

Integrated Housing Policies: Pasadena

This brief is part of the Turner Center series “Statewide Goals, Local Tools: Case Studies in Affordable Housing Development in California.”

The lack of affordable housing in California is the result of a variety of interrelated factors, and any successful strategy for alleviating the housing crisis must be similarly multifaceted. Developing a cohesive approach, based on a variety of methods for both preserving and producing housing affordability, is itself a worthy, but uniquely challenging goal.

Since 2001, Pasadena has facilitated the construction or rehabilitation of 1,370 units of affordable housing through a highly integrated mix of housing goals, policies, and programs that align with the state’s climate change and racial equity goals. The following case study highlights how local governments dedicated to increasing the supply of housing can choose among a number of policy tools that go beyond statutory requirements to develop an impactful affordable housing strategy.

Background

Pasadena, California is a moderate-sized city within the greater Los Angeles metropolitan area. The average household income of its 140,000 residents outstrips Los Angeles County average by more than \$15,000.¹ Between 2000 and 2010, prices for single-family homes in Pasadena doubled, and apartment rental costs became increasingly unaffordable to moderate-income households. During the same time period, Pasadena’s African-American population declined by 26 percent. Pasadena’s housing affordability challenges are intertwined with socioeconomic and racial inequities.²

The city’s high housing costs stem in part from a historic housing shortage³ relative to population growth throughout the San Gabriel Valley and greater Los Angeles metropolitan area. Pasadena’s rental and ownership costs have become unaffordable even to many high-income earners.^{4/5} The city responded to a growing concern over the rapid escalation of housing costs⁶ in its Housing 2000 Vision, which laid out a goal of “a socially and economically diverse community of homeowners and renters who are afforded ... an equal right to live in decent, safe and affordable housing.” Following this pronouncement, the city sponsored a series of community workshops that led to the adoption of its Inclusionary Housing Ordinance in 2001.⁷ In the years that followed, the city also adopted a Housing Incentives Fee Program (2004),⁸ passed a Density Bonus Ordinance (2006),⁹ established a Housing Affordability Task Force (HATF),¹⁰ and conducted a monthly series of Affordable Housing Luncheons hosted by the Office of the City Manager, concluding with the Pasadena Housing Summit in 2006.¹¹

The city also contracted PlaceWorks (formerly known as the Planning Center) and Urban Land Institute’s (ULI’s) Technical Assistance Panel to research and recommend strategies to increase the supply of affordable housing. In 2007, a ULI panel was convened to analyze and evaluate Pasadena’s 50 existing and proposed housing programs.¹² The panel found that in spite of significant programmatic efforts, the city had not been able to stem the impact of market conditions that resulted in displacement, less housing and social diversity, higher prices, gentrification, and the relocation of young families.¹³ The culmination of these findings was published in the report *Housing Agenda for Action* and was used to inform Pasadena’s 2008-2014 and 2014-2021 Housing Element updates.

Integrated Housing Policies

To facilitate the improvement and development of housing for all economic segments of the community, every city in California is required to adopt a Housing Element as a part of its general plan. While cities have considerable flexibility in drafting other elements of their general plans, Housing Elements must comply with several statutory provisions. Local governments that prioritize increasing the supply of affordable housing are not limited by the statutory requirements, and can develop affordable housing strategies that promote growth and emphasize linkages to transit and employment beyond the minimum requirements.

Pasadena exemplifies this approach. To increase the supply of affordable housing, Pasadena administers a comprehensive program to support the development and financing of new construction, rehabilitation, and preservation of rental and ownership housing, with an emphasis on lower-income households. Through its Housing Element, Pasadena also provides policy guidance designed to: stimulate mixed-use and transit-oriented development (TOD) around the city's Metro Gold Line stations and neighborhood village centers; encourage affordable housing production through inclusionary incentives; preserve neighborhoods and historic districts; incorporate sustainable land use policies; and address the priorities of groups with special needs.¹⁴

Inclusionary Housing (IHO)

Inclusionary housing (also known as inclusionary zoning) refers to policies that require developers of new multifamily rental or ownership housing to include affordable units designated for low- or moderate-income households for a predetermined period. Different inclusionary housing policies require different levels of affordability.¹⁵ Inclusionary ordinances also allow developers to donate land, provide the units off-site, or pay a fee in lieu of constructing new affordable units. This fee is published by the city (commonly referred to as an in-lieu fee schedule), and is periodically revised to reflect changes to the Area Median Income (AMI) and changes in market prices for newly constructed rental and ownership units in that jurisdiction. In-lieu fees collected from developers are in turn used by the city to subsidize other affordable housing projects.

