



# Silicon Valley Housing Summit 2011: What Now? A Perfect Storm for Affordable Housing in California

David Rosen, PhD

Principal

[David@DRAConsultants.com](mailto:David@DRAConsultants.com)

May 4, 2011



DAVID PAUL ROSEN & ASSOCIATES  
DEVELOPMENT, FINANCE AND POLICY ADVISORS



# A Perfect Storm for Affordable Housing in California

1. Mortgage Crisis
2. Recession and Unemployment
3. Fiscal Crisis
4. Population Growth
5. Threat to Redevelopment Housing Funds



Now What?



Less



# Now What? A Proposed Agenda

1. Federal Budget and Tax Reform: Rebalancing Federal Housing Policy
2. Value Capture through Zoning
3. Acquisition of Market Rate Rental Housing for Long-Term Affordability
4. Reform Redevelopment
5. Housing Authority Partnerships
6. Employer-assisted Housing



# Fallout from the 2008 Mortgage Crisis

- Foreclosures
- Decline in assessed valuation
- Delinquencies
- Underwater mortgages
- Fannie Mae and Freddie Mac collapse
- Federal Home Loan Bank stress
- Lender consolidation
- Credit and underwriting



# Recession and Unemployment

	<u>March</u> <u>2010</u>	<u>March</u> <u>2011</u>
Unemployment rate:		
National	9.7%	8.8%
California	12.4%	12.2%
Unemployed persons in California:	2.25M	2.18M



# Fiscal Crisis

- National debt: \$14.2 trillion
- 95% of GDP
- Federal deficit FY 2011: \$1.3 trillion
- California projected deficit FY 2012:  
\$25.4 billion  
(% of total budget = 29.3%)





# California Population Projection

Year	Millions
2010	39
2020	44
2040	54
2050	60
Population Growth 2010-2050: 21 million, Household Growth: 7 million	



# Worst Case Housing Needs

Worst Case Housing Needs Definition:

Households below 50% AMI spending more than 50% for housing cost and/or living in substandard housing



# Worst Case Housing Needs 2007-2009

- 2007: 5.9 million households
- 2009: 7.1 million households (20% increase)



# Threat to California Redevelopment 20% Housing Fund

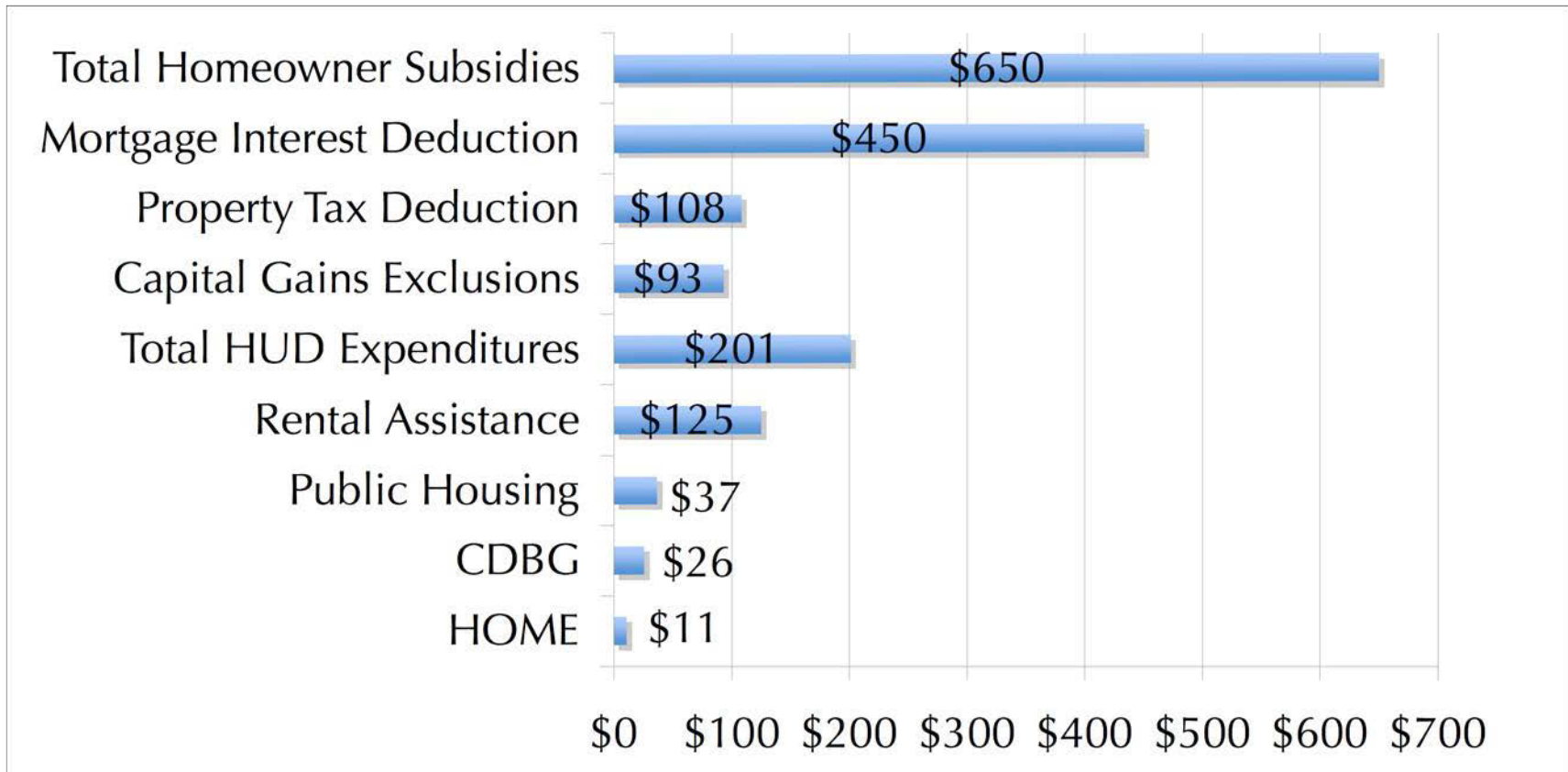
- California Redevelopment Association reports since 1993, 98,000 units of affordable housing produced/rehabilitated
- Approximately 5400 units per year



