

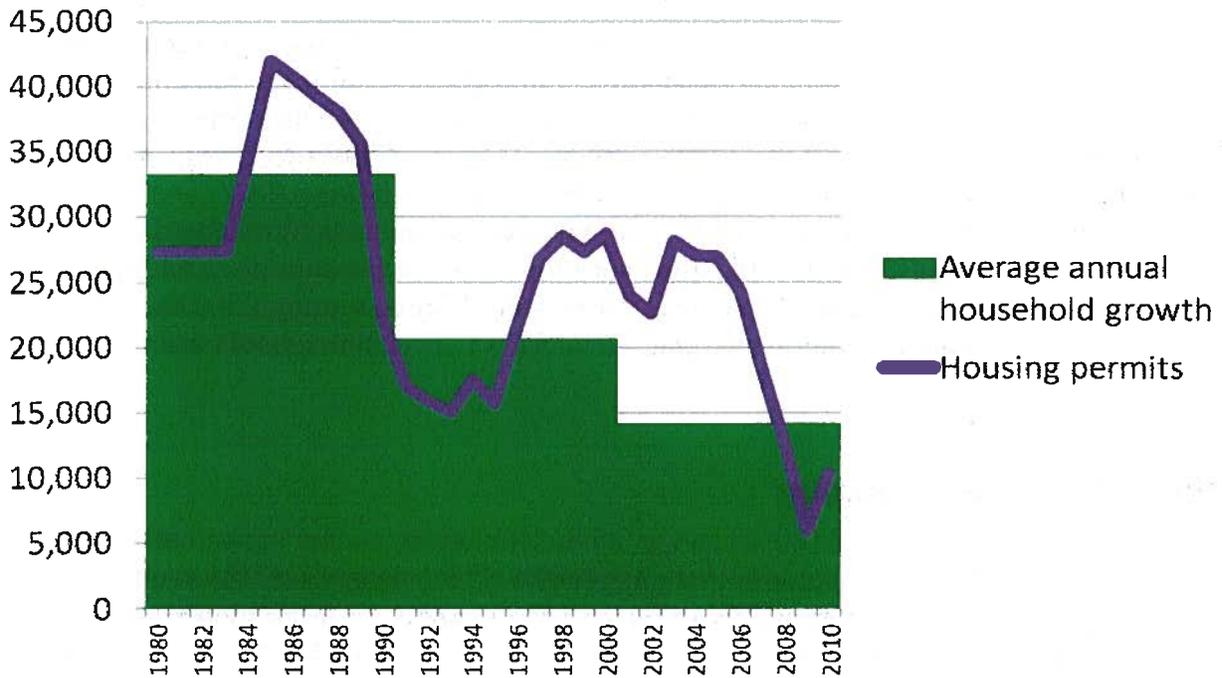
# Affordable Housing Needs and Strategies

## Housing Constraints

Various factors continue to discourage housing production. Construction costs of multi-unit structures continue to escalate, particularly due to the cost of steel and other materials. The real estate industry is not yet marketing multi-unit buildings effectively, making it difficult to match new construction with buyers. Financing remains difficult and the cost of money remains relatively high due to the perceived riskiness of multi-family construction and the need for large chunks of capital up front. Urban infill development is challenging due to the need to assemble sites and the extra costs for site preparation, as well as the extra regulatory hurdles in core areas (such as extensive design reviews). And most recently, there is a new threat of lack of institutional capacity to process housing applications, due to the dissolution of redevelopment agencies and the ongoing fiscal stress in local governments.

Historically, annual average housing production (measured by permits) has lagged demand generated by job growth, resulting in significant shortfalls until the 2000s, when the trend reversed due to the recession (Figure 1). Although housing construction follows a boom-bust pattern, it has generally corresponded to regional household growth.

