Evaluation of ADU Potential for the City of Fountain Valley Housing Element

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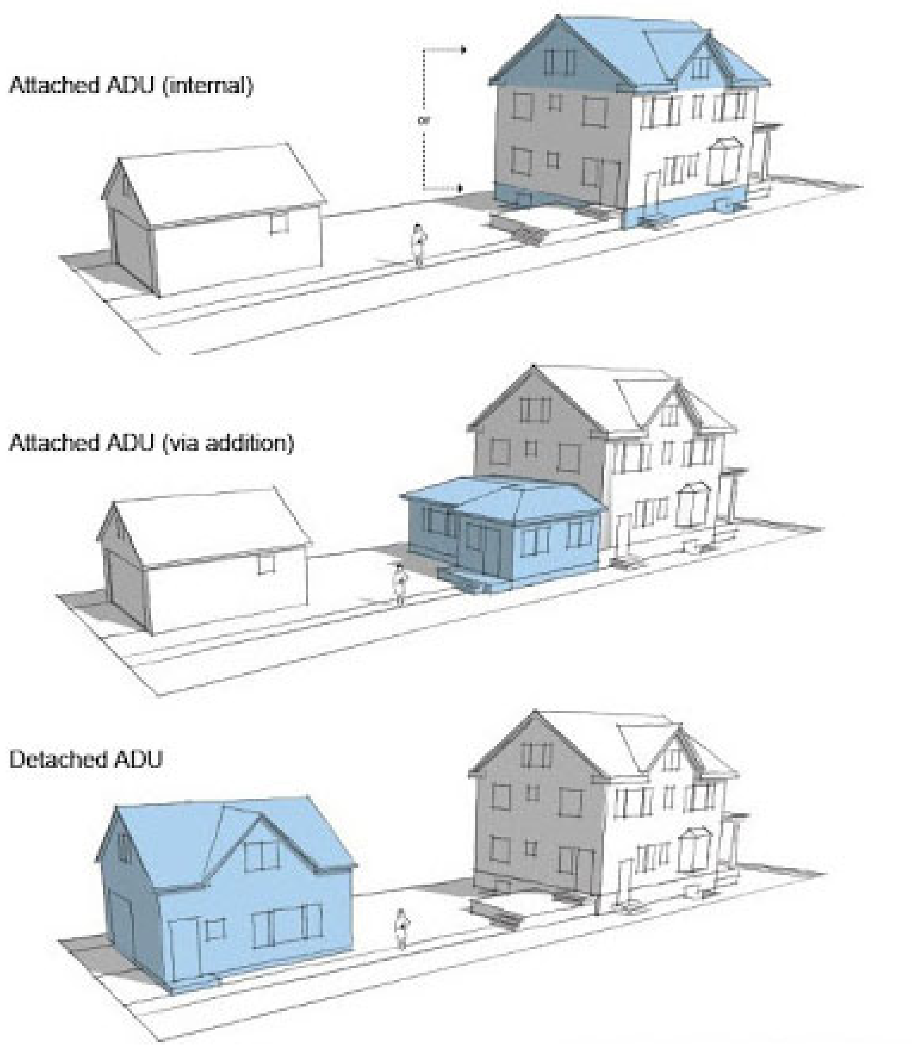

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Introduction

The City of Fountain Valley is an advocate of providing a wide range of housing affordable to all of its current and future residents, evidenced not only by its continuous completion of certified housing elements, but also by its involvement in the production of affordable housing. Like many jurisdictions in southern California, the City of Fountain Valley faces a challenge of accommodating an extraordinarily large RHNA allocation (4,827) for the 2021–2029 planning period. Like some jurisdictions, Fountain Valley is essentially built out and will need to rely almost exclusively on underutilized land that could potentially turnover and yield new housing development by 2029.

At the same time, the Pew Research Center is reporting that a majority (52%) of young adults in the metropolitan and western parts of the United States are living with their parents (a trend not seen since the Great Depression)[1], and more California seniors are relocating to live with their adult children.[2] Additionally, state law recently changed to facilitate the development of accessory dwelling units (ADUs) on any parcel allowing housing units. Finally, the per-square-foot hard costs for constructing multifamily housing in California climbed 25 percent over the course of a decade (even after adjusting for inflation), and there is some evidence that affordable housing projects may cost more to build than market rate housing.[3,4] Housing costs are further exacerbated by the high land values in the City, even for land that could be rezoned for housing. Commercial property is currently selling for $1 to $6 million per acre[5], with values only increasing if residential zoning were applied.

The confluence of these factors brought the City of Fountain Valley to a conclusion that it needed to evaluate the potential for ADUs to play a large, and even a dominant role in the City's strategy to accommodate and realize its 2021–2029 RHNA allocation. Accordingly, the following provides a more detailed evaluation of the City's land resources and a cost comparison between the options to build affordable housing in a conventional higher density product and accessory dwelling units.

[1] Fry, Richard, et al. "A Majority of Young Adults in the U.S. Live with Their Parents for the First Time since the Great Depression." *Pew Research Center*, Pew Research Center, 9 Sept. 2020, www.pewresearch.org/fact-tank/2020/09/04/a-majority-of-young-adults-in-the-u-s-live-with-their-parents-for-the-first-time-since-the-great-depression/.

[2] Calmatters, Matt Levin. *Meet the PIMBYs: Parents Living in My Backyard; It's a New California Thing*. 29 Aug. 2019, www.ocregister.com/2019/05/08/meet-the-pimbys-parents-living-in-my-backyard-its-a-new-california-thing/.

[3] Raetz, Hayley, et al. *The Hard Costs of Construction: Recent Trends in Labor and Materials Costs for Apartment Buildings in California* (UC Berkeley Terner Center for Housing Innovation, March 2020), 2.

[4] The City of Los Angeles' 2016 Comprehensive Homeless Strategy estimated that the cost of building a studio/one-bedroom supportive housing unit would be $350,000 and a two-bedroom unit or larger would be $414,000. The City's 2019 audit on the cost of Proposition HHH found that the median cost of apartments currently under construction was $531,000 per unit, with more than 1,000 HHH units projected to cost $600,000 per unit, even when actual land costs represented only 11 percent of total costs. Additionally, the taxpayers incurred an additional $5.2 million in excess interest payments through June 2019 due to project delays [something that is not infrequent on affordable/supportive housing projects]. The City is currently exploring alternative housing models and adjustments to soft costs (development fees, consultants, financing, etc.), and estimates costs to be reduced to an average of $351,965. Galperin, Ron, Controller. *The High Cost of Homeless Housing: Review of Proposition HHH* (City of Los Angeles, October 8, 2019), 4-6.

