

# INCLUSIONARY HOUSING FEASIBILITY STUDY: FINDINGS AND RECOMMENDATIONS

City of Montebello



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*The Economics of Land Use*

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# AGENDA

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- Review of Market Conditions
- Feasibility Methodology and Findings
- Recommendations and Next Steps

# REVIEW OF MARKET CONDITIONS

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## 6th Cycle Units by Region/Jurisdiction, 2021-29

Income Level	San Gabriel Valley	Montebello	Share of Montebello Units
Extremely Low Income	16,744	657	13%
Very Low Income	16,744	657	13%
Low Income	17,819	707	14%
Moderate Income	18,651	777	15%
Above Moderate	<u>48,726</u>	<u>2,388</u>	<u>46%</u>
<b>Total</b>	<b>118,683</b>	<b>5,186</b>	<b>100%</b>
<i>Share of SGV Region</i>		4.4%	

Source: San Gabriel Valley Regional Housing Trust; Economic & Planning Systems, Inc.

# MEDIAN HH INCOME AND HCD INCOME LIMITS

## City of Montebello

- Median Household Income: \$62,781
- Persons Per Household: 3.30
- *"Typical" household considered Low-Income within LA County*
- Median Sale Price (detached single-family home): \$635,000
- Median Rent (regional)
  - Monthly: \$2,671
  - Annual: \$32,052
- *Market rates not affordable to "typical" household in City*

### 2023 State Income Limits

Number of Persons in Household:		1	2	3	4	5	6	7	8
Los Angeles County Area Median Income: \$98,200	Acutely Low	10350	11800	13300	14750	15950	17100	18300	19450
	Extremely Low	26500	30300	34100	37850	40900	43950	46950	50560
	Very Low Income	44150	50450	56750	63050	68100	73150	78200	83250
	Low Income	70650	80750	90850	100900	109000	117050	125150	133200
	<b>Median Income</b>	68750	78550	88400	<b>98200</b>	106050	113900	121750	129600
	Moderate Income	82500	94300	106050	117850	127300	136700	146150	155550

Sources: US Census, Redfin, CoStar, LAHCD, CA HCD

# DEVELOPMENT TRENDS

## 3-Year Development Lens, Montebello (2019 - 2021)

Unit Type	Number of Units			
	Submitted	Entitled	Permitted	Completed
Single Family Detached	49	0	0	0
Single Family Attached	6	0	6	0
2 to 4 Unit Structure	10	0	0	2
5+ Unit Structure	<u>65</u>	<u>132</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>130</b>	<b>132</b>	<b>6</b>	<b>2</b>

Note: ADUs are excluded from unit counts.

Sources: Montebello; CA HCD Annual Progress Reports (2019, 2020, and 2021).

- Montebello Hills Specific Plan (1,200 units) not reflected in table above
- An additional ~200 apartment units are under review (Olympic Blvd., N. Poplar, Hart Pl.)
- City has identified several large sites, including City-owned properties, to accommodate future housing capacity in larger-scale projects
  - Housing Element also has a focus on new housing along Whittier Blvd. in future Downtown Montebello Specific Plan Area

# FEASIBILITY METHODOLOGY AND FINDINGS

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# PROTOTYPE PRODUCTS

Item	Apartment Units	Condominium Units	Townhome Units	Single-Family Detached Units
Tenure	Rental	For Sale	For Sale	For Sale
Building Type	Multifamily	Multifamily	Attached	Detached
Density	60 units/acre	60 units/acre	25 units/acre	10 units/acre
Unit Bedrooms	2 Bedrooms	2 Bedrooms	2 Bedrooms	3 Bedrooms
Unit Square Feet	900	1,200	1,600	2,000
Parking Type	Structured Garage	Structured Garage	Attached Garage	Attached Garage
Rent/Price (New Development)	\$2,925 / month	\$420,000	\$720,000	\$850,000

- Prototypes designed to match existing zoning and recent project characteristics, with City input.
- Rents/prices are for new units, and reflect a premium over median rates for all residential units within the City.



# DEVELOPMENT FEASIBILITY

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Can a 100% market-rate project achieve a return that would lead a developer to invest in it?

- A “*financially feasible*” development provides a sufficient return on investment to incentivize a “go” decision by developers and investors
- A “*sufficient return*” for this analysis is defined by industry standard metrics, including:
  - *5.5% Yield on Cost for market-rate rental projects*
  - *15% Profit Margin for market-rate for-sale projects*
- **Given the range of investment opportunities available to developers and financial investors, a market-rate or mixed-income housing project will not occur if it is not a financially feasible proposition**

