



Office of the City Manager

INFORMATION CALENDAR

October 13, 2026

To: Honorable Mayor and Members of the City Council

From: Paul Buddenhagen, City Manager

Submitted by: Scott Gilman, Director, Health, Housing, and Community Services

Subject: Inclusionary Housing Program Annual Report for Fiscal Year 2026

INTRODUCTION

The City of Berkeley's Inclusionary Housing Ordinance (IHO) (Berkeley Municipal Code (BMC) Chapter 23.328) requires new residential projects to contribute to affordable housing by either:

- Providing 20% of newly constructed units as Below Market Rate (BMR) units; or
- Paying the Inclusionary Housing Ordinance Affordable Housing In-Lieu Fee ("in-lieu fee") into the City's Housing Trust Fund, which supports the development of 100% affordable housing; or
- A combination of on-site BMR units and In-Lieu Fee; or
- Other options allowed by Chapter 23.328 (identified below).

This report summarizes program activity for FY 2026, including the BMR unit pipeline, in-lieu fee revenue and anticipated trends.

CURRENT SITUATION AND ITS EFFECTS

In 2023, the City Council replaced the Affordable Housing Mitigation Fee (AHMF) with the Inclusionary Housing Ordinance (IHO). The following is a summary of findings related to the City's Inclusionary Housing program for FY 2026. This summary includes pipeline projects entitled under the previous AHMF ordinance.

Affordable Housing Compliance Plan: Entitlements and Building Permits

New residential projects submit a preliminary Affordable Housing Compliance Plan (AHCP) as part of the entitlement application and a final AHCP as part of the building permit application. By confirming how a project will comply with IHO, the AHCP provides transparency and predictability for both the applicant and City. However, submitting a plan does not guarantee that a project will be built or that its fees will be paid within that specific year. A full list of proposed projects with a preliminary or final AHCP status in FY 2026 is available in Attachment 1. Note that preliminary AHCPs are estimates and may change prior to building permit issuance.

- **Entitlements Processed in FY 2026:** Seven new entitled projects were processed totaling 399 units, including 43 BMR units. Projected fee revenue for these units is \$2.9 million (Table 1).
- **Building Permits Processed in FY 2026:** Three new projects with building permits were processed, representing 471 units, including 41 BMR units. Projected fee revenue totals \$8.1 million (Table 1). This figure includes projects entitled under both the IHO and the previous Affordable Housing Mitigation Fee ordinance (AHMF).
- **Entitlement Pipeline:** The City's total entitlement pipeline now stands at 2,212 units, including 206 BMR units. This total includes projects carried over from FY 2025 as well as the seven new FY 2026 projects. The total projected fee revenue for these units is \$14.4 million (Table 2).
- **Building Permit Pipeline:** The total building permit pipeline contains 1,057 units, including 86 BMR units. This includes FY 2025 carryover projects and the three new projects from FY 2026. Total projected fee revenue is \$18.1 million (Table 2), covering projects from both the IHO and AHMF ordinances.

Table 1. BMR Program Pipeline (New Projects in FY 2026)

Category	Total Projects	Total Units	BMR Units	Projected Fee Revenue
Entitlements Processed	7	399	43	\$2.9M
Building Permits Processed	3	471	41	\$8.1M
Pipeline Total	10	870	84	\$11.0M

Table 2. BMR Program Pipeline (All Projects)

Category	Total Projects	Total Units	BMR Units	Projected Fee Revenue
Entitlements Processed	21	2,212	206	\$14.4M
Building Permits Processed	11	1,057	86	\$18.1M
Pipeline Total	32	3,269	292	\$32.5M

Newly Constructed Below Market Rate Units

- In FY 2026, 34 newly constructed BMR units were made available for lease across six buildings;
- Eleven of these units were made available to Section 8 voucher holders; and
- Eleven units were made available to Shelter Plus Care voucher holders.

A table showing the complete list of projects is included in Attachment 1.

