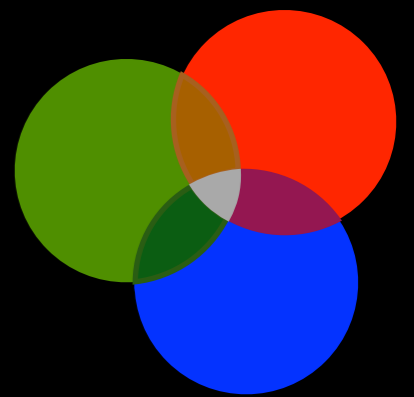


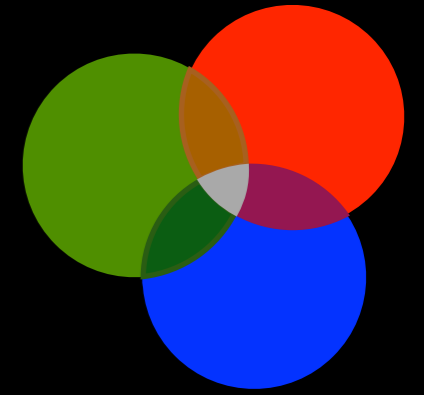
The Bay Area Housing Crisis: A Developer's Perspective

Jonathan Fearn
VP of Development
SummerHill Housing Group

Denise Pinkston
Partner
TMG Partners

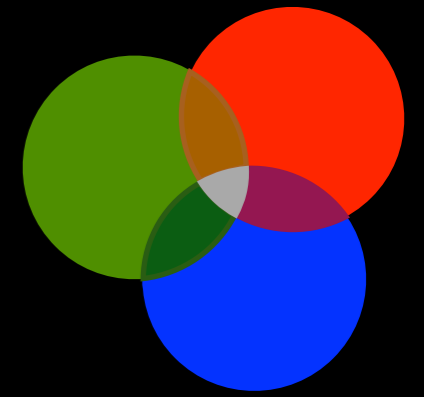
Nicolas Arenson
Vice President
Integral Communities





Presentation Outline

- Overview of Housing Problem
- South Bay Experience with PDAs
- Development Challenges to Address Infill Housing
- Cost Impacts
- Planning Environment
- Deal Approach



Bay Area a “Magnet”

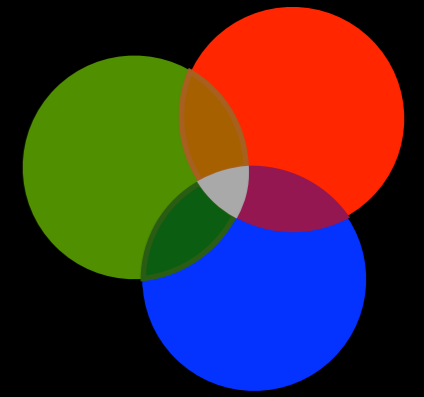
- Weather
- Jobs
- “Gold Rush” mentality

Demographic tidal wave impacting Bay Area

Millennials – 80M

Immigrants

Population of Bay Area swelling placing stress on existing housing stock.

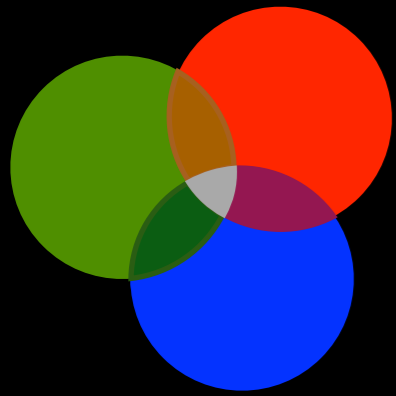


Bay Area a “Magnet”

Pressure on local jurisdictions and elected officials to address

Current Housing delivery system ill-equipped to handle

“Lumpy” in delivery method
Extraordinary long lead times



Housing Needs and Progress: Getting to Affordability

Why aren't we building enough?

California's High Housing Costs
Causes and Consequences

Environmental Reviews Can Be Used to Stop or Limit Housing Development. The California Environmental Quality Act (CEQA) requires local governments to conduct a detailed review of the potential

Community Resistance to New Housing. Local communities make most decisions about housing development. Because of

Local Ballot Measures on Coast Have Limited Development. Many significant land use decisions in California's coastal communities are made by voters. More often than not, voters in California's

Many Coastal Communities Have Growth Controls. Over two-thirds of cities and counties in California's coastal metros have adopted policies (known as growth controls) explicitly aimed at limiting housing growth. Many policies directly limit growth—for example, by capping the number

