



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

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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

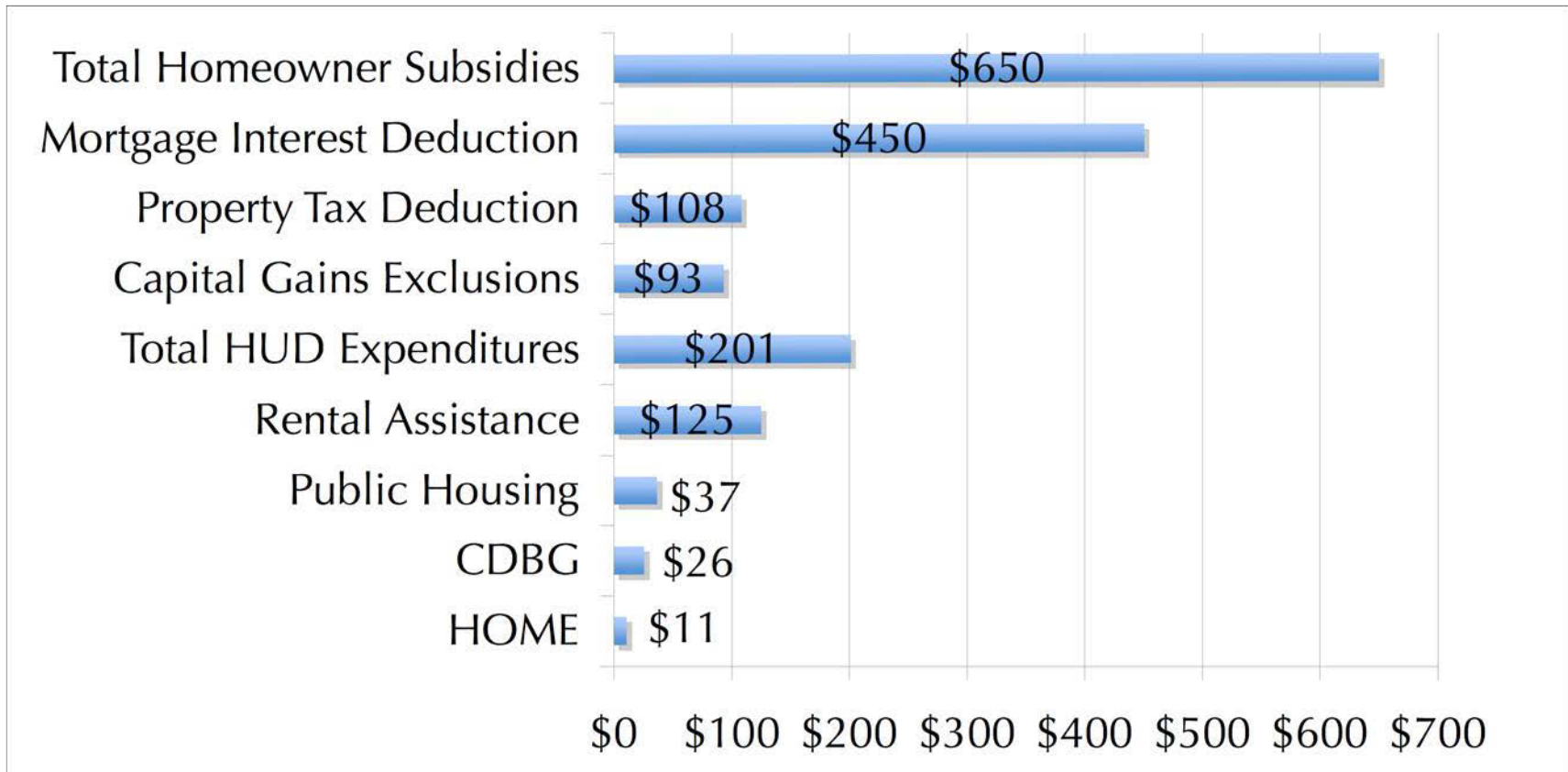
- California Redevelopment Association reports since 1993, 98,000 units of affordable housing produced/rehabilitated
- Approximately 5400 units per year