Inclusionary Housing In-Lieu Fee

The in-lieu fee is set to \$62.83 per square foot of Residential Unit Floor Area (RUFA) for new residential construction. Under Resolution No. 71,674-N.S. this fee automatically adjusts every two years to reflect changes in the California Construction Cost Index (CCI). Following the initial adjustment on July 1, 2025, the next scheduled update will occur on July 1, 2027.

Certain projects paying the full fee qualify for RUFA deductions: 1) Middle Housing Infill Projects (MHIP) and Multifamily Residential (MFR) projects paying the full in-lieu fee may deduct 5,000 square feet. 2) Single Family Residential (SFR) projects may deduct 2,500 square feet.

Total Fee Revenue

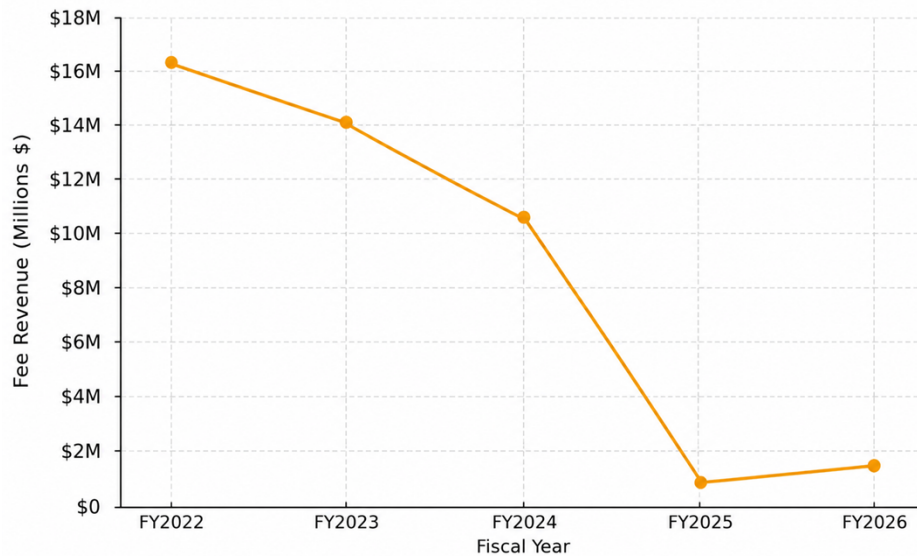
In FY 2026, the City collected \$1,509,000 in affordable housing fees. These fees were collected from projects entitled under the previous AHMF ordinance.

As of April 1, 2023, residential projects are subject to the requirements under the IHO. Residential projects with a building permit or preliminary application submitted on or before April 1, 2023, remain under the older AHMF rules. The City's AHCP data shows a robust pipeline of IHO-entitled projects; however, developers are not required to pay the in-lieu fee until a Certificate of Occupancy is issued. As these entitlements advance, overall fee revenue will steadily transition from the AHMF to the IHO framework.

Table 3 and Figure 1 detail annual fee collections from FY 2022 to FY 2026. The City averaged \$8.7 million per year in housing fee revenue during a five-year period.

Table 3. BMR Program Fee Revenue (FY 2022 to FY 2026)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
AHMF	\$16,208,000	\$14,224,000	\$10,716,000	\$831,000	\$1,509,000

Figure 1. Inclusionary Housing Program Fee Revenue (FY 2022 to FY 2026)**BACKGROUND**

The Inclusionary Housing ordinance is established by BMC Chapter 23.328.

As of July 1, 2026, the BMR program provides 639 units across 67 properties. Fees collected under the ordinance are dedicated to the City's Housing Trust Fund program to fund non-profit, 100% affordable housing developments. The City has generated \$56 million in Housing Trust Fund revenue since FY 2017.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE IMPACTS

There are no identifiable environmental effects associated with the subject of this report.

POSSIBLE FUTURE ACTION

Resolution No. 71,674-N.S. established an automatic adjustment to the in-lieu fee to reflect changes in the California Construction Cost Index every two years. The in-lieu fee will automatically increase based on changes to the CCI on July 1, 2027.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Affordable Housing Mitigation Fee and In-lieu fee revenues are deposited in the City's Housing Trust Fund program. While local bond measures, such as Measure O, provide substantial funding, they serve as one-time source for affordable housing. Consequently, the in-lieu fee remains Berkeley's primary dedicated funding source to support 100% affordable housing and leverage County, State, and federal funding.

