



April 16, 2026

Lucille Boss, Chair  
Donald DeLuccio, Vice Chair  
Brian Barnwell  
John M. Baucke  
Benjamin Peterson  
Devon Wardlow  
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PO Box 1990  
Santa Barbara, CA 93102

RE: Inclusionary Housing and In-Lieu Fee Study

Dear Chair Boss and Commissioners.

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.

Thank you for the opportunity to comment on the Inclusionary Housing Study and accompanying staff recommendations. We appreciate the Commission's role in evaluating both the policy-related and program-related recommendations and providing guidance to the City Council.

SBAOR supports the City's goal of expanding housing opportunities. However, we believe all recommendations should be evaluated through two fundamental questions: will they increase total housing production, and will they expand pathways to homeownership? Based on the Study's findings, we are concerned that several of the proposed policy-related recommendations do not yet meet these objectives.

The Study concludes that typical residential development prototypes are financially infeasible under current inclusionary requirements. In that context, expanding requirements or increasing costs without recalibrating the underlying structure risks further reducing housing production. We also note that housing markets function dynamically. New housing supply contributes to affordability through a process known as filtering, where higher-income households move into newer units, reducing pressure on older housing stock and allowing those units to become more attainable over time. Policies that constrain new housing production risk interrupting this process and may ultimately worsen affordability.

With that context, we offer the following targeted comments on the Study's recommendations:



**Recommendation A: Apply Inclusionary Housing Requirements to All Rental Projects with 5+ units**

Expanding inclusionary requirements to rental projects with five or more units, while the Study finds that typical projects are already financially infeasible, risks further reducing housing production. Small and mid-sized infill projects are particularly sensitive to additional cost burdens and represent a critical source of “missing middle” housing. Without corresponding and measurable offsets, this expansion is likely to constrain development rather than increase housing supply.

**Recommendation B: Maintain Current Inclusionary Housing Requirements**

Maintaining current inclusionary percentages without recalibration does not reflect the Study’s finding that projects do not meet feasibility thresholds. Ownership housing is especially impacted, as for-sale projects have less flexibility to absorb cross-subsidy requirements compared to rental housing. Adjustments such as reduced percentages, alternative compliance options, or targeted incentives should be considered to preserve and expand homeownership opportunities.

**Recommendation C: Update the In-Lieu Fee Rate for Rental Projects with 10+ units**

Increasing in-lieu fees in an already infeasible environment may eliminate marginal projects entirely. The Study demonstrates a significant feasibility gap, and additional cost burdens, regardless of how they are calculated, will further constrain or prevent housing production. Fee levels should be deferred or calibrated to demonstrated financial feasibility before implementation.

**Recommendation D: Set an In-Lieu Fee Rate for Ownership Projects with 10+ units**

Ownership housing is particularly sensitive to cost increases and regulatory requirements because for-sale projects have less flexibility to absorb cross-subsidy compared to rental housing. Applying or maintaining inclusionary requirements on ownership projects, without corresponding offsets, risks further suppressing condominium and townhome development which are critical pathways to entry-level homeownership. Requirements for ownership housing should be carefully calibrated, with consideration given to reduced obligations, alternative compliance options, or targeted incentives.

**Recommendation E: Set a Lower In-Lieu Fee Rate for “Small” Rental and Ownership Projects**

This is a positive step and aligns with incentive-based approaches. Setting a lower in-lieu fee rate for small rental and ownership projects is more reasonable than applying the full fee amount across all project sizes, but it still adds cost to projects that are already highly sensitive to feasibility constraints. Smaller infill projects often have less margin to absorb additional fees, and these are the very projects that can help deliver missing middle housing and entry-level homeownership opportunities. If the City moves forward with a reduced fee for small projects, it should be calibrated carefully to avoid discouraging the production of smaller-scale housing.

**Recommendation F: Count Rental Inclusionary Units as Bonus Density**

Allowing inclusionary units to count as bonus density is a positive step that aligns with incentive-based approaches. However, the effectiveness of this recommendation depends on whether the additional density is meaningful and not constrained by other development standards such as height limits, setbacks, or design requirements. To be effective, the bonus must translate into real, buildable units that improve project feasibility.

**Recommendation G: Consider Options for In-Lieu Fee Payments to Fulfill Inclusionary Requirements**

While expanded flexibility is conceptually positive, the proposed fee level raises significant feasibility concerns. At up to \$72 per square foot, the fee may exceed what many projects can absorb, effectively functioning as a barrier to development. For example, for a 9-unit project totaling 10,000 square feet, this could result in an in-lieu fee of approximately **\$720,000** which in many cases exceeds the cost of constructing a single unit. Both options increase the overall cost to build, which will directly impact who is able to develop housing in the City, particularly for smaller and local builders. If the City moves forward with an in-lieu option, it should be structured at a level that does not impair project feasibility.

**Recommendation H: Simplify In-Lieu Fee Calculations for Ownership Projects**

Efforts to simplify calculations, standardize requirements, and improve predictability are strongly supported. Reducing uncertainty and administrative complexity can help improve project timelines and reduce risk, which are important factors in project feasibility.

**Recommendation I: Implement Automatic Annual In-Lieu Fee Rate Adjustments**

While predictability in fee structures is important, automatic annual adjustments should be tied to market conditions and feasibility rather than solely to inflation. Indexing fees without regard to project economics risks compounding cost burdens over time and further constraining housing production.

**Recommendation J: Adjust Target AMI for Moderate-Income Rents from 100% to 110%**

Increasing the target from 100% to 110% AMI is a step in the right direction, as it modestly improves project feasibility by allowing higher achievable rents for inclusionary units. However, this adjustment is limited and may not be sufficient to meaningfully close the feasibility gap identified in the Study. Given that a significant portion of the local workforce earns above 110% AMI, the City should consider whether higher AMI targets, such as 120% AMI or above, would better align with workforce housing needs while improving financial feasibility. Without additional adjustments, this change alone is unlikely to materially impact housing production outcomes.

**SBAOR ADDED RECOMMENDATION: Monitoring and periodic program review**

Ongoing monitoring is essential and strongly supported. We recommend including clear performance metrics, including total units produced, ownership versus rental mix, and project attrition due to infeasibility. A formal trigger for policy recalibration should be included if production declines.

While we appreciate the City's efforts to improve program functionality, program-level adjustments cannot substitute for aligning the underlying policy with financial feasibility. Ensuring that housing can be built, including attainable homeownership, must remain the City's primary objective.

SBAOR remains committed to working constructively with the City to support housing solutions that increase supply, expand ownership opportunities, and improve affordability for the community.

Thank you for your consideration and we look forward to continuing working with the City on this important policy.

Sincerely,

A handwritten signature in black ink that reads "Jennifer Berger". The signature is written in a cursive, flowing style.

Jennifer Berger, 2026 President