

Alex Medina

From: Kurt Canfield <yeskurtcan@gmail.com>
Sent: Friday, December 13, 2024 10:18 PM
To: PlanningCommissioners
Cc: Rex Richardson; Council District 1; Council District 9; Council District 2; Council District 3; Council District 4; Council District 5; Council District 6; Council District 7; Council District 8; Alex Arellano
Subject: Inclusionary Zoning Housing Policy Update - OPPOSE

-EXTERNAL-

Dear Commissioners,

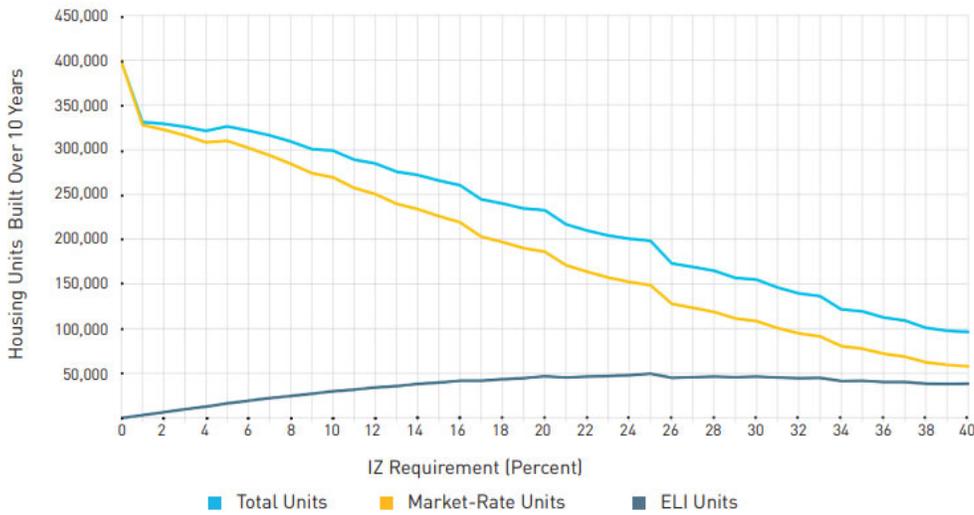
The upcoming policy changes before you reflect a desire to make Long Beach a more affordable city for its residents. This goal is commendable. However, requiring subsidized affordable housing as part of every development greater than 10 units will not achieve this goal. In fact, it may be a deterrent to broader affordability overall. The tradeoff we make when we require inclusionary zoning (IZ) is that many more projects will no longer "pencil out," or make economic sense for a private developer to build without subsidy. So while some residents will be able to enjoy 30 years of below market rent, many more who did not win the affordable housing lottery will be paying more due to a reduced housing stock when compared to no IZ requirement.

We are getting in our own way

The development market has been hot in Long Beach, as it has throughout almost all of California. Fully in the midst of a housing crisis, we are reaping the effects of zoning practices and decisions from decades prior. We built too little for far too long, and demand to live in California did not subside during all those years of slow growth. Now, while the iron is hot, we are instead recommending a tax on development by requiring a private subsidy in the form of IZ. Not only will this result in a cooling effect on the development market within Long Beach, but it may lead to higher rents overall if far fewer units are constructed.

The Turner Center at Berkeley released a [report](#) in April of this year that concluded there are significant tradeoffs between below market-rate (BMR) and market-rate housing production. It states, "as the IZ requirement rises, there are diminishing returns to BMR production and accelerating losses to overall housing production. Beyond a certain level, higher IZ requirements produce less BMR and less market-rate housing." (page 2) Further, the author writes that "poorly calibrated IZ policies could lead to reduced housing production and higher rents and housing prices--or both." Their report includes a graph, shown below, that represents a simulation of total housing production over a 10-year period for various inclusionary zoning scenarios for the city of Los Angeles.

Figure 1. Simulator Model Outputs of 10-year Housing Production for IZ Scenarios Ranging from 0 to 40% IZ



As shown above, with even 1% of IZ, the total housing production falls by approximately 18%. Los Angeles currently has an IZ of 11%, and this report estimates that this requirement costs its residents about 140,000 units of additional housing per year. In other words, if Los Angeles were to eliminate its IZ policy, this model predicts 38% more housing would be built in Los Angeles over a ten year period.

Trading 38% more housing for 11% deed restricted affordable housing does not seem like a sensible trade.

