



MEMORANDUM

Date: September 1, 2026

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From: Nick Pergakes, AICP, Interwest Deputy Director of Planning/Project Director
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Subject: Housing Production Incentives Review and Recommendations

This memorandum provides an overview of the City of Costa Mesa's existing housing policies, programs, and regulatory initiatives that support housing production and affordability, as well as potential opportunities for additional housing incentives and implementation actions. The review highlights recent City efforts, including the Inclusionary Housing Ordinance (IHO), the Fairview Development Center Specific Plan (FDCSP), and the Neighborhoods Where We All Belong (NWWAB) initiative, all of which demonstrate the City's commitment to increasing housing supply, promoting affordability, and reducing barriers to residential development.

In addition to documenting housing-related actions currently underway, this review evaluates potential strategies that could further support affordable housing production and implementation of Housing Element goals. The analysis includes consideration of technical assistance programs, fee reductions, development incentives, utilization of public land, alternative compliance mechanisms, and other innovative housing policies that have been implemented by jurisdictions throughout California.

CITY OF COSTA MESA HOUSING PRODUCTION AND INCENTIVES REVIEW

The City of Costa Mesa has undertaken several significant actions to promote housing production and affordability within its City. These efforts have included the advancement of several Housing Element programs through strategic investments in affordable and supportive housing. Highlights of notable projects and efforts, completed in the Sixth Cycle Housing Element planning period (2021-2023), are outlined below:

- **Inclusionary Ordinance (Housing Element Program 2A):** In August 2024, the City Council adopted the City's first Inclusionary Housing Ordinance (IHO), which requires qualifying residential developments to provide affordable housing units or pay an in-lieu fee. City Council also directed staff to complete a program evaluation after two years of implementing the IHO. Since adoption, the City has developed affordable housing agreement templates and guidance documents to inform the public and applicants about the application and submittal process for review of affordable housing units. Although no projects have yet been subject to the IHO due to project exemptions and timing of applications, residential developments continue to provide affordable units utilizing State Density Bonus Law with an affordability unit component that generally ranges from 5 to 10 percent of base density. The City also tracks affordability levels of Accessory Dwelling Units (ADUs) through a self-reporting process during the building permit review to improve monitoring and reporting of affordable housing production.

- Community Development Block Grant (CDBG) and HOME Investment Partnership (Housing Element Programs 1B, 1C, 2C, 2F, 4A, and 4D): The City administers CDBG and HOME Investment Partnership Program funding to assist income-qualified homeowners with home rehabilitation and preservation activities, including HVAC replacement, window replacement, lead-based paint remediation, exterior painting, pest control, and other health and safety improvements that help preserve the City's existing affordable housing stock.
- Bridge Homeless Shelter (Housing Element Program 4F): In April 2021, the City of Costa Mesa completed the construction of its permanent Bridge Shelter containing 72 beds. On June 6, 2023, the City Council approved a capacity increase to 85 beds. On August 1, 2023, the City Council approved the submission of a joint application with the Orange County Health Care Agency to the State Department of Health Care Services for funding to add yet another 15 behavioral health beds and associated services at the Shelter. The City has since received an award of \$4.2 million dollars to implement the additional beds, and the Shelter's total capacity has now increased to 100 beds. With the Shelter in full operation, the City is able to assist up to 100 residents at one time and connect them with services and potential permanent housing solutions. In addition, on December 7, 2023, the CalOptima Board of Directors selected Costa Mesa as one of two cities to receive their innovative Street Medicine Program, which delivers primary and behavioral health care to both sheltered and unsheltered people. The Street Medicine at the Bridge Shelter launched on August 12, 2024, and services are being provided to the public.
- Project Homekey at 2274 Newport Boulevard (Housing Element Program Programs 3F and 4A): The Motel 6 property located at 2274 Newport Blvd involves the acquisition and two-phase adaptive reuse of an 88-unit motel into permanent housing. All motel rooms will be converted to 300-square-foot studio apartments with new kitchenettes, countertops, flooring, paint, fixtures, appliances, and furniture. Additional common areas for residents will include a new outdoor patio, smoking area, dog run, and community garden to encourage social interaction among residents. This project was developed in two phases. Phase I included 40 extremely low-income housing units (and 1 manager unit), 30 of which are permanent supportive housing units serving homeless veterans, and 10 of which are for homeless individuals who meet the Mental Health Services Act eligibility criteria. Construction is now complete. Phase II is also now complete and provided 46 very low-income units. To help finance the project, the Costa Mesa

City Council approved a \$3.5 million ARPA funded grant, a \$1.5 million HOME funded loan and an \$850,000 Low- and Moderate-Income Housing Fund loan.

