely to be viable as a way to deliver ABD for-sale housing in SLO County, and they were not further evaluated.

Overall, the data suggests that SLO County market conditions are unlikely to support new for-sale housing at prices affordable to moderate-income households, with the possible exception of manufactured housing in parks. A few developments have attempted to produce ABD for-sale housing, but even with very small homes, prices are still too high for the moderate-income target price range. In addition, even if jurisdictions were to change policies, factors that make for-sale housing more affordable in other areas may not translate to the SLO County market (e.g., lower land cost, no parking, few amenities, microunits).

¹⁵ <https://www.redfin.com/CA/King-City/611-Cecily-St-93930/home/167240703>;
<https://www.redfin.com/CA/Shafter/9710-Amberdale-Way-93263/home/178358767>

Market and Development Feasibility Analysis

Potential ABD Housing Types Selected for Analysis

Based on the review of ABD examples from SLO County and other market areas, ECONorthwest selected three development “prototypes” that typify the physical characteristics that showed potential viability and affordability to moderate-income households in the San Luis Obispo market:

- A 3-story walk-up apartment with typical unit sizes and site layout for the region
- A more compact 3-story walk-up apartment with smaller unit sizes, less parking, and less landscaping/setbacks
- A 4-story microunit development with very small units and no parking

Additional characteristics and physical features assumed for these prototypes are listed in Figure 12.

Figure 12: ABD Prototype Assumptions

Source: ECONorthwest

Description	3-story walk-up - standard	3-story walk-up - compact	4-story microunits
Site Size (sf)	65,340	65,340	8,000
# of Units	51	91	71
Density (DU/Ac)	34.0	60.7	386.6
Parking location	surface	surface	none
Parking ratio	1.54	1.00	0.00
Unit Mix (% of units)			
Studio	5%	30%	100%
1-bed	40%	40%	0%
2-bed	50%	30%	0%
3-bed	10%	0%	0%
Unit Size (net sf)			
Studio	500	425	300
1-bed	675	575	
2-bed	1,000	875	
3-bed	1,350		
Average Unit Size	880	620	300

Note: This analysis treats each microunit as its own unit, although under many codes they would not be considered stand-alone units because of their shared kitchens.

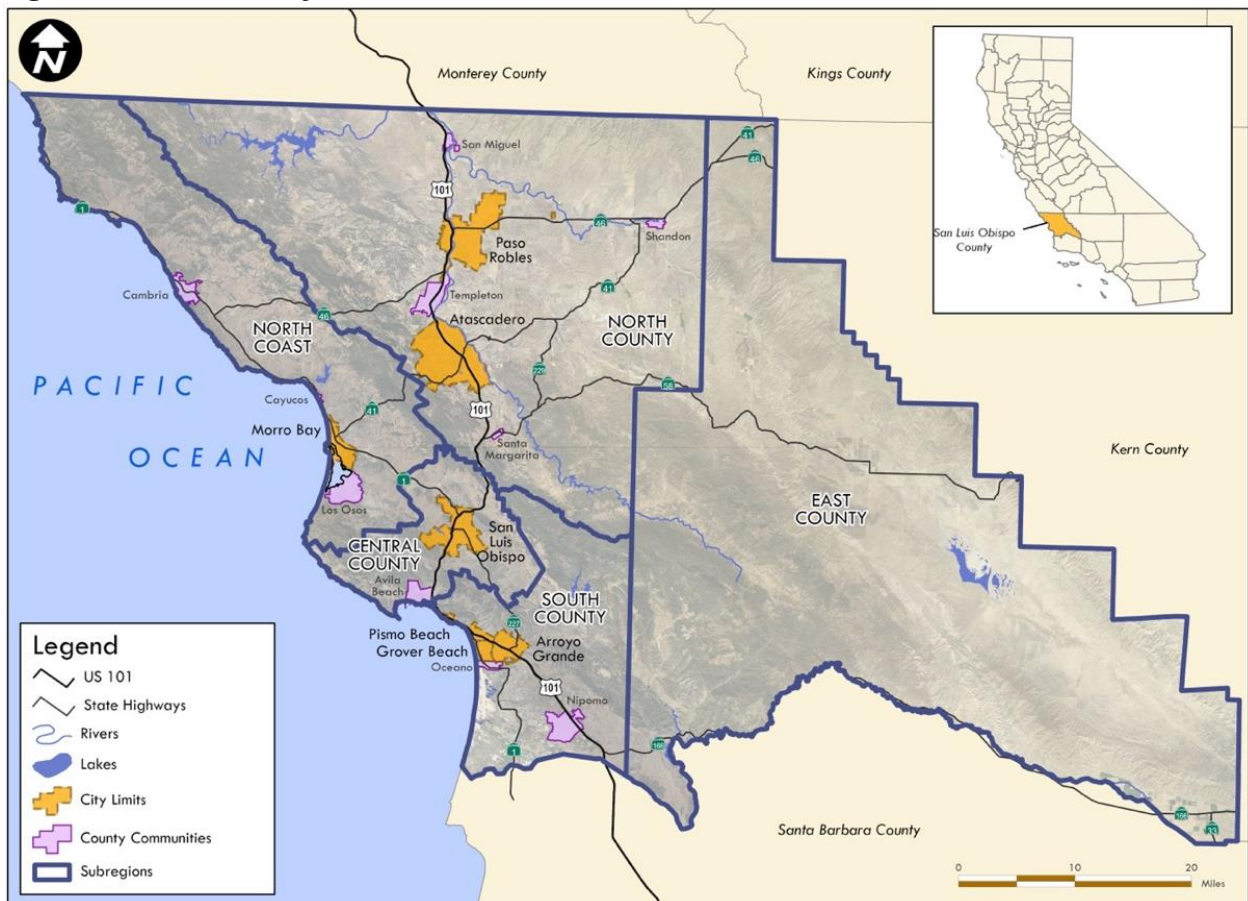
Market Conditions

While the affordability targets and AMI are set countywide, the market conditions vary across the county. The analysis addresses this by dividing the county into different market areas for purposes of the analysis (see Figure 13). The analysis focuses on four market areas:

- North Coast (Los Osos, Morro Bay, Cayucos, Cambria, San Simeon)
- North County (Santa Margarita, Atascadero, Templeton, Paso Robles, San Miguel)
- South County (Pismo Beach, Grover Beach, Arroyo Grande, Oceano, Nipomo)
- Central County (San Luis Obispo, Avila Beach)

East County is not included in the analysis because there is little development or development opportunity in that area.

Figure 13: SLO County Market Areas



ECONorthwest estimated the market rents in each market area for each prototype based on the most comparable developments and adjusted to reflect differences between market areas and prototypes. The estimated market rents for each area are listed in Figure 14, along with the relevant moderate-income rent limit by unit type.

