

Thursday, December 8, 2022, 7:00 p.m.

The Planning Commission meeting was called to order at 7:05 p.m. by Chair Ali-Sullivan. The Planning Commission held a hybrid meeting in the Council Chambers and virtually via Zoom.

PLEDGE OF ALLEGIANCE

ROLL CALL

Present: COMMISSIONERS: Goldstein, Lowe, Roche, Stevens

CHAIRPERSON: Ali-Sullivan

Absent: COMMISSIONER: Bonilla Jr.

CHAIRPERSON: None

Staff Members Present: Lochirco, Madhukansh, Morales, Ochinero, Ott, Parras, Schmidt,

Sidelnikov, Tabari, Vigilia

PUBLIC COMMENTS

Ms. Ro Aguilar, Zoom participant, made the following comments about state regulations on affordable housing: the state had to intervene as locals were not doing an effective job of resolving the housing issue, that the state has contributed billions and that there was only 2% improvement in homelessness as a result of all the funding, stated that there are over 400 members of the homeless population in Hayward in need of shelter, expressed these numbers would be higher in 2023, and urged the Planning Commission to advise the City Council to buy or lease more hotels and motels for the homeless especially during the winter months. She wished everyone happy holidays.

Mr. Gabriel Altamirano, with South Hayward Neighborhood Association participated via Zoom, expressed the following concerns related to the St. Regis project: that there would be no planning approval and that the project would be exempt from a CEQA review, due to the increased intensity of this use the project may have adverse impacts, could not imagine a project of this size not going through the Planning Commission for discretionary review, there were no formal notices online of hearings and noted that the hearings held were related to grant funding.

WORK SESSION

1. Affordable Housing Ordinance Feasibility Study: Review and Discuss Findings and Policy Recommendations (WS 22-038)

Housing Division Manager Morales shared that the City Council had identified evaluation of the Affordable Housing Ordinance as one of the priority items for their Strategic Roadmap



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in 2020, and that in March 2022 staff initiated the process of evaluating outcomes and performance of the existing ordinance which was modified in 2018. Based on the recommendations from the City Council, Homelessness-Housing Task Force and the Planning Commission, the city contracted with Strategic Economics to conduct a feasibility study with a purpose of maximizing amount of affordable housing that could be produced by the ordinance. She introduced Mr. Derek Braun, consultant with Strategic Economics, who presented the findings of the feasibility study.

Commissioner Lowe indicated the presentation was thorough and informative, stated that the consultant was surmising Hayward is producing more inclusionary units than other communities because the city has lower requirements and asked if the consultant had looked at Fremont's ordinance or policies so that Hayward can mirror what they are doing to produce more inclusionary units while maintaining higher requirements. Mr. Braun responded that his firm had pulled detailed information on comparable cities including Fremont and noted that they have high requirements for in-lieu fees and inclusionary units especially for ownership housing products. He added that Fremont commands high sales prices and rental rates, which are higher than many communities including Hayward.

Commissioner Lowe was aware that Fremont does demand higher sales prices and wondered if there was something within Fremont's policy that could be adopted by Hayward to have higher requirements than what was recommended as she was concerned that the proposed was a mere increase from 10% to 12% and the ordinance was not modified often and only every five to seven years. She asked what the process was to ensure the identified percentages would keep up with inflation commenting that 12% seemed low.

Mr. Braun responded that the requirement was not just changing from 10% to 12% overall, adding that it was being split so that 6% would be for moderate income households and 6% to low-income households, and emphasizing this was a significant change in adapting the policy to target lower income households than historically done in the past. In terms of projecting forward, he shared that a sensitivity analysis was conducted to look at increases in construction costs that may occur, interest rate changes, and other potential conditions that may be changing that can limit what can be done with the projection. The goal is to leave enough room in the policy so that even if a development were to become less feasible, it may still work. With regards to inflation, he indicated that the effect of this right now was driven by the return requirements for lenders of market rate developers and what they were hearing throughout the Bay Area was that capital markets were starting to freeze up as there were uncertainties adding to complications about the future.