Figure 1. Housing permits and average annual household growth



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The legacy of the 2000s boom remains with us today, not just in the form of high housing vacancy rates (6.4% in 2010) due in part to foreclosed housing stock, but also the specter of foreclosures yet to come – over 100,000 even with the recent passage of national foreclosure prevention legislation. It is hard to know whether this inventory will accommodate future housing need or pent-up demand from families that are currently doubled up or in temporary shelter. But it is clear that this housing inventory creates tremendous uncertainty in the housing market and is particularly a drag on Alameda, Contra Costa, and Solano counties.

## ***Impacts of Housing Constraints***

The availability of this existing and future inventory of housing has two important implications for the SCS. First, housing production from 2010-40 could be as low as 80% of existing levels. Second, from a sustainability perspective, much of this housing is in inappropriate locations – exurban communities without convenient access to public transportation. In sum, there is a gap between housing production and sustainability goals that must be bridged.

## ***Forecast Household Income Distribution***

To estimate future affordable housing needs at the municipal level, we analyzed the impacts of projected job growth on wages, income, and future household ability to pay for housing.

The model uses a multi-step process that translates industry-level employment forecasts by county into estimated growth in households in four income groups (based on RHNA levels for each of the nine counties): very low (less than 50% of median county level household incomes), low income (50-80%), moderate income (80% to 120%), and above moderate income (greater than 120%). The model begins by linking ABAG's sector-level employment forecasts with occupational labor statistics: sectors are translated into industries (at the 3-digit NAICS level), which are then linked to occupations and then median wages. Wages are then translated into households by assuming that there are 1.3 workers per household and that on average, all workers in each household earn the same salary.

