

# Homeownership Outcomes

## Initial Staff Thoughts

### 1. Should affordable homeownership be a goal of the inclusionary ordinance?

Staff believes that the option of providing homeownership units should be kept in the ordinance, but that modifications should be made so that homeownership is targeted at a more moderate income level and that market appreciation is shared with the buyer. Especially for smaller developments, a more moderate homeownership option can be viable, as shown in the BAE Economic Analysis.

### 2. What should the income targets be for regulated inclusionary homeownership units? Why?

Given the challenges of homeownership at the very low income level, staff recommends that regulated inclusionary homeownership units be sold to families at or above low income (80% AMI). In addition, staff recommends that the homes be priced at least 10% below the maximum income limit, such that a home affordable to a low income (80% AMI) family would be priced at 70% AMI.

Selecting the correct income target is difficult given the current market instability. Staff does not believe that inclusionary units are marketable in the current market above low income (80% AMI) levels. However, a higher limit would be warranted if based on BAE estimates of market prices necessary to for economic viability.

### 3. How should the equity share be modified for regulated inclusionary units?

For policy and practical reasons, staff believes that the inclusionary homeowner should have greater access to the market appreciation. To discourage “flipping” of inclusionary homes, staff recommends at least a five-year share favoring the City (model “D” from the white paper), after which the homeowner should receive the majority of the market appreciation. This recommendation tilts the goals toward individual wealth building and away from long-term affordability. However, if income targets are higher then the “loss” of the affordable unit and the public benefit transfer to the individual is not as dramatic.

### 4. Should regulated inclusionary homeownership have re-sale restrictions? If so, how can the City fund the seller equity share?

There should be re-sale restrictions, for a minimum time frame, such that buyers are discouraged from “flipping” inclusionary homes. After this restrictive period, the seller should be allowed to sell on the open market, and pay the City its “share” of equity (minimal) from the sales proceeds. To pay for equity share during the initial time frame, staff recommends using proceeds from the City’s equity share recapture from other sales or a portion of in-lieu fees collected from other inclusionary developers, if equity share funds are not available.

### 5. “Natural” affordability provisions encourage the market to provide units that are below the market sales prices, by crediting such units, but do not require long term regulatory requirements. “Natural” affordability can be pegged against either the market or median incomes, and generally aim to capture that segment of the population that is just out of reach of homeownership.

**How should “natural” affordability be incorporated into the City’s inclusionary ordinance?**

Staff likes the idea of a “natural” affordability provision for several reasons, including

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- ✓ It addresses the segment just out of reach of the market instead of “skipping” over this group to lower incomes;
- ✓ It rewards market behavior (via product or area) that addresses affordability;
- ✓ It avoids the problematic aspects of long term regulations and restrictions.

However, staff has heard that the provision has not been used in other jurisdictions (San Diego and Pasadena) where it has been offered. In addition, selecting “natural” affordability targets (percentage and income) is complex, continually shifting with market dynamics. Staff is struggling with a viable approach to doing this.