Coastal vs. Inland Construction

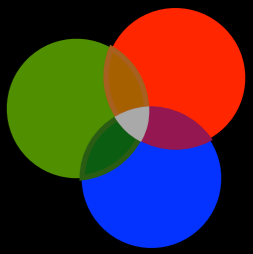
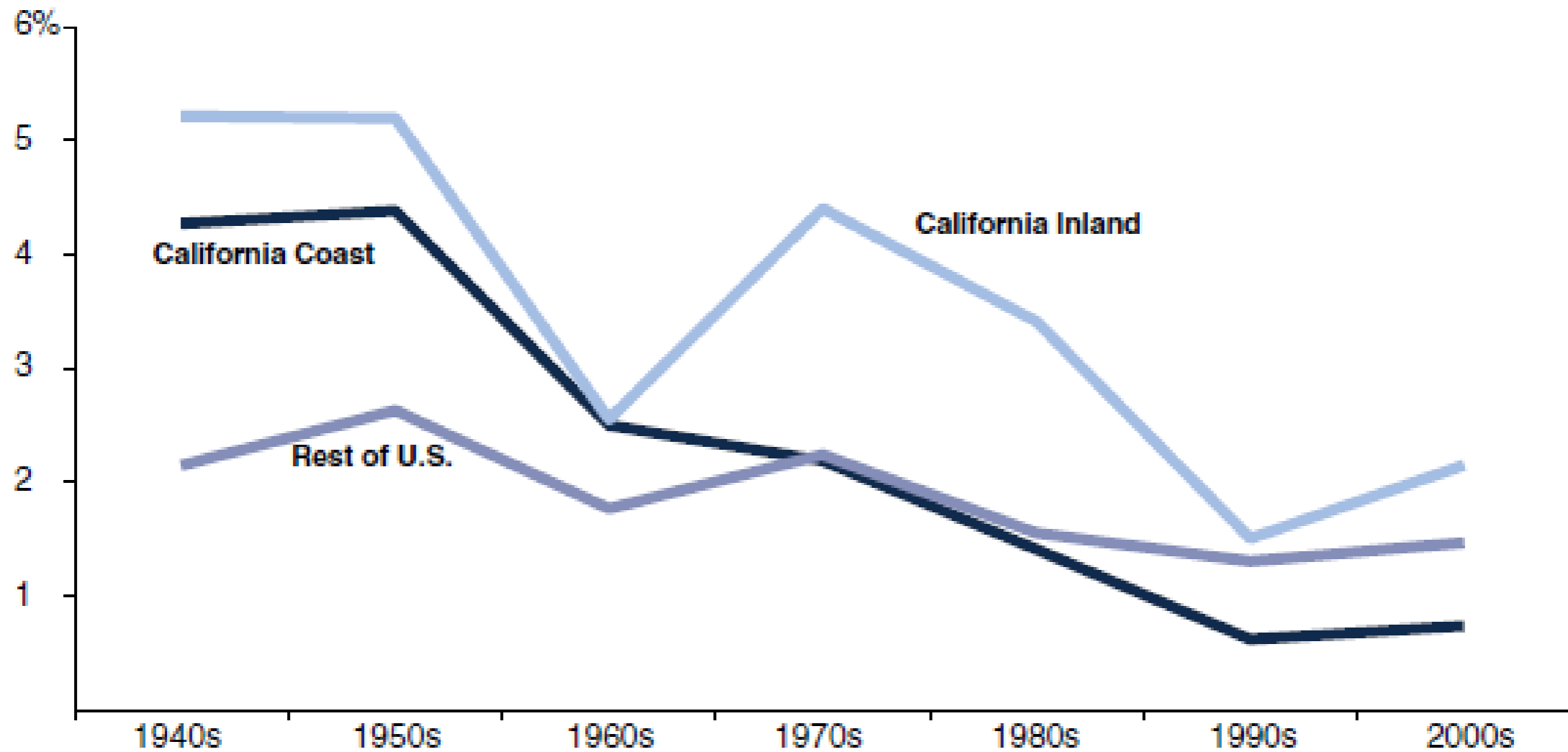


