



HALF MOON BAY
CYPRESS INN ON MIRAMAR BEACH

CARMEL-BY-THE-SEA
CANDLE LIGHT INN
CARRIAGE HOUSE INN
SVENDSGAARD'S INN
WAYSIDE INN

July 2, 2024

City of Carmel-By-The-Sea

JUL 03 2024

Bobby Richards
Mayor Pro Tem
City of Carmel-by-the-Sea
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Office of the City Clerk

Dear Mayor Pro Tem Richards:

As a member of the Affordable Housing Alternatives group, I am interested in helping Carmel find alternatives to concentrating the majority of Carmel's new affordable housing on just 3 publicly owned properties, and finding other private properties throughout Carmel on which this housing can feasibly be built. Concentrating that much affordable housing on just 3 parcels is inequitable and bad public policy. Carmel can and should work with the private sector to find real alternatives.

Carmel's stock of existing hotels—many of which used to be apartment buildings—should be able to provide all the new affordable housing currently proposed for those 3 publicly owned properties, provide additional revenues for Carmel, diversity Carmel's hotel stock, and solve the city's parking problems, if certain modifications to the Housing Element are made. Those modifications propose expanding existing programs that allow hotels to transfer their hotel development rights to new hotel developments if they agree to build affordable housing on the current hotel sites.

Those proposed modifications are described in the enclosed materials, which includes an executive summary and a white paper that proposes specific policy language for the Housing Element.

The Wayside Inn currently provides 22 hotel rooms and could be converted into at least that many affordable units. The Wayside Inn is interested and motivated in exploring creating new affordable housing on-site in exchange for being allowed to transfer its hotel development rights to another site.

I understand the City Council will be meeting in special session on Monday, July 8, to discuss alternatives to concentrating affordable housing on the 3 public sites. I hope the Council finds the enclosed concepts helpful to that discussion.

Mark Watson
General Manager
Inns-by-the-Sea

White Paper on Hotel-Housing-Sites Alternative

Carmel's certified Housing Element calls for **concentrating the majority** of the new extremely-low Income, very-low income, low income, and moderate income housing units the State is requiring on just 3 public properties: two at **Sunset Center** and a third at a public works site (**Vista Lobos**). On those 3 public properties, Housing Element Policy 1.1.B calls for concentrating 78 of the total 113 new extremely-low or very-low income units, 46 of the 74 new low-income units, and 25 of the 44 new moderate income units—with no market-rate units:

Income Group	Public Properties designated for BMR housing		
	<i>Sunset Center North</i>	<i>Sunset Center South</i>	<i>Vista Lobos</i>
<i>Extremely or Very Low Income</i>	20	30	28
<i>Low Income</i>	10	25	11
<i>Moderate Income</i>	3	5	17
<i>Above Moderate Income</i>	0	0	0

Given the high cost of any new construction in California, and the relatively low rents that 100% lower-income housing like this returns, **these developments will not be economically feasible without significant taxpayer subsidies.**

Rather than concentrating most of this new, economically-infeasible, taxpayer-subsidized, lower-income housing on just 3 public sites, there is a better, alternative approach. This alternative builds on creative policies already in the Housing Element to generate additional incentives to secure *private* investment to build new affordable housing on *private* properties sprinkled throughout Carmel, while also providing significant new sources of revenues for Carmel.

The Housing Element recognizes Carmel's existing, aging, hotel stock as a potential significant new source of affordable housing in Carmel. Program 1.3.B already proposes to allow hotels with commercial or multi-family zoning on larger (>0.5 acre) sites to convert to multi-family housing (with 15% affordable units) and to transfer their hotel development rights to new hotels. Program 1.2.A prioritizes new water for new affordable housing. Appendix B further explains that Carmel will provide an additional hotel room as a bonus: “[a]s an incentive to commercial overnight visitor accommodation property owners to provide on-site affordable employee housing, the City will offer an additional overnight accommodation room for every onsite housing unit created.”

If Program 1.3.B and Appendix B are expanded, they can create **more than enough new affordable housing on private property throughout Carmel to avoid any need to concentrate the majority of Carmel's new low-income housing on the 3 public sites.** Expanding these programs will also generate significant new revenues for Carmel.