[5] Various properties advertised on LoopNet, visited on October 2, 2020.

General Plan Update

The City of Fountain Valley initiated a comprehensive update of its general plan in June of 2018. The primary goal of the effort is to encourage fiscally sustainable growth and development over a 20-year planning period, culminating in a Future Ready Fountain Valley by the year 2040.

In 2016, Fountain Valley residents voted to approve Measure HH, a voluntary 1-cent sales tax that provides roughly $11.5M to cover budget shortfalls caused by the State's changes to public employee pension plans. Addressing the structural deficit was a significant driver behind the general plan update, as the City wishes to be fiscally self-sufficient before the measure sunsets in 2036. The City believes that the path towards self-sufficiency revolves around planning for fiscally positive land uses.

Initial Opportunity Sites

In anticipation of the update process, the City of Fountain Valley compiled a list of 17 opportunity sites representing the only areas where land use changes would likely occur over the 20-year planning horizon. In total, these sites constitute 174.7 acres of land, all of which is underutilized (the Southpark and Miller sites appear vacant on aerials depending on the date of the aerial, but these properties are used intermittently for farming). As part of its outreach with the general public and property owners, the City led a physical tour of these sites and published a virtual tour, which can still be access on the City's website: https://www.fountainvalley.org/1291/Opportunity-Sites. The direct link to the Story Map is: https://tpc.maps.arcgis.com/apps/Cascade/index.html?appid=f900d7b243da4c8eadfd7a7256e27f95.

Table 1. Opportunity Sites Inventory

Opportunity Sites	Acres	Capacity at 30 du/ac	Capacity at 45 du/ac	Capacity at 60 du/ac
Boomers	15.6	468	702	936
Crossings Specific Plan	49	1,470	2,205	2,940
Fountain Center Plaza	4.5	135	203	270
Golden Triangle	2.3	69	104	138
Harbor Shopping Center	16.7	501	752	1,002
Metal Crafters	5.5	165	248	330
Mile Square Plaza	4.4	129	194	258
Miller Property	18.6	558	837	1,116
Silky Sullivan's	3.3	99	149	198
SE Talbert & Magnolia	1.9	57	86	114
Southpark 1	9.8	294	441	588
Southpark 2	15.6	468	702	936
Southpark 3	10	300	450	600
South Harbor Island	4.8	144	216	288
SPEC	2.8	84	126	168
Talbert Village	8.1	243	365	486
Warner Square	1.8	54	81	108
TOTAL	**174.7**	**5,238**	**7,861**	**10,476**

The City moved methodically through the first phases of land use planning in 2018 and 2019, knowing that draft RHNA allocation would be released in late 2019. Allocations from previous RHNA cycles played a prominent role in early discussions, and the City drafted a number of land use scenarios for the aforementioned opportunity zones that attempt to accommodate a wide range of unit counts (from 100% to 350% of the past RHNA allocation of 358).

Following the initial announcement, and subsequent confirmation, of the City's RHNA allocation of 4,827 units (an increase of 1,350%), the City of Fountain Valley paused its general plan effort to thoroughly explore planning and development scenarios that could accommodate the unprecedented allocation.

Citywide Reevaluation of Opportunity Sites

The City of Fountain Valley restarted the site selection process and looked beyond the previously identified opportunity sites to evaluate all of the remaining parcels citywide for suitability as future housing sites.

Open Space and Public Facilities

Staff immediately **removed parks**, **natural open spaces, religious facilities, hospitals, flood control channels**, and other **public facilities** from consideration, as these uses serve the community at large and are generally outside of the City' jurisdictional control.

Residential Redevelopment

With **single family residential** parcels occupying roughly 47 percent of the city, staff reviewed the potential for redevelopment of any occupied, vacant, or underutilized parcels at higher densities. These residential areas are essentially built out with a few scattered parcels located within, surrounded by, and accessed through single family neighborhoods. The desirability of the area and limited opportunities for new single-family development throughout Orange County have resulted in a situation where the market favors the continued incremental development of detached single family homes in the City's established neighborhoods. In addition, the vacant parcels within single family neighborhoods are isolated and could not be aggregated to yield more than 5 units even with higher density zoning and a willing property owner.

Existing **multifamily residential** parcels were evaluated next and consisted of townhouses, garden condominiums, and apartment complexes. Multifamily parcels occupy roughly 3 percent of the city and are completely built out. While the density of each housing type varies from 10 to 30 units per acre, each product fills an important niche in the housing market. The high occupancy rate and continued reinvestment by property owners indicates that little turnover is to be expected during the planning period.

After determining that existing residential properties were unsuitable for any significant level of higher density redevelopment, the City turned its attention to non-residential land.

Non-Residential Development

Early in the General Plan update process, a comprehensive citywide market study was conducted to help inform the opportunity area land use planning scenarios. The study evaluated the demand for office, commercial, and industrial properties throughout the City and in the surrounding region. While COVID related non-residential vacancies are currently on the rise, it is not yet clear whether this is a long-term trend, but it will affect the current market evaluations and property owner expectations. Additionally, medical office, with is more prevalent in Fountain Valley, is not expected to experience COVID-related contraction.

The **office commercial** designation covers less than 10 acres throughout the City. Strong demand for office space in the subregion has kept the limited spaces fully leased over the years, with little sign of slowing down. Further reinforced by the lack of interest from the property owners, it was determined that no office commercial properties (aside from those already listed as an opportunity site) should be considered as suitable sites for future housing.

Despite its reputation as a residential community, Fountain Valley boasts a successful industrial sector. The **commercial manufacturing** designation on the City's eastern edge and includes a number of multinational corporations. In recent years, the demand for industrial facilities has increased steadily, leading to continued reinvestment by property owners. These factors led to the conclusion that existing industrial properties are not suitable sites for residential development over the next eight years.

While **commercial** properties are a popular source of underutilized land throughout southern California, Fountain Valley households create a substantial amount of buying power and demand for commercial goods and services, which further encourages investment from property owners. After conducting interviews with property owners of commercial sites throughout the City, there was no evidence that commercial properties (aside from those listed as opportunity sites) would turnover in the foreseeable future for any amount of affordable housing and were therefore removed from consideration as suitable housing sites for the planning period.