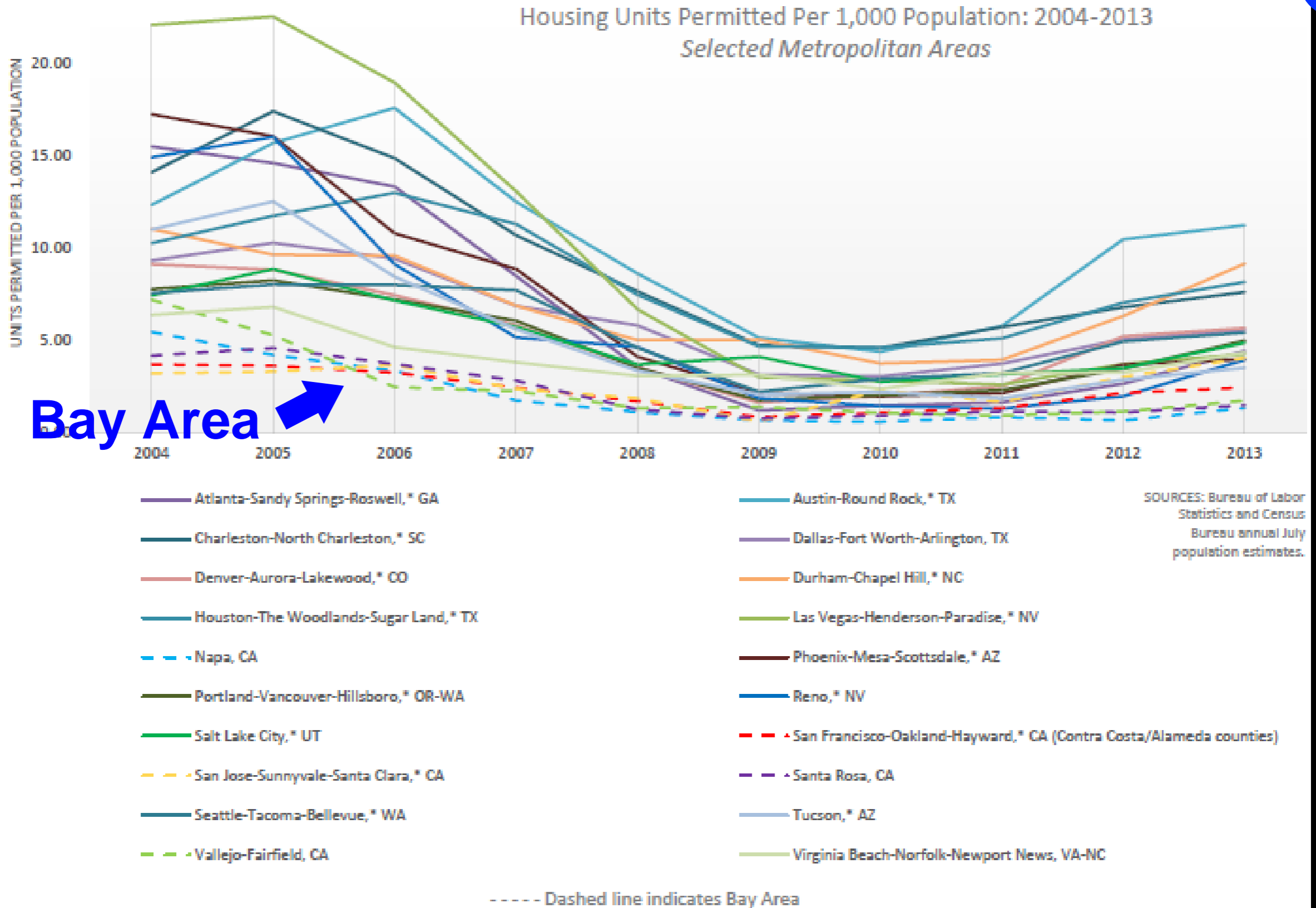
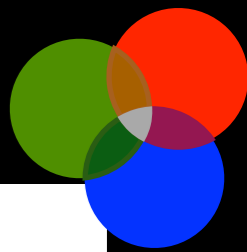
Figure 5

Housing Construction Has Slowed in California's Coastal Metros

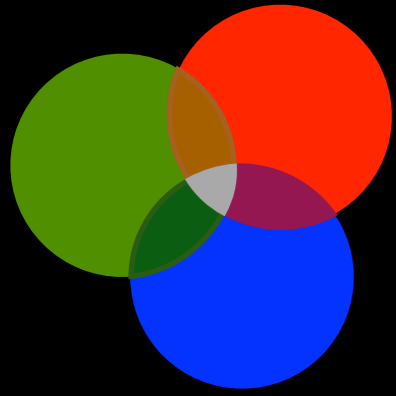
Annual Growth in Housing Units in Major Metros