Figure 14: Estimated Market Rents by Market Area and Prototype

Source: ECONorthwest analysis based on CoStar data; San Luis Obispo County Department of Planning and Building, Affordable Housing Standards, May 2022¹⁶

Region - Bedroom Size	3-story walk-up - standard	3-story walk-up - compact	4-story microunits	Moderate-Income Rent Limit
Central County	\$2,750	\$2,327	\$1,470	\$0
Studio	\$2,250	\$2,083	\$1,470	\$2,047
1-bed	\$2,430	\$2,156	-	\$2,329
2-bed	\$2,950	\$2,800	-	\$2,597
3-bed	\$3,375	-	-	\$2,877
North Coast	\$1,925	\$1,513	\$956	\$0
Studio	\$1,575	\$1,354	\$956	\$2,047
1-bed	\$1,701	\$1,402	-	\$2,329
2-bed	\$2,065	\$1,820	-	\$2,597
3-bed	\$2,363	-	-	\$2,877
North County	\$2,465	\$1,972	\$1,176	\$0
Studio	\$1,800	\$1,594	\$1,176	\$2,047
1-bed	\$2,147	\$1,898	-	\$2,329
2-bed	\$2,650	\$2,450	-	\$2,597
3-bed	\$3,240	-	-	\$2,877
South County	\$2,289	\$1,747	\$956	\$0
Studio	\$1,450	\$1,275	\$956	\$2,047
1-bed	\$1,856	\$1,639	-	\$2,329
2-bed	\$2,600	\$2,363	-	\$2,597
3-bed	\$3,038	-	-	\$2,877

Note: market rents reflect 2023 market conditions with an estimated 3% annual escalation prior to opening.

These rents are shown graphically in comparison to the moderate-income threshold in Figure 15.

¹⁶ "Affordable Housing Standards." San Luis Obispo County Department of Planning and Building, June 1, 2022. [https://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Housing-Forms-and-Documents/Informational-Documents/Affordable-Housing-Standard-\(Post-2009\).pdf](https://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Housing-Forms-and-Documents/Informational-Documents/Affordable-Housing-Standard-(Post-2009).pdf)

Figure 15: Estimated Market Rents by Market Area and Prototype Compared to Moderate-Income Rent Limit

Source: ECONorthwest analysis based on CoStar data; San Luis Obispo County Department of Planning and Building, Affordable Housing Standards, May 2022¹⁷

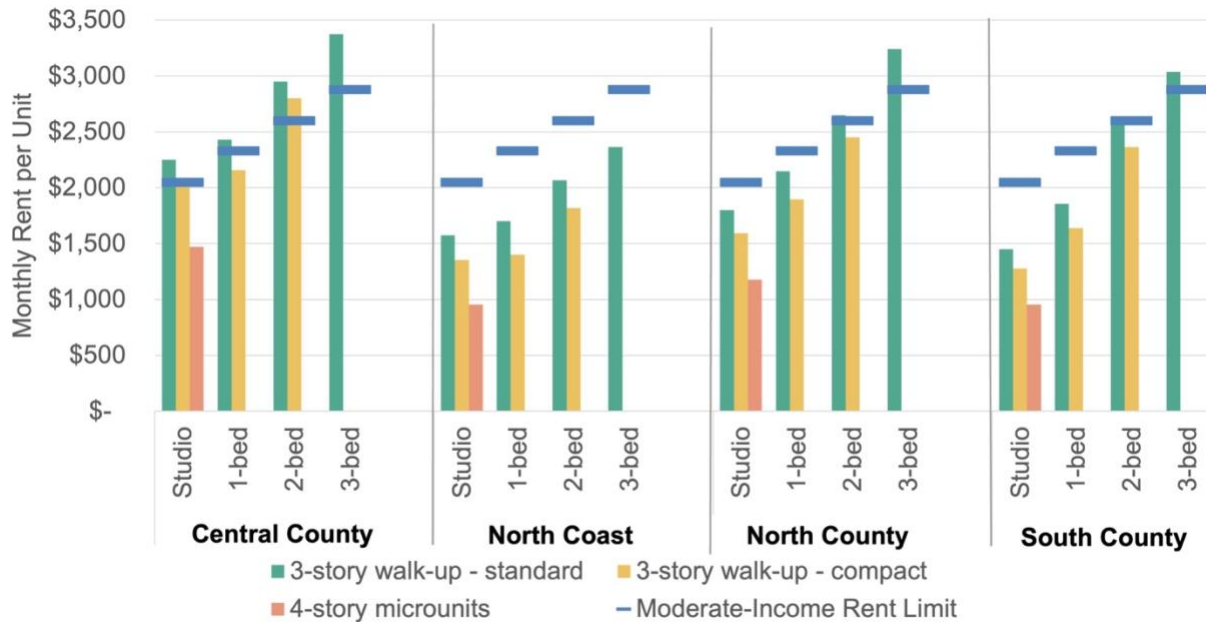


Figure 15 displays the expected rents for each potential ABD housing type against the rent limits for moderate housing. If a bar is above the blue line, that means the monthly rent is predicted to be above the moderate-income rent limit. This highlights that while many of the prototypes are estimated to offer market rents below the moderate-income threshold, this may not be the case for all prototypes/unit sizes in all market areas.

Development Feasibility Analysis

ECONorthwest’s financial feasibility analysis uses a metric called “return on cost” (ROC), which reflects the income potential of the completed development divided by the total cost of development.¹⁸ This ratio is often used as an initial indicator of development feasibility for rental developments, as it provides a preliminary indication of whether the completed property will provide competitive financial returns that could attract investors and meet loan underwriting requirements. Because both lenders and investors will expect higher returns for riskier investments, market areas that have stronger demand fundamentals will likely have a lower threshold for ROC to make development viable. Thus, the target ROC is assumed to be

¹⁷ “Affordable Housing Standards.” San Luis Obispo County Department of Planning and Building, June 1, 2022. [https://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Housing-Forms-and-Documents/Informational-Documents/Affordable-Housing-Standard-\(Post-2009\).pdf](https://www.slocounty.ca.gov/Departments/Planning-Building/Forms-Documents/Housing-Forms-and-Documents/Informational-Documents/Affordable-Housing-Standard-(Post-2009).pdf)

