

# Maximizing Density Through Affordability

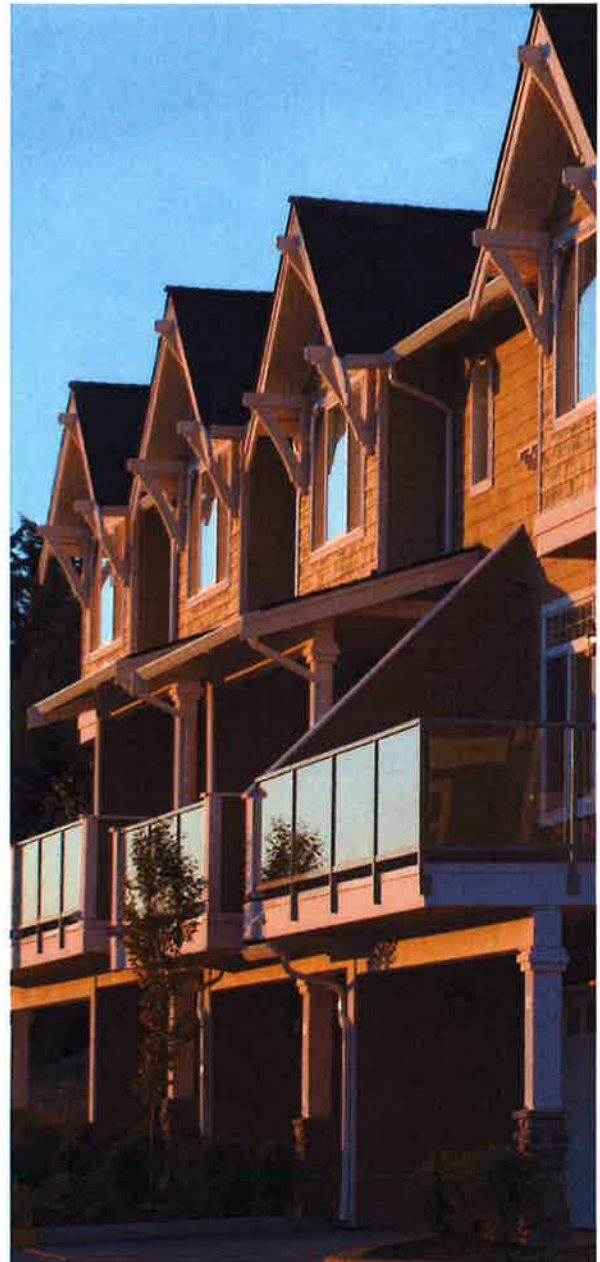
## A Developer's Guide to the California Density Bonus Law

*By Jon E. Goetz and Tom Sakai*

**S**avvy housing developers are taking advantage of California's Density Bonus Law, a mechanism which allows them to obtain more favorable local development requirements in exchange for offering to build affordable or senior units. The Density Bonus Law (found in California Government Code Sections 65915 – 65918) provides developers with powerful tools to encourage the development of affordable and senior housing, including up to a 35% increase in project densities, depending on the amount of affordable housing provided. The Density Bonus Law is about more than the density bonus itself, however. It is actually a larger package of incentives intended to help make the development of affordable and senior housing economically feasible. Other tools include reduced parking requirements, other incentives and concessions such as reduced setback and minimum square footage requirements, and the ability to donate land for the development of affordable housing to earn a density bonus. Often these other tools are even more helpful to project economics than the density bonus itself, particularly the special parking benefits. Sometimes these incentives are sufficient to make the project pencil out, but for other projects financial assistance is necessary to make the project feasible.

In determining whether a development project would benefit from becoming a density bonus project, developers also need to be aware that:

- The Density Bonus is a state mandate. A developer who meets the requirements of the state law is entitled to receive the density



bonus and other benefits. As with any state mandate, some local governments will resent the state requirement and will attempt to resist. But many local governments like the density bonus as a helpful tool to cut through their own land use requirements and local political issues.

- Use of a density bonus may be particularly helpful in those jurisdictions that impose inclusionary housing requirements for new developments.