The centerpiece to Pasadena's housing strategy is its Inclusionary Housing Ordinance (IHO).¹⁶ Pasadena's IHO requires residential developments of 10 or more units to set aside 15 percent of dwelling units as affordable housing.¹⁷ For rental projects, 10 percent of units must be affordable to low-income households, and 5 percent to moderate-income households, with those units remaining affordable in perpetuity. For homeownership developments, 15 percent must be affordable to moderate-income households, with resale and equity share requirements deed-restricted for 45 years. Developers may also provide fewer units at deeper affordability levels. Developers are also offered a menu of alternative options to satisfy their IHO requirements, which include building units off-site, paying an in-lieu fee, or donating land equivalent to the value of the fee.

Housing Incentives: Fee Reduction and Density Bonuses

To incentivize affordable housing production, cities may offer developers reductions in impact fees, building permit fees, construction taxes, and transportation fees. The more valuable the incentives, the greater the cost savings to the developer. This in turn can lead to the construction of more affordable units. These housing incentives require no direct expenditures on the city's part, making them more politically palatable.

Cities also have a variety of options for promoting the amount of residential space built on individual properties that go well beyond California's State Density Bonus Law (SDBL). Tools to support high-density development include increasing the maximum number of units, dwelling units per acre, maximum number of units per square foot of property, and maximum height. Other tools might include increasing the minimum lot area and maximizing the ratio of floor area to square feet of property. By changing the density in any area, cities can create significant opportunities for new high-density development that is both environmentally sustainable and fiscally affordable for the developer, the city, and future households.

For developers who choose to build on-site affordable housing in Pasadena, the city offers several incentives through its Density Bonus Ordinance¹⁸ and Housing Incentives Fee Program.¹⁹ Fee incentives include lower residential impact fees (\$861 compared to \$19,478 per-unit cost), a partial waiver of building permit fees, and a discounted traffic impact fee.²⁰ When combined, fees per unit for an affordable unit are 80 percent lower (\$13,516) than a market rate unit (\$73,378), and represent only 4 percent of construction costs.²¹ Pasadena also provides additional density bonuses of up to 50 percent for affordable housing units built in Pasadena's Central District with no discretionary review required.²²

Transit-Oriented Development (TOD)

A transit-oriented development is housing that is located within walking distance of a major transit stop or transit corridor and that is designed to encourage pedestrian travel without motor vehicles. Introduced in the late 1980s to mitigate sprawl and promote smart growth, TODs favor high-density infill development in amenity-rich locations near mass transit.²³ TODs also support California's climate change goals in that they can reduce greenhouse gas emissions by situating housing near employment centers.

Pasadena's housing goals are as much about location as supply. In 2006, the city adopted a Transit-Oriented Development Ordinance²⁴ to encourage development within 1/4 miles of light-rail stations.²⁵ To encourage mixed-use development within TODs, the city has relaxed and reduced open space requirements, and allows a greater building envelope. Because of these efforts, more than 50 percent of the affordable units produced under the city's IHO have been developed along major transit corridors with access to amenity-rich job centers. Pasadena's Department of Housing Director, William K. Huang, points out that by prioritizing link-

ages between transit and housing: “the city’s Inclusionary Housing policy has not only filled the affordable housing gap by causing the development of hundreds of affordable housing units, but it has resulted in the geographic de-concentration of new affordable housing production which is an outcome that previously was challenging to achieve.”²⁶

Implementation

The simultaneous implementation of these complementary policies has enabled Pasadena to add more than 5,000 units of housing to its stock since 2001. Of these units, 1,370 are considered affordable. To date, Pasadena’s in-lieu fee program has generated about \$19.6 million in revenues for the Inclusionary Trust Fund, and \$2 million has been leveraged through the state’s Local Housing Match Program.²⁷ Using these funds, the city has subsidized a variety of affordable housing projects, ranging from small urban infill homeownership developments to high-density senior housing.²⁸

Pasadena’s inclusionary housing program has produced 456 affordable units, with an additional 12 projects offering 118 inclusionary units currently in the project pipeline (Table 1).²⁹ Of those projects currently underway, 98 are rental housing and 20 will be for sale. Of these, 86 units are affordable to low- and very low-income households, and 32 units are attainable for moderate-income households.³⁰ At present, Pasadena’s IHO program represents nearly 20 percent of the affordable housing stock in Pasadena.³¹

