Rashi Kesarwani
Councilmember District 1

REVISED
AGENDA MATERIAL
for Supplemental Packet 2

Meeting Date: **January 21, 2025**

Item Number: **26**

Item Description: **Expanding Homeownership Opportunities for Middle-Income Earners**

Submitted by: **Rashi Kesarwani**

The item has been amended to add three co-sponsors and to provide greater explanation for the purpose of the referral.

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Councilmember Rashi Kesarwani

ACTION CALENDAR
January 21, 2025

TO: Honorable Mayor Adena Ishii and Members of the City Council

FROM: Councilmember Rashi Kesarwani (Author) and Councilmembers Humbert, Bartlett, and Lunaparra (Co-Sponsors)

SUBJECT: Expanding Homeownership Opportunities for Middle-Income Earners

RECOMMENDATION

Refer to the City Manager to develop modifications to Berkeley Municipal Code Title 21 (Subdivisions) and refer to the City Manager and Planning Commission to develop modifications to Title 23 (Zoning) to enhance ownership opportunities for middle housing–in alignment with unanimous Council direction for a Middle Housing Ordinance and allowances under Chapter 783, Statutes of 2023 (S.B. 684, Caballero).

CURRENT SITUATION AND ITS EFFECTS

High Housing Costs Are Harming Berkeley's Middle Income Earners Like Nurses, Firefighters, and Teachers. The nine-county Bay Area region is facing an acute shortage of homes affordable for working families, reflecting the broader statewide shortage of 3.5 million homes across California.[1] In the Bay Area, only one new home is added for every 3.5 jobs created, exacerbating the housing shortage.[2] In Berkeley, the median sale price of a home is $1.4 million, a figure that places immense strain on low-, moderate-, and middle-income households. As a result, California has the second-lowest homeownership rate in the nation,

[1] Woetzel, J., Mischke, J., Peloquin, S., and Weisfield, D. (2016, October). A Toolkit to Close California's Housing Gap: 3.5 Million Homes by 2025. McKinsey Global Institute, https://www.mckinsey.com/featured-insights/urbanization/closing-californias-housing-gap

[2] Metropolitan Transportation Commission. (2018). Vital Signs. http://www.vitalsigns.mtc.ca.gov/

reflecting the growing affordability gap.[3] The Bay Area is among the most expensive housing markets in the U.S., with prices roughly 2.5 to 3.5 times higher than the national median. For a Bay Area family to afford the principal, interest, taxes, and insurance payments on a median-priced home of $1.4 million, they would need to earn more than $300,000 annually, assuming they can make a 20 percent down payment.[4] This cost barrier means that many public employees, including nurses, firefighters, and teachers, cannot afford to buy homes. While the Berkeley Unified School District is planning to develop more than 100 units of teacher housing, the demand still outpaces the supply. According to a 2017 Berkeley Unified School District (BUSD) survey, 69 percent of teachers and staff believed that high housing costs would impact their ability to remain in their BUSD positions.[5] Since most teachers are not classified as low-income, they do not qualify for affordable housing units. With few subsidies available, middle-income families often must rely on the private market for housing in the Bay Area, further deepening the affordability crisis.

Middle Housing Ownership Options Can Give Middle Income Earners the Opportunity to Stay in Berkeley and Build Wealth. Many Americans, particularly middle income and younger households, are increasingly seeking smaller, more affordable, and diverse homeownership options as single family home prices continue to rise.[6] Middle housing options—including duplexes, triplexes, and fourplexes—can provide a more attainable entry point to homeownership for middle- and lower-income families in Berkeley. According to the U.S. Census American Community Survey, median household income for middle housing types was much lower than for single-family homes, as shown in Exhibit 1.[7] This pattern suggests that smaller multifamily housing can offer more affordable options for a wider range of income levels. The data underscore the potential of middle housing to provide affordable homeownership opportunities, helping middle-income families stay in Berkeley and build wealth in a challenging housing market.

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[3] iProperty Management. (2022, October). Home Ownership Rates By State. https://ipropertymanagement.com/research/homeownership-rate-by-state

[4] Prakash, Anushka. (2024, February). Home Buyers Need to Earn $47,000 More Than in 2020. Zillow. https://www.zillow.com/research/buyers-income-needed-33755/

[5] Berkeley Unified School District. (2017). Board of Education Approves Berkeley Adult School Parking Lot as Site for Educator Housing. https://www.berkeleyschools.net/2021/02/board-of-education-approves-berkeley-adult-school-parking-lot-as-site-for-educator-housing/

[6] Harvard's Joint Center for Housing Studies. (2021).The State of the Nation's Housing. https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2021.pdf

[7] American Community Survey. (2017-2022). Public Use Microdata Set. US Census.

Exhibit 1: Median Household Income for Middle Housing Types is Significantly Lower than Median Household Income for Single-Family Homes

Median Income in Housing By Year Built & Density: Berkeley & Albany 2017 - 2022 ACS Microdata					
	Pre-1950	1950-1969	1970-1989	1990-2009	2010-
Single-family detached	$189,258.43	$165,280.91	$120,095.89	$216,669.57	$225,410.84
Single-family attached	$134,389.27	$186,637.84	$153,046.07	$104,387.94	$190,075.78
2-4 units	$119,151.43	$67,601.07	$61,408.32	$54,760.54	$46,795.45
5-19 units	$54,080.86	$57,614.32	$56,837.16	$69,186.01	$33,510.30
20-49 units	$35,140.16	$52,419.21	$43,777.06	$35,566.36	$48,179.16
50+ units	$49,070.72	$32,495.92	$76,961.53	$34,113.76	$75,567.55

Source: American Community Survey, 2017-2022, as analyzed by Darrell Owens

Middle Housing Ownership Is Currently Paused in the Hillside Overlay Zone. The Berkeley City Council provided direction in July 2024 to pause consideration of the Middle Housing Ordinance in the hillside overlay zone until a fire evacuation study is completed. The recent Los Angeles fires underscore the urgent need to focus on providing housing options outside the wildland urban interface (WUI). It is critical that the City continue its planning for housing outside of fire prone areas. This approach meets housing demands and strengthens our city's ability to adapt to the increasingly frequent and severe effects of climate change.