- The Bungalows Project at 2039 Pomona Avenue (Housing Element Program 4A): This project included remodeling six existing dwelling units and constructing two additional detached accessory dwelling units. The City worked diligently with the non-profit organization, Families Forward, to swiftly complete entitlements and permits for this project. The site is managed by Families Forward and provides housing for families experiencing homelessness. The project was completed in early 2023. Families Forward partnered with HomeAid Orange County, a Tustin nonprofit that coordinates with building professionals willing to offer material discounts, labor, and in-kind donations to reduce the costs of building projects for those at risk of homelessness. Occupants of the “The Bungalows” are selected through an application process, with preference given to those with residential, professional, or educational ties to Costa Mesa currently experiencing homelessness, living in a shelter or in temporary accommodations. Under the living arrangement, residents of “The Bungalows” will pay an affordable monthly rent, ranging from approximately \$1,150 to \$1,350 per month, while receiving ongoing assistance, education and services designed to help them regain financial self-sufficiency. With in-kind donations reducing costs by more than \$500,000, the total cost of the project was approximately \$4 million dollars. To help bridge the financial gap, the Costa Mesa City Council in November 2022 granted \$975,000 in Federal American Rescue Plan Act funding to Families Forward to complete the work. This project is now complete, and the units are fully occupied.
- Project Homekey at 1400 Bristol Street (Housing Element Programs 3F and 4A): The City approved a second Homekey Project at the former Travelodge Inn at 1400 Bristol Street. American Family Housing, Inc. and the County of Orange have secured a \$29.0 million dollar grant to acquire the site and convert existing hotel rooms into 76 income/deed-restricted units and two manager’s units. Construction began in 2025. For this project, the City Council approved a \$1.5 million ARPA funded grant and a \$2.5 million Low- and Moderate-Income Housing Fund loan to help bridge the remaining funding gap. The City provided additional \$350,000 in funding in March 2026 and the project received its Certificate of Occupancy in August 2026.
- Jamboree Senior Housing Project at 695 West 19th Street (Housing Element Programs 2D and 4A): In 2020, the City Council approved an Exclusive Negotiating Agreement (ENA) to partner

with Jamboree Housing Corporation in determining the feasibility for the right to acquire a long-term leasehold interest in an approximately 0.90-acre portion of the parking lot at the Senior Center to develop affordable housing for Costa Mesa's seniors. In March 2025, the City Council approved 70 senior affordable housing units on City owned property, (69 senior units plus one manager's unit), and the City Council approved and provided \$3.25 million in funding towards the project in March 2026.

- Fairview Developmental Center Specific Plan (FDCSP) (Housing Element Program 3B): The FDCSP is a coordinated planning policy effort with the State Department of General Services (DGS) and Department of Developmental Service (DDS) to plan for the future redevelopment of the State-owned Fairview Developmental Center state hospital located at 2501 Harbor Boulevard. The FDCSP proposes a minimum of 2,300 and up to 4,000 residential units and establishes substantial affordability requirements, including minimum requirements for very low (575), low (345) and moderate (690) households. ([fdcplan.com](https://www.fdcplan.com)) consistent with the City's adopted Housing Element. On August 10, 2026, the Planning Commission made a recommendation to the City Council to adopt the FDC Specific Plan for up to 4,000 units. The Specific Plan is anticipated to be considered by the City Council for adoption on September 15, 2026.
- Neighborhood Where We All Belong (NWWAB) (Housing Element Programs 2I, 2J, 2M, 2N, 2O, 2P, 3C, 3E, 3D, 3F, 3H, 3I, 3J, 3K, 2N, 3R, 3S, 4E, and 4G): NWWAB is a comprehensive effort by the City to address housing needs and comply with state law, rezoning the Housing Element sites, additional sites along commercial corridors to support housing production including preparation of a programmatic Environmental Impact Report that provides environmental clearance for more than 22,000 future housing units. As part of this process, the City has also streamlined entitlement review processes for qualified housing and mixed-use projects, removed parking requirements for Housing Element sites, and is proposing no minimum parking for all Mixed Use Overlay District (MUOD) projects, expanded ministerial approval pathways (including qualifying projects as 'use by right' in accordance with provisions of the Government Code), and proposes objective design standards. The NWWAB efforts cumulatively implement over 23 of the City's Housing Element programs. (<https://www.costamesaneighborhoods.com>)
- Housing Element Amendment & Rezoning Housing Element Sites (Housing Element Programs 3A, 3B, 3C, 3D, 3G, and 3N): In April 2026, the City Council approved rezoning of the City's Sixth