These existing policies should be expanded in four ways:

- 1) Allow all current hotel properties to participate in the transfer of hotel development rights, regardless of size or zoning. Smaller (<0.5 acres) existing hotel sites can also be a location for affordable housing. Even hotels with R-1 zoning can be transitioned to affordable-by-design housing, such as ADUs and JADUs.
- 2) Add additional incentives for hotel owners to provide affordable housing at increasing affordability levels: 1 additional hotel development right for every new moderate-income unit created at that site; 2 additional hotel development rights for every low-income unit created; 3 additional hotel development rights for every very-low-income unit created; and 4 additional hotel development rights for every extremely-low-income unit created.
- 3) Allow new hotels the option to incorporate residential-resort suites into mixed-use hotels. Mixed-use hotels incorporating residential-resort suites are a growing trend in the hospitality industry. Residential-resort suites allow residents access to the full range of services, facilities, and amenities provided by the hotel. Newport Beach's newly certified Housing Element recognizes and promotes residential-resort suites. Carmel's Housing Element should incorporate a similar program, which would allow up to 1 out of every 4 hotel development rights transferred into a new hotel to be used to create resort-residences. Hotel owners who choose to participate in the residential-resort-suite program will also be required to pay an additional yearly fee to Carmel equivalent to 1% of the assessed value of each residential-resort suite.
- 4) Require water providers to transfer water rights of existing hotels transitioning to affordable housing to be transferred to new hotels participating in this program.

The necessary changes to the text of the Housing Element are shown in **Attachment 1**.

Expanding these policies to encourage the creation of new affordable housing at existing hotel sites, in exchange for additional transfers of hotel development rights including residential-resort suites, should not require Carmel to rezone any properties and should improve parking. Any new hotels created will need to comply with the existing zoning at their sites, and provide sufficient off-street parking for all guests and residents. The ability to incorporate residential-resort suites into new hotels should ensure that even smaller new or boutique hotels will be economically viable—all the while creating significant new affordable housing on private (rather than public) property.

Appendix 1: Proposed Housing Element changes

Deleted text in ~~strikeout~~

Added text in **bold**

Housing Element pages 2-5 through 2-6

~~Program 1.1.B: City-Owned Sites - AFFH~~

Housing Element pages 2-10 through 2-11

Program 1.3.B: Overnight Visitor Accommodation (Conversion) Development Transfer Rights - AFFH

Pursuant to Coastal Zone requirements, the City has recognized existing overnight visitor accommodations (hotels/motels, inns, bed and breakfasts and other various lodging options) as an important coastal visitor asset and economic base in the community. There are a number of older, overnight visitor accommodations in the R-1, CC, RC, and SC zoning districts, including some that are non-conforming. [Appendix C](#) provides a list of existing ~~eligible~~ overnight visitor accommodation locations. Property owners of these establishments are encouraged to consider rehabilitating these sites as ~~multi-family~~ rental residences. These properties are distributed throughout the City and this policy would diversify the housing stock through more cost-effective means of rehabilitating and refurbishing existing buildings.

As further described in Appendix B, ~~t~~The City will incentivize both the transfer of development rights of overnight visitor accommodations to other sites within commercial zoning districts, **using existing zoning and so long as adequate off-street parking is provided,** and conversion of existing overnight visitor accommodation properties to ~~multi-family~~ residences ~~that include 15 percent lower income units.~~ **The transfer of these hotel development rights shall include the water rights associated with the hotel transferring its development rights. The transferred hotel development rights are valid for 3 years and may be used on any commercial-zoned property within Carmel during that time. The same** number of overnight visitor accommodation rooms to serve coastal visitor access in the City will be retained **or increased** while increasing the affordable ~~multi-family~~ housing rental stock.

~~The City will conduct outreach to property owners in addition to meeting annually with non-profit affordable housing developers to identify eligible sites that can be converted from overnight visitor accommodation to multi-family housing, and help to identify funding to enable the conversion of overnight uses to permanent affordable housing.~~

~~If at mid-cycle the City has not received any applications to transfer development rights or to convert existing properties to permanent affordable housing, the City will evaluate the funds in the housing trust fund and partner with a non-profit to identify eligible properties for purchase.~~

Appendix B-9 through B-10

Commercial Overnight Visitor Accommodation

Pursuant to Coastal Zone requirements, the City has recognized existing overnight visitor accommodation (hotel/motel/inn) as an important coastal visitor asset and economic base in the community. There are a number of older (some non-conforming) hotels/motels/inns in the R-1, CC, RC, and SC zoning districts, located in key areas of the City. These commercial establishments can be targeted for transition and the existing buildings rehabilitated converted to permanent multi-family residences.