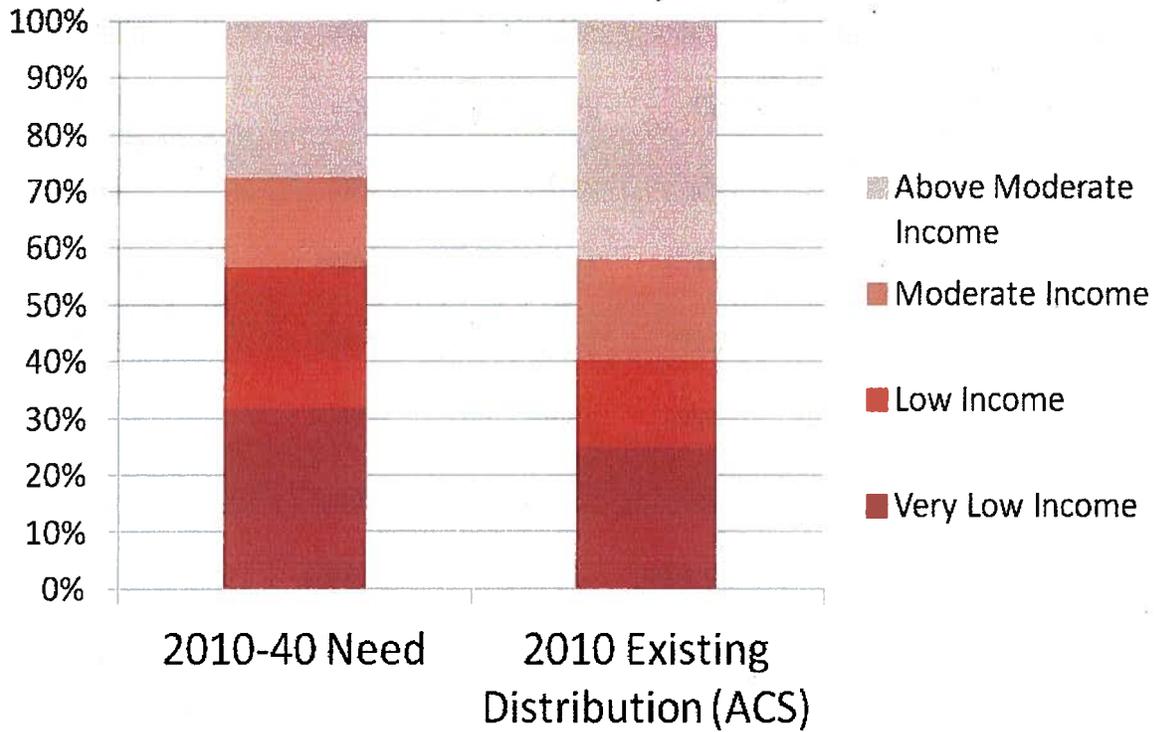
## ***Ability to Pay for Housing***

Table 1 shows the resultant 2010-40 change in households by income group and sector. The table demonstrates that some sectors pay relatively low wages and thus require deep housing affordability; for instance, 87% of the new jobs in Arts, Recreation and Other (a category dominated by restaurants, hotels, and tourist employment) will put households in the very low income group. Overall, this method suggests that up to 72% of new household

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growth will fall into the very low, low and moderate income groups. For comparison, 58% of existing households fall into the very low, low and moderate income groups (Figure 2).

**Figure 2. 2010-40 housing need versus existing income distribution.**



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**Table 1. Job growth by income group, 2010-40.**

<b>Industry Sectors</b>	<b>Very Low Income</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Above Moderate Income</b>	<b>Total</b>
Agriculture, Natural Resources	106%	-32%	32%	-5%	-1,300
Arts, Recreation, Other	87%	5%	3%	4%	185,686
Construction	4%	55%	27%	14%	80,694
Finance and Leasing	0%	37%	4%	60%	48,596
Government	6%	11%	25%	59%	72,595
Health, Education	16%	27%	22%	35%	244,482
Information	-4%	5%	57%	42%	36,497
Manufacturing, Wholesale	113%	-112%	-40%	139%	5,700
Professional and Business	24%	34%	14%	29%	365,673
Retail	78%	6%	11%	6%	52,396
Transportation, Utilities	48%	40%	4%	7%	28,898
<b>Total</b>	<b>32%</b>	<b>25%</b>	<b>16%</b>	<b>28%</b>	<b>1,119,918</b>

The forecasted employment growth by industry is translated into occupation and wages to assess the income levels by 2040. All income groups show an increase by 2040 with small changes in the distribution: higher shares for the very low and low income households and lower shares for the moderate and above moderate income households.

**Table 3. Number of Households by Income Group, 2010 and 2040**

	<b>Very Low</b>	<b>Low</b>	<b>Moderate</b>	<b>Above Moderate</b>	<b>Total</b>
<b>2010</b>	25%	15%	18%	42%	100%
<b>2040</b>	26%	17%	17%	39%	100%

## **Measuring affordable housing supply and demand**

It is difficult, if not impossible, to accurately predict the growth in affordable housing supply and demand for an entire metropolitan region over the course of a thirty-year period. By 2040, it is entirely possible that new family arrangements, construction technologies, governmental programs, infrastructure projects, or any number of other factors could dramatically change the housing landscape of the Bay Area, just as the Bay Area's housing landscape has been dramatically changed, repeatedly, in the past.

However, an accounting of present trends, and their projection forward to 2040, using a set of reasonable assumptions, gives Bay Area residents a snapshot of whether or not their region is on course to ensure an adequate level of housing affordability to accompany its planned growth and shift towards environmental sustainability and greenhouse gas reductions.

### ***Regional affordable housing supply, 2010-2040***

#### ***The issue with measuring affordable housing***

Any attempt to predict future affordable housing demand and supply, and to predict a mismatch between the two, must first begin with a method of *measuring* housing affordability. But measuring affordable housing supply and demand via a metric of dwelling units is inadequate for regional forecasting purposes as it does not account for variation in subsidy levels, or number of bedrooms for different projects.<sup>1</sup>

#### ***The FMR-person equivalent: a rental housing affordability metric***

To account for variations in both the number of bedrooms and the depth of affordability among affordable housing dwelling units, this analysis dispenses with "dwelling units" as a measure of affordable housing "output" in favor of a metric that takes account of both types of variation.<sup>2</sup> This metric therefore makes possible a true "apples to apples" analysis of the demand for and supply of affordable housing.