Units Permitted, Selected US MSA's



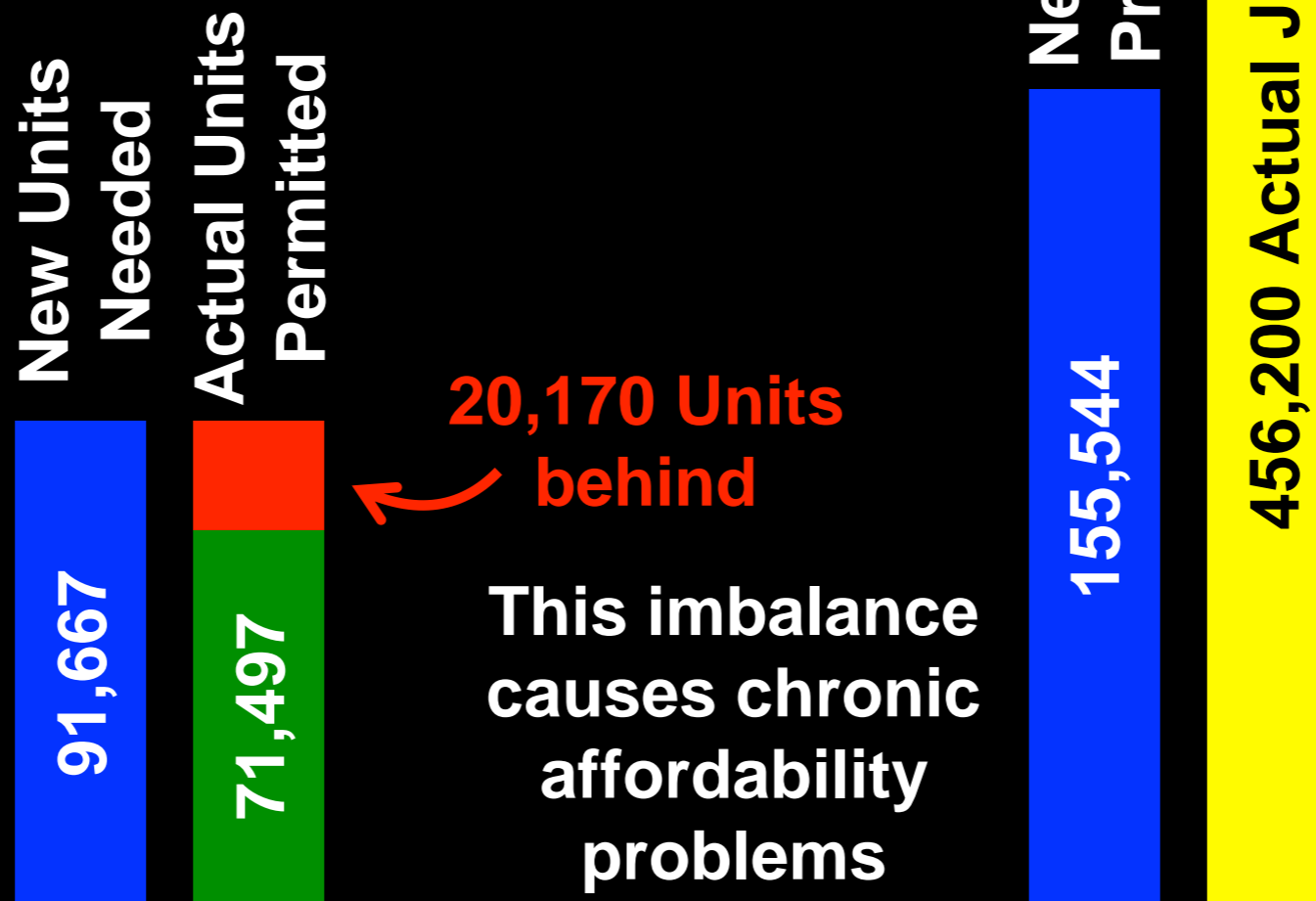
Bay Area →



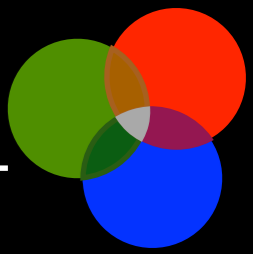
Housing Needs and Progress: Getting to Affordability

As the LAO report showed, the Bay Area has consistently not built enough housing to prevent prices and rents from increasing faster than the rest of the country. Whether Plan Bay Area plans for enough housing over the long term is a subject of debate, but it does anticipate significant and necessary growth.

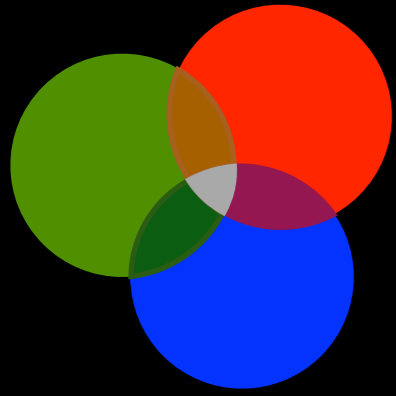
How is the region doing in achieving its goals since the baseline year 2011?