Cycle (2021-2029) Housing Element Sites and zoning code amendments to implement Housing Element programs and comply with state law. Following property owner requests to remove certain Housing Element sites in early 2026, the City Council approved a Housing Element Amendment on March 17, 2026, to remove and add certain Housing Element sites.

Subsequently, the City made no net loss findings and conducted a Housing Element Amendment to identify 95 new Housing Element Sites (nearly 7,000-unit capacity) to meet RHNA capacity and establish a buffer. The Housing Element Amendment was approved by City Council at their September 1, 2026, hearing and is currently being reviewed by the California Department of Housing and Community Development (HCD) for Housing Element certification.

Collectively, these actions demonstrate Costa Mesa's ongoing commitment to increasing housing supply, promoting affordability, and reducing regulatory barriers to housing development.

ADDITIONAL RECOMMENDED SUBSIDIES AND INCENTIVES TO CREATE MORE AFFORDABLE HOUSING

Regulatory and Financial Subsidies

Local governments and housing authorities incentivize developers to build affordable housing by offsetting high construction costs through regulatory and financial subsidies. These mechanisms allow developers to maintain profitable margins while offering rents or sales prices that are accessible to low- and moderate-income households. Subsidies which make the most impact usually translate to time or money and can be considered as a “local match/subsidy” for tax credits and other funding program criteria.

The City provides a dedicated planner who remains assigned to qualifying projects throughout the entire development process, from entitlement through occupancy, and offers technical assistance to help streamline project review. The City also considers waiving or reducing certain impact fees for qualifying affordable housing projects or units, such as park in-lieu fees, traffic impact fees, and public art requirements or in-lieu fees.

Incentives to Build Affordable Housing on Small and Underutilized Parcels

Providing incentives to encourage new development on small and underutilized parcels can help to increase the production of affordable housing. Below are three case studies of cities in Southern California that utilize different incentives for supporting new infill residential development.

City of Thousand Oaks

An eligible housing developer may request any two of the incentives set forth under their density bonus program, which are in addition to any incentive that may be granted using density bonus law.

Eligibility for the additional incentives include the following:

- Building housing on a site of a half-acre or less that is developed with one or more contiguous parcels.
- The units must be listed in the Housing Element as an underutilized site with redevelopment potential.
- Shall be provided to extremely low-, very low- or low-income households at affordable rents or affordable housing costs;
- All of the housing shall be multiple- family housing developed at a minimum density of 20 dwellings per net acre.
- The project shall be subject to a recorded agreement between the City and a housing developer specifying the income level of the occupants and guaranteeing the affordability of the units.

City of San Diego

The City of San Diego has implemented housing programs that go beyond State Density Bonus Law, including the Affordable Housing Density Bonus Program and the Complete Communities Housing Solutions Program. These programs facilitate residential development on underutilized commercial, mixed-use, and residentially zoned properties, particularly within Transit Priority Areas and the Sustainable Development Area. Eligible projects must provide affordable housing units consistent with

the requirements of the applicable incentive program. By focusing on the redevelopment of underutilized sites, San Diego seeks to increase housing production, support affordable housing, and promote infill development in areas with existing infrastructure, services, and transit access.