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<sup>1</sup> For example, two projects may have the same number of units, but one may offer units at 30% of AMI while another at 60% of AMI. Project comparisons are further complicated if, for example, one project has 40 studios, while another has 40 units at a variety of bedroom sizes.

<sup>2</sup> FMR-person equivalents are used for rentals to account for the number of bedrooms and for the depth of affordability (for VLI and LI). (The FMR, or Fair Market Rent, is the 40% percentile of apartment rents of a given bedroom size in a particular Metropolitan Statistical Area, published yearly by the federal government.) Median-person equivalents are used for moderate ownership units, and use a dwelling unit affordable at 100% of AMI as the yardstick. Different comparable units are necessary to account for tenure and other factors but directly correspond to Very Low Income, Low Income, and Moderate Income need levels.

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Demand for affordable housing is quantified by income category by using projected household growth for each income group, while taking account of the distribution of household sizes. The net demand for affordable housing projected for the nine-county Bay Area between 2010 to 2040 is then calculated.

Following this, an estimate of affordable housing supply for the same period is made and deducted from demand to arrive at the "net need". Since examining every mechanism of potential affordable housing production is beyond the scope of this analysis, this report focuses on five principal mechanisms through which affordability will be added to the Bay Area in the Very Low Income, Low Income, and Moderate Income categories including:

- i) *Housing Choice vouchers.*
- ii) *Affordable rental housing production.* This is the production, whether through new construction or acquisition and rehabilitation/adaptation, and whether by nonprofit or profit-motivated developers, of income-restricted rental housing. The resulting housing is almost always targeted to, and restricted to, households falling in the Very Low and Low Income brackets.
- iii) *Inclusionary Housing.* Inclusionary Housing refers to a set of land use regulations and sometimes incentives, enacted at the local governmental level, that mandate the inclusion of affordable housing, whether on-site, off-site, or through the payment of in-lieu fees, in the development of market rate residential developments. These processes result in the production of rental and ownership units in the Very Low Income, Low Income, and Moderate Income categories.
- iv) *Habitat for Humanity affordable homeownership.* Habitat for Humanity is an international organization that includes local chapters that cover all nine counties in the Bay Area. Its mission is to provide affordable homeownership housing opportunities to households that generally fall in the Very Low Income and Low Income categories. Its unique production model relies on sweat equity from the homeowner-to-be as well as labor from volunteers to hold costs to minimal levels.
- v) *Resale of foreclosed residential properties.* While the foreclosure crisis that has befallen portions of the Bay Area since 2006 has caused untold hardship for numerous families, it also offers the opportunity for the resale or leasing of foreclosed properties at drastically lowered sales prices or rents, thus bringing a substantial quantity of formerly market rate housing stock within reach of Very Low, Low, and Moderate Income households.

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## **Regional affordable housing shortfall, 2010-2040**

Comparing the region's projected affordable housing demand with the affordable housing supply produced via the five production mechanisms discussed above reveals that the Bay Area is estimated to fall far short of meeting its affordable housing requirements by 2040. The region will fail to produce about 68% of needed additional Very Low Income housing, 59% of Low Income Housing, and 66% of Moderate Income housing in the 2010 to 2040 period.

What will happen if the nine-county region cannot close the "affordability gap" identified above? It is possible that the region's economic growth through 2040 will be constrained, and that the nine-county Bay Area will add fewer jobs than it otherwise could because of an inability to provide housing for the workers needed to fill the expanding job base. Unmet affordable housing demand can also be met by some combination of at least seven mechanisms in addition to the five studied for this analysis: secondary units, filtering, crowding, household budget reallocation, group quarters, homelessness, and in-commuting from other counties.

### **Policies and strategies needed to reduce the regional affordable housing shortfall**

What can be done to close the "affordability gap" described above? A wide array of policy reforms at the federal, state, regional and local levels will be needed for the Bay Area to meet its affordability needs while maintaining healthy levels of economic growth, and channeling the preponderance of its growth in jobs and households into Priority Development Areas (PDAs) in order to achieve its sustainability goals. These policies will be described in the full-length version of the affordability memo.