## How the Density Bonus Works

### Projects Entitled to a Density Bonus

Cities and counties are required to grant a density bonus and other incentives or concessions to housing projects which contain one of the following:

- At least 5% of the housing units are restricted to very low income residents.
- At least 10% of the housing units are restricted to lower income residents.
- At least 10% of the housing units in a for-sale common interest development are restricted to moderate income residents.
- The project donates at least one acre of land to the city or county for very low income units, and the land has the appropriate general plan designation, zoning, permits and approvals, and access to public facilities needed for such housing.
- The project is a senior citizen housing development (no affordable units required).
- The project is a mobilehome park age-restricted to senior citizens (no affordable units required).

### Density Bonus Amount

The amount of the density bonus is set on a sliding scale, based upon the percentage of affordable units at each income level, as shown in the chart on the following page.



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**Density Bonus Chart\***

Affordable Unit Percentage**	Very Low Income Density Bonus	Low Income Density Bonus	Moderate Income Density Bonus	Land Donation Density Bonus	Senior Density Bonus ***
5%	20%	-	-	-	20%
6%	22.5%	-	-	-	20%
7%	25%	-	-	-	20%
8%	27.5%	-	-	-	20%
9%	30%	-	-	-	20%
10%	32.5%	20%	5%	15%	20%
11%	35%	21.5%	6%	16%	20%
12%	35%	23%	7%	17%	20%
13%	35%	24.5%	8%	18%	20%
14%	35%	26%	9%	19%	20%
15%	35%	27.5%	10%	20%	20%
16%	35%	29%	11%	21%	20%
17%	35%	30.5%	12%	22%	20%
18%	35%	32%	13%	23%	20%
19%	35%	33.5%	14%	24%	20%
20%	35%	35%	15%	25%	20%
21%	35%	35%	16%	26%	20%
22%	35%	35%	17%	27%	20%
23%	35%	35%	18%	28%	20%
24%	35%	35%	19%	29%	20%
25%	35%	35%	20%	30%	20%
26%	35%	35%	21%	31%	20%
27%	35%	35%	22%	32%	20%
28%	35%	35%	23%	33%	20%
29%	35%	35%	24%	34%	20%
30%	35%	35%	25%	35%	20%
31%	35%	35%	26%	35%	20%
32%	35%	35%	27%	35%	20%
33%	35%	35%	28%	35%	20%
34%	35%	35%	29%	35%	20%
35%	35%	35%	30%	35%	20%
36%	35%	35%	31%	35%	20%
37%	35%	35%	32%	35%	20%
38%	35%	35%	33%	35%	20%
39%	35%	35%	34%	35%	20%
40%	35%	35%	35%	35%	20%

\* All density bonus calculations resulting in fractions are rounded up to the next whole number.

\*\* Affordable unit percentage is calculated excluding units added by a density bonus.

\*\*\* No affordable units are required for senior housing units to receive a density bonus.

### **Required Incentives and Concessions**

In addition to the density bonus, the city or county is also required to provide one or more “incentives” or “concessions” to each project which qualifies for a density bonus (except that market rate senior citizen projects with no affordable units, and land donated for very low income housing, do not appear to be entitled to incentives or concessions). A concession or incentive is defined as:

- A reduction in site development standards or a modification of zoning code or architectural design requirements, such as a reduction in setback or minimum square footage requirements; or
- Approval of mixed use zoning; or
- Other regulatory incentives or concessions which actually result in identifiable and financially sufficient cost reductions.

The number of required incentives or concessions is based on the percentage of affordable units in the project:

- For projects with at least 5% very low income, 10% lower income or 10% moderate income units, one incentive or concession is required.
- For projects with at least 10% very low income, 20% lower income or 20% moderate income units, two incentives or concessions are required.
- For projects with at least 15% very low income, 30% lower income or 30% moderate income units, three incentives or concessions are required.

The city or county is required to grant the concession or incentive proposed by the developer unless it finds that the proposed concession or incentive is not required in order to achieve the required affordable housing costs or rents, or would cause a public health or safety problem, cause an environmental problem, harm historical property, or would be contrary to law. Financial incentives, fee waivers and reductions in dedication requirements

may be, but are not required to be, provided by the city or county.