City of Santa Ana

The City of Santa Ana's Housing Element identifies sites with redevelopment potential that can accommodate additional housing capacity and support affordable housing production. Santa Ana focuses on facilitating redevelopment of housing opportunity sites and increasing residential capacity in areas served by existing infrastructure and services.

Incentives for Affordable Housing with Lot Consolidation

City of Thousand Oaks

The City of Thousand Oaks provides incentives for qualifying housing projects that include the merging or consolidation of parcels. Developers are eligible for regulatory incentives consistent with California Government Code Section 65915(d)(2) regardless of whether the qualifying project includes a Density Bonus.

Eligibility requirements:

- Qualifying projects: housing developments that consist of a voluntary lot consolidation/lot merger and meet either of the following location and affordability criteria below:
 - Housing Inventory Sites that construct at a minimum, the number of residential units at the level of affordability identified in the City's Housing Element Sites Inventory.
 - Mixed-Use (MU), Mixed-Use Overlay Zone (MUOZ) or Multiple-Family (R-3) zoned sites not identified in the Housing Element Sites Inventory associated with a rental development proposal consisting of twenty (20%) percent of the units affordable to lower income households and ownership development proposal consisting of twenty (20%) percent of the units affordable to moderate income households.

Incentives Provided to Developers:

- Fee-Based: A pre-application will be processed with no fees imposed by the Planning Division.
- Locations: Housing Element Inventory Sites and other multifamily or mixed-use sites may be consolidated either separately or in combination when properties are adjoining and proposed to be merged.
- Waivers or deviations from development standards for qualifying projects located in the R-3 zone may use the Mixed-Use Zone Development Standards.
- Waive the following Mixed-Use Zone Development Standards:
 - Ground Floor Plate height: Minimum 14 feet.
 - Minimum average depth of retail of 60 feet.
 - Third Floor Setback – Minimum: 10 foot average from first floor street front building façade.
 - Public Exterior Space – Minimum three (3%) percent of area of building footprint.
- Change the Mixed Use development standards to the following:
 - Side yard setback: 10 feet minimum from a residential zone.
 - Building Height maximums along a side property line within 40 feet of side yard abutting a residential zone are increased the further away from the property line.
- Reduce or waive Objective Design Standards for Courtyard, Stacked Dwelling and Mixed-use Block building types. Key reductions include the following:
 - Minimum Courtyard area reduction from fifteen (15%) percent to ten (10%) percent of lot area.
 - A maximum of one hundred percent (100%) of the total units within a project can be in a stacked dwelling building type.

City of Laguna Beach

The City of Laguna Beach encourages the development of affordable housing and senior citizen housing by allowing the consolidation of smaller parcels into larger development sites. Qualifying projects are eligible for lot consolidation incentives and regulatory relief intended to facilitate housing production. Except where a Coastal Development Permit is required pursuant to Chapter 25.07, requested incentives for qualifying projects shall be granted ministerially.

Eligibility Requirements:

Qualifying projects include housing developments that consist of a voluntary lot consolidation and meet the following criteria:

- A 100 percent affordable housing rental or ownership development; or
- A 100 percent senior citizen housing development.

Mixed-use projects may qualify if residential uses comprise at least 85 percent of the project's gross floor area. Affordable housing units must be deed restricted for a minimum of 35 years for occupancy by extremely low-, very low-, low-, or moderate-income households, while senior housing units must also be deed restricted for at least 35 years and occupied in accordance with the City's senior housing requirements. In addition, the resulting consolidated parcel may not exceed 25,000 square feet in area.

Parcels proposed must be located within the following zones: Residential High Density, Local Business Professional, Commercial Neighborhood, Local Business District, Commercial Hotel-Motel, South Laguna Village Commercial, and Institutional.

Incentives provided to developers include:

- Eligible projects may consolidate lots with an application for a lot line adjustment. Projects are eligible for reduction for setbacks by up to five feet and up to ten feet if restricted to very low or extremely low-income households. Reductions shall not be reduced if adjacent to single-family or two-family zones.
- Parking requirements may be reduced to 0.5 spaces per unit. Additional parking reductions may be approved when supported by a parking study showing adequate alternative transportation modes and no adverse impact on public access or recreational resources.
- Open Space requirements may be reduced up to 50%, if projects providing at least 25% of units are restricted to low-income, or reduced to up to 70% for an extremely low-income project.
- Fees collected for Planning application fees and building permit fees shall be refunded following final inspection, not including impact fees or other project review expenses.
- Projects requiring a Coastal Development Permit remain subject to applicable Coastal Act and local coastal program requirements.