Federal Housing Policy: Imbalanced and Regressive

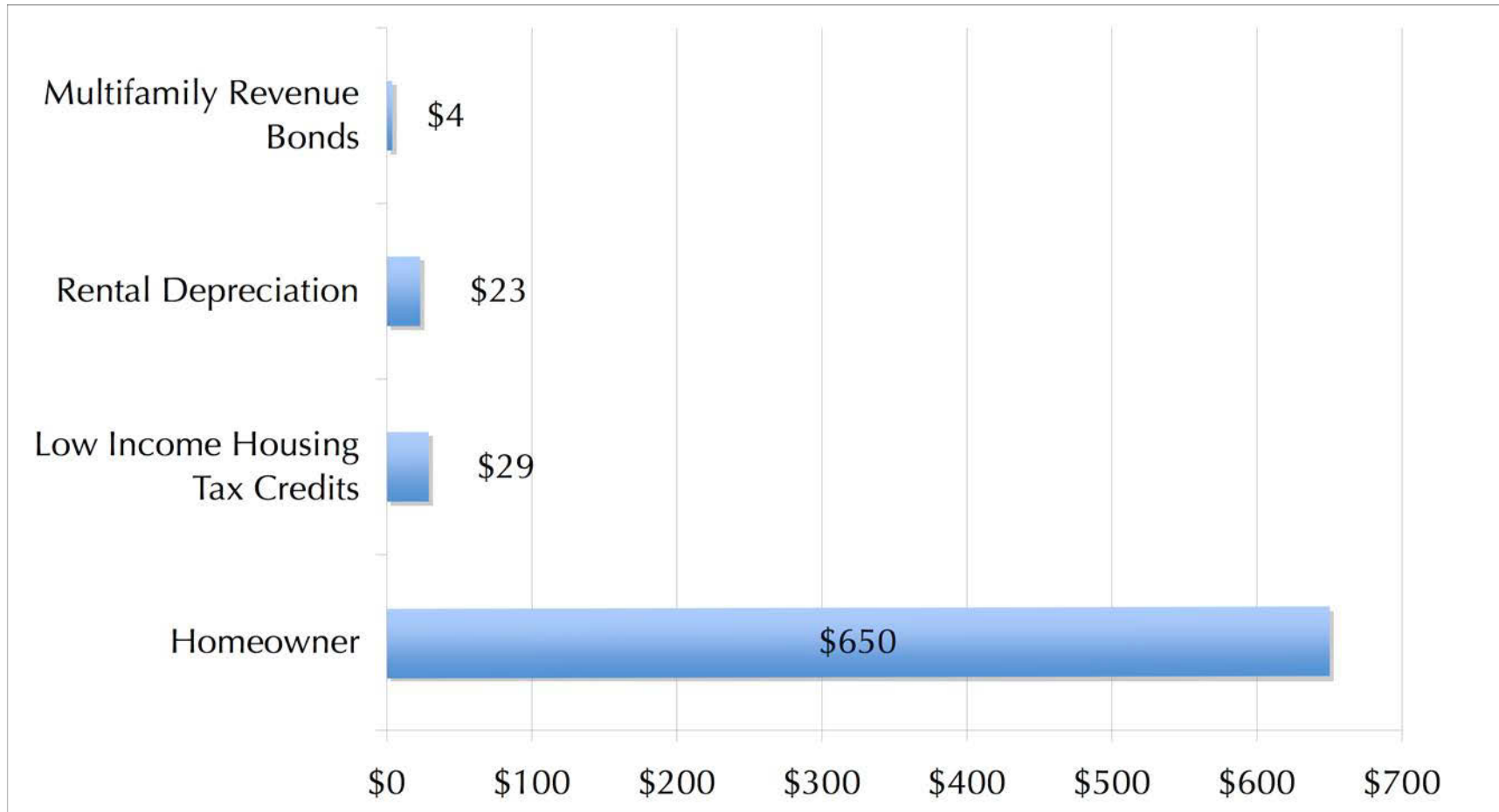


Homeowner Tax Subsidies and HUD Expenditures FY 2007 to FY 2011 (In Billions)



