

Palomino Place: Affordable Housing Plan

(Modified in Response to City Comments April 15, 2024)

Palomino Place (“Project”) is a residential community designed to offer housing opportunities that are currently scarce or missing in Davis. While the Project strives to add to overall housing available and affordability in Davis, it seeks to do so within a traditional neighborhood thereby providing unique housing opportunities for families and individuals at a variety of income levels. The affordable housing plan for Palomino Place is a mixture of moderate-income ownership housing to accommodate the “missing middle,” a first-time homebuyers program, and one multi-family structure in which at least 33 and up to 45 units shall be deed-restricted low-income rental units. In all, this individualized affordable housing plan exceeds City code requirements, meets the state’s definition as a housing development project for low-income households, and offers a broad mix of housing opportunities that are currently lacking in Davis.

1. An Array of Ownership Opportunities

The Project will include 130 for-sale units designed and sized to meet the needs of a broad array of households and income levels. The smallest units will be the cottages which will be approximately 850-1,000 square feet in size. It is expected that the twenty cottages will be amongst the most affordable for-sale housing in Davis and will be an avenue into the Davis housing market for households that are currently priced out. In addition, the Project includes twenty-nine half-plex townhomes which will be approximately 1,150-1,350 square feet in size and provide opportunities for “missing middle” families to own a home in Davis. Finally, the Project also offers thirty-two traditional single family detached homes, anticipated to be in the 1,500 square feet size range (these are identified as first move-up homes) and forty-nine traditional homes in the 1,900 square feet size range (identified as second move-up homes). Overall, Palomino Place provides an array of housing opportunities in the City of Davis ranging from rental apartments to an individual’s first home purchase and on to their forever home purchase.

2. First-Time Homebuyers Program

While we believe it is important to build homes that are designed to be affordable to first time homebuyers, we also know that in a competitive market like Davis, it is necessary to take steps to solidify that opportunity. Palomino Place will establish a first-time homebuyers program for the twenty cottages and restrict the initial sale of these units to people qualifying as first-time buyers. We see this as a great opportunity for Millennials and others to enter the Davis housing market, which will improve age

diversity and will bring new opportunities for elementary-aged students to live in Davis and to attend DJUSD schools. The first-time homebuyers program, coupled with smaller unit sizes, serves a clear need that has been identified by the community for years.

3. Deed Restricted Rental Housing

The Project will also include a 3-4 story multifamily apartment building with no less than thirty-three (33), and up to forty-five (45) units. (While this Affordable Housing Plan will refer to the minimum number being proposed, which is thirty-three, the Project EIR will analyze 45 units to ensure that the potential impacts of more units are fully analyzed.) These rental units will be subject to a deed restriction ensuring that the units be rented at rates affordable to households qualifying as low-income (not to exceed 80% of AMI). Importantly, even at the minimum thirty-three affordable units being proposed, this represents 20% of the Project's total unit count. Alternatively, if the Project includes forty-five affordable apartments, the total unit count increases to 175 and the affordable component represents 25.7% of total units. For that reason, the Project satisfies the Housing Accountability Act's ("HAA") definition of "housing for very low, low-, or moderate income households," as is required for Builder's Remedy projects.¹ These thirty-three, or up to forty-five affordable units also significantly exceed the requirements of the City's Affordable Housing Ordinance.²

Affordability Requirements for a "Builder's Remedy" Project

To qualify as a "Builder's Remedy" project under the HAA, a project must meet the statutory definition of "housing for very low, low-, or moderate-income households."³ A project is defined as "housing for very low, low-, or moderate-income households" when either (A) at least 20 percent of the total units will be sold or rented to lower income households, or (B) 100 percent of the units will be sold or rented to moderate income households.⁴ As noted above, 33 of the Project's 163 units will be rented to lower income households. This equates to slightly more than 20% of total units and thus satisfies the statutory definition of "housing for very low, low-, or moderate-income households."⁵ Accordingly, the Project meets the affordable housing requirement to qualify as a Builder's Remedy project.⁶

¹ See Cal. Gov. Code § 65589.5(d), See also subd. (h)(3).

² See City of Davis Municipal Code, Chapter 18.05.