Challenges in Silicon Valley



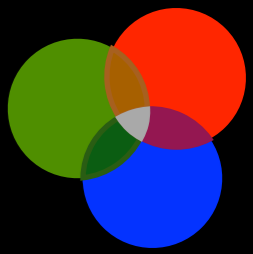
- Inability for many residents to understand scale of crisis
- Can't shut "front door"
- Increased density and heights in PDAs seen as inconsistent with city character
- Development fatigue occurs quickly
- Renter resistance
- Large PDAs such as El Camino have shallow lots and are adjacent to low-density single family neighborhoods
- Land Parcel Aggregation difficult
- PDAs primarily re-zoned or re-designated for residential making all applications discretionary
- Zoning controls dated and/or being established on the fly
- Major issues (traffic, schools, parks, etc.) can't be solved by individual developments



Denise Pinkston

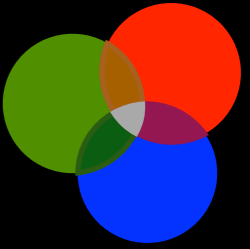
TOD Infill Challenges

Infill Challenges



- Need larger sites for mid rise infill: 100-200 units, +- 1ac sites to park and achieve economies of scale. Small sites difficult to assemble.
- Larger projects easy targets for opponents
- Large sites rare, difficult to acquire/redevelop: They have existing land uses/revenues. Prices at which owners become sellers drives to more expensive buildings (5-7 stories vs. 4-5), thin economics, market not yet there for product type in many places.
- Communities may not want to lose existing land uses: (this month: theater, kids museum, vacuum store, charter school, SRO, very low income wood frame housing).
- Higher price per square foot needed to cover rising costs: Units become less affordable (or subsidy need grows), unit sizes compress as market available sales/rent dollars become insufficient to pay for larger units (lots of small studios, no 3 bedroom “family housing”).
- No fiscal neutrality: Cities believe housing is a drain, hold out for other uses (retail/hotel).
- Pressure remains to build lower density residential on greenfield sites where construction costs much lower—low rise, wood construction, no structured parking, cheaper land, bigger units.
- Anti-gentrification/anti-development sentiment growing: moratoria proposed, projects slowed/halted and more costly further reducing potential housing supply. Getting to “yes” harder in many places.

Costs up 25% last 3 years-concentrates development in high rent areas/ peak of market cycle



Materials: Bay Area competes in global market for materials, hard costs up annually.

Land: rise as market values rise—large site owners not sellers. Assemblages hard/expensive.

Labor: rising to cover cost of living in Bay Area. Union labor adds 15-20% premium.

Infill buildings expensive: structured parking (\$40-50k/stall), steel/concrete vs. wood, added fire proofing/corridors/exits, elevators, HVAC.

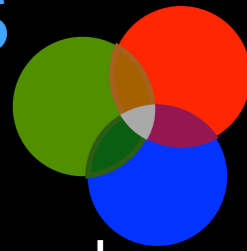
Building code changes annually add costs: (Title 24, green, ADA, water). Water recycling?
GHG?

Local government processing/fees rising: Fee increases all over Bay Area, all categories (transportation, green building, affordability, services, community benefits, parks), CEQA and local challenges still prevalent even in PDA's, means more costly projects

Construction cost increases challenge all builders: for profits, non-profits need significant grant subsidy/unit to build affordability in 5/6 + buildings w/structured parking. Increasing affordability requirements without subsidy will stop development deals from moving forward esp. outside of SF

Fee and other and cost increases stopping deals around Bay Area in locations where rents not as high as San Francisco

Planning Environment Costs and Challenges



Priority Development Areas Helpful, but limited:

- Faster, limited scope CEQA and approval process good when it works (new Oakland plans).
- Tend to target higher density more costly buildings (high rises) rents/prices cover costs only in narrow window of time/locations. Prices not there yet outside SF. Lots of high rise entitlements in Oakland, no cranes.
- Cities have not completed zoning controls: “rules” for setbacks/height, parking negotiated.
- Applications viewed as “upzoning” that benefits developers—controversies developing.
- Value of time/density/certainty taken back with significant fee/community benefits demands: affordable housing, school/park/facilities, project labor agreements, family housing, other community needs that reduce deal feasibility.
- Many deals marginal, unit pricing must grow to pay added costs, market timing window of feasibility grows smaller.
- Assumption that increased benefits will depress land value only works if sellers accept this outcome. Meanwhile deals in process lose economic feasibility, come to a halt.

Cities increasing fees to pay for affordability/community benefits. Some deals have already stalled out

American Canyon Belmont Berkeley Calistoga Cupertino East Palo Alto

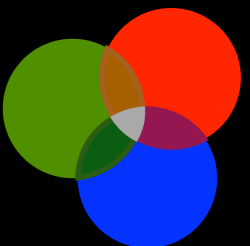
Emeryville Foster City Fremont Hayward Livermore

Los Altos Menlo Park Mountain View Napa Newark Oakland Pleasanton

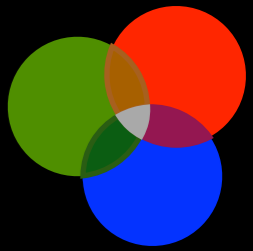
Redwood City San Carlos San Francisco San Jose San Mateo San Ramon

