

**CITY OF OAKLAND**  
***COUNCIL AGENDA REPORT***

TO: Office of the City Manager  
ATTN: Robert C. Bobb  
FROM: Community and Economic Development Agency  
DATE: December 10, 2002  
RE: INFORMATIONAL REPORT ON INCLUSIONARY ZONING STUDY

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**SUMMARY**

This is an update on the status of the feasibility study of inclusionary zoning in Oakland.

Inclusionary zoning was first proposed by the Affordable Housing Task Force in July 2000, and the City Council subsequently authorized staff to draw up a contract to study the impact of an inclusionary requirement on the production of market-rate housing in Oakland.

While the contract was approved by the City Council in September 2001, the contract was never executed due to difficulties in determining the appropriate scope of services and because the growing uncertainty in the real estate market called into question the wisdom of imposing new costs on housing development in Oakland. Staff is therefore recommending that the study be deferred until market conditions have improved to the point where inclusionary subsidies can more easily be absorbed by developers.

**FISCAL IMPACTS**

None.

**BACKGROUND**

On December 7, 1999, in response to a request from Councilmember Jane Brunner, staff presented to the Community and Economic Development Committee a report on the formation of a task force to consider housing policy alternatives. The report was presented to the full City Council on December 21, 1999, at which time the Council approved the report and provided direction to staff on the composition and scope of the new task force.

The Task Force met six times over a five month period. In addition, subcommittees were formed to research issues and frame discussions for the Task Force as a whole. A final report was presented to the City Council and the recommendations were adopted by the City Council on July 25, 2000. Among the recommendations was consideration of an inclusionary housing program to require that a specified percentage of new housing units be made affordable to targeted income groups.

On May 15, 2001, in response to an informational report on inclusionary zoning policies and programs, the City Council directed staff to select a consultant to perform an economic analysis of an inclusionary housing program. Staff noted that funds would not be available for this

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purpose until FY 2001-02, and indicated that a contract would be developed in the early part of that fiscal year.

A request for proposals (RFP) was sent to five economic consulting firms, including two Oakland-based firms. A total of three proposals were received, and all three proposers were interviewed by a panel comprised of City staff familiar with the scope of work.

Based on those reviews and staff recommendations, on September 25, 2001, the City Council authorized the City Manager to enter into a contract with Hausrath Economics Group to conduct a study, and appropriated \$60,000 for the study plus \$1,800 for monitoring fees for the Contract Compliance unit.

### **KEY ISSUES AND IMPACTS**

As noted in the City's Consolidated Plan for Housing and Community Development, adopted in June 2000, the City, as almost all cities in Northern California, is experiencing a shortage of affordable housing for low and moderate income households. In response, the City has taken a variety of steps, including providing financial assistance to developers to reduce rents and sales prices on assisted units, increasing the redevelopment set aside to 25%, and imposition of a linkage fee on commercial developments. In the most recent election, the voters approved a Just Cause provision to protect tenants.

Inclusionary zoning is a tool used by cities to require that a minimum percentage of new housing units be made affordable to targeted income groups. For example, a typical inclusionary program might require that for any new residential development of 10 or more units that at least 10 percent of the units shall be made affordable to lower income residents. Studies show that approximately 1200 units of affordable housing have been produced in California each year during the last two decades under inclusionary requirements.

Inclusionary programs vary widely in the amount of affordable housing required and the income levels to which the housing must be made affordable. Setting the threshold for triggering the inclusionary requirement and determining the appropriate affordability levels involves making decisions on a number of policy issues, including the percentage of affordable units to be required, the affordability levels (rents and sales prices) that are required, the period for which the affordability restrictions would remain in place, and the minimum size of projects that would be subject to inclusionary requirements.

Any adoption of an inclusionary zoning scheme should be based on a clear understanding of the specific features of the local housing market. If inclusionary requirements are too onerous, private developers may be deterred from building new housing and may instead build in other cities where the barriers to entry are lower.

Another key consideration involves the timing of adoption of an inclusionary zoning strategy relative to real estate market cycles. When housing prices are rising rapidly, there is greater potential to capture a portion of price inflation in the form of affordability requirements for new development. When the market is soft, new requirements could retard the production of new

housing. Consideration must also be given to how inclusionary requirements would affect the City's competitive position vis-à-vis other communities where housing developers are seeking to invest.

### **PROGRAM DESCRIPTION**

As economic conditions have worsened over the last two years, there has been an impact on housing development. While sales prices of existing housing have continued to rise, rental rates on existing apartments fell by roughly 15 percent between July 2001 and July 2002. There are also indications of a more general slowdown in housing development activity.

Given this decline in the housing market, staff believes that this is not the best time to conduct a feasibility study. It is likely that a study would show that conditions are at best marginal for inclusionary zoning. Instead, a second study would be required at a later date when conditions have improved.

Even in the absence of a local inclusionary zoning requirement, staff has been negotiating with developers of major residential projects to include affordable units. For example, the proposed Leona Quarry project would include the set aside of land for development of affordable housing for seniors. The proposal for housing in the Uptown area continues to include 20 percent of the units affordable to households at or below 50 percent of median income. Staff will continue to seek such affordable units on a case-by-case basis, taking into account the specific conditions of each new project.

### **SUSTAINABLE OPPORTUNITIES**

Economic: As noted above, an inclusionary zoning requirement could deter new residential development at this time. This would result in a reduction of economic opportunities, including the jobs that would result from new construction activity.

Environment: If inclusionary zoning did deter new development, it would act against the City's policy of promoting higher density infill development downtown, on the commercial corridors, and near the waterfront, all of which promote sustainable development and counteract urban sprawl.

Social Equity: Inclusionary zoning, where feasible, would promote mixed income developments consistent with the social equity principles of sustainable development.

### **DISABILITY AND SENIOR CITIZEN ACCESS**

A feasibility study will not have an impact on disability and senior citizen access to services. Housing produced as a result of an inclusionary housing program might provide additional housing for seniors and disabled residents.

**RECOMMENDATION AND RATIONALE**

Staff recommends deferring any feasibility studies for inclusionary zoning until such time as economic conditions have improved.

**ACTION REQUESTED OF THE CITY COUNCIL**

Accept this report.

Respectfully submitted,

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**WILLIAM E. CLAGGETT**  
**CEDA Executive Director**

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Coordinator

APPROVED AND FORWARDED TO THE  
COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

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Office of the City Manager