### **Other Forms of Assistance**

A development qualifying for a density bonus also receives two additional forms of assistance which have important benefits for a housing project:

- **Waiver or Reduction of Development Standards.** If any other city or county development standard would physically prevent the project from being built at the permitted density and with the granted concessions/incentives, the developer may propose to have those standards waived or reduced. The city or county is not permitted to apply any development standard which physically precludes the construction of the project at its permitted density and with the granted concessions/incentives. The city or county is not required to waive or reduce development standards that that would cause

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a public health or safety problem, cause an environmental problem, harm historical property, or would be contrary to law. The waiver or reduction of a development standard does not count as an incentive or concession. Development standards which have been waived or reduced utilizing this section include setback requirements and lot coverage requirements. This ability to force the locality to modify its normal development standards is sometimes the most compelling reason for the developer to structure a project to qualify for the density bonus.

- **Maximum Parking Requirements.** Upon the developer's request, the city or county may not require more than one onsite parking space for studio and one bedroom units, two onsite parking spaces for two and three bedroom units, and two and one-half onsite parking spaces for units with four or more bedrooms. Onsite spaces may be provided through tandem or uncovered parking, but not onstreet parking. Requesting these parking standards does not count as an incentive or concession, but the developer may request further parking standard reductions as an incentive or

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concession. This is one of the most important benefits of the density bonus statute. In many cases, achieving a reduction in parking requirements may be more valuable than the additional permitted units. In higher density developments requiring the use of structured parking, the construction cost of structured parking is very expensive, costing upwards of \$20,000 per parking space. While this provision of the density bonus statute can be used to reduce excessive parking requirements, care must be taken not to impact the project's marketability by reducing parking to minimum requirements which lead to parking shortages.

#### **Affordable Housing Restrictions**

- **Rental Units.** Affordable rental units must be restricted by an agreement which sets maximum incomes and rents for those units. The income and rent restrictions must remain in place for a 30 year term, or a longer period if required by the terms of other subsidies received by the project. Rents must be restricted as follows:



- For very low income units, rents may not exceed 30% x 50% of the area median income for a household size suitable for the unit.
- For lower income units, rents may not exceed 30% x 60% of the area median income for a household size suitable for the unit.
- Area median income is determined annually by regulation of the California Department of Housing and Community Development, based upon median income regulations adopted by the U.S. Department of Housing and Urban Development.
- Rents must include a reasonable utility allowance.
- Household size appropriate to the unit means 1 for a studio unit, 2 for a one

bedroom unit, 3 for a two bedroom unit, 4 for a three bedroom unit, etc.

- A list of current affordable rent calculations and income limits for many California counties is available on the Kronick, Moskovitz, Tiedemann & Girard website at [www.kmtg.com/publications](http://www.kmtg.com/publications).
- **For Sale Units.** Affordable for sale units must be sold to the initial buyer at an affordable housing cost. All housing related costs generally may not exceed 35% x 110% of the area median income for a household size suitable for the unit. Housing related costs include mortgage loan payments, mortgage insurance payments, property taxes and assessments, homeowner association fees, reasonable utilities allowance, insurance premiums, maintenance costs, and space rent.
  - Buyers must enter into an equity sharing agreement with the city or county, unless the equity sharing requirements conflict with the requirements of another public funding source or law. The equity sharing agreement does not restrict the resale price, but requires the original owner to pay the city or county a portion of any appreciation received on resale.
  - The city/county percentage of appreciation is the purchase price discount received by the original buyer, plus any down payment assistance provided by the city/county. (For example, if the original sales price is \$200,000, and the original fair market value is \$250,000, and there is no city/county down payment assistance, the city/county subsidy is \$50,000, and the city/county's share of appreciation is 20%).
  - The seller is permitted to retain its original down payment, the value of any improvements made to the home, and the remaining share of the appreciation.
  - The income and affordability requirements are not binding on resale purchasers (but if other public funding sources or

programs are used, the requirements may apply to resales for a fixed number of years).

- A list of current affordable housing cost calculations and income limits for many California counties is available at the Kronick, Moskovitz, Tiedemann & Girard website at [www.kmtg.com/publications](http://www.kmtg.com/publications).

### **How the Density Bonus Works for Senior Projects**

As shown in the Density Bonus Chart above, a senior citizen housing development meeting the requirements of Section 51.3 or 51.12 of the Civil Code qualifies for a 20% density bonus. This is a very desirable option for senior housing developments. In jurisdictions where the local ordinances do not reduce the parking requirements for senior housing developments, the reduced parking requirements alone may justify applying for a density bonus.