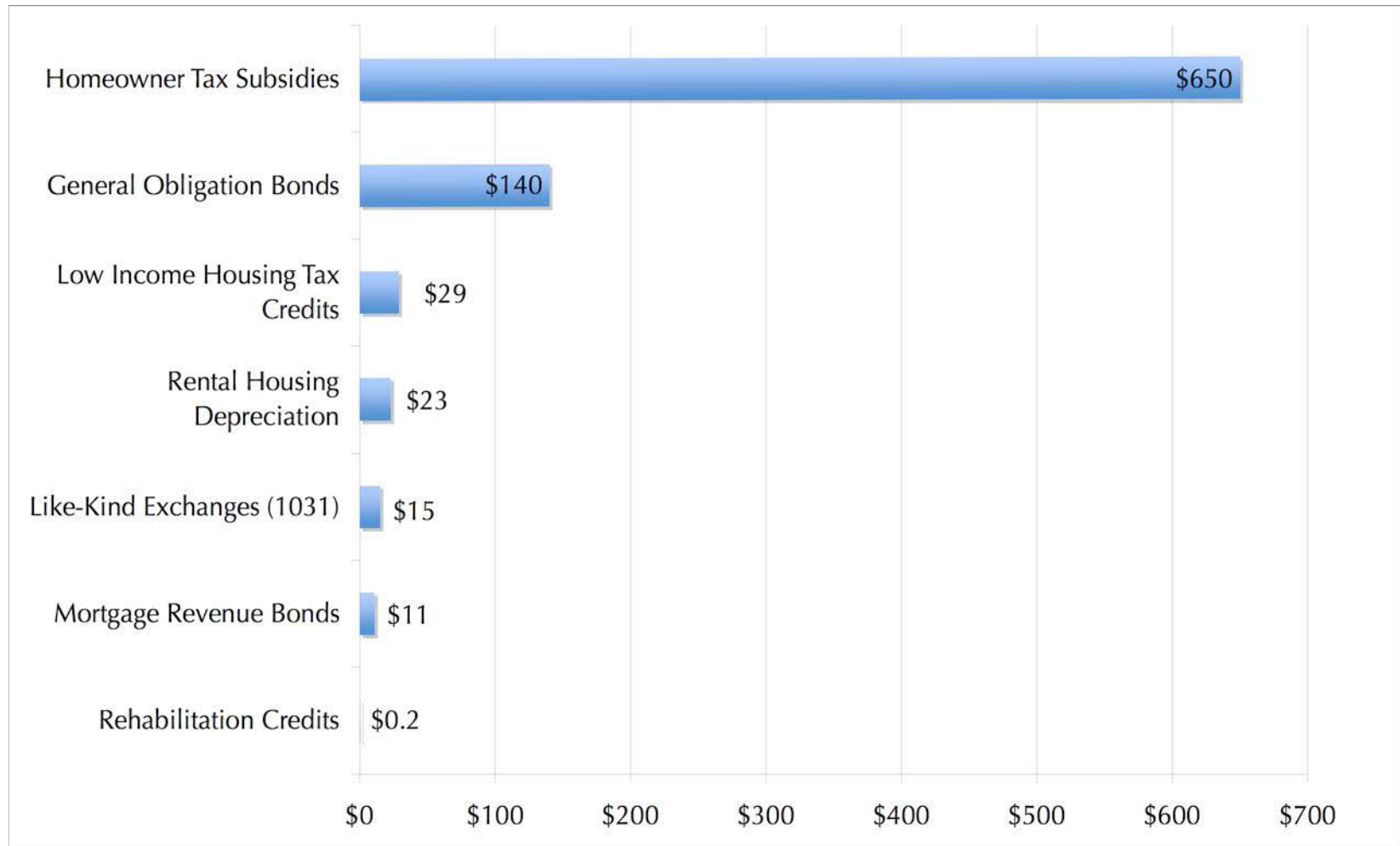


Homeowner vs. Rental Tax Subsidies FY 2007 to FY 2011