# Federal Housing Policy: Imbalanced and Regressive

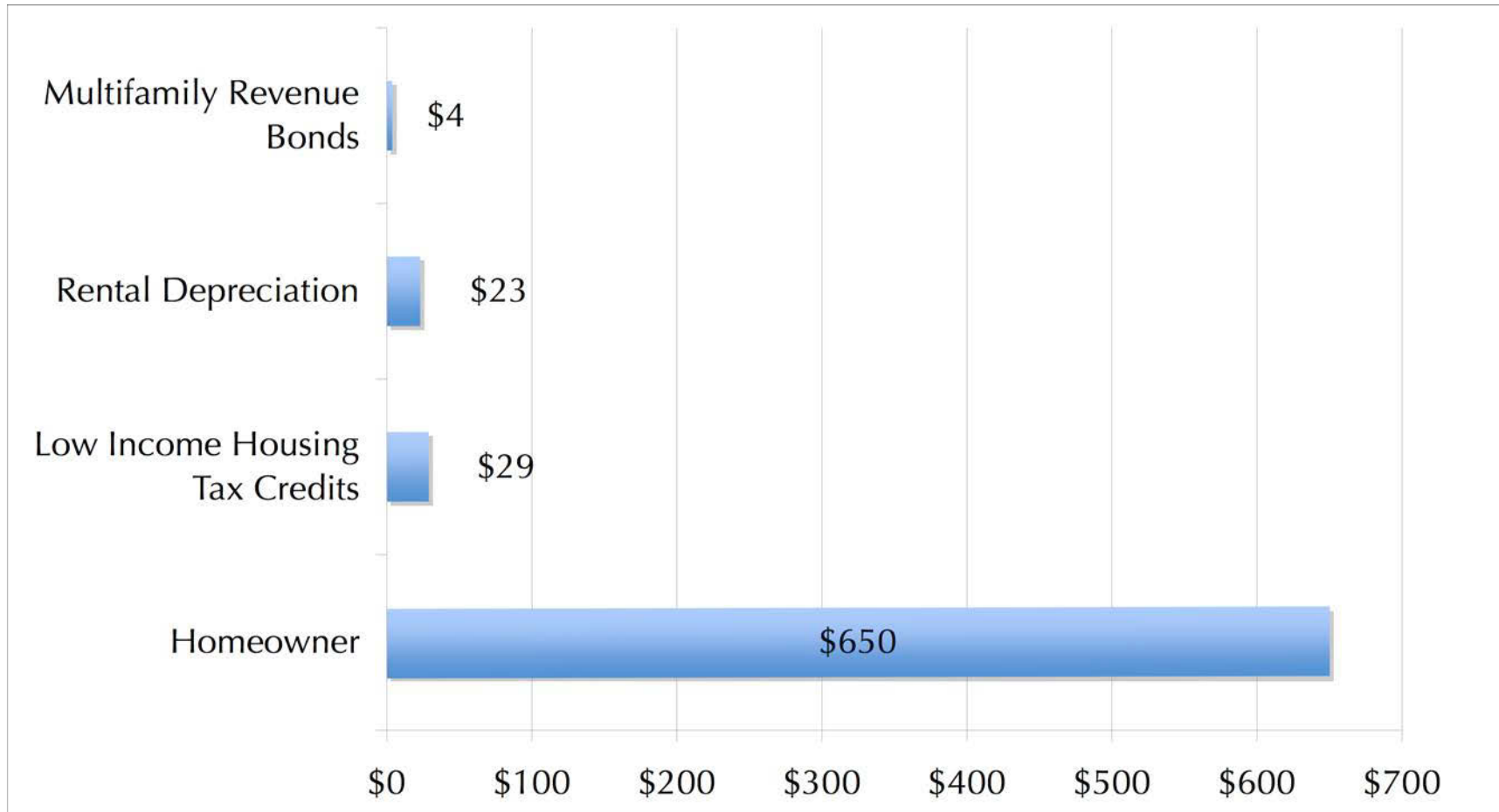


# Homeowner Tax Subsidies and HUD Expenditures FY 2007 to FY 2011 (In Billions)



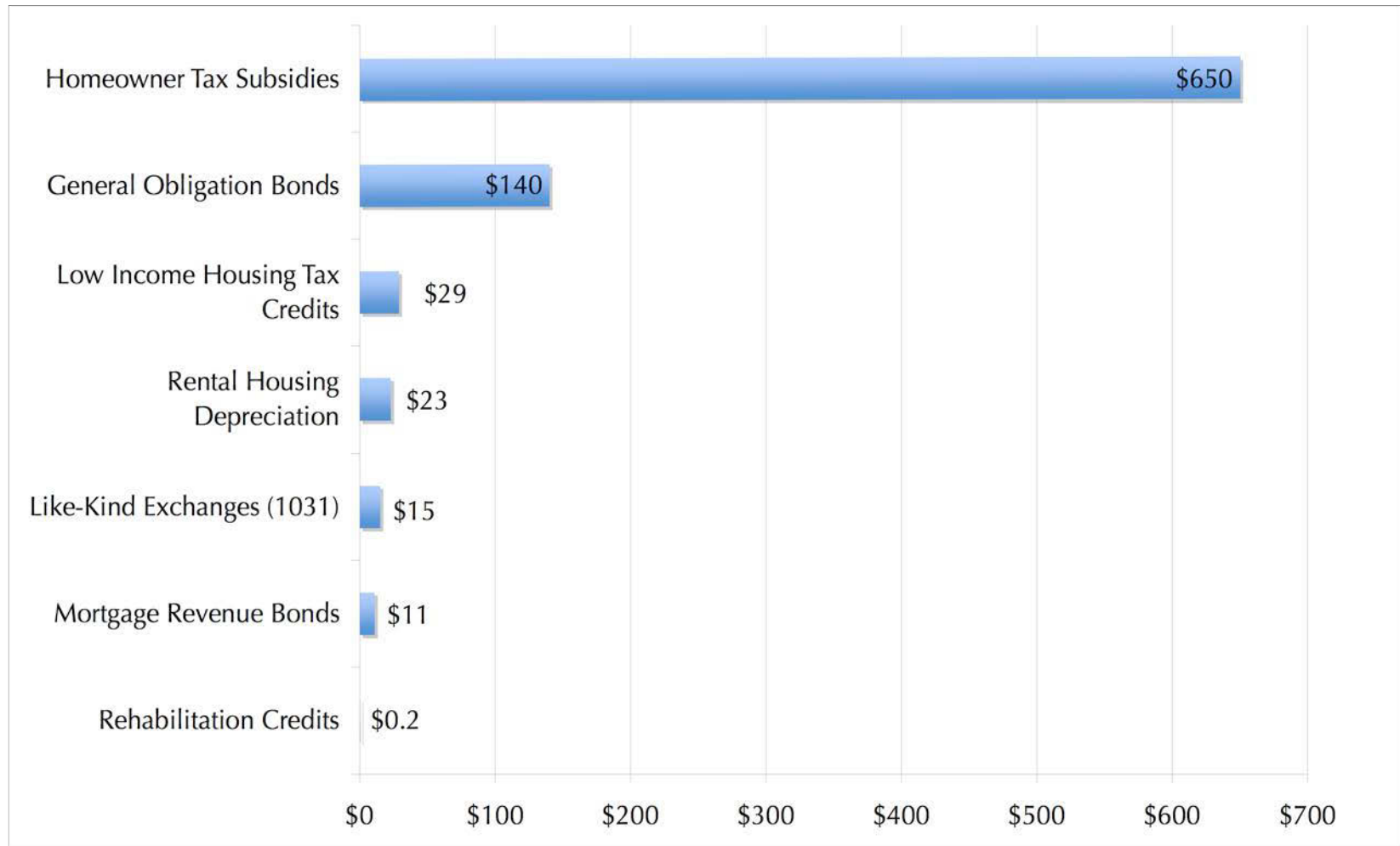


## Homeowner vs. Rental Tax Subsidies FY 2007 to FY 2011





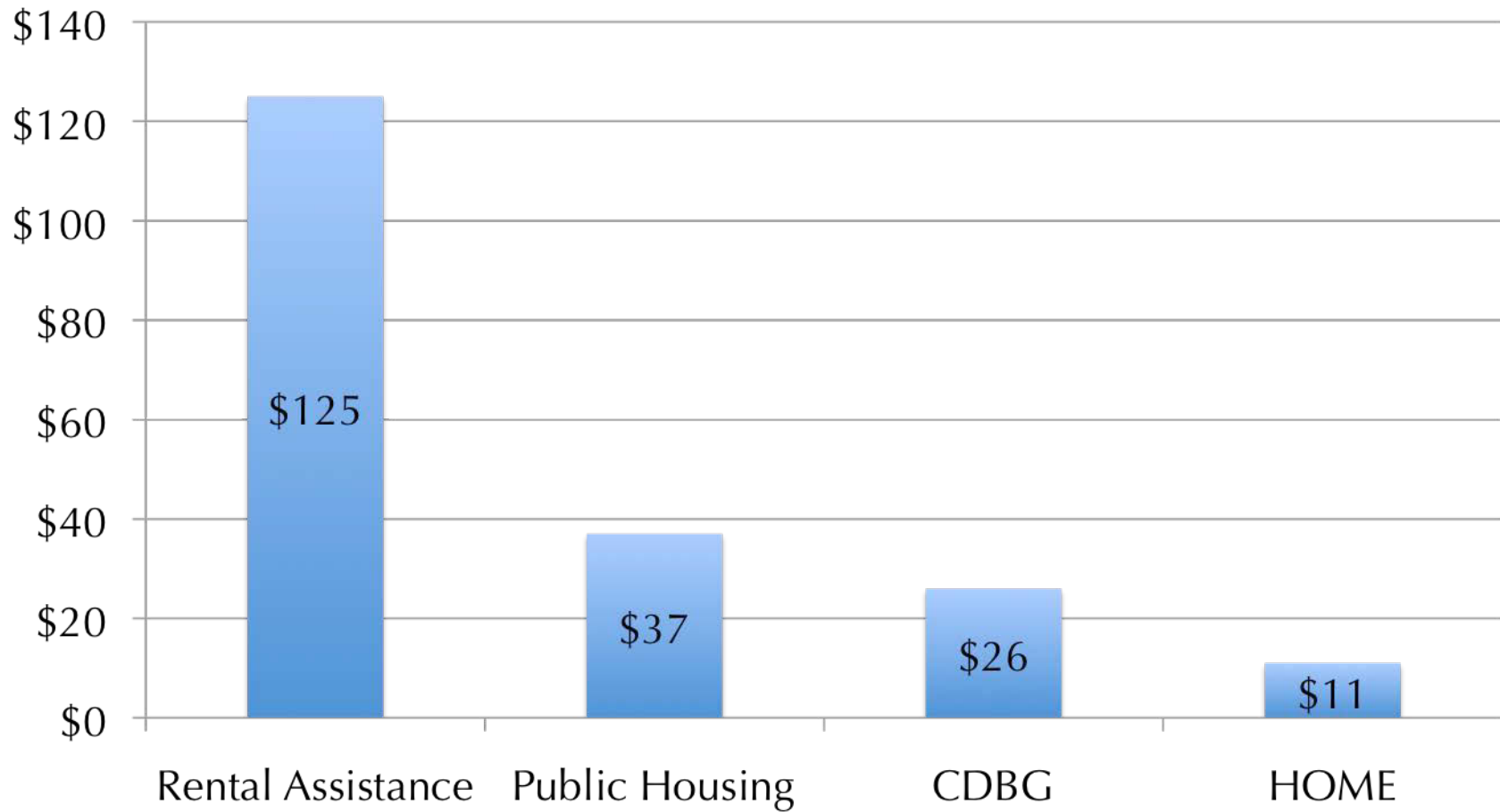
# Federal Real Estate Tax Expenditures FY 2007 to FY 2011 (In Billions)