Throughout the process of forming its housing strategy, Pasadena maintained a dialogue with the community and other stakeholder groups. This collaborative approach between city departments, public and private agencies, local businesses, and community

Table 1: Inclusionary Housing Units Produced in Pasadena

| | Very Low | Low | Moderate | Total | % |
|-----------------|----------|-----|----------|------------|-----|
| Rental | 106 | 65 | 246 | 417 | 91 |
| For-Sale | 2 | 2 | 35 | 39 | 9 |
| Total | 108 | 67 | 281 | 456 | 100 |
| % | 24% | 15% | 61% | 100% | |

Source: Pasadena Inclusionary Housing Ordinance presentation

members was fundamental to Pasadena’s efforts. According to Huang, “gaining public acceptance is a prerequisite,” from policy formation to project development.³²

Pasadena’s housing program has experienced setbacks, both in its programmatic design and sensitivity to market forces. While the primary goal of the IHO was to encourage developers to construct inclusionary housing units within market rate projects, initial in-lieu fees set at 75 percent of the cost of developing affordable units encouraged most developers to pay the fee rather than build the units, placing the burden of production onto the city. In 2005, the city re-evaluated the ordinance and raised the in-lieu fee to

“full cost recovery” to encourage the production of inclusionary housing units on-site.

The second—and far greater—setback for Pasadena occurred with the onset of the Great Recession (2007-2009) and the subsequent reductions in federal and state funding. Between 2006 and 2014, the city’s funding through its IHO in-lieu fees, federal HOME funds, and redevelopment funds dropped by 85 percent, from \$8 million per year to just over \$1 million per year.³³ While the housing market has since recovered, bringing with it more inclusionary units and fees, state and federal funds remain flat, leaving the city with less funding to leverage.

In response to lowered funding, housing advocates are now pushing to raise the inclusionary requirement from 15 percent to 20 percent of affordable units.³⁴ However, the debate around inclusionary housing remains contentious. While advocates argue that raising inclusionary requirements on a project will produce more affordable units with little impact on the production and price of single-family housing, opponents argue that higher inclusionary requirements will dampen housing production.³⁵

Lessons Learned

- » **Political will, programmatic guidance, and community engagement are key.** Technical assistance and expert guidance are necessary to ensure that local land policy becomes an effective tool for generating homes that people from the local community can afford. Political buy-in and community support are also needed to make sure that housing policies have effective incentives.
- » **By adopting a comprehensive combination of policies and programs, cities can significantly increase affordable housing supply.** Whether the right type of housing is built in the right places largely depends on the interaction between land use controls and market conditions. Cities need to adopt not one but a suite of policies to support affordable housing development.
- » **Program evaluation ensures that programs evolve to meet community needs.** While various policies can work together to promote housing affordability, they can have inadvertent consequences for production. To assess the impact of efforts to expand housing supply, cities should plan for the ongoing evaluation of policies and programs.

Useful Sources

Association of Bay Area Governments, California Housing Element Best Practices
<http://abag.ca.gov/files/HousingElementPoliciesBestPracticesv2.pdf>