Santa Rosa Sonoma Sunnyvale Walnut Creek

“Grand Nexus” Affordable Housing Impact Fee in All 21 San Mateo County cities



A Sample Deal Go/No Go Calculation



Estimated Sale Price: \$600,000

Less Soft Costs/Indirect: \$75,000

Less Municipal Fees: \$90,000

Less Construction Cost: \$280,000

Less Structured Parking: \$40,000

Less Financing Costs: \$50,000

Less 10% Equity Hurdle/Profit \$50,000

AVAILABLE FOR LAND: \$35,000

Times 200 units - \$7,000,000

GO

(IF SELLER WILL SELL AT THIS PRICE, for 200 units = \$7,000,000, if not move to taller more expensive building to achieve land price, increase sales price/reduce unit size)

Estimated Sale Price: \$600,000

Less Soft Costs/Indirect: \$75,000

Less Municipal Fees: **\$120,000**

Less Construction Costs: \$280,000

Less Structured Parking: \$40,000

Less Financing Costs: \$50,000

Less 10% Equity Hurdle/Profit: \$50,000

AVAILABLE FOR LAND: \$5,000

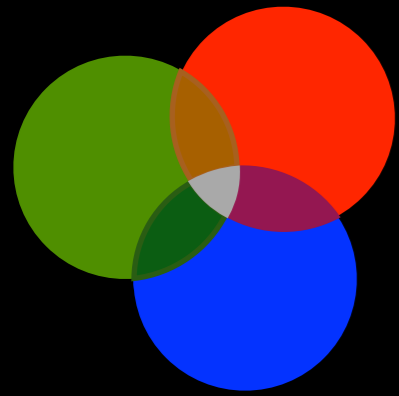
Times 200 units = \$1,000,000

STOP

No seller will do this, better off waiting, another land use

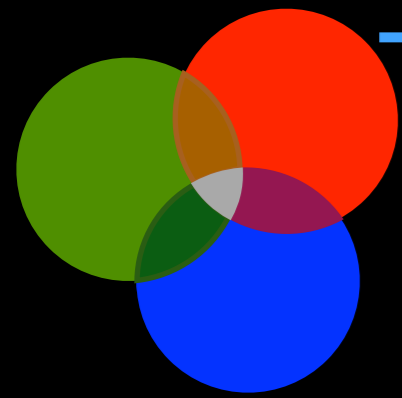
If costs increase by \$30,000 or 5% from any source Here shown as fees





Nicholas Arenson

Deal Approach



There will be 2.1 million new people in
the Bay Area by 2040

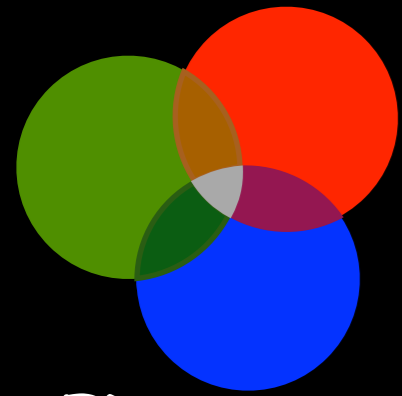
Quick math

2.1 million / 3 people per household = 700,000 units

or

Since each person uses about 700 square feet...
700 x 2.1 million = 1.47 billion sf of living space

Primary Housing Types



SFD



5 du/ac,
2,750 sf/du
2 story

Feasible without subsidy in any market

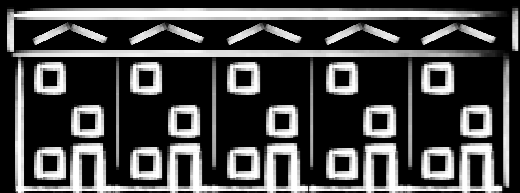
SFD- Small lot



15 du/ac
2,400 sf/du
3 story

Feasible without subsidy in most markets
Material and Labor Costs 1.3X /sf SFD,
sells at a discount to SFD

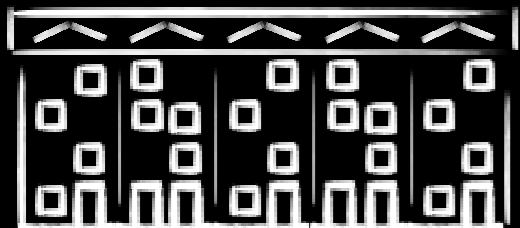
Townhome



20 du/ac
2,000 sf/du
3 story

Feasible without subsidy in most markets
Material and Labor Costs 1.5X /sf SFD,
sells at a discount to all SFD