Commissioner Lowe asked why 12% was specifically selected rather than 14% or 15%. Mr. Braun stated that 12% was selected based on an analysis that showed if there were increases in hard costs of construction such as a 2-5% rise, then single family homes would remain



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feasible or marginally feasible making production still likely. He shared that with construction cost increases around 5%, townhomes with modified inclusionary requirements would likely be infeasible and therefore they did not want to increase the percentage further due to risk of ceasing development and resulting in no inclusionary units.

Commissioner Lowe expressed that she was confused about the recommendation and stated that she was aware that there were incentives and bonuses for the developer in order to get them to create the inclusionary units rather than pay for the in-lieu fees. She asked if the recommendation gives the city discretion versus the developer having the discretion. She was concerned about developers having total control and discretion to decide when to build or pay in-lieu fees and felt that this decision should be up to the city.

Housing Manager Morales responded that based on staff's research, discussions with developers and in looking at how construction costs can affect feasibility, she noted that an increase of 5% in construction cost was low and that this was the trend on an annual basis. Having this flexibility increases feasibility as it provides developers with options. She pointed out that projects that were choosing to do on-site inclusionary units tended to occur without the city restrictions for larger projects. Ms. Morales exemplified that presently, of the projects that are entitled or have submitted applications under the new requirements, 19 projects had opted to do onsite inclusionary units. She added that an average project size was under eighty units for a total of 1,480 units, which would be 144 inclusionary units. There were 25 projects that were choosing to pay fees, with an average project size of six units, total of 156 units, underscoring that the actual number of units actually scheduled to pay fees was low. Ms. Morales stated that it was these small projects that create a lot of burden for staff in terms of negotiating affordable housing agreements, monitoring for compliance, and the developers are usually smaller with less experience. These are the types of projects that staff try to encourage that developers pay in-lieu fees as the fees are needed in order to produce the units for very low and extremely low-income households. She added that the fees are also needed for the staff who do the compliance monitoring for the affordable housing ordinance. Ms. Morales emphasized that in deciding that certain types of projects should be scheduled to pay fees, that this would not only reduce flexibility for the developer, but it would also affect staff being able to negotiate which types of projects are best suited for paying in-lieu fees versus providing on-site units.

Assistant City Manager Ott commented that every project site for development projects is different, with different conditions, developers with varying experience and levels of sophistication, financing, and staff need flexibility to be able to respond to the specific conditions of their deal, transaction, and site. By taking the flexibility away it would make it harder, staff does not have the due diligence on every parcel as the developer would and may not understand the financing transaction as the developer would, and it was valuable for the developer to have the flexibility to move projects forward and to do so expeditiously. Ms. Ott



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said that staff wants to ensure that there are requirements in place to produce housing through fees or onsite construction.

Commissioner Stevens said that in a world where developers compete as they look to develop projects, as the City of Hayward competes with other cities, how does changing these rules change developer's perception and ease of development, wondering if they may choose a different community to build their project in.

Mr. Braun responded that Commissioner's Stevens comments are the reason for the analysis reviewing the requirements of neighboring cities or those with similar market conditions. He stated if the city adopts inclusionary requirements and in-lieu fees at a level allowing developments to proceed then there are still incentives for developers to produce housing in Hayward, underscoring that it was the intent of the analysis to identify a good balance to move projects forward.

Commissioner Stevens stated that it was impossible to predict the future, it was discussed that construction cost increases were estimated to be 5%, noted that the California Construction Index went up 25% and that it was starting to come down and become more reasonable. He stated that for builders who have to predict the future when faced with high costs, increasing interest rates, housing prices falling, it was worrisome to him to be changing rules when going into a mysterious future.