## U.S. Department of Housing (HUD) Expenditures FY 2007 to FY 2011 (In Billions)

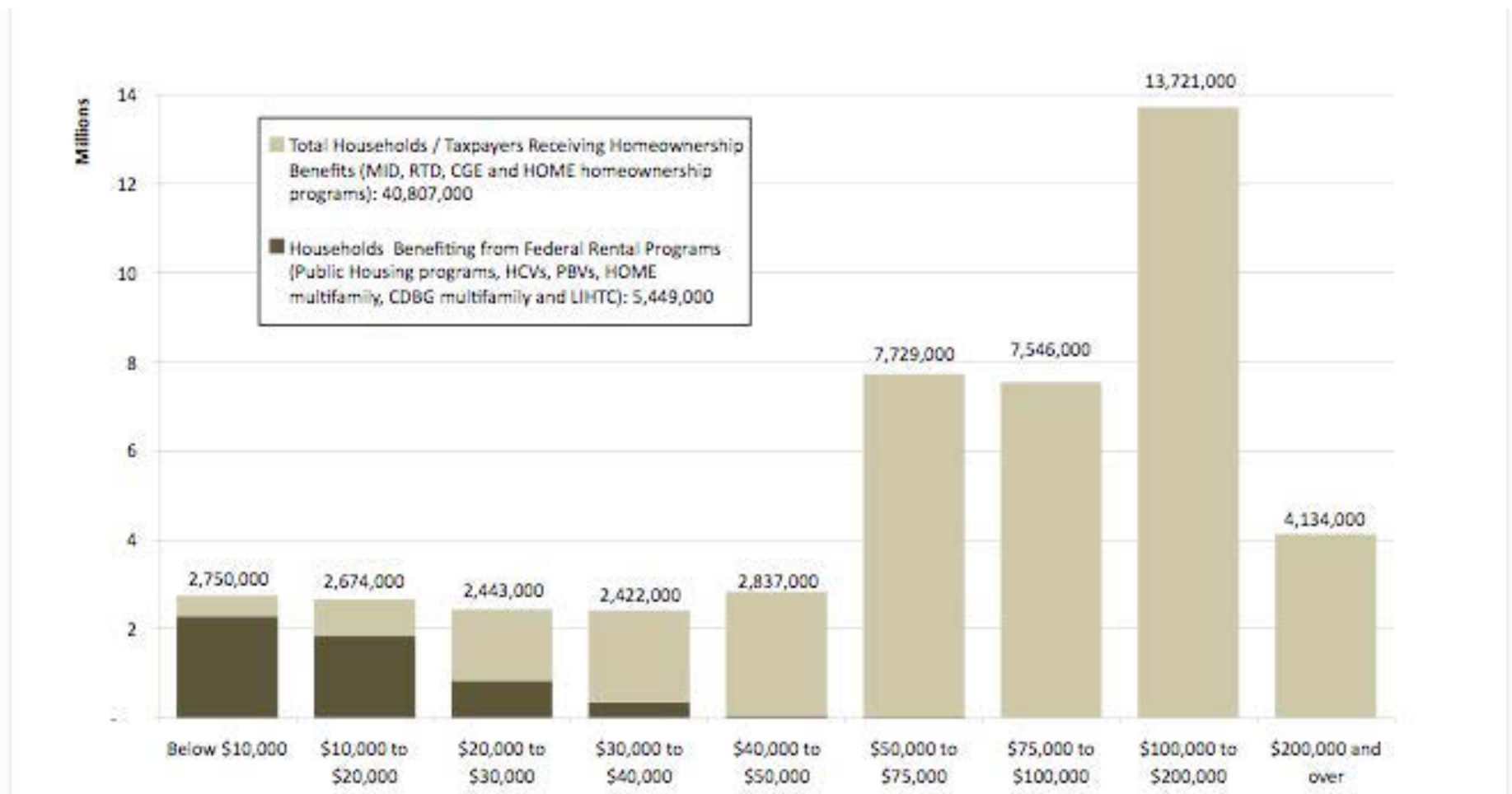




# Distribution of Federal Housing Benefits: Rebalancing the Federal Role in Housing Finance

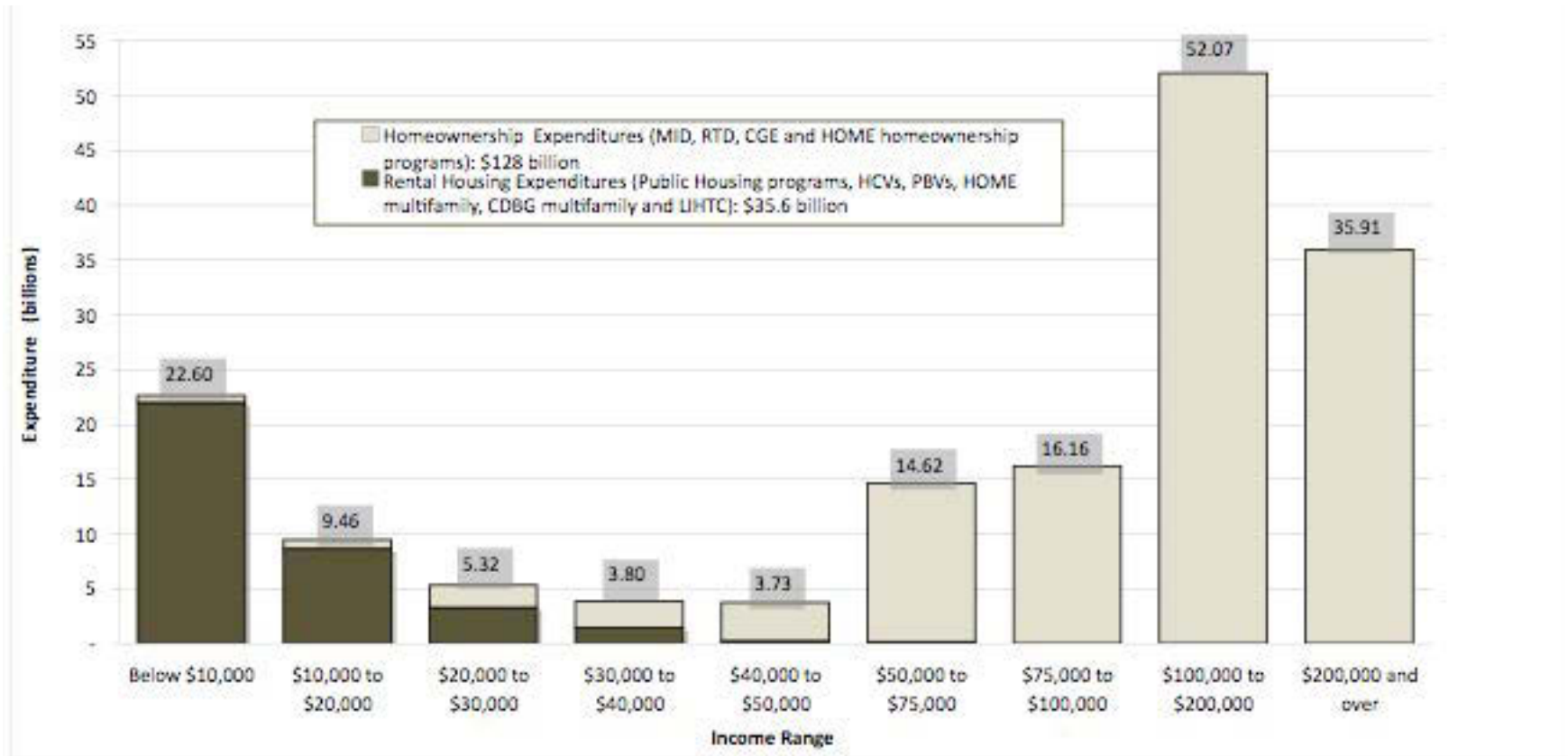


## Federal Housing Subsidies among Households/Taxpayers by Income and Tenure, 2008



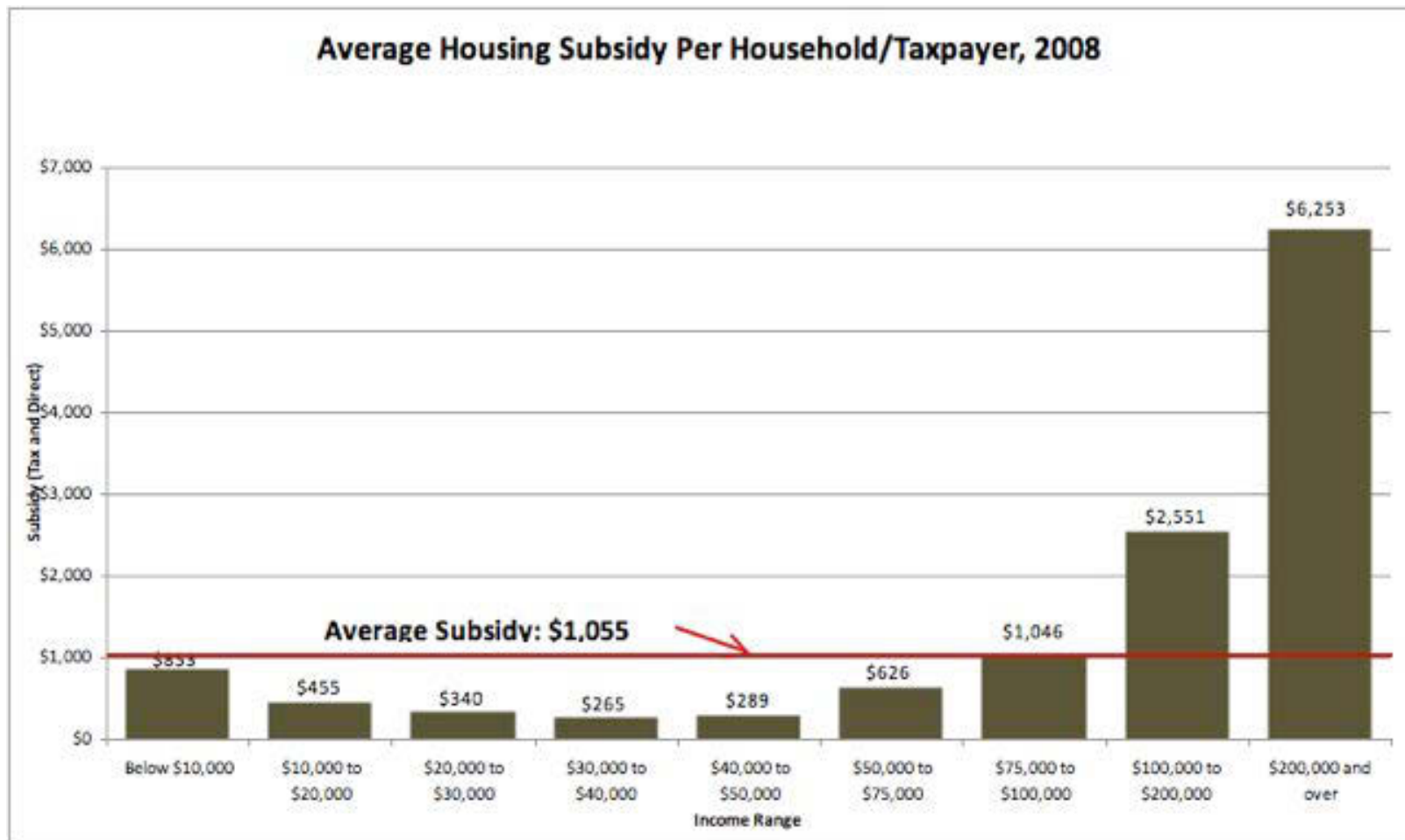