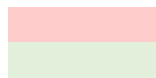
# MARKET-RATE PROJECT FEASIBILITY

Item	Minimum Feasibility Threshold	Montebello
<b>Rental Apartments</b>		
Development Costs Per Unit		\$520,675
Net Operating Income Per Unit		\$25,100
<b>Yield on Cost</b>	5.50%	<b>4.8%</b>
<b>For-Sale Condominium</b>		
Development Costs Per Unit		\$586,300
Average Sale Price		\$420,000
Profit		(\$166,300)
<b>Profit Margin</b>	15%	<b>-28%</b>
<b>For-Sale Townhomes</b>		
Development Costs Per Unit		\$437,120
Average Sale Price		\$720,000
Profit		\$282,880
<b>Profit Margin</b>	15%	<b>65%</b>
<b>For-Sale Single-Family Homes</b>		
Development Costs Per Unit		\$730,300
Average Sale Price		\$850,000
Profit		\$119,700
<b>Profit Margin</b>	15%	<b>16%</b>

**Key**

Infeasible

Feasible



- Only lower and mid-density ownership products meet feasibility thresholds at market rates.
- Mid-density ownership product (townhome) demonstrates sufficient development feasibility to support an inclusionary program.
- Lower-density ownership product exceeds feasibility threshold by slim margin; addition of an inclusionary housing requirement would likely result in infeasibility.

# RECOMMENDATIONS AND NEXT STEPS

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# RECOMMENDATIONS

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- EPS **does not** recommend that Montebello proceed with the adoption of a Citywide inclusionary housing program.
- If City did move forward with a program, EPS recommends the following requirements:
  - *Requirement on mid-density ownership product only; program could target areas of the City or zoning designations where mid-density product is expected*
  - *10% affordable requirement, including 5% Low-Income units and 5% Moderate-Income units*
  - *In-lieu fee of \$15 per square foot of market rate development*
- For mid-density ownership product, recommended requirements are lower than the maximum feasible levels
  - Informed in part by programs in other jurisdictions statewide.
  - Programs at maximum feasible levels may have a negative impact on new housing development, given variability in costs and values across individual projects.
- The City could also *feasibly* consider a modest requirement on lower-density ownership product of 2 percent of units targeted to Moderate-Income households with an in-lieu fee of \$4 per square foot of market rate development
  - However, adoption of this requirement is not recommended, given the likely limited efficacy of producing affordable units

# NEXT STEPS

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- **City can still take action to support affordable housing production without adopting an inclusionary housing program right now**
  1. Monitor local residential production trends, development costs, and market prices/rents.
  2. Educate your community and your elected officials about inclusionary housing so that when/if the opportunity arises, you can act efficiently.
  3. Monitor other inclusionary programs in the San Gabriel Valley.
  4. Reevaluate the feasibility of an inclusionary program in 2–3 years.
  5. Consider a local density bonus program to incentivize affordable housing.
  6. Educate developers on use of the State Density Bonus.
  7. Consider adopting an inclusionary program with an in-lieu fee that is lower than the equivalent of providing units on-site, knowing that developers will likely choose to pay the in-lieu fee.
  8. Consider adopting inclusionary requirements in targeted areas of the City (such as Specific Plan areas) where zoning allowances (e.g., higher density and lower parking requirements) may improve feasibility of new residential projects (see following slides).

# DOWNTOWN SPECIFIC PLAN IH FEASIBILITY

- Based on guidance from City staff, EPS evaluated feasibility of rental apartments and for-sale condo products at higher densities (**80 units/acre**) and lower parking requirements (**1 space/unit**).
  - These allowances reflect potential zoning in the Downtown Specific Plan Area
- Rents/prices were kept consistent with primary analysis.
- *As shown, under this scenario multifamily rental demonstrates sufficient development feasibility to support an inclusionary program.*

Item	Minimum Feasibility Threshold	Montebello
<b>Rental Apartments</b>		
Development Costs Per Unit		\$436,600
Net Operating Income Per Unit		\$25,100
<b>Yield on Cost</b>	5.50%	<b>5.7%</b>
<b>For-Sale Condominium</b>		
Development Costs Per Unit		\$502,225
Average Sale Price		\$420,000
Profit		<b>(\$82,225)</b>
<b>Profit Margin</b>	15%	<b>-16%</b>

# DOWNTOWN SPECIFIC PLAN IH FEASIBILITY

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- The feasibility analysis supports the following requirements for an inclusionary program targeted towards the Downtown Specific Plan Area:
  - *Requirement on multifamily rental product only*
  - *10 percent affordable requirement for Low-Income units*
  - *In-lieu fee of \$15 per square foot of market rate development*
- These requirements would be feasible under the revised zoning allowances outlined on the previous slide.

# INCLUSIONARY PROGRAMS IN SOUTHERN CALIFORNIA

The following table includes a list of cities in the San Gabriel Valley and Gateway Cities subregions that have adopted inclusionary housing programs

City	Year Adopted	Source
Cudahy	2022	<a href="#">Municipal Code</a>
Downey	2022	<a href="#">Municipal Code</a>
Long Beach	2021	<a href="#">Municipal Code</a>
South Pasadena	2021	<a href="#">Municipal Code</a>
Pomona	2021	<a href="#">Municipal Code</a>
Alhambra	2020	<a href="#">Municipal Code</a>
Glendale	2019	<a href="#">City Website</a>
Avalon	2010	<a href="#">Municipal Code</a>
Burbank	2006	<a href="#">Municipal Code</a>
Pasadena	2005	<a href="#">Municipal Code</a>