Assistant City Manager Ott shared that staff was also worried and therefore want to balance desire from various commissions and policymakers that the city should do more, staff's recommendations are walking a fine line, and this was prior to knowledge of an impending recession. She stressed that the chances of pushing this over and impacting housing production are greater now. Based on the analysis and feasibility study done by Strategic Economics, she stated that marginally increasing inclusionary ownership products of lower density and staff was concerned that if they increased requirements then this could impact production and potentially have the opposite effect than was intended with the policy.

Commissioner Stevens asked if everything remained the same and of the 10%, if 5% went to moderate and 5% to low-income, this would be consistent with unknown moving towards.

Assistant City Manager Ott responded that this would be less likely to impact the feasibility and make it less of cost impact to development.

Commissioner Stevens stated in looking at Fremont and Hayward being successful with their production rates, wondered if Hayward's geographic location and being an employment center were the reasons for its success. Mr. Braun responded that it was reasonable to deduce this as Fremont was a major employment center and was well positioned to transportation



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connections, and this factors into market considerations for why they have higher housing prices.

Mr. Braun clarified for Commissioner Goldstein that the approach used to display results is a residual land value analysis that is the amount left to pay for land after subtracting project costs from the project sale price and required return on investment, adding that it was based on the per square foot of land area. He elaborated that the residual land value for a higher density rental product could not support paying for land after accounting for value of rents it could receive after construction costs and return on investment.

Commissioner Goldstein commented that this was a scary realization for the five-story podium projects indicating that these projects should not be built and wondered why they are getting built. Mr. Braun responded that that a lot of projects that are being built that are higher density rental projects were permitted under the previous iteration of the affordable housing ordinance prior to 2018.

Assistant City Manager Ott added that the Lincoln Landing project which is the City's most recent market rate multifamily housing project, is an opportunity zone and the project was able to take advantage of federal financing and tax benefits, enabling the project to advance.

Mr. Braun underscored that the Lincoln Landing project had special circumstances including approval under previous inclusionary housing requirements and other housing advantages. Commissioner Goldstein commented that the recommendation was a great representation of feasibility but noted that it does not factor in outside funding which a developer may receive.

Commissioner Roche asked if there was a range considered when arriving at 12%. Mr. Braun responded that several inclusionary requirements were evaluated with ranges varying from 12% to 20%, staff reviewed the impact of feasibility of each requirement, looked at different variations of moderate-income units versus the low and moderate income split, and ultimately based on feasibility results and policy guidance arrived at incorporating the low income requirement and increasing the inclusionary requirement while leaving some room for changing conditions. He confirmed for Commissioner Roche that 12% was the stopping point.

Housing Manager Morales noted for Commissioner Roche that the sensitivity analysis accounts for how much increase in costs can be absorbed by a project over time to ensure that requirements continue to be feasible. She shared that a prior study included a similar range, and that staff decided that due to market conditions it was better to be lower than maximum, to do otherwise would risk production of housing being affected. Considering neighboring cities who have 15% inclusionary housing requirements but are not producing any moderate-income units for ownership such as San Leandro and Union City, and that have similar median



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income levels and rent as Hayward, there is concern that a high inclusionary requirement will have the same effect of slowing the market as experienced by adjacent jurisdictions. She underscored the importance of being sensitive to changing market conditions, and that going on the aggressive side may cause constraints to production of ownership units.

Housing Manager Morales confirmed for Commissioner Roche that with all of the housing types, the developer did have the option to choose between in-lieu fees or providing onsite affordable units.