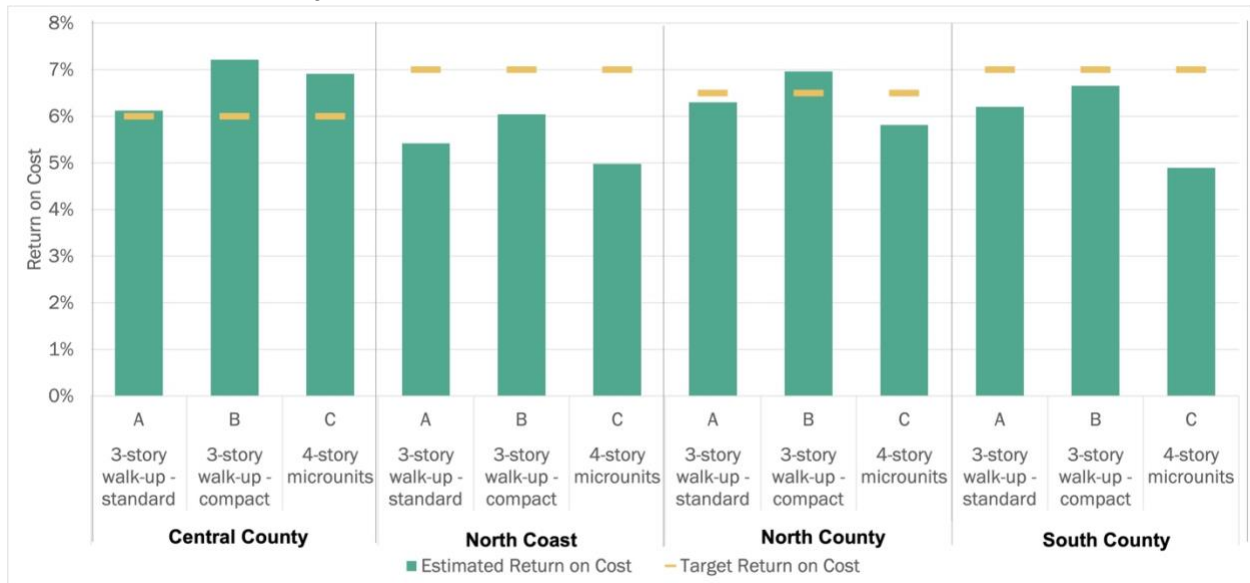
¹⁸ Net operating income (NOI), the revenue after accounting for vacancy and operating expenses.

higher in smaller markets (North County and South County) than in Central County (North County is estimated to fall between these bookends).

ECONorthwest used cost information calibrated based on interviews with local developers and research on average local fee amounts in SLO County to estimate development costs by prototype.

Figure 16: Estimated Return on Cost by Prototype and Market Area

Source: ECONorthwest analysis



Because costs and market conditions can vary substantially between sites even within the same market area and for the same prototype, these results should be taken as a general indication of the relative feasibility of different prototypes, not as an absolute indication that a given prototype will consistently be feasible or infeasible in a given area. To account for the inherent uncertainties associated with this type of generalized analysis, ECONorthwest summarized the results based on how likely they indicate a given prototype is to meet affordability and feasibility criteria. The most feasible housing types and locations are 4-story microunits in Central County and compact 3-story walk-ups in North County, as shown in Figure 17.

Figure 17: Summary of Affordability and Feasibility Results by Prototype and Market Area

Source: ECONorthwest analysis

Central County	Affordability	Feasibility
3-story walk-up - standard		
3-story walk-up - compact		
4-story microunits		
North Coast	Affordability	Feasibility
3-story walk-up - standard		
3-story walk-up - compact		
4-story microunits		
North County	Affordability	Feasibility
3-story walk-up - standard		
3-story walk-up - compact		
4-story microunits		
South County	Affordability	Feasibility
3-story walk-up - standard		
3-story walk-up - compact		
4-story microunits		

Key:

- Very Likely to Meet Criteria
- Likely to Meet Criteria
- May Meet Criteria
- Unlikely to Meet Criteria
- Very Unlikely to Meet Criteria

Conclusions on Market and Development Conditions for ABD Housing in SLO County

The key takeaways from this analysis are summarized below by market area.

Central County	North Coast	North County	South County
<ul style="list-style-type: none"> Smaller units help achieve affordability Market likely to support feasibility 	<ul style="list-style-type: none"> Market rents provide affordability Feasibility is difficult 	<ul style="list-style-type: none"> Market rents likely affordable except for largest units Market likely to support except for the smallest units 	<ul style="list-style-type: none"> Market rents likely affordable except for largest units Market support is borderline

Overall, it appears that the rental market is close to being able to achieve ABD housing production in at least some parts of the County and is likely within a range where regulatory changes could make a difference. While ABD housing may not require subsidy, it may not be able to absorb inclusionary zoning requirements at the targeted moderate-income rents. Affordability through smaller unit sizes may not meet needs of larger households, and market rents may not stay within target affordability range over time, but delivering more lower-cost units to the market can help maintain the affordability of market-rate housing over time, and smaller households may benefit from greater availability of small units.

In the for-sale housing market, prices are too far above the moderate-income affordability level for the market to deliver new ABD for-sale housing with regulatory changes alone. Increasing housing production overall can help bring supply and demand into balance and potentially make ABD achievable over the longer term.

PART 2: SUPPORTING ABD HOUSING IN SLO COUNTY

Barriers to ABD Housing

To understand how to support ABD housing, it is essential to understand what makes it possible for the market to produce lower-cost housing and how the public sector can influence this. These factors are illustrated in Figure 18 and Figure 19.