BACKGROUND

Senate Bill 684 Creates Opportunity to Enhance Ownership Options for Middle-Income Earners. . . In 2023, the California State Legislature passed Senate Bill 684 (Caballero) to address the shortage of homeownership opportunities across the state.[8] This bill mandates that local agencies review, in a ministerial (non-discretionary) manner, parcel maps or tentative and final maps for housing development projects that meet specific criteria.[9]

Key site and project criteria of SB 684 include:

- The subdivision results in 10 or fewer parcels.
- The development includes no more than 10 residential units.
- The area is zoned for multi-family development and is less than five acres.

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[8] Caballero, Anna. (2024). Senate Bill 684. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB684

[9] Sarjapur, Melinda. (2024). SB 684–How to Apply New State Law Allowing Ministerial Approval for up to 10-Lot Subdivisions on Small Lots https://static1.squarespace.com/static/5f2c2d67c58236227115e0de/t/66a3d0be22486b760b9eb302/1722011839196/Casita-Coalition-Reuben-Junius-Rose-SB-684-final-memo-0725204.pdf

- The project was not created under the ministerial subdivision authority in Senate Bill 9 (Cal. Gov. Code Sec. 66411.7).
- The subdivision must not create new lots smaller than 600 square feet, unless the local agency has approved smaller minimum parcel sizes.
- The resulting housing will be simple ownership lots, part of a common interest development or cooperative or owned by a community land trust.
- The housing development must meet specific affordability criteria, providing either the projected number of low- or very-low-income units for the parcel, or if not listed in the Housing Element, must comply with the maximum allowable residential density.
- The average total floor area cannot exceed 1,750 net habitable square feet.

Projects must comply with objective zoning, design and subdivision criteria that do not conflict with SB 684. Additionally, a local agency may not apply certain standards, such as:

- Density standards that would prohibit low-income housing.
- Minimum lot size requirements, beyond the 600 square foot minimum.
- Additional setbacks between the units, beyond those required by the Building Code.
- Enclosed or covered parking
- Side and rear setbacks greater than those allowable under Senate Bill 9 (four feet for new structures)
- Floor Area Ratio ("FAR") limits that are less than the following:
    - For 3 to 7 units, a FAR that is less than 1.0
    - For 8 to 10 units, a FAR that is less than 1.25

. . . Requiring Berkeley to Amend the Municipal Code to Enhance Availability of SB 684 Ownership Options, Given Council Direction for a Middle Housing Ordinance. In a 2022 study, the Terner Center published research that indicated that lack of clarity around subdivision is a driving force for developers abandoning ownership models in favor of more predictable and less-risky rental development.[10] To address the Bay Area's housing crisis and promote more affordable ownership opportunities, amendments to the Berkeley Municipal Code are needed to allow for the development of middle housing ownership opportunities through subdivision of parcels. By creating more diverse housing options, Berkeley can attract and retain a diverse workforce, lower housing costs, and increase affordability for a wider range of residents.

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[10] Garcia, Alameldin, Metcalf, and Fulton. (2022, December). Unlocking the Potential of Missing Middle Housing. UC Berkeley Terner Center for Housing Innovation. https://ternercenter.berkeley.edu/wp-content/uploads/2022/12/Missing-Middle-Brief-December-2022.pdf

RATIONALE FOR RECOMMENDATION

SB 684 limits subdivision to cases in which the maximum allowable residential density is used (Section 66499.41.(5).(A&B)). The purpose of this referral is to amend Title 21 and Title 23 of the Berkeley Municipal Code so that subdivisions are allowable even in cases when the maximum allowable residential density is not reached. Without this change, subdivisions aiming to create two to three ownership units may not be permitted in a ministerial (non-discretionary) manner if our middle housing ordinance sets a maximum density that is higher per parcel. By amending our local subdivision ordinance and zoning ordinance, rather than solely relying on the recent changes to state law, we could allow for more flexibility for ownership opportunities.

Amending the Berkeley Municipal Code to align with unanimous Council direction for a Middle Housing Ordinance and Senate Bill 684 is essential to addressing the city's acute housing affordability crisis. Berkeley's current median home price of $1.4 million creates insurmountable barriers for middle-income families who are critical to the community's functioning. Senate Bill 684 offers a framework to streamline the approval of small-scale housing developments, ensuring affordability while expanding ownership opportunities. By modifying Title 21 and potentially Title 23 to enable greater middle housing ownership options, Berkeley can expand entry-level homeownership opportunities for middle-income earners. These changes will support a more equitable housing market, foster a diverse workforce, and align with Berkeley's broader goals of sustainable and inclusive growth.

FISCAL IMPACTS

Staff time to amend various sections of the Berkeley Municipal Code.

ENVIRONMENTAL SUSTAINABILITY

Creating denser, smaller-scale housing options maximizes land use efficiency, reduces the need for long commutes, and promotes walkable, transit-oriented neighborhoods. This can significantly lower greenhouse gas emissions by reducing reliance on cars and encouraging more energy-efficient housing designs. Additionally, utilizing existing infrastructure for compact development minimizes environmental impacts associated with new construction on undeveloped land, preserving green space and biodiversity.

CONTACT PERSON

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