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### **How the Density Bonus Works for Condominium Conversion Projects**

The density bonus statute provides for a density bonus of up to 25% for condominium conversion projects providing at least 33% for the total units to low or moderate income households or 15% of the units to lower income households. Many condominium conversion projects are not designed in a manner that allows them to take advantage of the opportunity to construct additional units, but some projects may find this helpful. While condominium conversions are not presently a viable development alternative, this provision may be of some value in limited situations in the future.



### **How the Density Bonus Works for Child Care**

Housing projects that provide child care are eligible for a separate density bonus equal to the size of the child care facility. The child care facility must remain in operation for at least the length of the affordability covenants. A percentage of the child care spaces must also be made available to low and moderate income families. A separate statute permits cities and counties to grant density bonuses to commercial and industrial projects of at least 50,000 square feet, when the developer sets aside at least 2,000 square feet in the building and 3,000 square feet of outside space for a child care facility. See Government Code Section 65917.5 for additional details.

### **How to Obtain a Density Bonus Through Land Donation**

Many market rate housing developers are uncomfortable with building and marketing affordable units themselves, whether due to their lack of experience with the affordable housing process or because of their desire to concentrate on their core market rate homes. Other developers may have sites that are underutilized in terms of

project density. The density bonus law contains a special sliding scale bonus for land donation which allows those developers to turn over the actual development of the affordable units to local agencies or experienced low income developers. The density bonus is available for the donation of at least an acre of fully entitled land, with all needed public facilities and infrastructure, and large enough for the construction of a high density very low income project containing 10% of the total homes in the development. The parcel must be located within the boundary of the proposed development or, subject to the approval of the jurisdiction, and within one-fourth mile of the boundary of the proposed development. The more units that can be built on the donated land, the larger the density bonus. Because of the parcel size requirements, this option is only practical for larger developments. The land donation density bonus can be combined with the regular density bonus provided for the development of affordable units, up to a maximum 35% density bonus. A master planned community developer needs to carefully evaluate the land donation option as opposed to engaging an affordable housing developer to fulfill the project's affordable housing obligations. In many cases the master developer

will prefer to control the affordable component of the project through a direct agreement with the affordable housing developer, rather than allowing the local government to control the project.

### **How the Density Bonus Can Help in a Friendly Jurisdiction**

While the density bonus law is often used by developers to obtain more housing than the local jurisdiction would ordinarily permit, it can also be a helpful land use tool in jurisdictions which favor the proposed project and want to provide support. Planners in many cities and counties may be disposed by personal ideology or local policy to encourage the construction of higher density housing and mixed use developments near transit stops and downtown areas, but are hampered by existing general plan standards and zoning from approving these sorts of projects. Elected officials often support these projects too, but may find it politically difficult to oppose neighborhood and

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environmental groups over the necessary general plan amendments, zoning changes and CEQA approvals.

The density bonus can provide a useful mechanism for increasing allowable density without requiring local officials to approve general plan amendments and zoning changes. A project that satisfies the requirements of the density bonus law often can obtain the necessary land use approvals through the award of the density bonus units and requested concessions and incentives, without having to amend the underlying land use requirements. Friendly local officials may encourage the use of the

density bonus to “force” the jurisdiction to approve a desired project.

### **How the Density Bonus Law Can Help in a Hostile Jurisdiction**

It is important to know that the density bonus is a state law requirement which is mandatory on cities and counties, even charter cities which are free from many other state requirements. A developer who meets the law's requirements for affordable or senior units is entitled to the density bonus and other assistance as of right, regardless of what the locality wants (subject to limited health and safety exceptions). The density bonus statute can be used to achieve reductions in development standards or the granting of concessions or incentives from jurisdictions that otherwise would not be inclined to grant those items. Examples might include a reduction in parking standards if those standards are deemed excessive by the developer, or other reductions in development standards if needed to achieve the total density permitted by the density bonus.