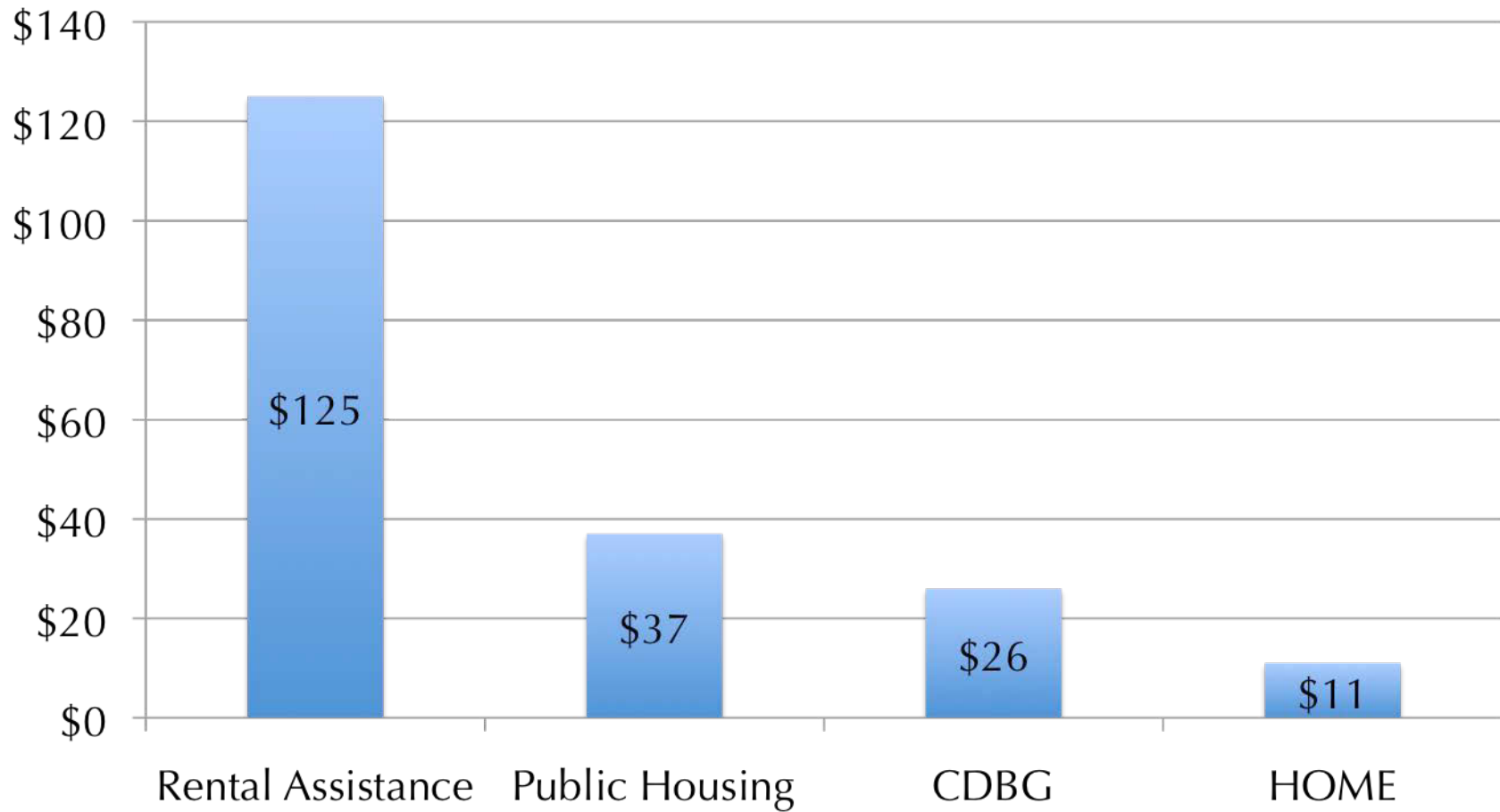


Federal Real Estate Tax Expenditures FY 2007 to FY 2011 (In Billions)





