



Santa Barbara Association of REALTORS®

May 5, 2026

Mayor Randy Rowse
Councilmember Eric Friedman
Councilmember Wendy Santamaria
Councilmember Oscar Gutierrez
Councilmember Meagan Harmon
Councilmember Mike Jordan
Councilmember Kristen Sneddon
PO Box 1990
Santa Barbara, CA 93102

RE: Inclusionary Housing and In-Lieu Fee Study

Dear Mayor Rowse and Councilmembers,

The Santa Barbara Association of REALTORS® (SBAOR) represents about 1,200 REALTORS® throughout the South Coast and our mission includes engaging in real estate related community issues affecting our members and/or their clients who are homeowners, housing providers, tenants, and commercial owners.

SBAOR supports the City's goal of expanding housing opportunities, however, the current policy direction reflects a fundamental tension between housing production and inclusionary cost structures. Put simply, when the cost of delivering housing exceeds what projects can support, those projects do not move forward and market-rate units nor affordable units are produced.

The proposed in-lieu fee levels would add a significant new cost layer to housing projects. Depending on the fee structure, a typical one-bedroom unit could carry an additional cost of roughly \$30,000 to nearly \$60,000 per unit. At the project level, a small 9-unit development totaling approximately 10,000 square feet could face an in-lieu fee of around \$720,000. At these levels, the fee is not a minor adjustment, it is a substantial project cost that will directly affect feasibility and determine whether smaller and local builders are able to move projects forward.

This tension is particularly evident when viewed alongside the City's own successful housing tools. Programs such as the Average Unit-Size Density (AUD) program and the recently adopted adaptive reuse ordinance are grounded in improving feasibility. The adaptive reuse ordinance was intentionally structured to remove cost and regulatory barriers because these projects are highly sensitive and would not move forward if additional requirements were imposed. Similarly, the AUD program had historically functioned as an incentive-based tool, allowing increased density in exchange for smaller units and improved feasibility.

At the same time, the City's own data shows that housing production is increasingly relying on State Density Bonus Law (SDBL) to make projects feasible. This reflects a broader reality: when local policies do not support feasibility, developers turn to state law, or projects do not move forward.

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Layering additional inclusionary requirements and in-lieu fees onto these programs creates a direct policy conflict. Programs intended to encourage housing production by reducing barriers are being offset by policies that increase costs. If these competing approaches are not carefully aligned, the result will be fewer projects, reduced participation from smaller and local builders, and continued underproduction of housing at a time when the City is already significantly behind its housing goals.

With that context, SBAOR offers the following positions on the Study recommendations:

Recommendation A – Expand inclusionary requirements to rental projects

Oppose as proposed. Expanding applicability, particularly to smaller projects, while projects are already infeasible risks further reducing housing production and disproportionately impacts small infill and “missing middle” housing.

Recommendation B – Maintain existing inclusionary percentages (10% rental / 15% ownership)

Oppose as proposed. Maintaining current inclusionary percentages without recalibration does not reflect the Study’s feasibility findings and will continue to constrain both rental and ownership housing production. This opposition should not be interpreted as support for shifting to higher in-lieu fees or alternative cost structures; increasing fees would similarly exacerbate feasibility challenges. Instead, the City should evaluate adjustments that reduce overall cost burden and improve project viability.

Recommendation C – Increase in-lieu fees

Oppose as proposed. Increasing fees in an already constrained environment will further reduce the number of projects that can move forward. Fee levels should be calibrated to demonstrated financial feasibility. This opposition is not intended to shift the burden to other mechanisms, but rather to ensure that overall project costs do not exceed what can be supported.

Recommendation D – Ownership-related inclusionary requirements

Oppose as proposed. Ownership housing is particularly sensitive to added costs. These requirements risk further suppressing condominium and townhome development, limiting pathways to homeownership.

Recommendation E – Lower in-lieu fee rate for small projects

Support with modifications. A reduced fee for smaller projects is more appropriate than applying full fees; however, it must be carefully calibrated to avoid discouraging small-scale development.

Recommendation F – Expand in-lieu fee flexibility and compliance options

Support with modifications. Additional flexibility is beneficial but does not address the underlying cost burden. Flexibility should be paired with meaningful cost offsets.

Recommendation G – In-lieu fee options to satisfy inclusionary requirements

Oppose Option G.1 and oppose Option G.2 as proposed. Both options increase the overall cost to build and will directly impact who is able to develop housing in the City. If pursued, any in-lieu structure should be calibrated to feasibility and applied only to net rentable square footage. Expanding the ability to pay in-lieu fees does not reduce cost; it only changes how that cost is applied.



Recommendation H – Administrative simplification and standardization

Support. Simplifying processes and improving predictability will help reduce uncertainty and support project viability.

Recommendation I – Automatic annual fee adjustments (indexing)

Oppose as proposed. Automatic increases tied solely to inflation risk compounding costs without regard to feasibility or market conditions. Any adjustments should be tied to demonstrated market conditions and overall project viability.

Recommendation J – Adjust target AMI for moderate-income rents from 100% to 110%

Support. This is a positive but modest step toward improving feasibility; however, additional adjustments may be necessary to meaningfully impact production. This adjustment should be viewed as a limited improvement and should not be paired with increased fees or additional requirements that would offset its feasibility benefits.

Santa Barbara’s housing challenge is not simply about affordability requirements. It is fundamentally about production at scale. The City has already recognized, through programs like adaptive reuse and AUD, that improving feasibility is essential to delivering housing. Aligning inclusionary policies with that same principle will be critical to achieving meaningful results.

We also note that several of the Planning Commission’s recommendations go beyond what was analyzed in the Study, including expanding applicability to smaller projects and supporting higher in-lieu fee levels. These modifications increase the overall cost burden beyond what was evaluated in the City’s feasibility analysis, raising additional concerns about project viability and housing production. Council now has the opportunity to align the final policy direction with the feasibility findings of the Study and ensure that housing policies are grounded in what can realistically be built.

If these policies are not aligned to support feasibility, the result will be fewer projects, continued underproduction, and the prevention of the housing the City is trying to create.

Thank you for your consideration.

Sincerely,



Jennifer Berger
2026 President