## Distribution of Federal Housing Programs, 2008



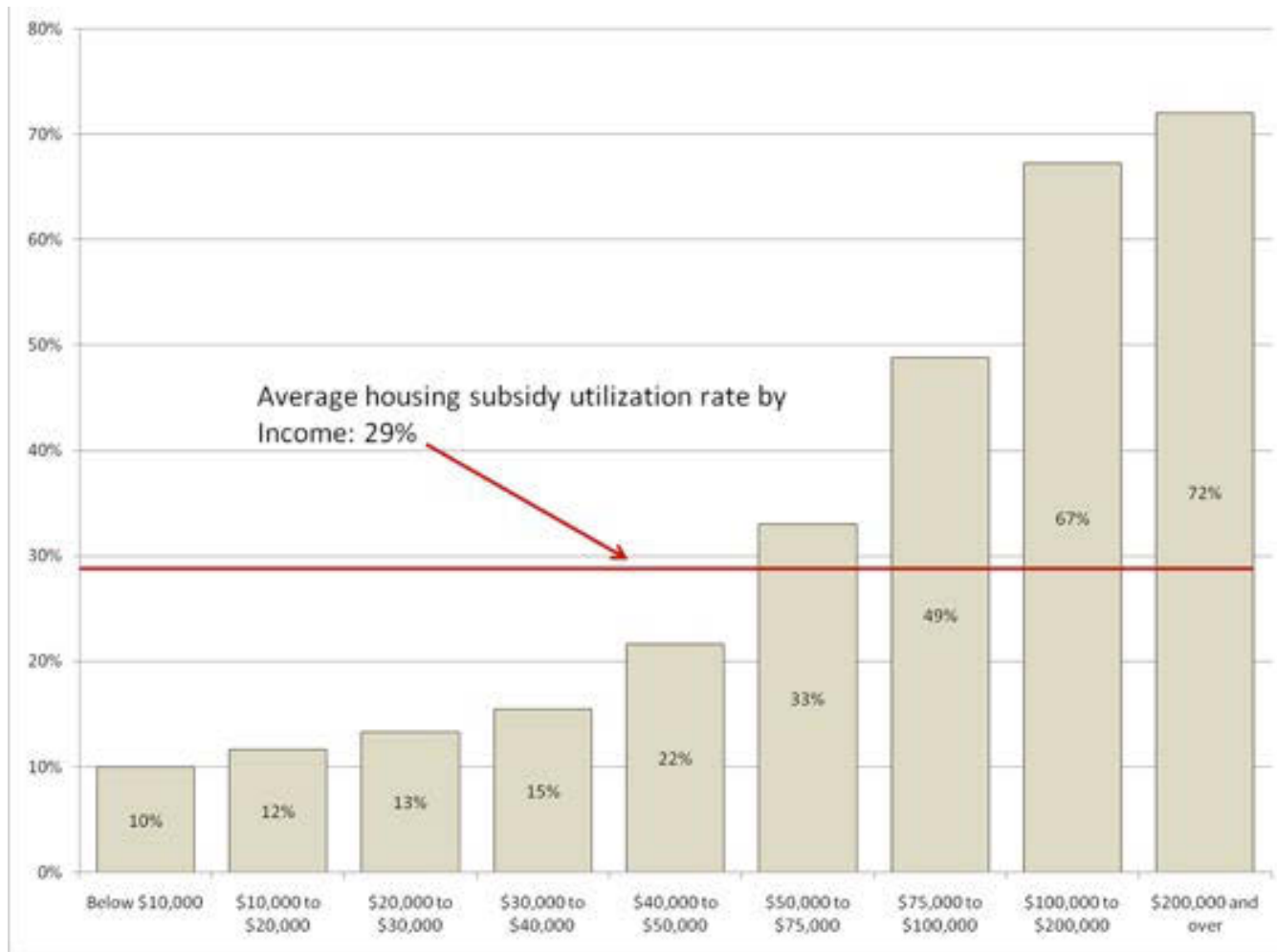


## Estimated Average Household Subsidy per Household/Taxpayer, 2008





## Housing Subsidy Utilization Rate by Income, 2008





# Value Capture for Community Benefits: Zoning for Growth



# If You Plan It, They May Not Build

A Case Study in Value Capture:

The City of Long Beach  
Downtown Plan (DTP)





# The Long Beach DTP

- Full implementation over the next 25 years will allow:
  - 5,000 new residential units
  - 1.5 million square feet of new office, civic, cultural and similar uses
  - 384,000 SF of new retail space
  - 96,000 SF of restaurants
  - 800 new hotel rooms



# The Long Beach DTP

- Development Incentives:
  - Increases in permitted building height/density
  - Reduced parking requirements
  - Faster permit processing
  - Master EIR



# Economic Analysis and Community Benefits

- Quantify the value conveyed to developers/landowners through the DTP provisions
- Determine extent to which developers can provide community benefits with this increased value



# DTP Zoning Changes

Zone Change Scenarios Studied:

Current Height Limit

DTP Height/FAR Limit

1. 6 stories

80 ft / 4.0 FAR

2. 6 stories

150 ft / 5.0 FAR

3. 6 stories

240 ft / 8.0 FAR

4. 100 feet

240 ft / 8.0 FAR





# DTP Land Uses

Land use / development prototypes studied for each zone change scenario:

- Apartments
- Condominiums
- Office
- Hotel



# Land Residual Analysis



- + Calculates the value of a development based on its income potential
- Subtracts the costs of the development and developer profit
- = Results in the underlying value of the land
  
- A negative land value indicates a development is not financially feasible



# Quantifying DTP Benefit

**Positive change** in land residual value  
before and after zone change =

Benefit conveyed to  
developers/landowners.





# Economic Reality

- Current market economics in Long Beach produce negative land residual values for most high-rise prototypes even under current zoning.
  - Increasing height limits in these scenarios does not improve feasibility in current market.
  - DTP conveys no value in these scenarios in current market.





# The Bottom Line

Even the best-intentioned sustainable development plan does not guarantee economic feasibility.



# Community Benefits

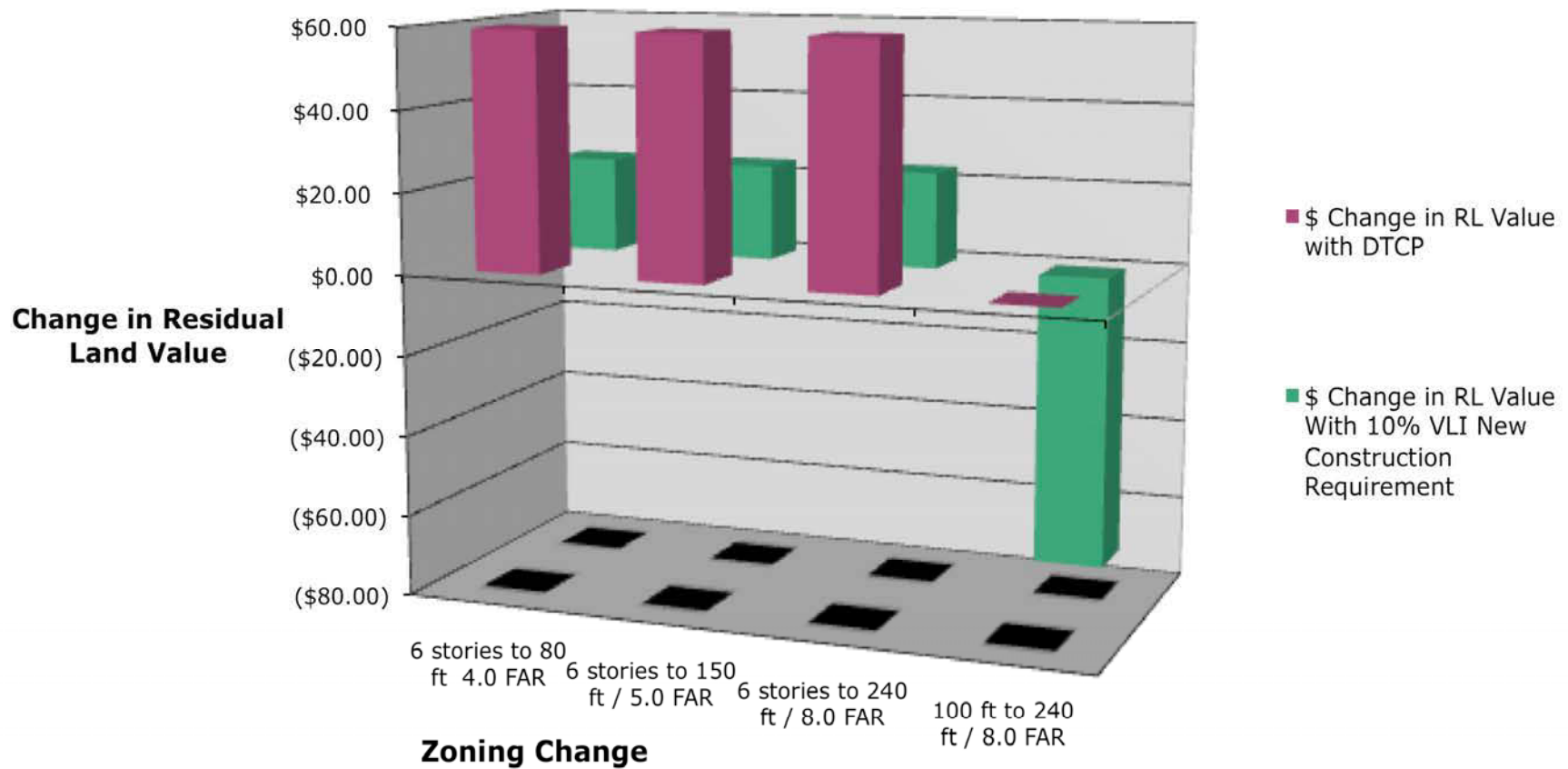
When DTP incentives create value, we quantify the reduction in land value due to proposed community benefits:

- Inclusionary housing requirements
- Inclusionary housing in lieu fee
- Commercial development linkage fee