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

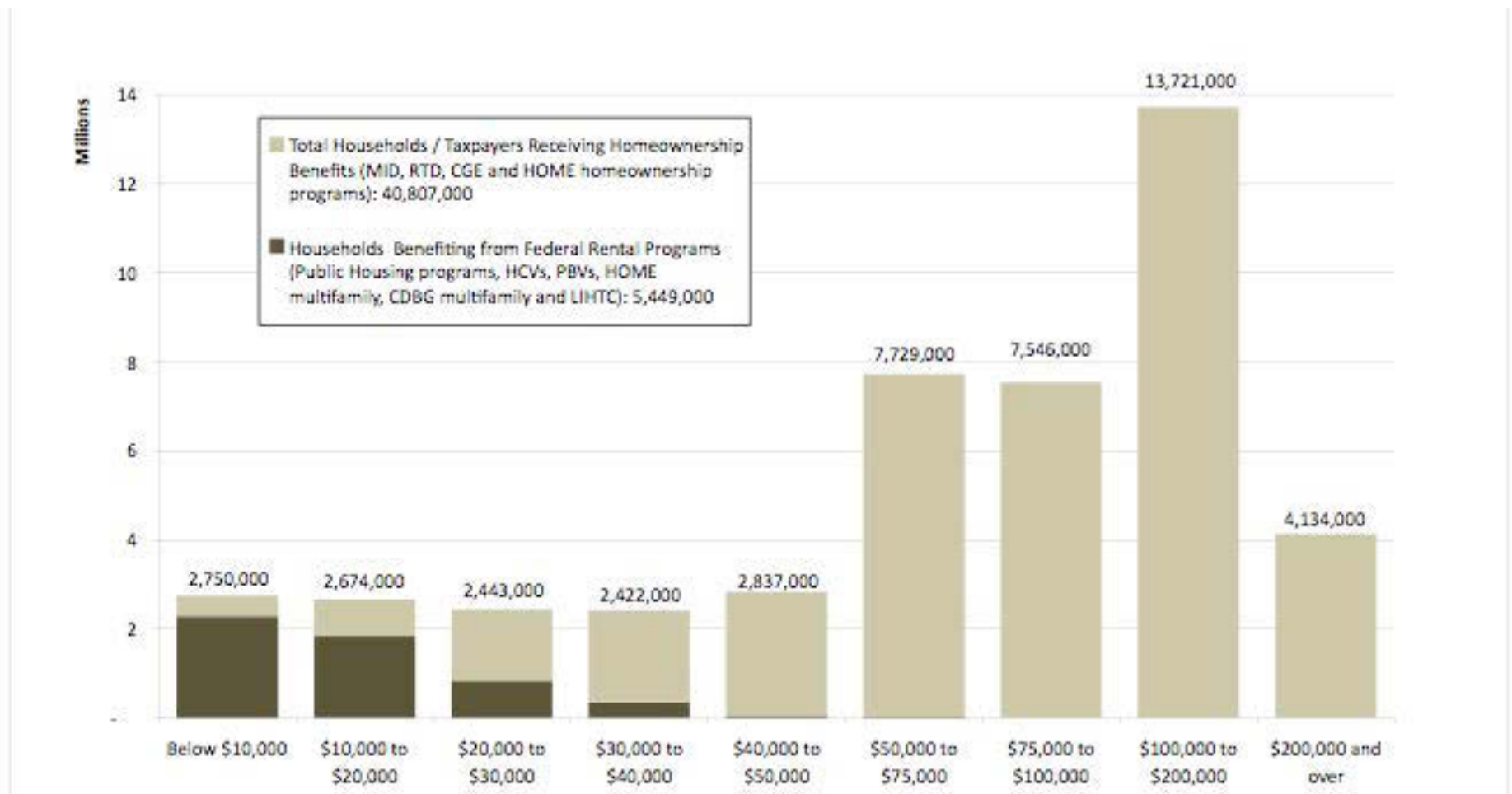




Distribution of Federal Housing Benefits: Rebalancing the Federal Role in Housing Finance