Figure 18: Factors that Allow the Market to Produce Lower-Cost Housing

Source: ECONorthwest

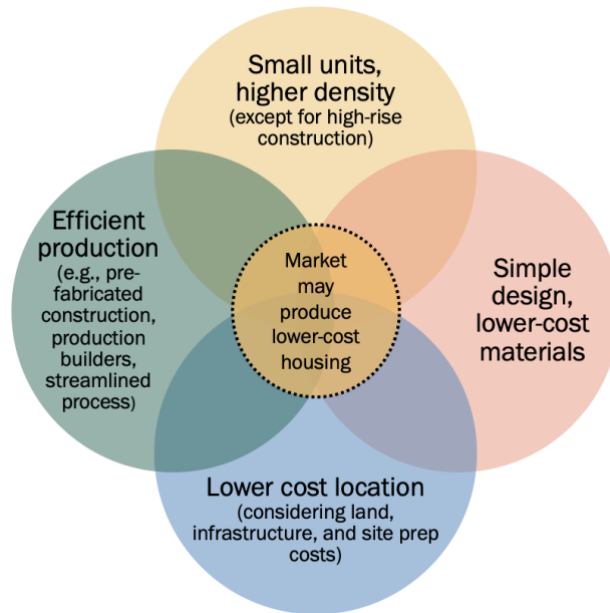
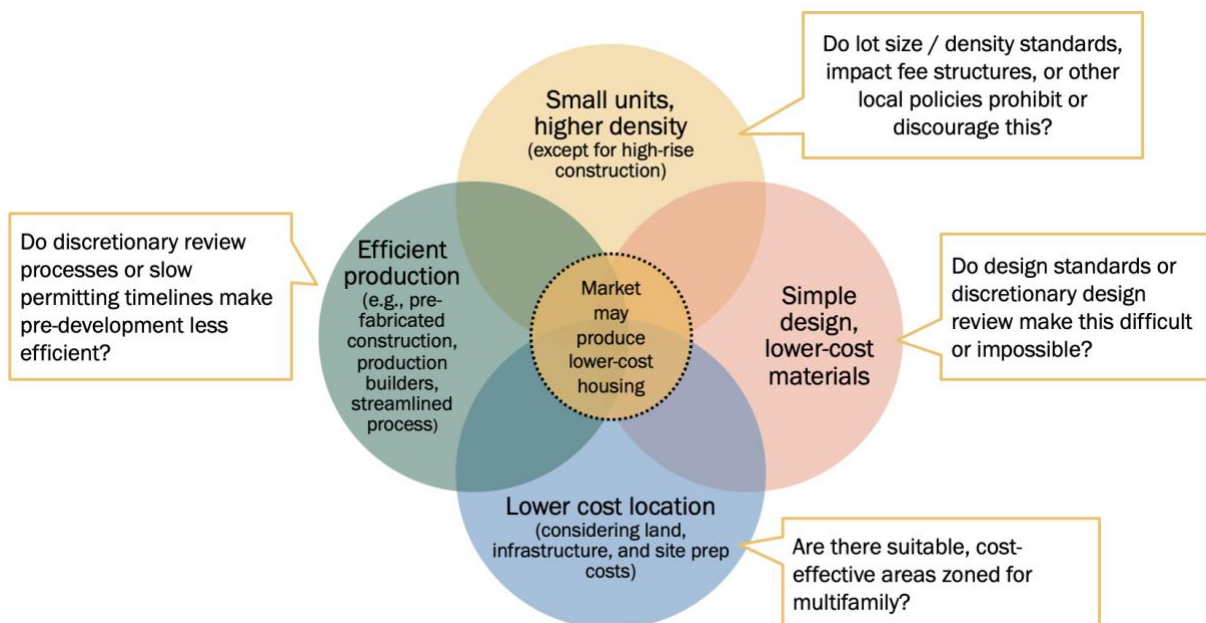


Figure 19: Public Sector Influence on Market's Ability to Produce Lower-Cost Housing

Source: ECONorthwest



In sum, it takes a confluence of multiple factors for the market to produce lower-cost housing, and local regulations and fees can have an impact on the market's ability to achieve those factors.

Looking specifically at SLO County, ECONorthwest's interviews with local housing developers, market research, and development feasibility analysis suggested the following barriers to ABD housing:

Market Barriers

- Land cost
- Demand for high-end housing
- Construction costs
- Demand for parking

Regulatory Barriers

- Discretionary review
- Density caps
- Minimum unit sizes
- Parking requirements that exceed market demand
- Impact fees, inclusionary zoning
- Required infrastructure improvements

Potential Policy Measures to Support ABD Housing

Overview

ECONorthwest identified a range of potential policy measures jurisdictions could consider to support development of ABD housing. These generally fall under the following categories:

- Streamline development review and permitting.
- Align development standards to support ABD housing.
- Allow ABD housing in cost-effective locations.
- Adjust impact fee rates and policies to incentivize ABD housing.

Based on feedback from multiple different stakeholder groups, including home builders, market-rate housing developers, affordable housing providers, other housing advocates, and local planners, SLOCOG and ECONorthwest identified the following six measures for additional research and evaluation:

7. Objective Design Standards
8. Ministerial Approvals and Streamlined Approval Processes
9. Density Limits
10. Zoning Vacant Land for Multifamily Housing
11. Aligning Infrastructure Investments with Land for Multifamily Housing
12. Adjusting Impact Fee Policies or Rate Structures to Incentivize ABD Housing

Having identified these measures as priorities, ECONorthwest distributed a survey to the planning departments of the eight jurisdictions in SLOCOG—Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, City of San Luis Obispo, and County of San Luis Obispo—to gather information on how they currently address these topics. The results of the survey are incorporated into the sections that follow.

Finally, to illustrate how other jurisdictions have approached some of the policy measures highlighted to support ABD housing, ECONorthwest collected information on practices by jurisdictions in California and other states that were recognized as “prohousing.” These examples are also integrated into the following sections.

State Housing Laws and ABD Housing

Many state housing laws aim to remove barriers to developing affordable housing; however, these do not necessarily apply to ABD housing. Figure 20 summarizes how key state laws and recent bills relate to ABD housing as defined for this study.

Figure 20: Summary of State Housing Law Applicability to ABD Housing

Source: ECONorthwest research and state laws as noted below

Legislation	Relevant Eligibility Criteria (ABD Eligible?)	Benefits for Qualifying Housing Developments
SB 35 (2018)	<p>ABD not eligible</p> <ul style="list-style-type: none"> • At least 10% or 50% of units must be affordable depending on which income categories jurisdictions have failed to produce. • Affordable units must be for less than 80% AMI only, requires lasting affordability restrictions. • Jurisdictions that have not met RHNA targets (applies to most SLOCOG jurisdictions) 	<ul style="list-style-type: none"> • Ministerial approvals • Objective design standards (ODS)
SB 330 (2019) and the Housing Accountability Act (HAA)	<p>ABD potentially eligible</p> <ul style="list-style-type: none"> • Housing for very low, low-, or moderate-income households qualifies for additional protections. • One option is if 100% of units are affordable to moderate-income (80-120% of AMI) or middle-income (<150% of AMI) households; units for moderate-income households must be affordable at 100% of AMI. • Lasting affordability requirements apply only to units for very low or low-income households 	<ul style="list-style-type: none"> • Locks in regulations and fees when a preliminary application is submitted. • Burden of proof is on the jurisdiction if denying the application; limited basis for denial if application complies with objective standards. • Maximum review timelines
AB 2345 (2020) and the Density Bonus Law	<p>ABD not eligible</p> <ul style="list-style-type: none"> • Multiple affordability criteria: for-sale housing can qualify if at least 10% of units are affordable to moderate-income (80-120% of AMI) households. • Requires lasting affordability restrictions (at least 45 years) 	<ul style="list-style-type: none"> • Increased density, reduced setbacks, other zoning modifications

In sum, ABD housing may be eligible for increased protections from being denied or having density reduced under the HAA if it meets the requirements for moderate-income housing, but

it would not qualify for ministerial approvals, ODS, or zoning concessions under SB 35 or the density bonus law.