³ See Cal. Gov. Code § 65589.5(d).

⁴ See Cal. Gov. Code § 65589.5(h)(3).

⁵ The Project will retain one ranch home which may be considered the 164th unit. Since this unit already exists, it is not being counted as part of the residential development project. Nevertheless, even if this unit is considered part of the Project, 33 affordable units exceeds 20% of 164.

⁶ It warrants noting that the June 23, 2023 letter to the applicant's attorney states that the City recognizes that providing twenty percent of the units in a multifamily rental product would fulfill the statutory requirements of the Builder's Remedy. Specifically, that letter states, "For subdivision (d) of the HAA to apply here, the Project must offer 20 percent of the units as deed restricted housing that will actually be rented out, preferably in the form of affordable ownership homes or multi-family ownership or rental housing." The applicant is now proposing to do exactly what the City suggested.

Affordability Requirements Under the City's Affordable Housing Ordinance

Under the City's Affordable Housing Ordinance, a developer is required to prepare an affordable housing plan.⁷ A development that is comprised in whole or in part of ownership units must calculate their standard affordability requirement utilizing Section 18.05.050(a). Under this section, the number of affordable units that must be provided varies depending on the for-sale residential product type and lot size. A project that is comprised of more than one ownership residential product type shall calculate affordability requirements for each product type separately and then aggregate the required total.⁸

Pursuant to the formula established in Section 18.05.050(a), the Project must provide 26 affordable units, along with the development of the 130 market-rate ownership homes based upon the proposed unit type and lot sizes. Notably, Municipal Code section 18.05.050(a)(1) includes a required percentage of affordable units for ownership homes on lots both "larger" and "smaller" than 5,000 square feet, but is silent on the requirement for lots that are exactly 5,000 square feet.⁹ Palomino Place include twenty-six ownership homes on lots that are exactly 5,000 square feet, i.e. lots measuring 50 x 100. Erring on the side of caution, the following table applies the 25% obligation to the 5,000 square foot lots, thereby conservatively subjecting the Project to the greater of the two requirements. As the table below demonstrates, even using the more conservative assumption, the Project is proposing at least seven and up to as many as nineteen more low-income units than required by the City's Affordable Housing Ordinance. The precise calculation of required units per City code is as follows:

⁷ See City of Davis Municipal Code, Section 18.05.040; See also Section 18.05.050 ("A developer of residential ownership developments consisting of five or more units shall provide in each development, to the extent feasible, affordable housing for very low, low and moderate income households, as set forth in an affordable housing plan approved by the city, in accordance with the requirements of this section.").

⁸ *Id.* at Section 18.05.050(a)(1)(F).

⁹ Municipal Code section 18.05.050(a)(1)(A) pertains to "projects comprised of market rate single-family detached ownership units on lots larger than five thousand square feet in area" and subsection (a)(1)(B) applies to "projects comprised of market rate single-family detached ownership units on lots smaller than five thousand square feet in area." Neither pertains to lots that are exactly five thousand square feet in area.

Ownership Residential Product Type	% of Aff. Units Req. for Product Type	Total # of Project Units for this Product Type	# of Aff. Units Req.
Market rate single-family detached ownership units on lots larger than five thousand square feet in area. 18.05.050(a)(1)(A).	25%	75	18.75
Market rate single-family detached ownership units on lots smaller than five thousand square feet in area. 18.05.050(a)(1)(B).	15%	26	3.9
Market rate single-family attached ownership units. 18.05.050(a)(1)(C).	10%	29	2.9
Total Number of Affordable Units Required by Article 18.05			25.55 units

4. Conclusion

Palomino Place offers a unique and needed diversity of housing types that is appropriate for its infill location. The Project provides homes that will meet the needs of residents at a variety of income levels, including home ownership opportunities for the “missing middle” and new rental opportunities for those households that qualify as low-income. The Project also successfully includes at least twenty percent (20%) of total units as deed restricted affordable for low-income households which exceeds the City Affordable Housing Ordinance’s requirements and meets the Housing Accountability Act’s definition for “housing for very low, low-, or moderate-income households,” thereby qualifying the Project to utilize the Builder’s Remedy.