In an effort to maintain a strong residential component within the City, the Municipal Code Section 17.56.060 includes numerical limits on the total number of hotel/motel/inn units; however, the numerical limits increase the value of the existing commercial units and act as a disincentive for older establishments to be refurbished into multi-family units. The limit also acts as a disincentive to add on-site employee housing because scarce square footage is more valuable as an overnight visitor accommodation use rather than a residential use that serves lower-income employees.

Enabling older overnight visitor accommodation commercial uses to relocate to more appropriate commercial sites while allowing the establishments to retain the current number of hotel/motel/inn rooms, would facilitate continued overnight tourism while diversify the housing stock by requiring the refurbishment of existing buildings to permanent rental housing. In order to encourage these properties to transition into permanent multi-family residences, and to retain the same number of existing overnight visitor accommodation rooms for coastal visitor access (as desired by the California Coastal Commission), the City will develop program 1.3.B to incentivize both the transfer of development rights of overnight visitor accommodations to other appropriate commercial sites while ~~requiring~~ **authorizing** the conversion of existing overnight visitor accommodation properties to permanent rental ~~multi-family~~ residences.

Additionally, the City has a number of overnight visitor accommodation properties that would greatly benefit from incorporating affordable on-site ~~employee~~ housing, **which could be used as workforce and affordable housing**. These new rental permanent residential units would alleviate the current lack of housing options that many lower income employees that work at hotels/motels/inns in Carmel face. As an incentive to commercial overnight visitor accommodation property owners to **convert existing overnight visitor accommodation properties to permanent rental properties**, ~~provide on-site affordable employee housing~~, **and, notwithstanding the limits of Municipal Code Section 17.56.060**, the City will offer ~~an~~ **one additional transferrable** overnight accommodation room for every onsite ~~moderate-income~~ housing unit created, **two additional overnight accommodation rooms for every onsite low-income housing unit created, three additional overnight accommodation rooms for every onsite very-low-income**

housing unit created, and four additional overnight accommodation rooms for every onsite extremely-low-income housing unit created.

As an additional incentive, 1 out of every 4 hotel development rights transferred into a new hotel may be used to create resort-residences, which allow residents access to the full range of services, facilities, and amenities provided by the hotel. Hotel owners who choose to participate in the residential-resort-suite program will also be required to pay an additional yearly fee to Carmel equivalent to 1% of the assessed value of each residential-resort suite.

~~This~~ **These** incentives will serve to increase affordable rental housing, offset the loss of revenues for the business owners, and maintain visitor-serving coastal access.

Appendix C-74 through C-75

~~Table C-56~~ lists Overnight Visitor Accommodation properties that meet the eligibility criteria to be considered for transfer of development rights to rehabilitate as multi-family rental residences. Eligibility criteria include the site being zoned for commercial or multi-family residential development and being at least 0.5 acres in size. Of the 46 Overnight Visitor Accommodation sites listed in ~~Table C-55~~, five (5) meet the eligibility criteria for transfer of development rights to rehabilitate as multi-family residential. Each of these sites are located in the City's Commercial District and are greater than 0.5 acres in size. The City will develop an incentive program for property owners to encourage the transfer of development rights. Program 1.3.B will monitor the implementation of the incentive program (see [Chapter 2](#)).

~~Table C-56 Eligible Sites for Transfer of Development Rights~~

Hotel-Transfer Program Executive Summary

Key Problems:

1. To comply with State housing law, Carmel needs to find alternatives to public properties like Sunset Center and Vista Lobos for 149 affordable new units.
2. To maintain and increase TOT revenues, Carmel needs to increase and diversify its hotel stock, including new hotels with residential-resort suites.
3. To ensure adequate water supply, Carmel needs to develop programs to prioritize new water sources for affordable housing.
4. To comply with new State parking mandates (AB 413), Carmel needs to get hotel parking off the streets.