Objective Design Standards

Description

Objective design standards (ODS) are defined in California State Law as standards which “involve no personal or subjective judgment by a public official and are uniformly verifiable by reference to an external and uniform benchmark.”

While basic development standards such as lot size requirements are typically objective, many jurisdictions apply design requirements to new housing development that introduce subjectivity, considering compatibility with surrounding structures or otherwise leaving room for interpretation of whether a development has met the requirements through ambiguous language. ODS are often related to building design elements, such as window size and location, roof lines, building articulation, etc. Having objective design standards can streamline the process of getting planning approvals by establishing a common set of expectations for developers and allowing development to avoid lengthy discretionary review processes.

While SB 35 does not apply to ABD housing, as noted above, jurisdictions could potentially offer ABD housing the option to use the same ODS applicable to SB 35–eligible development. HCD published an objective design standards tool kit for California jurisdictions in 2021 with guidance and examples.¹⁹

Current Practice for SLOCOG Jurisdictions

Only the City of San Luis Obispo and Grover Beach have adopted specific ODS. In the limited time since these standards were adopted, they have been used a few times in Grover Beach but have not yet been used successfully in the City of San Luis Obispo. Grover Beach allows "modification to standards" to respond to site conditions, which may make it easier for development to comply with most of the standards while seeking flexibility where needed. San Luis Obispo County uses only objective basic development and site design standards and does not have building design standards; therefore, all development uses objective development standards. Three additional jurisdictions—Atascadero, Paso Robles, and Morro Bay—are in the process of developing standards. A table of current ODS practices among SLOCOG members is included in Figure 21 below.

¹⁹ California HCD, “Approaches and Considerations for Objective Design Standards,” January 2021, <https://hcd.gov.app.box.com/s/baznxdyweq6a8txcrb22li0gogqodzz6>

Figure 21: Summary of Responses from SLOCOG Jurisdictions regarding Objective Design Standards

Source: ECONorthwest based on survey of SLOCOG jurisdictions

Jurisdiction	ODS Status	Eligibility for ODS	Topics Addressed	Usage of ODS
Atascadero	In progress	All multifamily and mixed-use developments	TBD	N/A
City of San Luis Obispo	Adopted (2021)	SB-35 projects only	Specific building & site design standards (materials, window trim, building length, window placement, roof design, articulation, landscaping)	None to date
County of San Luis Obispo	Adopted	Not limited	Basic development & site design standards (no building design standards)	All projects
Pismo Beach	Not Available	N/A	N/A	N/A
Paso Robles	In progress	TBD	TBD	N/A
Morro Bay	In progress	TBD	TBD	N/A
Arroyo Grande	Not Available	N/A	N/A	N/A
Grover Beach	Adopted (2022)	All single-family, multifamily, and mixed-use developments	Site & structure design (façade articulation, entrances, ground floor height, transparency, building orientation, blank walls, building materials, upper-story windows, parking and access, pedestrian circulation, etc.) Modifications to standards allowed	A few high-density projects

Other Examples

Sacramento, CA

Sacramento, CA, received the first Prohousing Designation from the California Department of Housing and Community Development in February 2022 for its housing reform efforts. These included establishing objective design standards for infill development of projects with two units or more, including additional dwelling units attached to single-unit housing.

Citrus Heights, CA

Citrus Heights was awarded a Prohousing designation from the State of CA for their use of objective design standards to spur development in their city. The designation was awarded for the city's efforts to develop the Sunrise Tomorrow Specific Plan, a plan to convert a 100-acre

mall property to a mixed-use residential property.²⁰ The plan zoned for new uses on the site, including multifamily residential, retail, and hotels, tripling the amount of development allowed on the site and providing the opportunity for 2,200 new units in a city that is 98% built out. The plan also introduced objective design standards for the Sunrise Tomorrow Specific Plan area, which will streamline future development.²¹ The city is currently experiencing challenges encouraging development on the site because it is owned by six different companies, but it is continuing to work with developers and the community to improve the site.

Oregon Model Development Codes

In Oregon, all “needed housing” (effectively all housing development that is designed to fulfill a housing need rather than a resort or short-term rental purpose) must have the option to be reviewed against only clear and objective standards. Oregon’s Department of Land Conservation and Development (DLCD) publishes a model development code for small cities to facilitate compliance with this and other state requirements and smart growth principles. The model code includes “Community Design Standards” that address building orientation and design as well as site design factors such as access and circulation, parking, and landscaping. The residential building design standards provide clear and objective standards to address building orientation, articulation, inclusion of certain design features (using a menu approach), and an option to require house plan variety in new subdivisions. While the model code was last updated in 2012, it may provide a useful example for smaller cities considering ODS.²² Oregon’s middle housing model codes, published in 2020, also include clear and objective design standards applicable to middle housing.²³

Eugene, OR

A study of multifamily development in Eugene, Oregon, evaluated whether public opposition expressed in a discretionary review process had an impact on development outcomes. It found that although the City allows most multifamily development by-right, 12% of multifamily development projects during the period analyzed (2010-2016) required a land use application. The land use applications ranged from minor adjustments to site plan reviews to planned development applications. Applications most sought adjustments to building orientation and

²⁰ Murillo, Alicia. “Six California Cities Earn State Prohousing Designation.” hcd.ca.gov. California Department of Housing and Community Development, December 15, 2022. <https://www.hcd.ca.gov/about-hcd/newsroom/six-california-cities-earn-state-prohousing-designation>.

²¹ citrusheights.net. “Sunrise Mall Specific Plan.” City of Citrus Heights, CA. Accessed June 20, 2023. <https://www.citrusheights.net/1009/Sunrise-Mall-Specific-Plan>.

²² Oregon Department of Land Conservation and Development, *Oregon Model Development Code and User's Guide for Small Cities*, 3rd Edition (2012), <https://www.oregon.gov/lcd/tgm/pages/model-code.aspx>

²³ Oregon Department of Land Conservation and Development, *Large Cities Middle Housing Model Code*, December 2020, <https://www.oregon.gov/lcd/UP/Documents/OAR660046%20EXHIBIT%20B%20-%20Large%20Cities%20Middle%20Housing%20Model%20Code%20201209.pdf>

entrance standards, parking standards, building massing and façade standards, and access/circulation standards. While opponents of the projects raised concerns, including traffic increases, pedestrian safety, and neighborhood character, there was no evidence that these concerns resulted in changes to the development or design for the projects evaluated in the study. The study concluded that offering more flexibility on the standards that most caused challenges could reduce the need for land use applications.²⁴

Preliminary Recommendations

- **Adopt simple ODS:** Avoid overly detailed requirements when adopting ODS and provide flexibility where possible (e.g., through a menu-based approach).
- **Simplify minor adjustments:** Offer a process for minor deviations from the ODS that can still be reviewed by staff.