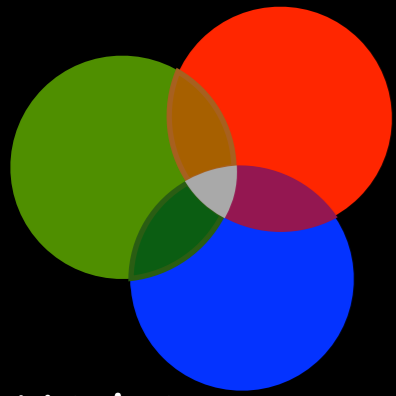
Townhome/Condo



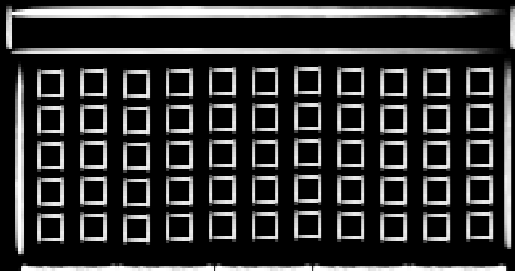
26 du/ac
1,900 sf/du
4 story

Feasible without subsidy in more expensive markets; Material and Labor Costs 2.0X /sf more than SFD, sells at a further discount.

Primary Housing Types



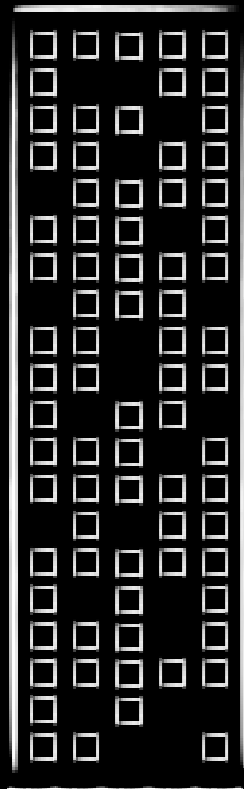
Midrise



50 du/ac,
1,050 sf/du
5 story + Garage

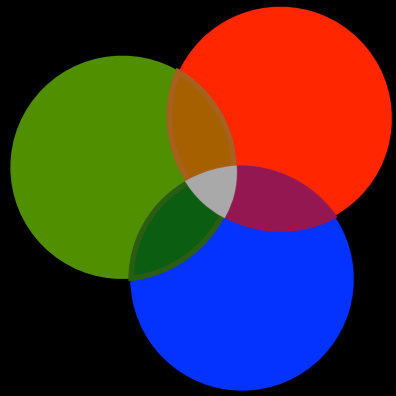
Feasible without subsidy in only expensive markets; Material and Labor Costs 3.0X to 4.0X /sf than SFD

Highrise



>100 du/ac
1,050 sf/du
8-50 story

Feasible without subsidy in only **EXTREMELY** expensive markets; Material and Labor Costs 5.5X to 7.5X /sf than SFD



Increasing density to get more units

Does it work in any location? Check feasibility in a traditional and moderately priced Single Family area- Brentwood, CA.

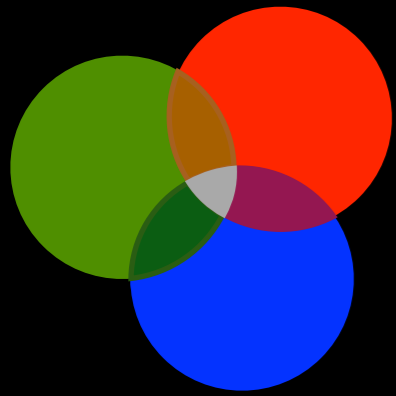
PRO FORMA

Brentwood, CA		SFD	Midrise
		2,750 sf	1,050 sf
Home Price	\$200/sf	\$550,000	\$300/sf
Soft Cost		20,000	20,000
Municipal Fees		90,000	80,000
Land Development		45,000	25,000
Constr. Cost	\$69/sf	190,000	\$220/sf
SG&A		50,000	30,000
10% Investor Return		55,000	31,500
Raw Land Cost*		\$100,000	-\$102,500**
Total		\$550,000	\$315,000

NOT FEASIBLE

*at 5 units/acre = \$500,000/acre, a feasible land price for that area

**at 50 units/acre = -\$5.1 Million/acre
 (Aside: Cost to subsidize this project is (\$5.1 Million + \$500k)/acre)



Increasing density to get more units

Check premium

This is why mid-rise condominiums have not been built outside San Francisco for a decade.

Increasing prices will make it feasible in some expensive locations.

Given a choice, most buyers will pick existing homes rather than make compromises necessary for mid-rise living.