To better understand what we are giving up by requiring inclusionary zoning, the report provides a breakdown of the changes in total housing units at multiple IZ requirement levels, shown below:

Table 2. Simulator Model Outputs for Housing Production Over 10 Years Under Selected IZ Scenarios with TOC Bonuses

| IZ Requirement | 0% | 11% | 16% | 25% | 40% |
|--|---------|-----------|-----------|-----------|-----------|
| Privately-Subsidized ELI Units | 0 | 31,800 | 41,700 | 49,500 | 38,500 |
| Market-Rate Units | 398,800 | 257,200 | 218,700 | 148,500 | 57,700 |
| Total Housing Units* | 398,800 | 289,000 | 260,300 | 198,000 | 96,200 |
| Change in Market-Rate Units Relative to 0% IZ* | - | (141,600) | (180,200) | (250,300) | (341,100) |
| Market-Rate-to-ELI Unit Exchange Rate** | - | 4.5 | 4.3 | 5.1 | 8.9 |

Notes: *May not sum to total due to rounding.

**Exchange rate is the ratio of market-rate units lost to ELI units gained relative to a 0% IZ baseline.

Note that this table was created to simulate the city of LA. At an 11% IZ requirement, the tradeoff when compared to 0% is 141,600 market rate units for 31,800 affordable ones. This is reflected in the "exchange rate" in that for every individual affordable unit, we trade 4.5 market rate ones. Further, as the IZ is increased, the situation only gets worse as fewer and fewer units get built. At 25% IZ, housing production is **cut in half** compared to 0% IZ.

But this is postulation from one simulation. A meta analysis of six studies on inclusionary zoning and its effects on affordability is documented in this [brief from George Mason University](#). In it, they report that four of the six studies found that inclusionary zoning increases prices and two found no effect. However, no studies of its effects suggest that it increases housing supply or contributes broadly to lower prices. [One of the studies](#) which focused on cities in California that adopted inclusionary zoning policies between 1980 and 1990 found that on average those cities ended up with **8 percent fewer homes and 9 percent higher prices**. (page 61)

With a RHNA goal to produce 26,502 units by 2029, Long Beach is well behind where it should be in terms of housing production. According to Long Beach's progress report, we have permitted only 8.6% of our total 6th cycle RHNA allocation, and we are 37.5% of the way through the 6th cycle. We should not be proposing policies that slow down housing production in the midst of a housing crisis.

If you build it, affordability will come

The city of Austin, TX, experienced a massive housing shortage during the pandemic like many cities across America. In 2021, the average monthly rent rose 25%, similar to what was experienced here in California. However, following drastic parking reforms and record permitting, tens of thousands of new apartments opened and rent prices *fell* 3.5% between August 2022 to August 2023. Scaling up housing efforts is ultimately what softens the blow of severe housing demand, and in 2021 Austin rose to meet those challenges. In that year, **Austin permitted 2,158 units per 100,000 residents**, far outstripping the next closest large metro (Phoenix) by a factor of two. For comparison, in that same year **Long Beach permitted 60 units per 100,000 residents**. In 2023, we increased that number to 225 units per 100,000 residents, barely a tenth of what Austin accomplished. The answer doesn't require complicated concepts to understand: we simply need to build more housing, and we need to stop finding novel ways of stopping it.

Questions to consider

As a member of the public who attended the policy open houses, one thing that was not discussed at any of the information boards was **why 11 percent?** The answer provided to me personally was "this is what our consultant gave us" and none offered more information. Not even Connor Locke, the deputy mayor of housing, could tell me why we are landing at 11%. Is it because this is what Los Angeles selected, and it just seems "good enough"? How many units have we decided is the "right amount" to sacrifice for affordable ones?

Has anyone tried to do the math, and what is the number of units we expect to **not** be constructed if we take this policy citywide? We need to understand our opportunity cost in order to make our best guess as to whether this policy will be more helpful or harmful to affordability in the end.

My personal opinion is that no, this policy will not provide greater affordability, and cities like San Jose that have successfully killed their construction demand through onerous affordability requirements are evidence of that. There, building permits fell by 40% in 2020 after San Jose required 15% of for-sale units to be affordable and 9% of rental properties. I fear that groups that are pushing for even more stringent affordability demands do so with an ultimate desire to crush housing production within Long Beach, either because they hate developers or because they want their property value to keep rising, or both.

Please reconsider adopting this policy citywide.

Best,

Kurt Canfield

Member

Everybody's Long Beach (chapter of Abundant Housing LA)