Ministerial Approvals and Streamlined Approval Processes

Description

Ministerial approvals refer to nondiscretionary staff-level approval of development projects. Robust ministerial approval processes provide a faster process and lower fees for development review. California’s SB 35 requires cities and counties which have failed to meet their RHNA obligations to allow developments that include a certain percentage of affordable units and meet other criteria to proceed through a ministerial review process.²⁵

²⁴ Seth Thompson, “Public Opposition to Increased Housing Density in Eugene, Oregon: How Opposition to Multifamily Housing Impacts the Built Environment,” University of Oregon Department of Planning, Public Policy, and Management, Masters of Community and Regional Planning, 2018 Professional Project, June 2018. https://scholarsbank.uoregon.edu/xmlui/bitstream/handle/1794/25087/SThompson_ExitProj_Final.pdf?sequence=1&isAllowed=y

²⁵ At least 50% of the proposed residential units should be affordable to households at 80% of AMI.

The project must net two or more new residential units.

The project must be zoned in the proper parcel and two-thirds of the project must be residential.

The location of the project may not be within a coastal zone, prime farmland, wetlands, a high fire hazard severity zone, hazardous waste site, a delineated earthquake fault zone, a floodplain, a floodway, a community conservation plan area, a habitat for protected species, or under a conservation easement.

The project does not demolish a historic building, a building where housing units have been occupied for the last 10 years, or a building subject to rent control.

The project must meet all objective design standards.

If the project is a private development project, it must pay prevailing wage, and if it is more than 50 units, it must use a skilled and trained workforce.

The project must not involve the subdivision of a parcel that is subject to the California Subdivision Map Act, unless the project pays prevailing wage and receives a low-income housing tax credit or uses a skilled and trained workforce.

Current Practice for SLOCOG Jurisdictions

Most of the cities offered some form of ministerial approval for developers; two offered SB 35 ministerial approvals. The criteria or maximum number of units eligible for ministerial approvals in each jurisdiction are summarized in Figure 22 below.

Figure 22: Summary of Responses from SLOCOG Jurisdictions regarding Ministerial Approvals

Source: ECONorthwest based on survey of SLOCOG jurisdictions

Jurisdiction	What is the maximum number of units that can receive ministerial approvals outside of SB 35 provisions?
Atascadero	11 (unless on a designated site in the housing element)
City of San Luis Obispo	No max threshold
County of San Luis Obispo	38
Pismo Beach	No Response
Paso Robles	1 outside of State intervention; 3 when including ADUs and JADUs; 4 utilizing SB9
Morro Bay	2 dwelling units and multifamily projects of 6000 sf or less, single-family homes under 2500 sf
Arroyo Grande	No Response
Grover Beach	No cap per year, or within the jurisdiction. SB 35 unit limits are based on land use density controls.

The jurisdictions differ on processing times for ministerial approvals. The Cities of San Luis Obispo, Paso Robles, and Grover Beach gave the shortest timelines. All three gave initial review timelines of a maximum of 1 month while the County gave a minimum time period of 6 months. For nonministerial approvals the estimates differed widely, but they ranged from 3 months to 18 months.

Other Examples

Sacramento, CA

As noted previously, the City of Sacramento received recognition by the state for its housing reform efforts, which included several measures related to streamlining approvals, including allowing projects of up to 150 units to bypass the requirement for a public hearing and qualify

for ministerial approval. The city set a 90-day timeline for ministerial approval of these projects.²⁶ It also allowed single-unit, duplex, and multiunit dwelling to be built by-right.²⁷

Oakland, CA

The City of Oakland introduced a “one stop shop” for permits that coordinates between three permitting departments to streamline and simplify procedures for developers. The departments are Fire Prevention Services, Planning & Building, and Transportation. Oakland introduced the “one stop shop” in September 2021.²⁸

Grand Rapids, MI

According to a study by the Turner Center, zoning reforms in Grand Rapids, MI, (which included upzoning, allowing a wider range of housing types by-right and other changes) found a balance between opportunities for community input and streamlined project approvals. “If projects conform to zoning and design guidelines, the project is approved within approximately six weeks. Moreover, it is nearly unheard of for the city to deny a project application, largely because complying with the city’s land use regulations has proven to be straightforward for developers. City officials noted that the predictability of their approval process has resulted in more interest in development in their community.”

Preliminary Recommendations

- **Expand eligibility for ministerial approvals:** For jurisdictions that currently limit availability of ministerial approvals based on the number of units, this threshold could be increased (e.g., to 150 units) or eliminated for multifamily developments in medium and high-density residential zones.
- **Have staff review projects using ODS:** Even if the review is not considered truly ministerial, avoiding having a body accustomed to doing discretionary reviews serve as the approval body for projects subject to ODS could help streamline the process and avoid raising concerns that cannot be addressed.

²⁶ Herriges, Daniel. “Did Sacramento Just Approve the Best Local Housing Reform Yet?” Strong Towns, January 21, 2021. <https://www.strongtowns.org/journal/2021/1/21/did-sacramento-just-approve-the-best-local-housing-reform-yet>.

²⁷ “Sacramento Becomes First California Jurisdiction to Earn State Prohousing Designation.” California Department of Housing and Community Development, February 24, 2022. <https://www.hcd.ca.gov/about-hcd/newsroom/sacramento-becomes-first-california-jurisdiction-to-earn-state-prohousing-designation>.

²⁸ “One-Stop Permit Center: In-Person & Expanded Digital Services,” City of Oakland, accessed June 26, 2023, <https://www.oaklandca.gov/resources/one-stop-permit-center>.

Density Limits and Parking Requirements

Description

If an area is zoned to allow multifamily but the maximum density is too low, it can preclude efficient multifamily development. As noted above, while California jurisdictions are required to allow density bonuses and other regulatory concessions for qualifying affordable housing developments, this does not apply to ABD housing where units are market-rate but offer affordability for moderate-income households. Some jurisdictions use “fractional density,” in which small units are counted as a fraction of a unit for purposes of density calculations. This approach is more aligned with ABD housing. Other jurisdictions simply increase (or even remove) their maximum density standards for all housing to prioritize housing production.

Reducing or eliminating minimum parking requirements can also be a tool to encourage ABD development and can be an important complement to higher-density limits because achieving higher densities sometimes requires lower parking ratios (e.g., for the microunits and compact walk-up apartment prototypes analyzed in Part 1). Reducing parking requirements also eliminates a mandatory cost for developers and can lower rental costs for households in some cases. However, in areas where there is strong market demand for parking, developers may choose to build parking even if it is not required, or they may choose to build more than is required to meet market demand.