Developers who nonetheless encounter hostility from local jurisdictions are provided several tools to ensure that a required density bonus is actually granted. Developers are entitled to an informal meeting with a local jurisdiction which fails to modify a requested development standard. If a developer successfully sues the locality to enforce the density bonus requirements, it is entitled to an award of its attorneys' fees. The obligation to pay a developer's

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attorneys' fees is a powerful incentive for local jurisdictions to voluntarily comply with the state



law density bonus requirements, even when the jurisdiction is not in favor of its effects on the project.

### **CEQA Issues in Density Bonus Projects**

Although there is no specific density bonus exemption from the California Environmental Quality Act, many density bonus projects are likely candidates for urban infill and affordable housing exemptions from CEQA. One commonly invoked exemption is the Class 32 urban infill exemption found in CEQA Guidelines Section 15332. That exemption is available if the project is consistent



with applicable general plan designation and zoning, the site is five acres or less and surrounded by urban uses, is not habitat for endangered, rare or threatened species, does not have any significant effects relating to traffic, noise, air quality or water quality, and is adequately served by utilities and public services. Other exemptions are available for high density housing projects near major transit stops (CEQA Guidelines Section 15195) and affordable housing projects of up to 100 units (CEQA Guidelines Section 15194).

A recent case, *Wollmer v. City of Berkeley*, clarified the use of the CEQA infill exemption for density bonus projects. In that case, an opponent of a Berkeley density bonus project challenged the City's use of the urban infill exemption on the grounds that

the City's modifications and waivers of development standards, as required under the density bonus law, meant that the project was not consistent with existing zoning. The court rejected that argument, finding that the modifications required by the density bonus law did not disqualify the project from claiming the exemption.

Not all density bonus projects will qualify for one of these CEQA exemptions, however. Sometimes the additional density provided to non-exempt projects may bring the project out of the coverage of an existing CEQA approval for a general plan, specific plan or other larger project. For instance, if a previously approved environmental impact report analyzed a 100 unit project as the largest allowed under existing zoning, but the developer is able to qualify for 120 units with a density bonus, the existing EIR may not cover the larger project. The larger density bonus project may require additional CEQA analysis for approval.

### **Using the Density Bonus to Satisfy Inclusionary Housing Requirements**

Many of California's cities and counties have adopted inclusionary housing ordinances, which typically require that a specified percentage of units in a new housing development be restricted as affordable units. The inclusionary requirements significantly reduce income from rental units and sales prices of for-sale homes. In today's tight housing market, compliance with local inclusionary requirements may make many projects economically infeasible. The density bonus provides one method for developers to improve the economics of their project while still complying with the inclusionary



housing requirements. While there are some local agencies which believe that inclusionary units do not qualify for density bonuses, it is generally understood that the density bonus is intended by state law to be a powerful financial tool to help developers achieve the inclusionary housing requirements.

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Local inclusionary housing ordinances are currently in a state of uncertainty due to recent case law. One recent case, *Palmer/Sixth Street Properties, L.P. v. City of Los Angeles*, 175 Cal. App. 4th 1396 (2009), held that inclusionary housing requirements violate the Costa-Hawkins Act, which allows owners of residential rental housing to establish the initial rental rates for housing units without being subject to government rent limits. However, there are exceptions to the Costa-Hawkins rent control prohibition for developers who receive assistance under the density bonus law or who receive direct financial assistance from a public agency. Localities with inclusionary housing ordinances may welcome a developer’s use of the density bonus law because this will effectively prevent the developer from challenging the applicability of the inclusionary housing ordinance.

### **Density Bonus – A Flexible Tool**

The Density Bonus Law can be a powerful tool for a variety of different types of development projects, whether they are traditional affordable housing projects, predominantly market rate housing

developments, or senior projects. Obtaining greater density can help the developer of any type of project bring costs and financing sources into line by putting more homes on the land, reducing the per unit land costs. Use of the favorable parking requirements can reduce the amount of costly land needed for parking. The incentives and concessions to be provided by the local government can provide a helpful way to modify development requirements which may stand in the way of a successful project. Of course there is a price to pay for these benefits - the affordable units needed to earn the density bonus. Each developer will need to make a cost-benefit determination whether the cost of compliance is worth the benefits. But the Density Bonus Law is unquestionably a useful option for housing developers trying to make financial sense of their projects in today’s economy.

### **Density Bonus Statutes**

Please refer to pages 11 through 16.