October 10, 2026

Councilmember Oscar Gutierrez, Chair
Councilmember Mike Jordan
Councilmember Kristen Sneddon
PO Box 1990
Santa Barbara, CA 93102

RE: Inclusionary Housing Ordinance Amendments

Dear Chair Gutierrez and Councilmembers,

The Santa Barbara Association of REALTORS® (SBAOR) represents more than 1,200 REALTORS® across the South Coast who live and work in the communities they serve. Our members help families and businesses navigate housing and real estate decisions, and we work closely with local governments and community partners to advance practical, community-focused housing solutions. We share the City's goal of ensuring Santa Barbara remains a place where people can live, work, and thrive.

SBAOR appreciates the opportunity to comment on the proposed amendments to the City's Inclusionary Housing Ordinance. When this issue was before the City Council in May, SBAOR raised a fundamental concern: when the cost of delivering housing exceeds what a project can support, those projects do not move forward, and neither market-rate nor affordable units are produced.

We appreciate that several elements of the proposal now before the Ordinance Committee reflect a more measured approach than some of the alternatives previously considered. In particular, we support maintaining the five-unit threshold for rental projects rather than expanding the requirement to projects with as few as two units, maintaining the lower fee for smaller projects, allowing greater flexibility for fractional inclusionary requirements, and allowing required rental inclusionary units to be provided above otherwise permitted density.
These are meaningful improvements. However, the fundamental feasibility problem remains.

The City's Own Analysis Shows the Problem
SBAOR previously asked the City to ensure that inclusionary requirements and fees are calibrated to demonstrated financial feasibility. The additional financial analysis now provides even greater reason to do so. The City's analysis concludes that the representative rental and ownership projects studied are "Not Likely Feasible" under the existing program as well as the alternatives analyzed.

For the 43-unit rental prototype, the existing program produces a residual land value of only $82 per site square foot compared with the $150 per square foot feasibility threshold. Under the proposed full offset-fee option, the project would pay more than $3.1 million and its residual land value falls to negative $34 per square foot. This raises a basic policy question: **If the City's own analysis shows that the housing project is not financially feasible, why would the City adopt requirements that make it even more difficult for that housing to be built?**

Flexibility Is Helpful, But Only if the Cost Is Feasible
SBAOR supports providing developers with more ways to satisfy an inclusionary requirement. Allowing fractional requirements to be satisfied through a fee rather than requiring an additional full unit can prevent an arbitrary rounding rule from determining whether a project works financially.

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Likewise, providing an option to satisfy an inclusionary requirement through an offset fee can be useful.

Our concern is not with providing the option. Our concern is the price of that option. The proposed full offset fees of approximately $91 per net square foot for rental development and $72 per net square foot for ownership development are based on the maximum amounts supported by the nexus analysis. Staff acknowledges that these amounts were not calibrated for their impact on development feasibility. The legal maximum should not automatically become the policy objective.

The question should not be how much the City can legally require from a housing project, but rather how the City can structure its inclusionary program so that housing actually gets built.

Ownership Housing Remains Particularly Concerning
SBAOR also continues to have significant concerns regarding the 15% ownership inclusionary requirement. In May, we cautioned that ownership housing is particularly sensitive to added costs and that additional requirements could further suppress condominium and townhome development, limiting pathways to homeownership. The City's subsequent financial analysis reinforces that concern. Its ownership prototype is “Not Likely Feasible” under every scenario analyzed. At a time when entry-level ownership opportunities are already extremely difficult to produce in Santa Barbara, the City should reconsider whether maintaining the existing 15% requirement without additional offsets or incentives is accomplishing its housing goals.

Automatic Fee Increases Need a Feasibility Safeguard
SBAOR also remains concerned about automatically increasing inclusionary fees each year. We understand the proposal now uses the California Construction Cost Index to make annual adjustments. However, rising construction costs are themselves one of the reasons housing becomes more difficult to build. Automatically increasing City fees because construction costs have increased can compound that problem. As we stated in May, adjustments should take into account market conditions and overall project viability, not simply an automatic index. At minimum, the ordinance should include a mechanism allowing the City to pause or modify an annual increase when current market conditions or updated feasibility data demonstrate that the increase would further impede housing production.

Our Requests
Before recommending the ordinance to the full City Council, SBAOR respectfully asks the Ordinance Committee to:

- **Retain the five-unit threshold** for rental inclusionary requirements and do not expand the requirement to two-to-four-unit projects.
- **Retain the lower $35 per square foot rate for smaller projects** rather than increasing it.
- **Retain the additional density and fractional-unit flexibility** included in the proposed amendments.
- **Reconsider the $91 and $72 full offset-fee rates** and establish rates based on demonstrated project feasibility rather than the maximum legally supportable amount.
- **Reevaluate the 15% ownership requirement** or provide meaningful density, development standard, or other incentives sufficient to offset its impact.
- **Add a feasibility safeguard to automatic annual fee adjustments** so fees do not automatically increase when market conditions cannot support the additional cost.
- **Require periodic feasibility reviews** of the inclusionary program so Council can evaluate whether the program is actually producing housing or unintentionally preventing it.

Santa Barbara needs affordable housing, but it also needs housing production. Inclusionary housing requirements can only produce affordable units when the underlying housing project is financially capable of moving forward. The City's own analysis is telling us that these projects are already struggling to pencil. We should listen to that analysis.

You cannot create more housing by making housing too expensive to build. If the project does not get built, Santa Barbara gets neither the market-rate housing nor the affordable housing the policy was intended to create. We urge the Ordinance Committee to use feasibility, rather than the maximum legally permissible requirement, as the guide for the City's inclusionary housing policy.

Thank you for your consideration.

Sincerely,



Jennifer Berger, 2026 President