Commissioner Roche pointed out that in reviewing the number of inclusionary units built in Hayward compared to neighboring cities, Hayward had more, adding that some of these did come from the smaller projects. Ms. Morales responded that there are number of projects that have been entitled and are smaller projects that will produce inclusionary units. She noted that it was staff's experience with working with smaller developers, it takes a lot of time to negotiate the affordable housing agreements, to educate developers on the affordable rents that are required, what is required in marketing and management of these units, and it takes a lot of staff resources. She shared that there is one staff member responsible for overseeing compliance with affordable housing requirements. Having a lot of small projects producing a few units will place a substantial burden on staff, especially if there is no fee revenue coming in to pay for costs for staff to perform this work. Ms. Morales added that what was apparent was projects would get entitled and not many of these were being built, these projects are not pulling permits. The underlying concern is to evaluate the feasibility of rental housing projects based on the study, when there is a pause in getting entitlement and getting built it is because the developer is looking for financing, the longer this takes the less likely it is that these projects may not actually get built.

Commissioner Roche asked if there was a shift in the policy for small projects to readily accept in-lieu fees and not push for inclusionary units. Housing Manager Morales shared that there may be a need for flexibility by smaller projects that choose to access the density bonus and would not want staff to be constrained to require these projects pay fees as they are smaller projects if the developer was inclined to provide a couple inclusionary units and provide more overall units. In conjunction with the two ordinances, staff thought it was an ideal situation and to discuss with the developer what the best approach is, as they have been doing. Ms. Morales stated that naturally the smaller projects have been paying fees and the larger ones have been constructing the onsite inclusionary, not requiring a lot of intervention.

Housing Manager Morales noted for Commissioner Roche that the loosening of requirements on implementation were in reference to developers wanting the city to allow use of tax credit rents instead of the rents produced by the Health and Safety Code. She stated that this would have to be carefully evaluated by attorneys to see if the tax credit rent could be used for these projects. For projects that use a density bonus, they would have to use Health and Safety Code



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for at least 20% of the units. She noted that this comment was regarding a perception that the city required the use of a specific organization to market units, when in reality it was the previous owner of the same development who selected the company doing the initial marketing and sale of the units, noting this was not a city requirement. She said that it was good to know what type of flexibility is desired by the developer and ensure that marketing is equitable and ensure that all Hayward residents have access to these units.

In regards to in-lieu fees, Housing Manager Morales noted for Commissioner Roche that the collected fees are restricted for production of affordable housing units in Hayward. She shared that the city has been noticing funding availability to allocate funds and in subsequent years when there were projects with funding gaps, there would be City Council approval of available funds to close funding gaps and to move forward with affordable housing projects. As a result of this, three affordable housing projects were able to move forward, with one project closing on all loans and starting construction in November, it was anticipated a second project was to close middle of next year, and a third project had started construction last year.

Commissioner Lowe asked if in-lieu fees could be used by the city to purchase hotels to house members of the unhoused population. Housing Manager Morales responded that there was language in the affordable housing ordinance which stated that funds can be used to subsidize projects that serve populations that are experiencing homelessness, if it is determined that the use will offset the rate of market rate development. Ms. Morales indicated that this would require further analysis if in-lieu funds are to be considered for target populations. She added that the funds may be used for affordable housing developments that target extremely low-income households and provide permanent supportive of housing. She shared that with home key projects and in receiving submittals from hotels interested in selling their properties, there had been an increase in sales prices of these hotels which affects the feasibility whether the City has sufficient money to acquire a hotel. In relation to the amount of affordable housing in-lieu fees and the sales prices for acquisition of the hotels, it would not be enough money to acquire a hotel.

Chair Ali-Sullivan appreciated the well-thought-out analysis. He shared that one conclusion he drew from the presentation was there should be no expectation of any rental units to be built in Hayward, which was shocking and problematic to him. He stated that presently without any affordable housing requirements, that no high-density projects and very few smaller rental projects seem feasible with the current affordable housing requirements. He stated that losing out on rental property in the city was a significant problem, and that both rental and home ownership on the affordable side. If the existing affordable housing requirements preclude the ability of any type of rental to be developed then, not making any changes to the rental piece of the recommendation was questionable. Housing Manager Morales responded that these concerns were raised in March of this year and that they were not seeing high density rental projects being proposed. She stated that the study reinforced that it would be