Finally, the City evaluated the possibility of amending existing **specific plans** to allow for high density residential development. Portions of the South Park and Crossings Specific plans are being considered as suitable sites and are discussed further in following sections.

Preliminary Opportunity Sites

After evaluating the suitability (likelihood of availability and re/development) of all parcels within the City, the staff returned to the 17 opportunity sites for the 2021-2029 RHNA period. The City was previously made aware that property owners of two sites: the Miller property and Silky Sullivan's, were interested in amending their land use designation to allow for higher density housing. After talking directly with the property owners of the Miller property and Silky Sullivan's sites, the City concluded that neither property owner is willing to build affordable housing (beyond what may be required by a potential inclusionary ordinance). The sites are expected to help the City accommodate its moderate and above moderate allocations.

The former Boomers and SPEC properties were originally only considered for non-residential redevelopment until the RHNA allocations were released. However, after talking directly with the property owners of these sites, the City concluded that neither property owner is willing to build affordable housing (beyond the units that could be required by a potential inclusionary ordinance). Additionally, considering land use compatibility and health concerns, both sites were deemed unsuitable for future residential development due to their immediate proximity to on/offramps and primary travel lanes of Interstate 405.

The remaining non-residential opportunity sites (Harbor Shopping Center, Mile Square Plaza, Metal Crafter, Talbert Village, SE Talbert & Magnolia, and Fountain Center Plaza) were determined to be unsuitable for future affordable housing development during the 8-year planning period after extensive property owner outreach and an evaluation of underutilized criteria consistent with new state housing law and land inventory guidance from the California Department of Housing and Community Development (HCD).[6] Based on the preceding analysis and interviews with property owners, the list of suitable sites for any housing was narrowed from 17 to 7, totaling 114.6 acres.

Table 2. Revised Opportunity Sites

		Existing		Owner	Constraints	
Opportunity Site	**Acres**	**Land Use**	**Zoning**	**Interest**	**Infrastructure**	**Environmental**
Golden Triangle	2.3	Commercial	High Dens Res	Yes	None	None
Miller Property	18.6	Residential	Low Dens Res	Yes	None	None
Silky Sullivan's	3.3	Commercial	Commercial	Yes	None	None
Southpark	35.4	Farming	Comm/Indus SP	Yes	None	None
Warner Square	1.8	Commercial	Commercial	Yes	None	None
Crossings SP	49.0	Comm/Indus	Mixed Use SP	Yes	None	None
Smith Farms	4.20	Farming	Residential	N/A	None	None
TOTAL	114.6	--	--	--	--	--

Pipeline Development and Remaining RHNA Allocation

Based on projects through or in the entitlement process, an estimated 143 units are slated for development in the 2021–2029 planning period (49 lower income), leaving a remaining allocation of 4,639 (2,039 lower income). These projects were all underway prior to SCAG's release of the draft RHNA.

Table 3. Planned/Entitled Projects & Remaining RHNA Allocation

			Affordability Distribution by Income Category				
Project	**Acres**	**Density**	**Very Low**	**Low**	**Mod**	**Abv Mod**	**Total**
South Harbor Island	1.95	25.7	45	4		1	50
Villa Serena	4.07	7.4				12	12
Moiola	12.90	5.7				74	74
Starfish	1.02	10.8				7	7
TOTAL	**19.94**	**--**	**45**	**4**		**94**	**143**
RHNA Allocation			1,304	784	832	1,907	4,827
Remaining Allocation			1,259	780	832	1,813	4,684

[6] Division of Housing Policy Development. *Housing Element Site Inventory Guidebook* (California Department of Housing & Community Development, 10 Jun. 2020), 24-28.

Conventional Multifamily as Affordable Housing

In order to accommodate the remaining RHNA allocation of 4,639 units on the 114.6 acres of underutilized land, each property would have to develop at an average density of 40 units per acre. This density is found in apartments and wrap or podium housing buildings. While such density is not currently found in Fountain Valley, these housing products are becoming more common throughout the suburban parts of California. However, 2,039 of the 4,639 units must be to be affordable to lower income households. As market rates are out of reach for lower income households, the City needed to evaluate the costs of producing (and subsidizing) affordable housing.

Development Costs

In 2019, the City of Fountain Valley approved the conceptual plans for a 50-unit lower-income multifamily development[7] on an underutilized 1.96-acre parcel (25.6 du/ac). The majority (37) of units are 1- or 2-bedroom, with an average unit size of 740 square feet and an average monthly rent of $981. The total project cost (figures rounded) was $29.1 million, which equates to per-unit costs of roughly $582,000. To make the project financially feasible, the developer applied for a 9-percent Low-Income Housing Tax Credit and required $8,200,000 in loans from the City ($164,000 per unit; 55-year term). The City will receive interest and eventually principal payments per the terms of the loan, which, in theory, can then be used to help subsidize new affordable housing projects. However, the City will not have received a full $1 million in repayment until year 22. This loan utilized 68% of the City's Low Moderate Income Housing Fund which is only replenished by the repayment and interest on loans (ending balance before loan was $12 million). This means that the City will only be able to provide minimal support to affordable housing developments during the loan repayment period if additional funding sources cannot be secured. Over the lifetime of the loan, the City will have distributed (with no return) an estimated $4,006,286, or $80,126 per unit.

Assuming future affordable units would require a similar subsidy to develop, the remaining lower income RHNA allocation would generate the need for an additional $335 million ($164,000 per unit x 2,039 units) of up-front zero/low-interest/deferred loans and/or grants to developers over the next four to six years to realize the construction of very-low and low income housing. If done through loans, this would equate to an estimated distribution/loss of $163.4 million ($80,216 per unit x 2,039 units) over the combined loan repayment periods.