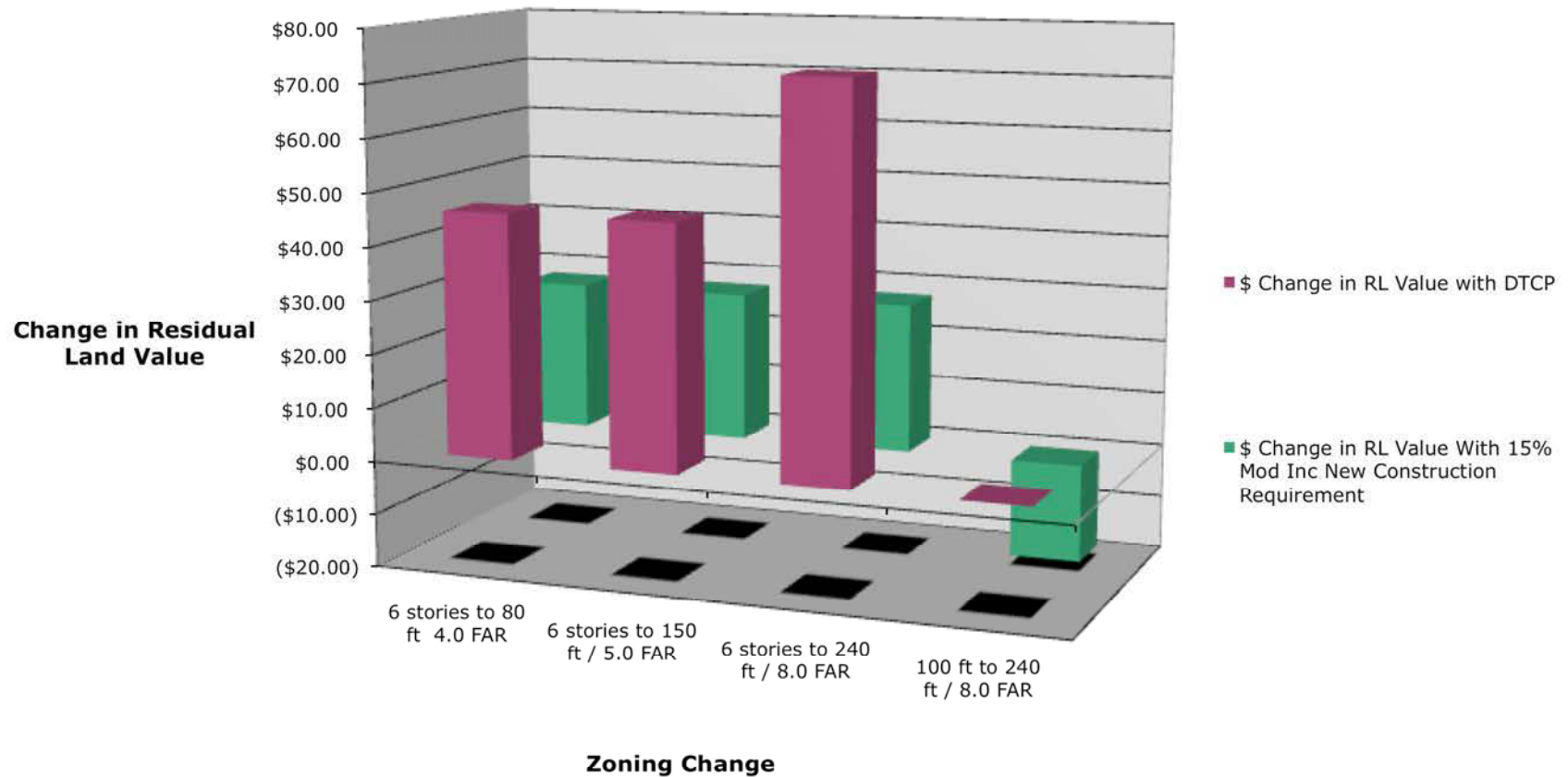


# Change in Residual Land Value with DTP and Affordable Housing Inclusionary Requirement: Apartment Prototype



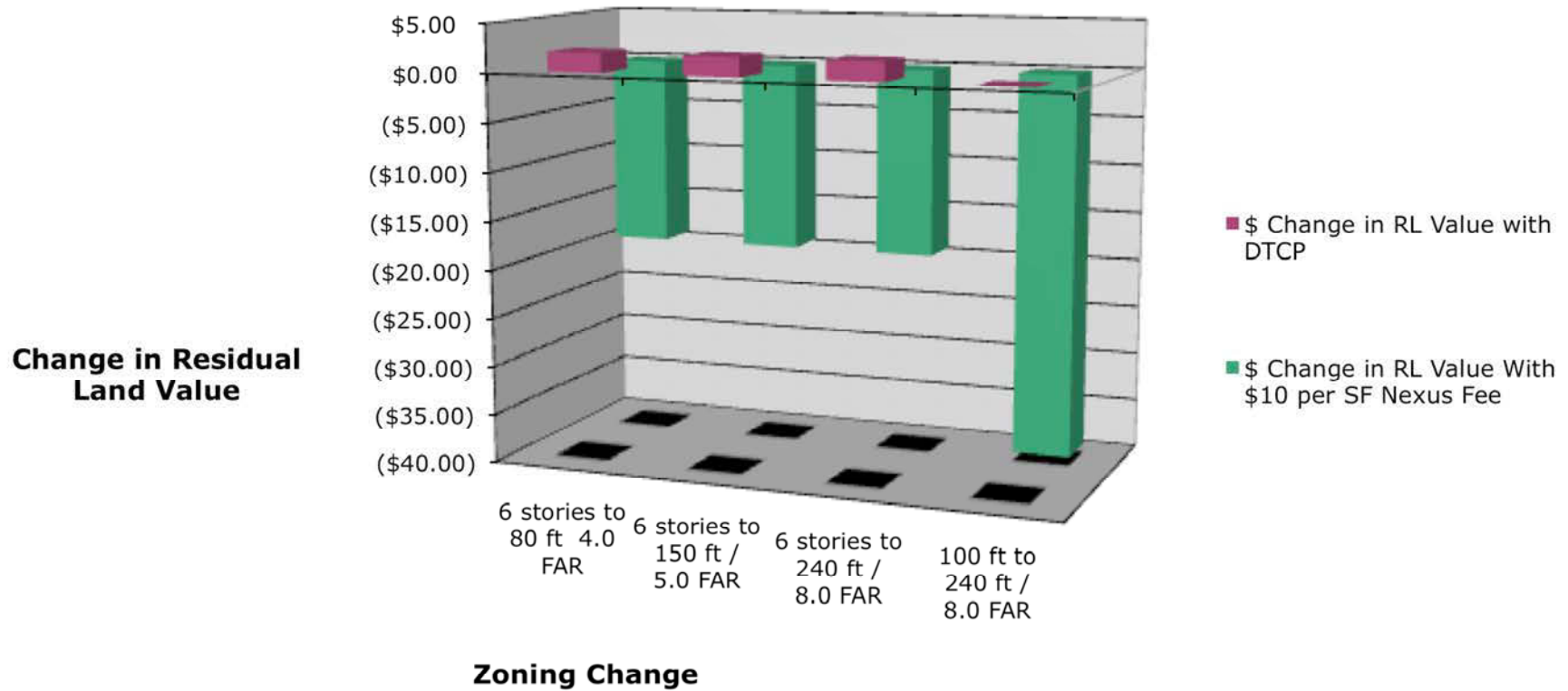


# Change in Residual Land Value with DTP and Affordable Housing Inclusionary Requirement: Condominium Prototype



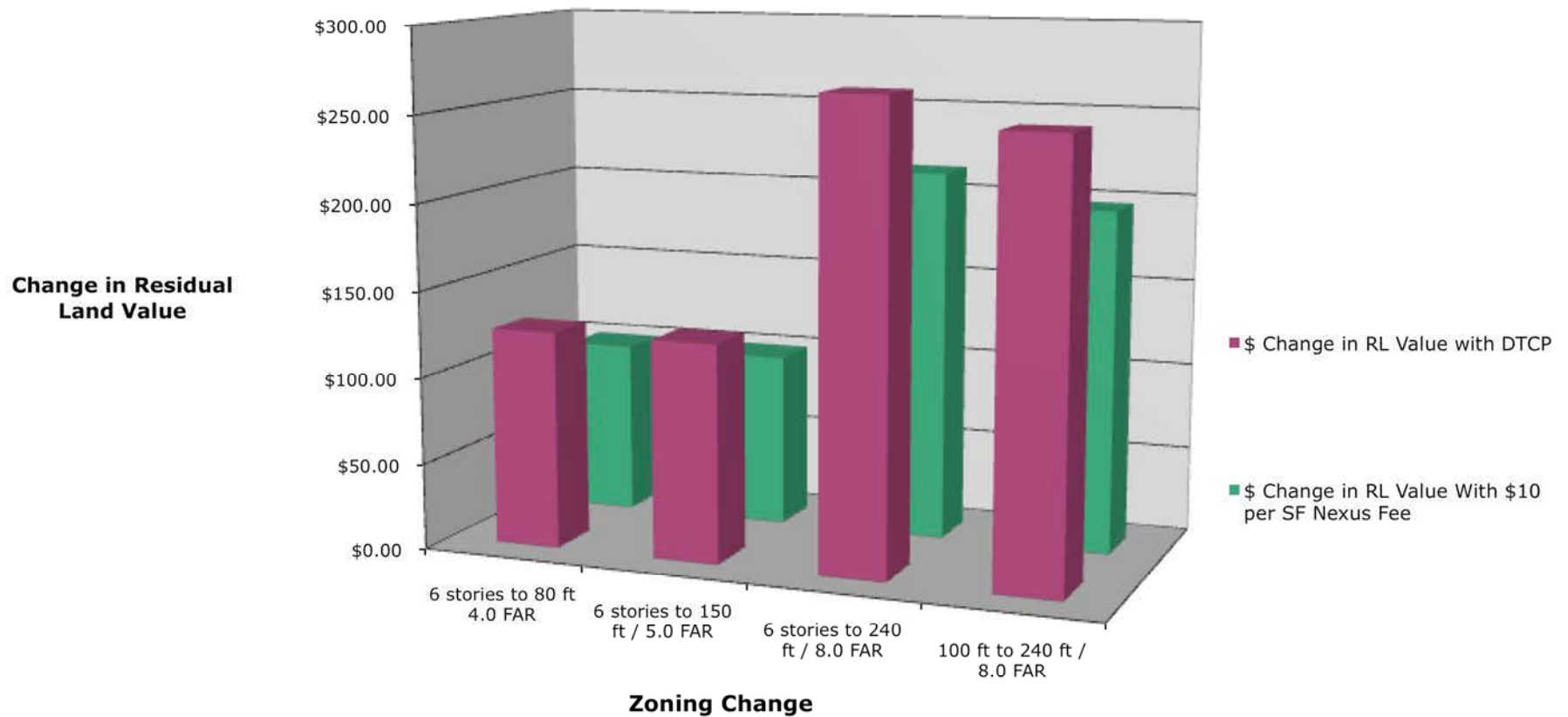


# Change in Residual Land Value with DTP and Affordable Housing Nexus Fee Requirement: **Office Prototype**





# Change in Residual Land Value with DTP and Affordable Housing Nexus Fee Requirement: **Hotel** Prototype





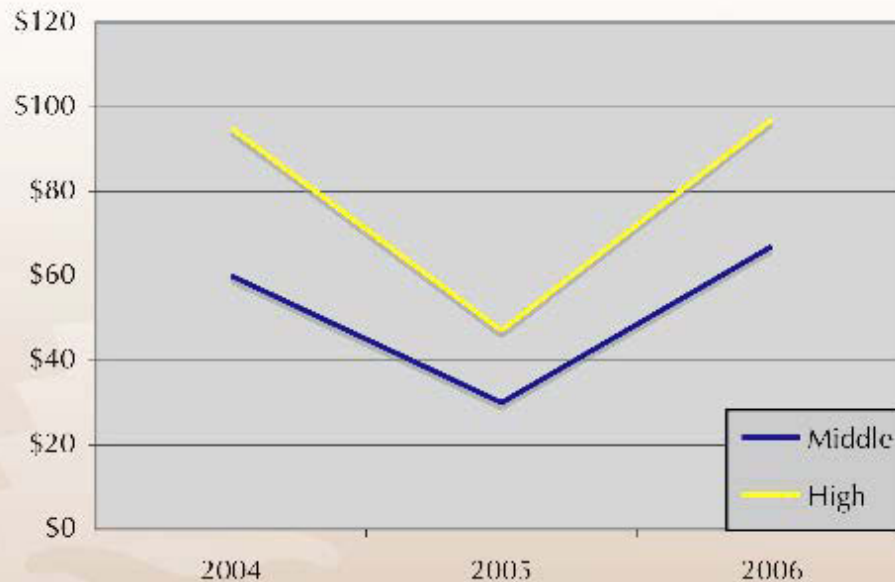