City of Brea

To encourage the assemblage of smaller existing parcels into larger parcels that can be more efficiently developed into mixed-use projects, the City of Brea's Zoning Code includes a Parcel Consolidation Incentive Program provision. Such incentives include reduction in required parking for mixed use, increasing the maximum parcel coverage by up to 10 percent, and reducing common or open space requirements by up to 10 percent.

Affordable Housing on Surplus City-Owned Sites

Cities may have surplus or underutilized properties that can be provided as a site or even a shared site for affordable housing. This can be a highly beneficial incentive for creating affordable housing. Below are two examples that may be helpful to review. Two examples are provided below which demonstrate how municipalities are accomplishing this.

County of Santa Clara

The County of Santa Clara issued a Notice of Surplus Acreages Site (4.5 acres) that was originally supposed to be one corner of an interchange for an expressway that was no longer needed. The City purchased the site as a “land bank site for future affordable housing” in 2006. In 2018, the City released an RFP to affordable housing developers offering the site as a City contribution for an affordable housing development. In 2020, the site was approved for a 65-unit affordable development.

<https://www.santaclaraca.gov/Home/Components/BusinessDirectory/BusinessDirectory/291/2495>

City of San Mateo

The City of San Mateo, CA: The City had plans to build a parking garage on an underutilized site. Mid-pen Housing in 2018 partnered with the City to build housing above the parking garage. This was done with a ground lease and shared parking and maintenance agreement where the City also shared in the parking revenues.

<https://www.cityofsanmateo.org/4094/50851/City-Owned-Downtown-Affordable-Housing-a#docaccess-a13aafd9a3f925308d616f78146781ff4d2d706c60cde0c5a56677e3fbdca98e>

Additional Housing Implementation Actions

Additional creative options the City of Costa Mesa may consider include the following:

- Off-site dedication of land to affordable housing developer to construct required units
- Off-site purchase of existing market rate rentals with rehabilitation to meet current codes and require deed restricted affordable units
- Off-site purchase of an existing motel/ hotel with rehabilitation and partner with an affordable housing developer to provide the following:
 - Special Needs Housing w/ Services (Kids aging out of foster care/Transitional Age Youth)
 - Domestic Violence/ Women's Shelter
 - Developmentally Disabled Housing
 - Maintaining existing housing stock

HCD Prohousing Designation Program

Once the City receives Housing Element certification, the City of Costa Mesa may want to consider pursuing a Prohousing Designation through the California Department of Housing and Community Development (HCD) as a strategy to demonstrate a commitment to expanding housing opportunities and implementing policies that support housing production, affordability, and streamlined development processes. The Prohousing Designation Program recognizes jurisdictions that have adopted local policies aligned with State housing goals, including zoning reforms, objective development standards, reduced constraints on housing development, and incentives for affordable and mixed-income housing projects. Obtaining the designation could improve the City's competitiveness for certain State grant and funding programs that prioritize jurisdictions with demonstrated commitments to housing production.

To support a future application, the City would begin by evaluating its existing housing policies, development standards, and permitting procedures to identify qualifying pro-housing procedures and opportunities for additional implementation actions. Potential actions may include streamlining entitlement and permitting processes, adopting or refining objective design standards, increasing residential development capacity, expanding incentives for affordable housing, and reducing regulatory

barriers to housing development consistent with State housing laws and Housing Element goals. The City has already implemented many policies and programs that align with the objectives of the Prohousing Designation Program, making it a strong candidate for designation if the City decided to pursue the designation.

In addition, coordinating with local stakeholders, housing developers, non-profit organizations, and community partners to identify additional strategies that support housing production and affordability would also be helpful to demonstrate collaboration with local housing advocates.

Following completion of the evaluation process and outreach with local housing advocates, the City would need to prepare and submit an application to HCD documenting the policies and programs implemented to advance Prohousing objectives and improve eligibility for future housing and infrastructure funding opportunities.