Moreover, the amounts listed above are just for the City of Fountain Valley; the amounts needed to fund the affordability gap of the lower income RHNA allocation for all jurisdictions in the SCAG region would be upwards of $90 billion. While the State budget has expanded funding substantially and federal resources are available, the magnitude of the funding gap requires that the City consider a strategy that leverages market-based subsidies: inclusionary housing. Recently two not-for-profit institutions (the Low Income Investment Fund and Stewards of Affordable Housing), entered into a joint venture with the National Affordable Housing Trust to raise $1 billion over the next five years to subsidize and built

[7] The Fountain Valley Housing project, aka the South Island site on 16790 South Harbor Boulevard, consists of 50 units with the following affordability levels and bedroom sizes: 13 extremely low (30%), 32 lower income (50%), 4 lower income (60%), and 1 manager's unit; 23 1bd, 14 2bd, and 13 3bd. The full California Tax Credit Allocation Committee (9%) application can be found online at https://www.treasurer.ca.gov/ctcac/2020/firstround/applications/20200330/20-026.pdf.

thousands of affordable housing throughout the nation[8] (though only a portion of this would be spent in the SCAG Region). This commitment is a tremendous pledge but demonstrates how large the gap is (even with similar pledges from Google and Facebook), between the amount needed and the amount available. The state budget is expected to suffer for years, with the state anticipating a $54.3 billion budget deficit due to costs and a drop in revenue associated with the COVID-19 pandemic, with solvency only achieved by tapping into the rainy day fund in the amount of $16 billion over the next three years.[9] Furthermore, the state's hope of recovering a portion of planned cuts using federal aid was dashed based on the Trump administration's postponement of stimulus talks until after the election.[10]

Inclusionary Housing

Inclusionary housing ordinances are an increasingly common means for a jurisdiction to promote the construction of affordable housing and accommodate RHNA allocations. The City of Fountain Valley is evaluating the potential of a 15 percent affordability (all lower income) mandate to encourage the development of more affordable units. If the City were to rely exclusively on inclusionary provisions and assume that all future multifamily residential projects must offer 15 percent of units at a purchase price or rent affordable to lower income households, roughly 13,593 units would need to be built to accommodate the lower income RHNA allocations (2,039 combined). Based on the inventory of suitable sites, this would require construction to occur at approximately 119 units per acre on the opportunity sites (114.6 acres).

While it can be easy to assume that the City just needs to identify more sites, the recent changes in state law and guidance increased the standards for site suitability, particularly for developed sites to be considered available for reuse within the planning period (e.g. property owner interest). The City's need to rely on underutilized sites means that the housing element will need to justify the likelihood of redeveloping occupied sites with more certainty. As previously stated, the City has evaluated its remaining non-residential sites and has found none that are suitable for reuse for affordable housing within the planning period, excluding the eight opportunity sites, since commercial sites continue to perform well and the demand for industrial continues to increase locally and throughout the entire region.

Additionally, an *average* density of 119 units per acre requires housing products using more expensive construction types, further exacerbating the already high costs of developing multifamily housing. For example, such densities would typically require at least five to seven stories using Type I (steel and concrete) construction, increasing construction costs by an average of $65 per square foot compared to Type V (wood frame) construction.[11]

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[8] Raetz Capps, K. (2020, October 07). A $1 Billion Bid to Save U.S. Affordable Housing. Retrieved October 09, 2020, from https://www.bloomberg.com/news/articles/2020-10-07/a-1-billion-bid-to-save-u-s-affordable-housing

[9] Bernstein, S. (2020, June 25). California governor declares budget emergency due to COVID-19 pandemic. Retrieved October 09, 2020, from https://www.reuters.com/article/us-health-coronavirus-california/california-governor-declares-budget-emergency-due-to-covid-19-pandemic-idUSKBN23W31T

[10] Koseff, A. (2020, October 06). California suffers harsh budget blow as Trump ends coronavirus stimulus talks. Retrieved October 09, 2020, from https://www.sfchronicle.com/politics/article/California-looking-at-deep-cuts-if-coronavirus-15623245.php

[11] Raetz, Hayley, et al. *The Hard Costs of Construction: Recent Trends in Labor and Materials Costs for Apartment Buildings*

Based on this information, the City considers inclusionary provisions to be a potentially useful tool to ensure new multifamily housing does not consist exclusively of market rate units affordable only to above moderate income households, but not for achieving a sufficient proportion of its RHNA allocation. However, another strategy must be evaluated to ensure the City has a more feasible and cost-effective strategy to meet its RHNA allocation.

Accessory Dwelling Units

ADUs are known to be a good option for property owners seeking to build space for members of their family or to add an additional source of income by renting a unit to another household (which also increases the overall property value). In previous planning cycles, ADUs did not play a substantial role due to the lack of public knowledge and ability to take advantage of the law's provisions, the conventional size of the RHNA allocation and the lower costs (relative to today) of building multifamily development. Also, recent changes in legislation elevated the state's focus on the use of ADUs as a key tool in achieving a greater supply of affordable housing.

The City of Fountain Valley saw the potential for ADUs to serve as an alternative to multifamily development to accommodate more affordable units—both in overall quantity and affordability. The City therefore evaluated the costs, affordability, and capacity of ADUs.

Development Costs

Based on City building records, the sizes of new construction of detached and attached ADUs built since 2018 range from 300 to 1,200 square feet, with an average size of 830 square feet. According to research from local ADU builders, many homeowners opt for a 600 to 800 square foot floorplan (2 bedrooms) and homeowners with larger properties tend to gravitate towards 1,200 square foot floorplans. ADUs created through the conversion of existing space (e.g., a garage), averaged 340 square feet in Fountain Valley.

The table below summarizes the construction costs associated with traditional multi-family developments and detached ADUs. A side-by-side comparison better illustrates the cost differences between conventional multi-family development and detached ADU construction. In this scenario, the cost to develop an apartment unit is more than three times that of a similarly sized, detached ADU. Further still, a three-bedroom, 1,200 square foot detached ADU is less than half the cost of a 740 square foot apartment unit. While these examples are not necessarily representative of all development, they accurately reflect the reality of the current situation in Fountain Valley.

The cost difference is due in large part to the multifamily project's need to acquire land while the ADU requires no such acquisition costs. Additionally, the per unit construction costs for single family is lower, due in part to the added labor costs associated with a subsidized project and the expanded building code requirements of a multifamily project.

in California, 14.

Table 4. Development Costs for New Construction of Multifamily and Detached ADU

Expense	Multifamily[1] 740 SF	Accessory Dwelling Unit[2] 600 SF	800 SF	1,200 SF
Land Acquisition/Improvement	$128,433	$0	$0	$0
Construction	$291,515	$97,500	$130,000	$195,000
Fees, Permits, Other Expenses	$162,425	$45,000	$45,000	$45,000
TOTAL	$582,373	$142,500	$175,000	$240,000

Notes:

1. Proportional cost per unit of the South Island affordable housing project per Fountain Valley Housing Authority.
2. Upper end figures from local ADU builders for a detached ADU.