Current Practice for SLOCOG Jurisdictions

The survey asked the departments to list their jurisdictions highest-density zones and the maximum by-right density in those zones. Their answers are listed in Figure 23.

Figure 23: Summary of Responses from SLOCOG Jurisdictions regarding Multifamily Density

Source: ECONorthwest based on survey of SLOCOG jurisdictions

Jurisdiction	Which zones in your jurisdiction allow the highest residential density? What is your maximum by-right density in these zones?
Atascadero	RMF-24 - 24 units per acre
City of San Luis Obispo	C-D - 36DU/acre, C-C 36DU/acre
County of San Luis Obispo	Residential Multifamily (<i>density not specified</i>)
Pismo Beach	Our Residential Very High Density overlay zone. Once a property is rezoned with the overlay, it is 50 units per acre.
Paso Robles	T4-N, T4-F, T4-NC, TC-1, TC-2, and RSC all allow up to 30 units/acre
Morro Bay	RH (Residential High Density). Currently 2 units by-right or Multifamily projects with total sf of 6,000 or less.
Arroyo Grande	Multifamily Very High Density and mixed-use zones allow up to 25 du/acre
Grover Beach	No Response

The City of San Luis Obispo also utilizes fractional density for all zones outside the AG, C/OS, and R-1 zones. The City of Paso Robles also allows fractional density in some of its zones. The details are included in Figure 24 below.

Figure 24 Summary of Responses from SLOCOG Jurisdictions regarding Fractional Density

Source: ECONorthwest based on survey of SLOCOG jurisdictions

Jurisdiction	Housing Type	Fractional Density
City of San Luis Obispo	Studio and one-bedroom dwellings less than 600 sq. ft.	.5
	One-bedroom dwellings between 601–1,000 sq. ft.	.66
	Two-bedroom dwelling	1
	Three-bedroom dwelling	1.5
	Dwellings with four or more bedrooms	2
Paso Robles	Studio and one-bedroom dwellings less than 600 sq. ft.	.5
	One-bedroom dwellings 600–1,000 sq. ft.	.66
	Dwellings with two or more units	1

Other Examples

San Diego, CA

The City of San Diego introduced several changes to its density bonus program in 2018. The new program language included several provisions that offer bonuses for smaller units:²⁹

- A 10 percent density bonus for developments that do not go beyond the maximum permitted building footprint.
- A 100 percent density bonus for microunit production for developments that do not go beyond the permitted building footprint.

Cottage Grove, Oregon

The small city of Cottage Grove, Oregon, recently eliminated maximum density limits in its residential zones. Minimum lot size standards apply but do not scale with the number of units, meaning they are primarily a constraint on density for single-unit detached development. Multifamily development is limited only by height and building coverage standards.³⁰

²⁹ “City of San Diego Density Bonus Regulations for Affordable Housing,” San Diego Housing Commission, accessed June 20, 2023, <https://www.sdhc.org/doing-business-with-us/developers/density-bonus/>.

³⁰ City of Cottage Grove Municipal Code, Chapter 14.22 Residential Districts: <https://www.codepublishing.com/OR/CottageGrove/#!/CottageGrove14/CottageGrove1422.html#14.22.120>

San Jose, CA

The City of San Jose (along with Sacramento, San Diego, and San Francisco) eliminated their parking minimum requirements in December 2022. In the same ordinance that repealed the parking minimums, the city council also included requirements for bicycle parking to encourage other forms of transportation.³¹

Preliminary Recommendations

- **Adjust density limits in high-density residential and mixed-use zones:** This could take several different forms:
 - For density limits expressed in dwelling units per acre, increase the maximum density allowed by-right. Allowing at least 35 units per acre will generally allow for three-story walk-up apartment development, which may meet ABD criteria. Higher densities may be appropriate for downtown areas and mixed-use development.
 - Use floor area ratio (FAR) or other physical form limits (e.g., height) to regulate the amount of development. This can serve as an incentive for building smaller units.
 - Use fractional density or a density bonus to encourage smaller units.
- **Reduce or eliminate minimum parking requirements for smaller units:** Require less than one space per unit for small units and/or exempt microunits in downtown or mixed-use areas from parking requirements.

Zoning Vacant Land for Multifamily Housing

Description

Many jurisdictions seek to focus higher-density development in core areas, downtown, or near transit. However, these areas are often largely developed already, and redevelopment means higher land costs along with demolition and sometimes environmental remediation costs. Zoning vacant land for multifamily housing can offer a lower-cost development opportunity, particularly if the land has or is near the necessary infrastructure to support development. This makes it easier for ABD multifamily housing projects to be economically viable.

Current Practice for SLOCOG Jurisdictions

All but two jurisdictions noted that they had vacant sites listed on their Housing Element in their densest zones. Atascadero noted the vacant sites are very small and Arroyo Grande and County of San Luis Obispo did not list any vacant sites. Figure 25 below lists all the responses.

³¹ Kamisher, Elyahu. "Bye-Bye Parking Requirements: San Jose Becomes Largest City in U.S. to Abolish Minimum Parking." The Mercury News, December 7, 2022. <https://www.mercurynews.com/2022/12/07/bye-bye-parking-requirements-san-jose-becomes-largest-city-to-abolish-minimum-parking/>.

Figure 25: Summary of Responses from SLOCOG Jurisdictions regarding Vacant Land Zoned for High-Density Housing

Source: ECONorthwest based on survey of SLOCOG jurisdictions

Jurisdiction	Are there vacant sites listed on your Housing Element in your highest-density zones?
Atascadero	yes...with a caveat that they are small, since the original colony subdivided in 1913
City of San Luis Obispo	Yes
County of San Luis Obispo	None listed
Pismo Beach	Yes
Paso Robles	Yes
Morro Bay	Yes
Arroyo Grande	No
Grover Beach	Yes

Other Examples

Study on Upzoning in Portland, OR

A recent study on the impact of upzoning and higher-density zoning on development and housing production in Portland, OR, found that “both upzoning and higher density zoning led to significantly greater development probabilities, higher development densities, and more housing supply,” suggesting that “upzoning could be an effective policy tool for increasing housing supply, particularly when it is applied to vacant and underutilized parcels.”³²

Preliminary Recommendations

- Zone vacant buildable sites large enough to accommodate multifamily development to allow it by-right at an appropriate density. Ideally, this would include sites over an acre with access to infrastructure.