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difficult to build high density rental housing in Hayward. In previous iterations of the analysis, rent would need to increase by 40% for rental housing to be feasible. However, Ms. Morales stated that the affordable housing ordinance would create an opportunity if fee revenue is collected, this could be used to subsidize the development of affordable rental housing to get a mixture of homeownership of moderate income and low-income households through market rate development and use in-lieu fees to subsidize rental housing. Ms. Morales added that populations identified from the displacement study could be targeted of those most at risk of being displaced and potentially becoming homeless due to affordability concerns. She stated that there are two opportunities there when market conditions are such that the market can't produce rental housing that's when the affordable housing developers could help fulfill that need.

Assistant City Manager Ott added that there was multifamily rental being built in the city, this was affordable housing heavily subsidized by public subsidies or cases of it being built on the city's own land such as Parcel Group 3 or Parcel Group 8 which had almost 300 units of multifamily residential housing.

Chair Ali-Sullivan asked if there was any thought given to reduce requirements on rental projects. Housing Manager Morales shared that this was considered initially and was proposed to the Homelessness-Housing Task Force and there was concern about reducing the requirements, in essence this would not change the feasibility as the requirements are a small percentage of the development costs. She said that considering the point from East Bay Housing Organizations and its minimal effect on feasibility, they want to make sure that the city is in a position when rental housing is feasible to collect the fee revenue or have onsite inclusionary units when the market changes. Ms. Morales added that there were small rental projects in the pipeline and would not want to lose any potential fee revenue or onsite units if removed the requirement suddenly.

Chair Ali-Sullivan stated that the impacts would be on low density projects. He asked what was being built in Hayward, noting in the last couple years what had gone before the Planning Commission was a vast majority of a higher density type. He was concerned that the affordable housing requirements were being increased on a product not already being built in Hayward and therefore would not achieve an increase in affordable housing.

Housing Manager Morales shared the following products that had been recently approved that are not subsidized including La Playa Commons which will provide 6 units of affordable housing, TrueLife project with 50 townhomes, noted that Mission Crossings had 14 affordable units for sale, TrueLife project located in parcel group 2 will provide 20 affordable units, underscoring that more of this product type will become available.



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Planning Manager Lochirco shared that with developments in the pipeline right now, majority are a townhome style development and constituted a detached units and were under 50 units in size making it a smaller sized project. He stated that with market rate rental projects, Maple and Main was recently entitled and this proposed affordable units but was not under construction yet. He noted that there was not a lot of rental market rate coming forward as was discussed by Ms. Morales. He shared that some projects had slowed down due to the temperature of the economy and financing hurdles, highlighting that most of what is being built was entitled pre-pandemic and these projects had secured their financing a couple years ago when the interest rates and costs were low.

Chair Ali-Sullivan appreciated the comments expressed by Commissioner Stevens on the impact these policies will have for development in Hayward. He underscored the desire of the Planning Commission to see affordable units constructed in the City of Hayward, what was clear was the desire and the economic reality were not aligning, and this was troubling. The challenge was balancing policy with actual effect and hoping that the proposals will lead to a positive result.

Chair Ali-Sullivan opened the public hearing at 8:30 p.m.

Ms. Ro Aguilar, participated via Zoom, expressed comments focusing on owner occupied inclusionary affordable housing as this was the most effective in strengthening the middle class. She stated that it appeared that single-family townhouses in the moderate and lowincome can be profitable under the current requirements due to the city incentives. She added that if the City Council were to require onsite affordable housing for single family townhouses within an optimum of 20-30 units as a trial, and not raise the percentage, and require that the decision-making go back to the City Council. Ms. Aguilar said that if this category is profitable then the low number of owner-occupied inclusionary housing to date must primarily be a result of anticipated community opposition. She stated that without deed restricted affordable housing, moderate and low-income people are being barred from homeownership. With gentrification, such as the Oak Street townhouse development, only market rate houses are being built pushing out lower income families who live in the neighborhood now. Ms. Aguilar underscored if the developer is required to build affordable housing, then there will be no backing out and the City Council can focus on addressing concerns rather than considering rejection. She urged that the Planning Commission recommend that the City Council explore this model.