Affordability and Household Size

City staff conducted a survey in May 2020 of 96 homeowners who built and/or applied for an ADU between January 2018 and May 2020, obtaining responses from 30 homeowners (see Table 5 for results). All responses addressed ADUs that were intended for occupancy (as opposed to an office or guest house). The 30 ADUs averaged 869 square feet, with 50 percent charging no rent at all. The majority of ADUs (23) were occupied by one or two people, although almost one-third (7) were occupied by three or four people. Of those that charged rent, the overall average monthly rent was $1,736, with average rents of $1,489 for ADUs with 1 or 2 occupants and $2,180 for ADUs with 3 or 4 occupants.

Table 5. City ADU Survey Results

Household Size	# of Units[1]	ADU Type[2] Jr	Att	Det	Rent Charged No	Yes	n/a	Average Rent[3]	Average Unit Size	Interest in grant for 20-year affordability[4]
1	11	1	5	5	9	2	-	$1,550	680 SF	6
2	12	1	5	6	4	5	3	$1,400	761 SF	6
3	3	-	1	2	1	2	-	$2,500	1,115 SF	3
4	4	-	2	2	1	3	-	$1,850	1,065 SF	2
TOTAL	30	2	13	15	15	12	3	$1,736	869 SF	17

Source: City of Fountain Valley, Phone Survey of ADUs built since 2018, as of May 2020.

Notes:

1. Out of 96 surveyed, a total of 30 responded to the request for information. Two respondents indicated current vacancy but still provided information on intended rental cost; household size assumed at 2. All ADUs in the survey were intended for occupancy (as opposed to an office or guest house).
2. Jr = junior ADU; Att = attached ADU; Det = detached ADU.
3. For those who reported charging rent.
4. Respondent indicated whether they were interested in receiving a grant/low-interest loan in exchange for a 20-year term of affordability.

While not detailed in Table 5, 10 of the 30 ADUs were conversions of existing space, with seven charging no rent and the other three charging monthly rents of: $800 (2 occupants), $1,500 (1 occupant), and $1,800 (2 occupants). The average converted unit size was 662 square feet, with six units converting garages and four units converting an internal part of the house. The construction costs for these units was markedly lower, with an average of $36,400 for conversion compared to $99,300 for new construction.[12]

The Southern California Association of Governments (SCAG) conducted a regional survey and reported the results by county in August 2020.[13] SCAG indicated support for an assumption that 73% of ADUs could be affordable to lower income households in Orange County (even assuming a 50/50 mix of 1- and 2-person households).

As a supplement to the City's and SCAG's surveys, the City evaluated its building permit database for building valuation data and interviewed local ADU builders for general trends in unit sizes and rents. Research from a local ADU builder working in and around Fountain Valley indicated that many homeowners opt for 600 to 800 square foot floorplans (2 bedrooms) that rent for approximately $800 to $1,000 per month. Homeowners with larger properties tend to gravitate towards 1,200 square foot floorplans that rent for approximately $1,700 to $1,800 per month. Table 6 shows the results of the City's survey, building permit data, and local ADU builder input.

Table 6. Comparison of Income Limits and ADU Rents (market rent minus affordable rent)

	Citywide		**Central Orange County ADU Rental Rates**					
Income	**Affordable Rent**[1]		**600 SF ADU**		**800 SF ADU**		**1,200 SF ADU**	
Category	1 person	2 person	**Rent**[2]	**Delta**[3]	**Rent**[2]	**Delta**[4]	**Rent**[2]	**Delta**[4]
Extremely Low	$674	$770	$1,257	$583	$1,467	$497	$1,977	$1,207
Very Low	$1,121	$1,281	$1,257	$264	$1,467	$214	$1,977	$696
Low	$1,794	$2,050	$1,257	($537)	$1,467	($583)	$1,977	($73)
Moderate	$2,163	$2,473	$1,257	($906)	$1,467	($1,006)	$1,977	($496)

Notes:

1. Calculated by dividing income limit by 12 (months) and multiplying by 30 percent based on 2020 state income limits.
2. Based on a combination of figures provided by a local ADU developer and City survey for those who charge rent; includes $57 to $77 in monthly utilities, consistent with the Fountain Valley South Island affordable housing project.
3. Based on Orange County income limits for a 1-person household.
4. Based on Orange County income limits for a 2-person household.

As shown in Tables 5 and 6, the maximum affordable rents of ADUs in Fountain Valley compare very favorably with the citywide rents for any size[14] household earning at least 50 percent of the area median income (AMI)—very low or higher income category. Over 90 percent of ADUs surveyed either did not charge rent (free) or reported rents that could be affordable to a lower income household. At least half of the respondents indicated that no rent was charged, making at least half of the ADUs affordable to extremely low income households (30 percent of AMI). Additionally, at least one respondent to the City's ADU survey confirmed that they only charge $800 for a 792 square foot detached ADU occupied by two renters, which would be within $30 of the maximum affordable rent for an extremely low income

[12] Based on City of Fountain Valley building permit valuation data (isolated for ADU construction/conversion) as of June 16, 2020.
[13] Southern California Association of Governments. *6th Cycle Housing Element Update Technical Assistance – ADU Affordability Analysis.* 27 Aug. 2020.
[14] The maximum affordable rent for 3- or 4-person households, while note shown in Table 5, is relevant due to the large portion (31 percent) of those responding to the City's ADU survey indicating a household size of 3 or 4. The maximum affordable rent for a 3-/4-person households is: EL - $866/$961; VL - $1,441/$1,601; L - $2,306/$2,561 M - $2,781/$3,090.

household. The pattern of 50 percent of the ADUs foregoing rent suggests that many homeowners are building ADUs to support relatives or close friends who may not otherwise be able to find affordable housing nearby in Orange County.

The figures shown in Tables 5 and 6 are without any subsidy from the City or other local, state, or federal sources. Based on the analysis of the South Island affordable multifamily housing project, the level of subsidy needed to maintain affordable rent levels to households earning 30 to 60 percent of the AMI (very low income) is $80,216 per unit. In comparison, the current market in Fountain Valley for newly constructed ADUs indicates that no subsidy is needed for to make ADUs affordable to lower income households, with over half (57 percent) of ADUs charging no rent or a rent that is affordable to any size household earning up to 50 percent of the AMI (very low income).