Endnotes

1. Author's calculations using 2012-2016 American Community Survey data
2. The Planning Center and Karen Warner Associates. (2010). "City of Pasadena General Plan - Housing Element 2008-2014." City of Pasadena.
3. During the 1990s, municipalities in the San Gabriel Valley produced on average only one housing unit for every eleven new residents. See: The Planning Center and Karen Warner Associates. (2010). "City of Pasadena General Plan - Housing Element 2008-2014." City of Pasadena.
4. Wong, J. (2013). "Pasadena Housing Element 2014-2021." PowerPoint, Planning Commission, Pasadena Planning Commission.
5. The Planning Center. (2007). "Housing Agenda for Action - A Planning Report for the City of Pasadena."
6. Between 1998-2007, Pasadena experienced rapid changes to its housing market, tripling the median sales price for housing. The increase in housing costs was the result of rising land value, high construction costs, and low vacancy rates, and relaxed lending practices. See: The Planning Center and Karen Warner Associates. (2010). "City of Pasadena General Plan - Housing Element 2008-2014." City of Pasadena.
7. City of Pasadena Zoning Code, § 17.42
8. The Planning Center. (2014). "2014-2021 Pasadena Housing Element." City of Pasadena.
9. City of Pasadena Zoning Code, § 17.43
10. Formed in 2002, the Housing Affordability Task Force (HATF) is a committee dedicated analyzing and assessing current and new housing programs in addition to exploring new housing initiatives to increasing housing opportunities. Members of the committee include: residents, housing advocates, developers, community groups, and others. See: The Planning Center and Karen Warner Associates. (2010). "City of Pasadena General Plan - Housing Element 2008-2014." City of Pasadena.
11. Ibid.
12. Ibid.
13. ULI Advisory Services and Technical Assistance Panel, "City of Pasadena - Housing Agenda for Action" (The Urban Land Institute, 2007), <https://la.uli.org/wp.../sites/.../City-of-Pasadena-Housing-Agenda-for-Action-2007.pdf>.
14. The Planning Center, "2014-2021 Pasadena Housing Element."
15. Typically, affordability requirements refer to the Department of Housing and Urban Development's income limits, which are based on percentages of area median income (AMI). Extremely low-income is up to 30 percent of AMI; very low-income is up to 50 percent of AMI; low-income is up to 80 percent of AMI; and moderate-income is up to 120 percent of AMI. The term "lower-income" is usually used to refer to extremely low-, very low-, and low-income. See: HEALTH& SAF. CODE, § 50079.5.
16. City of Pasadena Zoning Code, § 17.42
17. City of Pasadena Zoning Code, § 17.42.040
18. City of Pasadena Zoning Code, § 17.43
19. Program 12, See: The Planning Center. (2014). "2014-2021 Pasadena Housing Element." City of Pasadena.
20. Ibid.

21. Ibid.
22. Ibid.
23. Bernick, M. (1996). "Transit Villages: Tools for Revitalizing the Inner City," *Access*, no. 9: 13–17; Bernick, M. and Cervero, R. (1997). *Transit Villages in the 21st Century* (New York: McGraw-Hill); Cervero, R. (1996). "Jobs-Housing Balance Revisited: Trends and Impacts in the San Francisco Bay Area," *Journal of the American Planning Association* 62, no. 4: 492–511; Calthorpe, P. (1993). *The Next American Metropolis: Ecology, Communities, and American Dream* (New York: Princeton Architectural Press).
24. City of Pasadena Zoning Code, § 17.50.340
25. The Planning Center. (2014). "2014-2021 Pasadena Housing Element." City of Pasadena.
26. *Quoted in* Urban Land Institute & the Terwilliger Center for Housing. (2001). "Robert C Larson Housing Policy Leadership Awards - 2014 Winner" (Urban Land Institute).
27. Wong, J. (2016). "Pasadena Inclusionary Housing Ordinance" (Affordable Housing Workshop, Housing & Career Services Department). Retrieved from: ww5.cityofpasadena.net/housing/wp-content/.../City-presentation-April-12-2016-.pdf.
28. Ibid.
29. Wong, J. (2016). "Pasadena Inclusionary Housing Ordinance" (Affordable Housing Workshop, Housing & Career Services Department). Retrieved from: ww5.cityofpasadena.net/housing/wp-content/.../City-presentation-April-12-2016-.pdf.
30. Wong, J. (2016). "Pasadena Inclusionary Housing Ordinance" (Affordable Housing Workshop, Housing & Career Services Department). Retrieved from: ww5.cityofpasadena.net/housing/wp-content/.../City-presentation-April-12-2016-.pdf.
31. As of February 2016, there are 48 rent- and income-restricted affordable rental housing developments located in Pasadena offering a total of 2,284 units. These units were built with government (federal, state, county, local) funding assistance and/or pursuant to the City's Inclusionary or density bonus development requirements. There are four rental housing units under construction offering an additional 115 units. See: City of Pasadena, (2016). "Affordable Rental Housing." City of Pasadena.
32. ULI Advisory Services and Technical Assistance Panel, "City of Pasadena - Housing Agenda for Action."
33. The Planning Center, "2014-2021 Pasadena Housing Element."
34. Henry, J. (2016). "Why Pasadena's Recent Housing Boom Won't Last but Its Impact Will," *Local News, Pasadena Star News - Urban Planning*. Retrieved from: <http://www.pasadenastarnews.com/government-and-politics/20160826/why-pasadenas-recent-housing-boom-wont-last-but-its-impact-will>.
35. Basolo, V. (2011). "Inclusionary Housing: The Controversy Continues." *The Town Planning Review* 82, no. 2: i – vi, doi:10.3828/tp.2011.9.

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