Key Solutions:

1. Carmel should expand programs that encourage existing hotels—many of which were converted from housing to hotels—to convert back to affordable housing.
2. Carmel should allow existing hotels converting to affordable housing to transfer hotel development rights, plus bonuses, to new hotel developers, to be used within 3 years. New hotels may include residential-resort suites, in which residents may make use of hotel services, that pay significant additional yearly fees to Carmel.
3. Carmel should prioritize allocation of new water towards new affordable housing, and require that any transfer of hotel development rights includes transfer of hotel water rights.
4. Carmel should partner with a private developer to build underground paid parking at Vista Lobos that could be used by hotels, and prohibit hotels from allowing guests to park on the street.

Key Questions and Answers:

Q. How will Carmel find new locations for the low-income housing proposed for public properties like Sunset Center?

A. Many owners of older hotels in Carmel that used to be housing, like the Wayside Inn, are interested in converting to new affordable housing *if* they can pay for it by selling their hotel development rights to new hotels. Carmel can enable new housing to be built on private property, without any public subsidies, by enabling transfers of hotel development rights to new hotels (if they are built within 3 years), in exchange for building new affordable housing.

Q. Are any hotels interested in this hotel-transfer idea?

A. Yes. The Wayside Inn (a 22-room hotel that was formerly an apartment) is interested in exploring the hotel-transfer idea if Carmel implements it properly. Other similarly situated hotels in Carmel will likely follow.

Q. What are residential-resort hotel suites?

A. Residential-resort hotel suites are luxury residences managed by a hotel that allows its residents to use hotel services. Newport Beach is now allowing hotels to build new residential-resort suites. (See attached excerpt from Newport Beach's certified Housing Element.) Hotels choosing to create residential-resort suites would also be required to pay an additional yearly fee to Carmel equivalent to 1% of the assessed value of each residential-resort suite.

Q. What is Carmel going to do to get hotel parking off the streets?

A. Hotels currently use a significant amount of Carmel's limited on-street parking, which is going to get more limited in 2025 when new State restrictions on on-street parking kick in. Carmel should build new underground paid parking at the existing lot at Vista Lobos, which hotels can use, and prohibit hotels from allowing guests to park overnight on City streets.

Q. Will Carmel lose TOT taxes or other revenues?

A. No. This program will increase Carmel's revenues. Carmel will not lose any hotel rooms, because existing hotel rooms converted to affordable housing will be transferred to new hotels. Carmel will also generate new sources of revenues from residential-resort hotel suites and parking fees from Vista Lobos.

Q. How will low, very-low, and extremely-low income new housing get built?

A. Affordable housing projects by their nature are low-rent projects. The rent levels go down further for each increasing level of affordability. Given California's high construction costs, and these projects' low rents, affordable housing projects require policy creativity to work. Carmel should offer bonus hotel rooms for each higher level of affordability attained in new housing built at existing hotels.

Q. Will this enable new mega-hotels?

A. No. Any new hotel that gets built will need to comply with the existing zoning for that site. New hotels will be distributed throughout Carmel on existing commercial-zoned properties.

Q. How will water be handled?

A. Carmel's existing Housing Element prioritizes making new water available for new affordable housing projects. That program will be applied to new affordable housing created at existing hotels. Existing water rights held by hotels participating in this program will be transferred together with the hotel development rights.



Timeframe: Ongoing, Annual
Responsible Agency: City of Newport Beach Community Development
Funding Sources: General Fund

Policy Action 4H: Review Mixed-Use Zones

As part of the 2006 Comprehensive General Plan Update and 2010 Zoning Code Update, new mixed-use housing opportunity zones were created throughout the City as a strategy to enhance and revitalize underperforming and underutilized properties. These areas included the Airport Area, Dover/Westcliff, Newport Center, Mariners Mile, and portions of the Balboa Peninsula. The Airport Area and Newport Center have proven the most successful with several approved and constructed mixed-use developments, such as Uptown Newport and Villas Fashion Island. The Balboa Peninsula has had some limited success while Dover/Westcliff and Mariners' Mile have not proven successful to-date.

Despite the housing opportunity that was created in these areas, a majority of these sites remain underutilized with a single, non-residential use, such as retail or office. It is evident the City's existing development standards (e.g., setbacks, height, density, parking, dedications, etc.) related to mixed-use development may create constraints to the redevelopment of these properties.