Moreover, of the 30 respondents in the City's ADU survey, over half (17) of homeowners indicated they would be interested in receiving a grant or low-interest loan in return for maintaining lower, more affordable rents. The amount of subsidy needed to lock in rents for ADUs that are affordable based on household size would likely be orders of magnitude smaller compared to conventional affordable multifamily housing.

Development Capacity

Underutilized Land Zoned/Rezoned for High Density Housing

The City has a total of 114.6 acres that could be considered housing opportunity sites for the 2021–2029 planning period. Table 7 breaks down the realistic development potential of these sites as directed by the State's Site Inventory Guidebook.[15] If any of these sites develop during the planning period with fewer affordable units than projected, the City would be required to rezone other sites to accommodate the shortfall at any point in the planning period.[16] As the City will not likely have any other land to rezone in place of these opportunity sites, the City assumed a conservative minimum density, percentage of total residential, and percentage of affordable units.

With these restrictions, the capacity in Table 7 would have been adequate for the 2013–2021 RHNA. However, for the 2021–2029 RHNA, the City's capacity for lower income housing is but 22 percent of its 2,039 remaining lower income allocation. Nearly all of the sites would need to be rezoned for and built as high density residential affordable to very low and low income households for the City to demonstrate and maintain capacity throughout the planning period.

[15] Division of Housing Policy Development. *Housing Element Site Inventory Guidebook*, 21-22.
[16] California Government Code Section 65863(c)(2), introduced through California Senate Bill 166 (2017).

Table 7. Revised Opportunity Site Capacity for Housing – Conceptual Capacities

Site	Acres	Current or Potential Zoning	Density (du/ac) Max	Density (du/ac) Assumed	Realistic Potential: Total Residential Percent	Total Residential Units	Lower Income Percent	Lower Income Units
Golden Triangle	2.3	Res Mixed Use[1]	60	45	100	103	100	103
Southpark	35.4	Res Mixed Use[1]	60	45	60	956	15[2]	143
Silky Sullivan's	3.3	Res Mixed Use[1]	40	30	100	99	15[2]	14
Warner Square	1.8	Res Mixed Use[1]	40	30	85	46	15[2]	6
Crossings SP	49.0	Res Mixed Use[1]	40	30	50	800	15[2]	120
Miller Property	18.6	High Den Res	30	22	100	409	15[2]	61
Smith Farm	4.2	Med Den Res	15	15	100	63	15[2]	9
TOTAL	114.6	--	--	--	--	2,476	--	456

Notes:
1. Rezoning would allow 100% residential projects and/or require a minimum amount of residential to be built.
2. Assumes passage of inclusionary housing ordinance requiring 15 percent of all new residential to be affordable to lower income households.

Accessory Dwelling Units

Due to the lack of suitable vacant and underutilized sites, the City must consider the capacity for ADUs to accommodate its affordable housing. In its Housing Element Site Inventory Guidebook, HCD indicates that "Where no other data is available, assume an average increase of five times the previous planning period construction trends prior to 2018. This option is a conservative estimate based upon statewide data on ADU development since the implementation of the new laws (safe harbor option)."[17] From 2013 to 2017, the City received 22 applications for Accessory Dwelling Units. Using HCD's conservative estimate standard, this would project a future capacity for 110 ADUs for the next planning period.

In light of the slow start, it is the City's experience that the opportunities afforded by the new ADU laws are just becoming more widely understood and well known. Building permit data demonstrates that 96 units were built between January 2018 and May 2020 when the ADU survey was conducted. Just since the survey, the City has received an additional 21 ADU applications.[18] The significant spike in ADU development and property owner interest over the past three years indicates that HCD's conservative estimate formula is just that, conservative. Hence why the Site Inventory Guidebook lists "Other analysis (reviewed on a case-by-case basis)".[19]

The City is responding to the State's determination of an unprecedented RHNA allocation (+1,350% for Fountain Valley), with unprecedented steps in expanding capacity for both conventional housing and ADUs. The City is proposing to double its current maximum residential density standard, amend and nearly double the number of units permitted in the Crossing Specific Plan, zone all viable opportunity sites for housing, and adopt extraordinary programs, funding allocations, and fee reductions to promote and

[17] Division of Housing Policy Development. *Housing Element Site Inventory Guidebook*, 31.
[18] The City is considered above average compared to cities statewide in terms of ADU projects permitted, according to the ADU marketplace Housable. Information retrieved October 7, 2020, from https://www.housable.com/city/fountain-valley-ca-109714
[19] Division of Housing Policy Development. *Housing Element Site Inventory Guidebook*, 31.

facilitate ADUs. It follows that a reliance on past production levels (for multifamily or ADUs) is not in keeping with the State's projections.

Additionally, the latest round of ADU activity may be somewhat depressed by the pandemic and other events of 2020, but also will not reflect the most recent 2020 ADU laws that removed HOA limitations and allowed garage conversions with no replacement parking. Finally, the City is seeing more construction firms retooling and positioning themselves for Junior ADUs. Given the substantial legislation aimed at encouraging ADU development, the State's unprecedented projections for housing production, the hopeful return to a relatively normal way of life in 2021, and increased efforts by the City, interest and applications for ADUs are expected to dramatically increase throughout the 2021-2029 planning cycle.

While SCAG's regional survey supports an assumption that 73 percent of these units could be affordable to lower income households, the City's survey supports an assumption of over 90 percent (including a 50 percent assumption for very low and even extremely low income households). Using a conservative assumption of 70 percent affordability, the conservative estimate for the City's ADU capacity for lower income housing is 77 units during the planning period.

The Guidebook also says that a jurisdiction can use trends from regional production, programs that aggressively promote and incentivize ADU construction, and other analysis to justify a larger capacity for ADUs.[20] The City believes that the analysis contained in this document demonstrates that the cost advantages of ADUs over subsidized affordable multifamily housing merit the City focusing on ADUs as the primary solution to accommodate its lower income RHNA allocation.

With 12,575 single family parcels and 4,296 multifamily units across the City, the theoretical capacity for ADU development, based on recent changes in state law, is far more substantial (26,224 ADUs) compared to the City's capacity for new multifamily housing. While ADUs may not yet have a construction trend equal to the State's and SCAG's projected need, a concerted policy and programmatic effort from the City would greatly accelerate the production of ADUs across all income segments.

With a realistic development capacity of 456 lower income units on underutilized sites, the City's remaining lower income RHNA allocation is 1,583. Thus the City would need to assume a capacity for 2,261 total ADUs during the planning period to demonstrate a capacity for 1,583 ADUs (70 percent) being potentially affordable to lower income households.

