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City of National City
Housing Advisor Committee

Re: Item A.3 – Draft Regulations for House National City Program
Housing Advisory Committee Meeting, February 6, 2023

Chair and Members of the Committee,

I applaud the City's efforts to incentivize housing production through creative programs and find that the House National City Program (Program) will be essential in helping the City meet its housing goals. My role in the process is on the development side as I represent a large-sized commercial property owner who is interested in redeveloping their site into multi-family residential use.

After reviewing the latest draft regulations, I request the Committee consider the following in its review and recommendations to the Planning Commission and City Council.

1) Amend DIF/TDIF Exemption Criteria:

   Request the City use an "average unit size" greater than 800 sf (in lieu of individual unit size) for all units in a project to obtain the DIF/TDIF exemption. This modification would apply to proposed NCMC 18.49.060(C).

   As proposed, all affordable units are exempt from DIF/TDIF (regardless of size) and any other unit over 800 sf is also exempt from DIF/TDIF. However, for a project to be eligible in the Program, either 10% of all units (regardless of bedroom count) must be set-aside for very low-income households (50% AMI) or 10% of all units must be three-bedroom units set-aside for low-income households (80% AMI). It is clear that the City's goal in the Program is to encourage the development of affordable three-bedroom units. This is achievable but the City's combined DIF/TDIF of $3,878.21/unit is a significant cost for a high-density development.

   Typical three-bedroom units are 900 sf and will already exceed the individual unit size exemption for DIF/TDIF. As such, if a developer chooses to use the second eligibility criteria to qualify for the Program (10% affordable three-bedroom units), the three-bedroom units would be exempt from DIF/TDIF anyway due to the affordable unit exemption. In other words, a developer loses incentive to include three-bedroom units in a project and, instead, may opt to instead go with the first eligibility requirement (10% very low-income units). This is because a developer could maximize the DIF/TDIF exemption with more units (studios and one bedrooms) in a project. By using the first eligibility requirement, a developer could adjust unit sizes over 800 sf (studio and one-bedroom units) and not include any two- or three-bedrooms in a project. However, if the DIF/TDIF exemption was applied based on “average unit size” in a project, then a developer might be more likely use the second eligibility requirement (10% of affordable three-bedroom units) because the three-bedroom units would increase the average unit size of the project. Furthermore, a developer may increase the overall size (and bedroom count) of other units to increase the average unit size above 800 sf (e.g., by focusing more on larger studios and one-bedrooms and including two-bedroom units in a design) to gain the exemption.

2) Adjust Allowance for Incentives:

Request the City allow one of the project’s Incentives to be applied to lower the DIF/TDIF threshold less than 800 sf, whether this is applied by individual unit size or average unit size. For example, use of an incentive could provide a 100-sf reduction in the DIF/TDIF exemption threshold. This would apply to proposed NCMC 18.49.060(F)(2) which proposes to limit incentives use for a direct financial incentive or an incentive to be used for any of the Program requirements.

Alternatively, by allowing a developer to use an incentive to reduce the DIF/TDIF exemption threshold by 100 sf, a developer could be encouraged to use the second eligibility requirement (10% of affordable three-bedroom units) and obtain one additional incentive (for a total of four). Further, having the ability to use an incentive for this purpose would directly provide an identifiable, actual cost reduction in the project. It is estimated that this could save a project hundreds of thousands of dollars in project savings which could be used to subsidize the cost of developing affordable three-bedroom units in a project.

3) Consider the Need for More, Creative Incentives:

Finding creative incentives, such as a direct financial incentive described in #2 above, is important because some of the more common incentives (such as reductions on parking requirements) are no longer applicable due to State law. For example, AB 2097 (2022 legislation) went into effect on January 1, 2023 and prohibits public agencies from imposing or enforcing parking minimums on developments within one-half mile of a major transit stop. To be eligible for use of the Program, a site must be located in a transit priority area (TPA). This means that all sites eligible for the Program are also covered by AB 2097. As such, the provisions of AB 2097 made obsolete reduced parking as a feasible incentive available to a developer. It is true that a developer will want some level of parking in a project as indicated in the City's KMA report included with the staff report but considering reduced parking as a feasible incentive is no longer applicable by nature of State law.

I appreciate your consideration and look forward to the City's timely implementation of critical programs to facilitate housing production.

Sincerely,

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