Aligning Infrastructure Investments

Description

The cost of extending or upgrading infrastructure (e.g., roads, sewer, and water lines) to serve a site can be cost prohibitive for ABD housing. It also adds significant time and uncertainty to the development process. To the extent that jurisdictions can invest in the infrastructure upgrades and extensions needed to make ABD housing development possible, this can mean substantial cost savings and a major increase to development feasibility.

³² Hongwei Dong, “Exploring the Impacts of Zoning and Upzoning on Housing Development: A Quasi-Experimental Analysis at the Parcel Level,” *Journal of Planning Education and Research*. February 1, 2021. <https://doi.org/10.1177/0739456X21990728>

Current Practice for SLOCOG Jurisdictions

The Regional Housing & Infrastructure Plan (HIP) is a collaborative action plan between the seven Cities, County of San Luis Obispo, and SLOCOG in response to the region's growing housing and infrastructure shortage. The HIP is intended to help accelerate housing development where it makes the most sense given regional conditions and readiness. The HIP inventories infrastructure barriers to housing, identifies funding to implement infrastructure needs, and develops foundational information for the future 2027 Regional Housing Needs Assessment (RHNA). The 2023 HIP identified 80 water, wastewater, and transportation infrastructure projects and possible grant funding sources.

Other Examples

Bend, OR

The City of Bend, Oregon, conducted a study in 2018 to evaluate infrastructure and planning needs to make land development-ready in various areas of the city, including areas on the edge that had been recently authorized for development with complete communities, a range of housing types, and commercial services and infill/redevelopment "opportunity areas." The study analyzed the type and amount of development that each area was expected to yield (including affordable housing); the cost of providing needed water, sewer, and/or transportation improvements; other factors that could inhibit development; and estimated revenues from impact fees and property taxes from each area. The analysis informed decisions about where to focus staff time, political will, planning energy, and infrastructure investments.³³

Preliminary Recommendations

- Use the ongoing HIP process to prioritize infrastructure investments that can unlock multifamily development in appropriate areas.

Adjusting Impact Fee Policies or Rate Structures

Description

While impact fees are a vital source of funding for local infrastructure needs, they tend to disproportionately affect the feasibility of building smaller and lower-cost housing units.³⁴ This is particularly true when the fee structures do not account for differences in impact based on

³³Bend Growth Management Department in collaboration with Angelo Planning Group, ECONorthwest, Cascadia Partners, DKS Associates, and MURRAYSMITH, "Bend Urban Growth Boundary Implementation Return on Investment Analysis and Next Steps," April 26, 2018.

<https://www.bendoregon.gov/home/showpublisheddocument/36542/636637940683270000>

³⁴ ECONorthwest on behalf of Oregon Housing and Community Services, "Oregon System Development Charges Study: Why SDCs Matter and How They Affect Housing," December 2022.

https://www.oregon.gov/ohcs/development/Documents/Oregon%20SDC%20Study_FinalReport_121422.pdf

unit size or location-efficient developments. While many localities in California waive impact fees for affordable housing, this does not apply to ABD housing. A full waiver of impact fees is not necessarily an appropriate policy measure for ABD housing; however, there are other adjustments that jurisdictions can make to reduce the effects of impact fees on ABD housing. For example, impact fees can be deferred until later in the construction process or financed over a period of years. Rate structures can also be adjusted to account for reduced demand from smaller units while keeping the overall average rates constant to minimize the impact to revenue collections.

Current Practice for SLOCOG Jurisdictions

Impact fee policies vary across the jurisdictions. Three jurisdictions—Morro Bay, Arroyo Grande, and Grover Beach—do not offer any impact fee deferrals. Most other jurisdictions allow deferral or exemptions for affordable housing projects. Atascadero indicated that all impact fees are deferred for all developments.

All the jurisdictions indicate that their impact fees vary by housing type/unit size. Some vary by unit type, lot size, or zoning. Some are lower for affordable units. Others vary based on square footage. Specific answers are listed in Figure 26 below.

Figure 26: Summary of Responses from SLOCOG Jurisdictions regarding Impact Fee Variables

Source: ECONorthwest based on survey of SLOCOG jurisdictions

Jurisdiction	If your impact fees vary by housing type and/or unit size, please describe which fees and what the variables are (e.g., housing type / ITE code, square footage, number of bedrooms, etc.).
Atascadero	Vary by lot size, zoning
City of San Luis Obispo	Transportation, water, wastewater, are reduced for smaller units (based on square footage).
County of San Luis Obispo	Certain building types may qualify for fees based on square footage of project
Pismo Beach	By unit type, yes. Not by unit size.
Paso Robles	They vary by "Transportation Area" within the City and the fee can vary by size/sf
Morro Bay	Size and cost of project.
Arroyo Grande	Fees are lower for low and very low income units
Grover Beach	Housing type, square footage, etc.

Other Examples

Fontana, CA

The city of Fontana, CA, reduced its impact fees for infill development by 50% as part of their Housing Element update in June 2021. City officials defined infill development as development

in the central third of Fontana.³⁵ Projects located in that zone were eligible for this impact fee reduction. Impact fees can range from “approximately 9.3% to 10.3% of the direct cost of development for a single-family residential project and 4.3% to 4.4% for a multi-family residential project” which can represent a significant cost for the developer.³⁶

Preliminary Recommendations

- **Scale by unit size:** Wherever reasonable, adjust impact fees by unit size to reflect lower impacts from smaller units. This could also mean increasing fees for larger units so that the change is revenue neutral.
- **Defer collection:** Allow deferral of the impact fee until occupancy for multifamily development regardless of whether it includes affordable units.
- **Adjust for infill locations:** Set fee rates lower where infrastructure needs are lower due to proximity to existing facilities. This can offset some of the higher cost of building in close-in, more developed areas.

CONCLUSION

This study suggests that affordable-by-design housing can potentially help meet the needs of some moderate-income households in SLO County without public financial support. While it cannot meet the housing needs of all low- or moderate-income households, and lasting affordability is not guaranteed, it can leverage the market to meet one segment of housing needs and allow public and philanthropic financial resources to focus on deeper affordability and more challenging housing needs.

Although there are substantial challenges to developing ABD housing in SLO County, jurisdictions can implement a variety of regulatory and planning measures to remove barriers to this type of development and support housing production at a moderate price point. This study is intended to offer recommendations for SLOCOG members, policymakers, developers, and advocates to consider as part of their affordable housing strategies.

³⁵ “City of Fontana 2021-2029 6th Cycle Housing Element” (City of Fontana, CA, June 25, 2021), 4–6, <https://www.hcd.ca.gov/housing-elements/docs/fontana-6th-draft062521.pdf>.

³⁶ “City of Fontana 2021-2029 6th Cycle Housing Element,” 3–27.