Of the City's theoretical maximum capacity of 26,224 ADUs (based on state law) and in keeping with the State's projections for housing production, the City believes it can reasonably assume 10 percent of this capacity or 2,662 potential ADUs, which would yield 1,835 potential affordable ADUs. Moreover, this capacity will not be reduced by new development of housing element sites in the future—a key factor in HCD's recommendation that jurisdictions zone approximately 15 percent more capacity than required.[21] New market-rate housing may actually increase the citywide capacity for additional ADUs.

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[20] Division of Housing Policy Development. *Housing Element Site Inventory Guidebook*, 31.
[21] Division of Housing Policy Development. *Housing Element Site Inventory Guidebook*, 22.

Table 8. ADU Capacity for Lower Income Housing

Conservative Capacity		Theoretical Maximum Capacity		Realistic Capacity	
ADUs built 2013-2017	22	Single family parcels	12,575	Lower income balance[3]	1,583
Assumption Factor x 5	110	Multifamily units	4,296	Affordability Factor	70%
Affordability Factor[1]	70%	Capacity per state law[2]	26,224	ADU capacity needed	2,261
Lower income ADUs	77	--	--	ADU capacity estimate	2,622
--		--	--	% of theoretical max	10

Notes:
1. While a recent City and SCAG surveys indicates a higher percentage of affordability (90% and 73%, respectively), the City has opted to use a more conservative assumption of 70%.
2. One ADU and one Junior ADU per single family parcels, plus 1 ADU for up to 25 percent of existing multifamily units.
3. Balance of lower income RHNA allocation after subtracting pending project and underutilized capacity.

City Incentives and Programs

The City will introduce the following housing programs and incentives to promote affordable housing in conventional development and through ADUs.

Conventional Housing

Inclusionary Housing. The City will establish an inclusionary housing program that requires all new housing projects (10 or more units) to construct and restrict 15 percent of all housing as affordable to very low and low income households. The program will also have an equivalent in-lieu fee option based on the affordability gap or production costs method. This will ensure that future affordable housing is distributed throughout the City, thereby also addressing the requirement to avoid concentrating affordable housing within census tracts that are low resource or demonstrate a racial or lower income concentration.

VMT Exemption. New CEQA thresholds for transportation impacts evaluate projects based on their projected rates of vehicle miles traveled (VMT). While certain housing projects would be exempt by various provisions throughout state law, the City of Fountain Valley adopted VMT thresholds that screen out affordable housing project and presume that such projects have a less than significant impacts, absent substantial evidence to the contrary. The City's VMT thresholds also makes such an assumption for projects located within a low VMT-generating area or transit priority area. Nearly all of the City's opportunity sites are within one of these areas, which will streamline future housing development and facilitate greater affordability.

Accessory Dwelling Units

Education and Awareness. A recent study from the UC Berkeley Turner Center for Housing Innovation noted that education and information are crucial to the success of ADU adoption.[22] The City currently provides an information pamphlet to homeowners who are interested in learning more about ADU development and plans to expand its educational efforts to include active property owner outreach. Marketing and promotional materials will be prepared to inform eligible homeowners of new ADU programs as they are adopted and launched. Active participation in County educational efforts is

[22] Chapple, Garcia, et al. *Reaching California's ADU Potential: Progress to Date and the Need for ADU Finance*, 18.

anticipated to occur through REAP Grant funding, producing materials such as educational videos. The City will also establish an ADU ombudsman to serve as a central point of information and resource for enhancing awareness.

Amnesty. Part of the initial outreach push will include appealing to owners with unreported or non-compliant ADUs to bring their units into compliance through an amnesty program. Owners of unreported units would be offered reduced or waived processing fees to come forward and register with the City. For ADUs that do not comply with building codes, participating homeowners would have access to grants or loans (see City Funding and Financing) set aside to help bring units into compliance. In addition to improving the records of ADUs in the City, an amnesty program can also improve tenant safety by ensuring the units are up to code.

Reduced Fees and Pre-approved Site Plans. The City will waive building permit and City impact fees for income-restricted ADU rental units. The City will also leverage the work funded by the SB 2 and LEAP grants throughout the state to provide standardized and pre-approved site plans for ADUs to increase approval certainty, reduce development timelines, and eliminate the dauting task of securing independent design and architectural services. These efforts will lower the entry cost to building an ADU and streamline its production.

City Funding and Financing. Fountain Valley staff are also evaluating the feasibility of independently facilitating a construction loan program utilizing moneys from the City's Low Moderate-Income Housing Fund (LMIHF). By offering loans at competitive (or reduced) rates, the City enables homeowners to access financing mechanisms that are otherwise unavailable through traditional avenues. With complete autonomy over the program, the City can direct funds in a way that uniquely meets the needs of the community. Comparable programs can be found throughout California, but the *Small Homes, Big Impact*[23] program, coordinated by Housing Trust Silicon Valley Housing, is one of the best examples. The program, led by the County of Santa Clara and Silicon Valley Leadership Group, offers loans up to $200,000 on a 36-month term in exchange for two years of guaranteed affordability. Taking the route of loans enables the City to continually replenish the LMIHF, all but guaranteeing a consistent stream of ADU development moving forward.

As an alternative to the traditional construction loan program, the City is also considering a forgivable loan program funded by the LMIHF. Instead of recouping the principal and interest, the City would forgive the entirety of the loan in exchange for 20 years of guaranteed affordability. Should a property owner fail to rent the unit in compliance with the low-income restriction, the loan must immediately be repaid in full (principal + interest). The property owner may opt out of the agreement at any time by repaying the loan in full. The County of Santa Clara has successfully implemented a forgivable loan program, offering homeowners up to $40,000 for eligible costs related to ADU development. The City of Napa Valley administers a similar program for Junior Accessory Dwelling Units offering up to $75,000 for Junior ADU

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[23] Housing Trust Silicon Valley, Small Homes, Big Impact, 30 Sept 2020, https://housingtrustsv.org/programs/homeowner-programs/accessory-dwelling-unit-program/

development. Although the loans are forgivable, a home sale during the contract period would require an opt out from the agreement, which could allow the City to recoup the majority of its investments.

The City will also advocate for change to state and federal grant and loan programs, which currently focus largely on conventional multifamily housing, to incentivize and dedicate substantial funding to support the construction and affordability of ADUs.