# San Jose Residential Land Values





# San Jose 2004-2006

## Land Costs Per Square Foot Owner 1: High Rise Condos



High Trading Range:  
\$47 - \$97 per sq ft  
106% change

Middle Trading Range:  
\$30 - \$67 per sq ft  
123% change

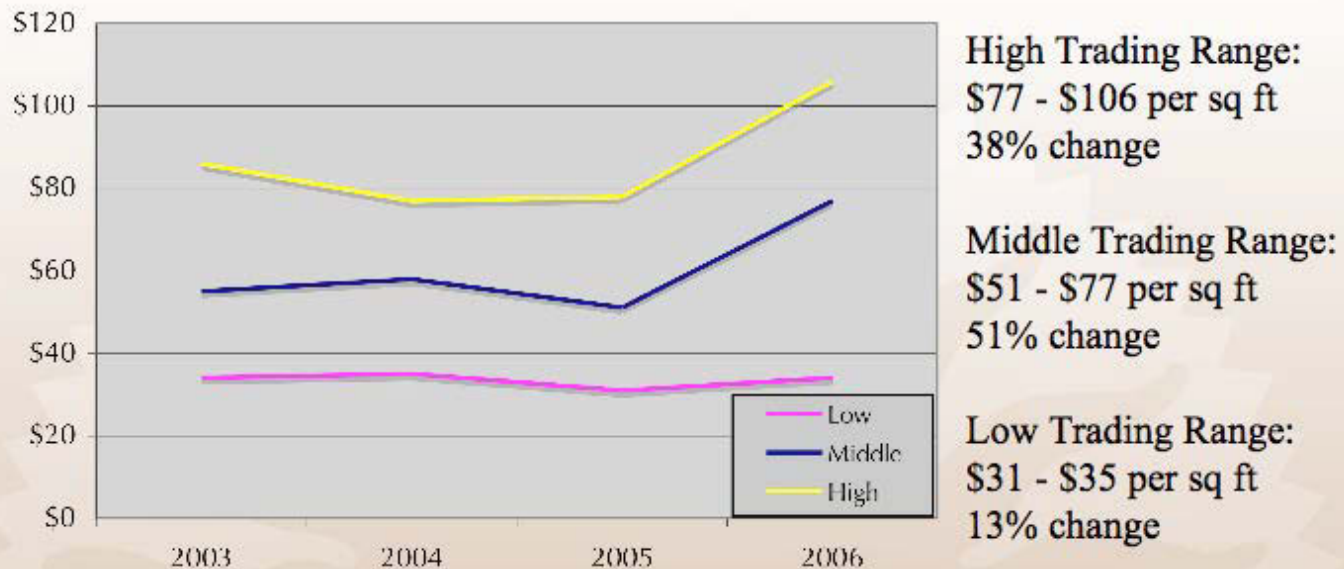
Source: San José Residential Land Value Survey Updates, 2003, 2004, 2005 and 2006, San José Department of Housing, David Paul Rosen & Associates





# San Jose 2003-2006

## Land Costs Per Square Foot Owner 2 & Renter 1: Stacked Flats

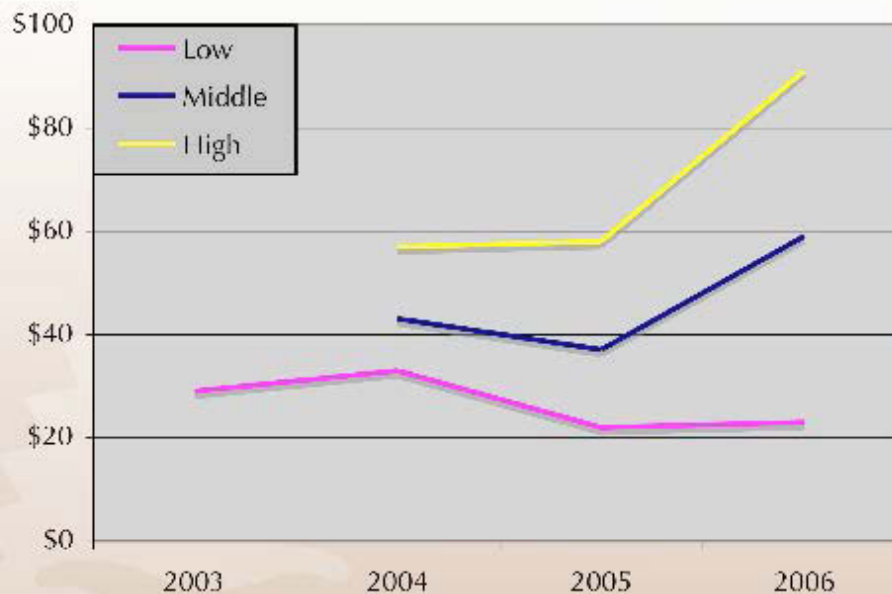


Source: San José Residential Land Value Survey Updates, 2003, 2004, 2005 and 2006, San José Department of Housing, David Paul Rosen & Associates