Future revenue trends depend heavily on local development volume, developer compliance choices (building BMR units versus paying fees), legislative shifts in state law, and broader housing market conditions. Reflecting recent market constraints, fee

revenues have slowed due to escalating construction costs and higher financing costs than previous years.

Historically, there have been legal challenges to Inclusionary Housing ordinances throughout California. It is possible future court rulings or changes to State law may affect the City's ability to enforce the Inclusionary Housing ordinance and collect in-lieu fees.

CONTACT PERSON

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Attachments:

1: Below Market Rate Properties FY 2026

Attachment 1: Below Market Rate Properties FY 2026

Table 1. Residential Projects Pipeline by AHCP Status

Address	Applicable Ordinance	Total Units	BMR Units	Fee Estimate
Preliminary AHCP (Entitlements Processed)				
Bancroft 2036	IHO	87	6	\$1,516,700
Bancroft 2462	IHO	66	3	\$917,200
Bancroft 2680	IHO	79	9	\$158,400
Cedar 1745*	IHO	6	0	\$152,200
Center 2001*	IHO	58	12	\$0
Channing 2317	AHMF	22	3	\$621,700
Dwight 2204*	IHO	2	3	\$0
Ellsworth 2372*	IHO	49	0	\$1,853,600
Haste 2442	IHO	38	4	\$1,016,400
Kittredge 2138	IHO	66	5	\$643,600
Milvia 2109	IHO	105	11	\$316,800
Oxford 1899*	IHO	222	23	\$548,100
San Pablo 2147	IHO	141	15	\$300,900
Shattuck 1685/ Virginia 2109	IHO	110	9	\$462,900
Shattuck 2655	IHO	97	10	\$514,900
Telegraph 2712*	IHO	50	5	\$362,500
Tenth St. 1917	IHO	3	0	\$72,300
University 1740*	IHO	12	3	\$0
University 1950	IHO	599	58	\$2,891,500
University 2029 #1	IHO	240	18	\$985,500
University 2029 #2	IHO	<u>160</u>	<u>12</u>	<u>\$1,038,300</u>
Preliminary AHCP Subtotal		2,212	206	\$14,373,500

* Indicates a new project that submitted an AHCP in FY 2026. Remaining projects are carried over from FY 2025.

Table 2. Residential Projects Pipeline by AHCP Status – Final AHCP

Address	Applicable Ordinance	Total Units	BMR Units	Fee Estimate
Final AHCP (Building Permits Processed)				
San Pablo 2403	IHO	36	0	\$1,952,000
Channing 2328	AHMF	13	0	\$600,400
University 1598	IHO	207	21	\$810,200
Berryman 1850*	IHO	6	0	\$120,700
Kittredge 2065	AHMF	187	9	\$5,449,800
San Pablo 3020	IHO	29	4	\$182,900
Telegraph 2614*	IHO	32	5	\$0
Ashby 1331	AHMF	6	1	\$38,000
Shattuck 1752	AHMF	68	7	\$461,900
Shattuck 2440	AHMF	40	3	\$596,200
Oxford 2128*	AHMF	<u>433</u>	<u>36</u>	<u>\$7,949,200</u>
Final AHCP Subtotal		1,057	86	\$18,161,300
Total (Preliminary and Final AHCP)		3,269	292	\$32,534,800

* Indicates a new project that submitted an AHCP in FY 2026. Remaining projects are carried over from FY 2025.

Table 3. New Projects and Below Market Rate Units (FY 2026)

Address	Total Units	BMR Units
2555 College	11	1
Dwight 2137	58	8
Telegraph 2587	52	8
Telegraph 3030	144	8
Durant 2538	83	6
Shattuck 2440 / 2077 Haste	<u>40</u>	<u>3</u>
Total	388	34