Monitoring and Reporting. The City will monitor the interest in and production of ADUs on an ongoing basis, providing updates to HCD (through the annual progress reports) and to the public via an annual report. In these reports, the City will summarize the level of interest expressed through the number of initial and approved applications and the number of constructed units (along with occupancy statistics). The City will also report on and evaluate the effectiveness of its ongoing and new ADU-related programs and identify potential changes base on ongoing outreach with property owners and the development community. At the mid-cycle point in the planning period (2025), the City will ascertain whether the rate of ADU construction and levels of affordability has reached the annualized rate needed to accommodate the City's lower income RHNA (197 per year). If the construction and/or affordability rates for 2024 (or the average rate of 2021 to 2024) are below this rate, the City will revise its programs to further incentivize and fund ADUs.

Additional Program Options. Furthermore, the City is looking to other jurisdictions for inspiration on programs and policies that encourage ADU development. The City of Los Angeles recently partnered with a non-profit architecture and design firm to spearhead *The Backyard Homes Project*[24]. In collaboration with various public and private partners, the City of Los Angeles is offering homeowners a complete menu of wraparound services, including project management, financing (four to six homeowners), design, permitting, construction, and leasing assistance. The program is currently limited to 10 properties and will guarantee the construction of ADUs reserved for low income households for a minimum of five years. Despite the restriction on the number of participants, the program will explore the viability of public-private partnerships in affordable ADU development. Fountain Valley staff will closely monitor the programs progress and evaluate the possibility of implanting a similar program in the City.

[24] LA Más, The Backyard Home Project. Retrieved September 30, 2020, from https://www.mas.la/affordable-adus

Conclusions

The City of Fountain Valley faces a challenge that reflects the magnitude of the housing crisis faced by many California residents. The City is committed to accommodating its RHNA allocation and firmly believes that widespread ADU adoption is the only feasible path forward.

The City's overall development capacity is presented in Table 9. The development potential assumptions ensure that the City can address its total RHNA allocation and the allocation for each income category without overestimating its capacity and avoiding a need to rezone sites during the planning period.

Table 9. Summary of Development Capacity

			Affordability Distribution by Income Category				
Project	**Acres**	**Density**	**Very Low**	**Low**	**Mod**	**Abv Mod**	**Total**
Planned/Entitled Projects							
South Harbor Island	1.95	25.7	45	4	-	1	50
Villa Serena	4.07	7.4	-	-	-	12	12
Moiola	12.90	5.7	-	-	-	74	74
Starfish	1.02	10.8	-	-	-	7	7
SUBTOTAL	**19.94**	**--**	**45**	**4**	-	**94**	**143**
Opportunity Sites							
Golden Triangle	2.3	45	103		-	-	103
Southpark	35.4	45	143		203	610	956
Silky Sullivan's	3.3	30	14		21	64	99
Warner Square	1.8	30	6		10	30	46
Crossings SP	49.0	30	120		170	510	800
Miller Property	18.6	22	61		87	261	409
Smith Farms	4.2	15	9		13	41	63
SUBTOTAL	**114.6**	--	**456**		**504**	**1,516**	**2,476**
ADUs							
Citywide	**2,622**	**varies**	**1,835**		**393**	**393**	**2,622**
TOTAL CAPACITY	**2,696**	**varies**	**2,340**		**897**	**1,909**	**5,241**
RHNA Allocation			2,088		832	1,907	4,827
Surplus Capacity			**252**		**65**	**2**	**--**

The City believes its approach is realistic and appropriate for the following reasons:

1. **The City is effectively built out.** The City has essentially no vacant land and does not control any underutilized land. While this fact is not grounds for dismissing the ability to accommodate its RHNA allocation, the lack of vacant land and city ownership of land means that the City must rely upon private property owners to redevelop their existing uses into housing.

2. **Jurisdictions cannot mandate housing construction.** The City has spent over a year evaluating every parcel in its jurisdiction and speaking to property owners to uncover any potential for future housing. The City has found only seven properties with owners interested in housing. While the City has the authority to zone land, the City cannot mandate construction and lost redevelopment powers in 2011. This is especially important to keep in mind as the City must, per state law, identify *realistic* sites and maintain adequate capacity through 2029.

3. **Jurisdictions cannot mandate affordability beyond 15 percent.** Beyond the ability to apply a 15 percent inclusionary requirement, the City has no ability to require greater levels of affordability. While affordable housing developers will gain access to more funds (e.g., annual Senate Bill 2 funding), the total amounts of public subsidy funding are inadequate to overcome the gap between producing market rate and affordable housing. This means that future multifamily housing, even assuming higher densities and some fully affordable projects, is unlikely to yield more than 300 to 500 affordable units (compared to the City's remaining lower income RHNA allocation of 2,039).

4. **ADUs are affordable without subsidy.** Based on a regional survey by SCAG and a local survey by the City, the vast majority of ADUs (73 to 93 percent, respectively) are currently affordable to extremely low, very low, or low income households—without any public subsidies. To build the lower income RHNA allocation via conventional multifamily housing, even assuming 100 percent affordability, would require approximately $250 to $335 million in financing within the first four years of the planning period—just for the City of Fountain Valley. The City's $8.5 million subsidization of 50 affordable units required over two-thirds of its remaining LMIHF (ending balance before loan was $12 million), which is only replenished by the repayment and interest on loans. Even with potential improvements in construction efficiency and technology, the level of subsidy for a single project is likely to remain in the millions of dollars. It is clear that the City does not have adequate funding to facilitate more than 25 to 50 additional affordable multifamily housing units.

5. **ADUs can be a realistic resource for affordable housing.** The City understands that ADUs have not been utilized as a primary means of housing in the past housing cycles. The City is committed to actions and programs to incentivize the construction of ADUs in large numbers. This is no small task and the City cannot guarantee the construction of ADUs any more than it can guarantee the construction of affordable multifamily housing. However, the City believes it may be better to focus on advancing the role of ADUs, which require little to no financial subsidy, compared to relying on the unlikely development of thousands of multifamily units given the $80K to $160K per-unit gap and lack of available funding.

6. **ADUs offer other benefits.** Providing affordable housing through ADUs distributes growth across entire neighborhoods, which avoids a concentration of lower income housing into already economically stressed neighborhoods, reduces the strain on existing roadways, reduces the need for wider and new roads , and increases density in single family neighborhoods toward levels that could better support transit.