# San Jose 2003-2006

## Land Costs Per Square Foot Owner 3: Townhomes



High Trading Range:  
\$57 - \$91 per sq ft  
60% change

Middle Trading Range:  
\$37 - \$59 per sq ft  
59% change

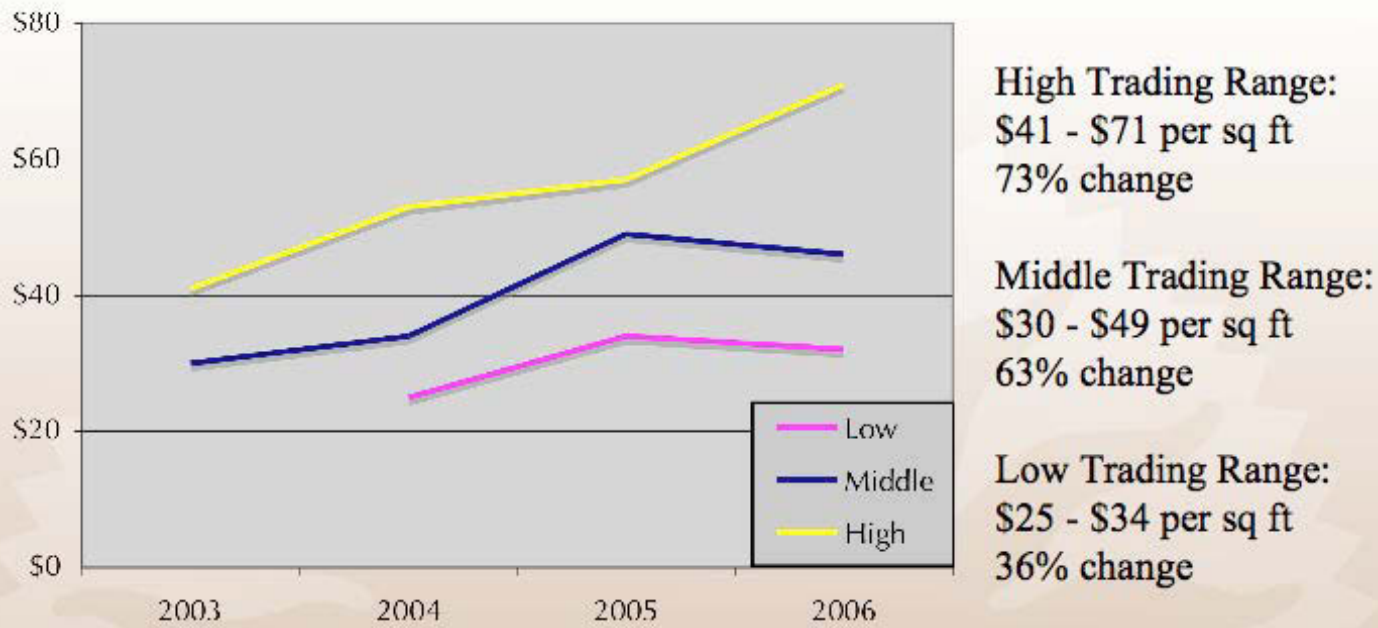
Low Trading Range:  
\$22 - \$33 per sq ft  
50% change

Source: San José Residential Land Value Survey Updates, 2003, 2004, 2005 and 2006, San José Department of Housing, David Paul Rosen & Associates



# San Jose 2003-2006

## Land Costs Per Square Foot Owner 4: Single Family Detached



Source: San José Residential Land Value Survey Updates, 2003, 2004, 2005 and 2006, San José Department of Housing, David Paul Rosen & Associates



# National and State Policy for Sustainable Community Development



# National Policy

## Partnership for Sustainable Communities:

- HUD
- DOT
- EPA

<http://www.epa.gov/smartgrowth/partnership/>



# National Policy

Partnership for Sustainable Communities  
Livability Principles:

- Provide more transportation choices
- Promote equitable, affordable housing
- Enhance economic competitiveness
- Support existing communities
- Coordinate and leverage federal policies and investments
- Value communities and neighborhoods



# HUD's Sustainable Communities Planning Grant



- Coordinated program with EPA and DOT.
- \$100 million will be available through NOFA to support regional efforts to integrate housing, transportation and land use planning.
- Grants up to \$2 million for small metro or rural areas (< 500,000) and up to \$5 million for large metro areas.
- NOFA to be published in April, applications due in June, awardees announced in August.
- HUD's Advance Notice:  
<http://edocket.access.gpo.gov/2010/pdf/2010-2979.pdf>



# California Legislation



AB 32: The Global Warming Solutions Act of 2006 (California Health & Safety Code Section 38500, et seq)



SB 375: Sustainable Community Strategy Act of 2008



SB 97: Amendments to CEQA to address Greenhouse Gas Emissions







# AB 32 Basics

Caps greenhouse gas emissions.

Limits GHG emissions to:

- 1990 levels by 2020
- 80% below 1990 levels by 2050



# SB 375 Sustainable Communities Strategy (SCS)



What is an SCS?

- Part of Regional Transportation Plan (RTP)
- Plan for meeting reduction targets
- Accounts for the regions' housing and transportation needs
- Projects 20-year growth pattern
- Considers, but does not affect, all relevant local General Plans



# SB 375 Funding

The bill does not include funding for planning requirements.

Senator Steinberg has indicated he will address this issue in the future.



## CA Sustainable Communities Planning Grant and Incentive Program - Prop 84

- \$60 million available for three funding cycles beginning FY 2010/11
- \$100,000 to \$1 million grants to cities, counties, MPOs, JPAs, RTPAs, COGs.
- Focus areas: local sustainable planning, regional SB 375 planning and regional planning activities with multiple partners.
- Awards were issued in December 2010. Release of next RFP is not listed yet.
- **NOFA:** [http://www.sgc.ca.gov/docs/funding/Planning\\_Grant-\\_Final\\_Proposed\\_2010\\_02\\_12.pdf](http://www.sgc.ca.gov/docs/funding/Planning_Grant-_Final_Proposed_2010_02_12.pdf)



# Now What? A Proposed Agenda

1. Federal Budget and Tax Reform: Rebalancing Federal Housing Policy
2. Value Capture through Growth in Zoning
3. Acquisition of Market Rate Rental Housing for Non-speculative Long-Term Affordability
4. Reform Redevelopment Expenditures
5. Housing Authority Partnerships
6. Employer-assisted housing



# A Proposed Agenda: Federal Budget and Tax Reform

1. Eliminate homeowner tax subsidies on households earning more than \$200,000
2. Eliminate second home deduction
3. Eliminate capital gains exclusion
4. Redirect 50% of savings to deficit reduction; 50% to worst case housing assistance (approx. \$20 billion/year)



# A Proposed Agenda: Federal Budget and Tax Reform

5. Moderate phase-in of 1 through 4
6. Assess a ten basis point fee on all outstanding first mortgages to support worst case housing needs (approx. \$10 billion per year)
7. Modernize the Community Reinvestment Act for affordable rental housing and sustainable community development
8. Dodd-Frank regulations for affordable housing and sustainable community development



# Value Capture through Growth in Zoning

- For example: 10% of all residential development statewide as rental housing affordable to households at or below 80% AMI





## Acquisition of Market Rate Rental Housing for Long-Term Affordability

- Capture buying opportunities by nonprofits, public agencies and other non-speculative owners for long-term affordability
- Negotiate portfolio purchases of Fannie Mae and Freddie Mac rental housing for long-term affordability
- Assess the cost/benefit of acquisition and acquisition/rehabilitation vs. new construction for affordable rental housing



# Reform Redevelopment

Redefine the mission of redevelopment in California:

- 40% set-aside for affordable housing production and preservation
- Infrastructure development balancing in-fill development for sustainable growth with a strong emphasis on increasing capacity within existing communities (Blueprint Model)
- Energy efficiency and renewable energy
- High value job creation



# Housing Authority Partnerships

- Project-based vouchers
- Redevelopment of lower density public housing sites
- Partnerships among housing departments, housing authorities and redevelopment agencies



# Employer Assisted Housing

- Cafeteria of Employee Benefits -> Housing Assistance
- Joint Development on Corporate Campuses, Hospital and University sites, others
- Debt and equity Investment in Targeted Development



Now What?



Less...

...Or



More