Therefore, to ensure that mixed-use opportunities are maximized, the City will review established mixed-use land use categories and corresponding zoning regulations in the City and recommend policy or code changes to the City Council that reduce regulatory barriers and incentivize mixed-use residential development.

Timeframe: Complete the review and provide recommendations to the City Council within 12 months of Housing Element Adoption, and then complete a review annually thereafter.
Responsible Agency: City of Newport Beach Community Development
Funding Source: General Fund

Policy Action 4I: Establish Mixed-Use Resort Opportunities

Mixed-use resorts are an established trend in the hospitality industry that incorporate hotel-branded residential units as an accessory use located within a resort hotel complex where residents enjoy access to the full range of services, facilities, and amenities provided by the hotel operator or brand. The residential use cannot exist without the hotel's services, facilities, and amenities.

The hotel industry has been one of the hardest hit industries due to the COVID-19 pandemic and a full recovery of the industry is not anticipated for many years. Mixed-use resorts provide an opportunity to revitalize older or underperforming hotels and maintain their competitive standing by creating multiple revenue streams.

Economies of scale created by shared facilities, amenities, and services add additional benefit to mixed-use resort developments. This cross pollination of business benefits both the hotel and the resident. It may also increase occupancy rates at the resort by creating increased synergy between uses and social gathering opportunities, boosting transient occupancy taxes while providing in-fill housing opportunities to partially assist the City in meeting its RHNA obligation in highly desirable and built-out areas.

Incorporating residences also helps to off-set cyclical variations in hotel occupancy rates that can, for instance, result in seasonal decreases in revenue for the hotel's food and beverage offerings.

Therefore, to further encourage and incentivize the development of mixed-use hotels, the City will consider policies, regulations and/or interpretations to: 1) clarify ambiguities in General Plan, Zoning Code, and/or Local Coastal Plan Program provisions to allow hotels and motels, located outside of the Coastal Commission Appeal Areas, to convert up to thirty percent (30%) of their permitted hotel and motel rooms into residential units on a one-for-one basis; 2) establish parking programs (e.g., shared parking) and/or reduced residential parking requirements that mitigate the need for any additional parking due to the conversion to residential use; 3) require a fiscal impact analysis to disclose and mitigate any reduction in transient occupancy tax due to a potential conversion; 4) increase the flexibility in use of transfer of development rights to allow for transfer of unbuilt residential units to hotel sites; 5) require property owners converting permitted hotel and motel rooms into residential units to mitigate impacts to on affordable housing production by either constructing affordable housing units within the development or through a contribution of in-lieu fees; 6) require mitigation of impacts to public access for potential conversions located within the Coastal Zone; and 7) require property owners converting permitted hotel and motel rooms into residential units to enter into a development agreement to ensure implementation of this policy at the project level.

Timeframe: Establish policies, regulations and/or interpretations within 24 months of Housing Element Adoption.
Responsible Agency: City of Newport Beach Community Development
Funding Source: General Fund

Policy Action 4J: Airport Environs Sub Area Environmental Constraints

As discussed in Section 3 (Analysis of Exacerbating Current Conditions), the Airport Area is potentially exposed to heightened noise and a lower environmental score primarily due to the proximity of John Wayne Airport.

The City will take the following actions to address potential environmental constraints in the Airport Environs Sub Area and ensure continued feasibility of sites, particularly for lower-income RHNA:

- Require new residential development projects in the Airport Environs Sub Area provide noise studies and acoustical analyses to ensure designs include proper sound attenuation;
- Require new residential development projects in the Airport Environs Sub Area to explore advanced air filtration systems for buildings to promote cleaner air;
- Encourage on-site indoor amenities, such as fitness facilities or recreation and entertainment facilities; and
- Continue to implement park dedication requirements consistent with the City's Park Dedication ordinance and Land Use Element Policy LU 6.15.13 (Neighborhood Parks – Standards) and Policy LU 6.15.16 (On-Site Recreation and Open Space) to ensure adequate recreational space to ensure at least 8-percent of a project's gross land area (exclusive of existing rights-of-way) of the first phase for any development in each neighborhood or ½ acre, whichever is greater, is developed as a neighborhood park, unless waived through Density Bonus Law.