Mr. Gabriel Altamirano with South Hayward Now Association participated via Zoom, echoed Ms. Aguilar's comments about the need for low, very low and extremely low housing in Hayward. He shared that the Association of Bay Area Governments regional housing needs determination makes it half of what is required. He understood the recommendations for inlieu fees, it seemed the city was taking a position to build higher, moderate or above moderate



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units and cautioned to be careful about this. He shared what community members could do to make certain that in-lieu fees are being spent appropriately and to hold the city and developers accountable.

Chair Ali-Sullivan closed the public hearing at 8:37 p.m.

Commissioner Lowe understood the staffing issues and not being overburdened by too much discretion being placed on the city, however, ideally it would be great to see the developer build the inclusionary housing and for the in-lieu fees to be at the discretion of the city. She commented that the in-lieu fees that are paid are not worth the same amount as a new inclusionary unit and felt that the in-lieu fees should be the exception and not the rule. She understood the fear of having a percentage that is too high, and it seemed logical that if Hayward remained less strict than surrounding cities, developers would still choose to build here. She worried that the city was being too cautious and thereby not maximizing what it could as it relates to affordable housing.

APPROVAL OF MINUTES

- 2. Minutes of the Planning Commission Meeting of September 8, 2022
- A motion was made by <u>Commissioner Stevens</u>, seconded by <u>Commissioner Lowe</u>, to approve the meeting minutes of September 8, 2022.

The motion passed with the following roll call votes:

AYES: Commissioners Goldstein, Lowe, Roche, Stevens

NOES: None

ABSENT: Commissioner Bonilla Jr.

ABSTAIN: Chair Ali-Sullivan

3. Minutes of the Planning Commission Meeting of November 10, 2022

A motion was made by <u>Commissioner Goldstein</u>, seconded by <u>Commissioner Roche</u>, to approve the meeting minutes of November 10, 2022.

The motion passed with the following roll call votes:

AYES: Commissioners Goldstein, Lowe, Roche

Chair Ali-Sullivan

NOES: None

ABSENT: Commissioner Bonilla Jr.



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ABSTAIN: Commissioner Stevens

COMMISSION REPORTS

Oral Report on Planning and Zoning Matters

Planning Manager Lochirco acknowledged that this meeting was Commissioner Roche's last as a Planning Commissioner noting that she had served on the Planning Commission since 2019 and served on the Community Services Commission prior to this, being appointed in 2015; and wished her the best and congratulated her on being elected to serve on the City Council. He shared that a resignation was received from Commissioner Oquenda in November and announced that on December 6, 2022, the City Council had appointed Ms. Arti Garg to the Planning Commission. In the meantime, a special recruitment was being held for any vacancies occurring on the Planning Commission, followed by an election of officers for this meeting body in January 2023. Mr. Lochirco shared that due to upcoming holidays, the Planning Commission meeting scheduled for December 22, 2022, was being cancelled, and wished everyone a safe and pleasant holiday season.

Commissioners' Announcements, Referrals

Chair Ali-Sullivan wished everyone a wonderful end of the year and appreciated all the hard work put into the Commission. He congratulated Commissioner Roche on being elected to the City Council, thanked her for her friendship and professional mentorship on the Planning Commission, and was proud with her dedication to the city noting that it would continue.

Commissioner Roche thanked everyone and indicated that she had learned so much from her time serving on the Planning Commission and that this experience will aid her in the future.

ADJOURNMENT

APPROVED:

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Briggitte Lowe, Secretary				
Planning Commission				



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ATTEST:

Avinta Madhukansh-Singh Interim Planning Commission Secretary Office of the City Clerk