PRO FORMA

Fremont, CA

Home Price

Soft Cost

Municipal Fees

Land Development

Constr. Cost

SG&A

10% Investor R

Raw Land Cost*

Total

\$280,000*

\$950,000

Midrise

1,050 sf

\$551,250

50,000

85,000

35,000

262,500

70,000

55,125

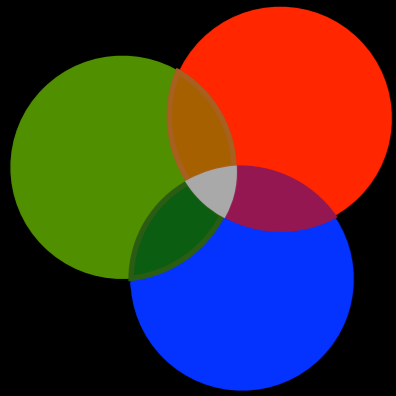
-\$6,375**

\$551,250

NOT FEASIBLE

*at 20 units/acre = \$5.6 Million/acre, a feasible land price for that area

**at 50 units/acre = - \$320k/acre. Land would have to be subsidized for this project



Feasibly building 1.47 Billion square feet

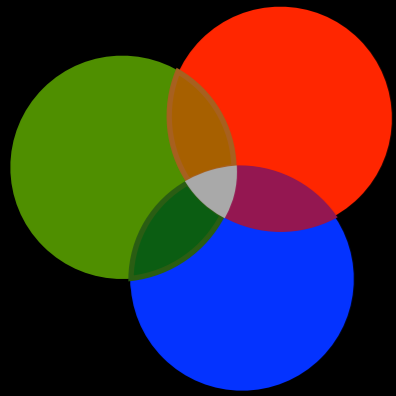
People use about 700 sq. ft. each. Maximize Floor Area Ratio* within feasible home types to help get us to the goal.

*FAR = (Built Square Footage) / (Land Square Footage).
 e.g., (2,750 sf x 5 units/ac) / (43,560 sf/ac) = 0.32

FAR gives an accurate picture of density

Type	Avg . Sf	Density	F.A.R.	Increase
SFD	2,750	5 du/ac	0.32	
SFD- Small lot	2,400	15 du/ac	0.83	2.6X
Townhome	2,000	20 du/ac	0.92	2.9X
Townhome Condo	1,900	26 du/ac	1.13	3.5X
Midrise	1,050	50 du/ac	1.21	3.8X
Midrise-Rental.	800	70 du/ac	1.29	4.0X
Highrise	1,050	100 du/ac	2.41	7.5X

Feasible everywhere, Similar range... high demand about the same number of people per acre at very high prices, low demand



Fiscal zoning... updated

The idea that “housing doesn’t pay it’s way” came from anti-growth 1990’s studies. At the time the Prop. 13 began limiting city revenues.

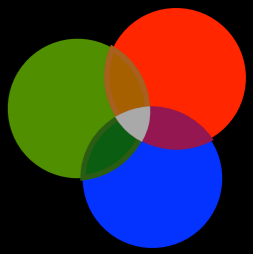
Because of our severe and chronic housing shortage and dramatic price increases, market rate housing provides fiscal surpluses in most Bay Area jurisdictions.

FISCAL ZONING EXAMPLE

Home Price

	300,000	500,000	700,000	900,000
Property Tax (14.99%)	578	963	1,348	1,733
Property tax in lieu of VLF (~4.27%)	69	115	161	207
Other taxes, fees, charges	124	207	289	372
TOTAL ANNUAL REVENUE	771	1,285	1,798	2,312
General Government	35	35	35	35
Public Safety	891	891	891	891
Public works and community services	219	219	219	219
Transfers out	189	189	189	189
TOTAL ANNUAL COST	1,334	1,334	1,334	1,334
SURPLUS (DEFICIT)	(\$563)	(\$49)	\$464	\$978

Things MTC/ABAG Can Do To Encourage Housing Production



Action	Effect
Require more of PDA's: Make planning funding contingent upon zone changes/specific plan approval	Limited available funding will go to areas that provide real chances to create new housing units
Require PDA progress on project approvals and unit deliveries; encourage FEASIBLE project types (not high rises); expand to more than ¼ mile	Cause local officials to evaluate feasibility of PDA's and make necessary changes to facilitate actual housing production
Structure PDA/Zoning/SP CEQA compliance to allow for more categorical exemptions of compliant projects, streamline review, more non-discretionary review	Discourage non-nexus, frivolous, anti-competitive, or interest group related CEQA exactions/litigation
Limit/cap fees and exactions	Increased fees limit number of feasible projects
Encourage jurisdictions to modestly change zoning standards to allow more infill on smaller sites	By right second units all R zones (SFR, duplex etc.) subject to liberal site standards (20% size main unit(s), no added off-street/tandem parking Reduce parking in TOD locations below 1 stall/unit
Identify and secure significant sources of national/State grant dollars for affordable housing (100's of millions)	Using GHG Cap and Trade funds a good start-advocate for increasing share of these funds for housing
<u>Help communicate conclusion of LAO report-we need to change the way we plan and zone for housing to get more units in production</u>	<u>Eliminate fiscal barriers to housing:</u> share sales taxes <u>Advocate for more "by right" zoning along transit corridors</u> get more owners building, smaller deals, simpler process (4 stories, no structured parking, design review only, ¼ mile transit?), remove "hooks" opponents have to stop housing

Thank you