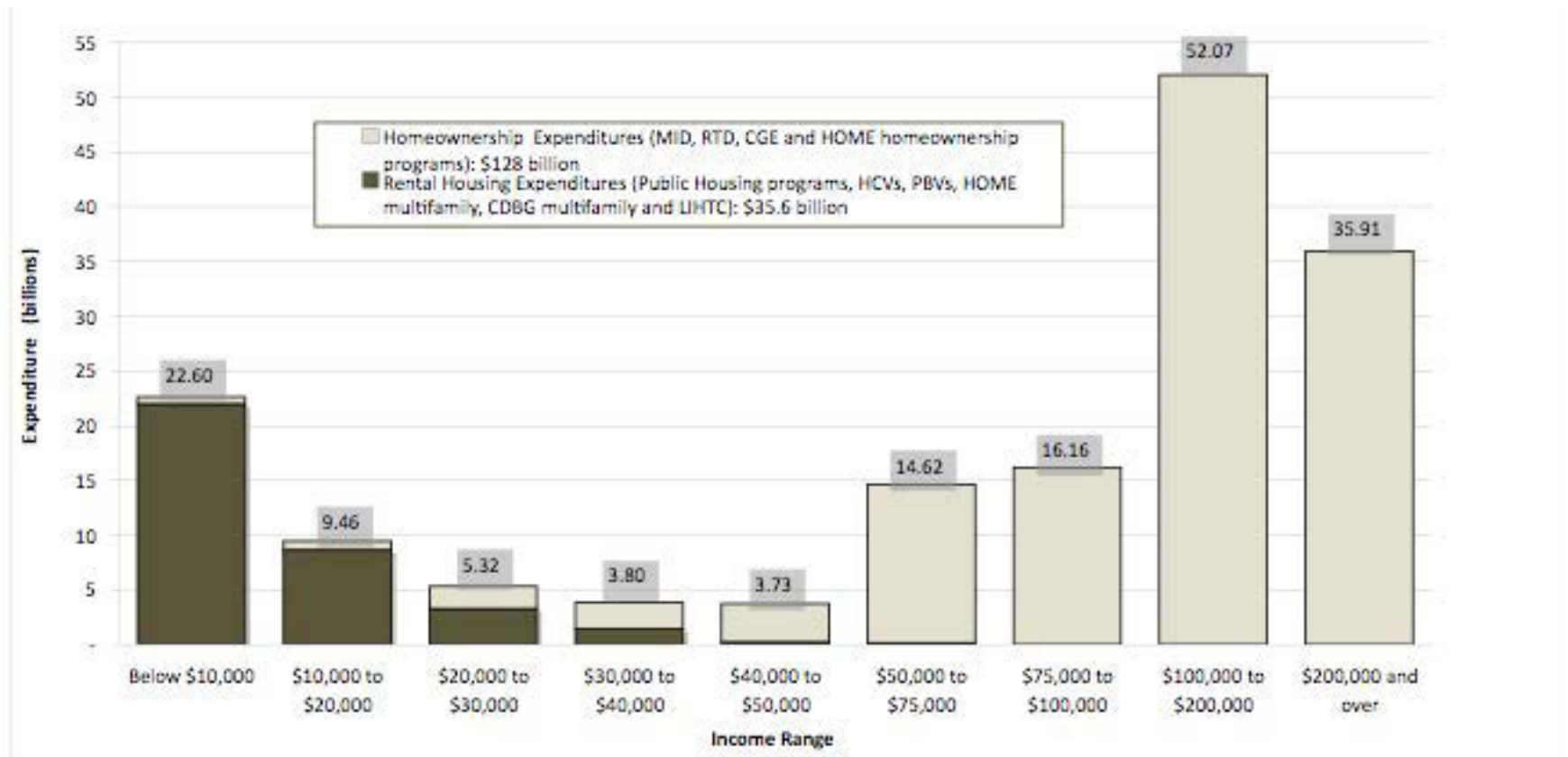


Federal Housing Subsidies among Households/Taxpayers by Income and Tenure, 2008



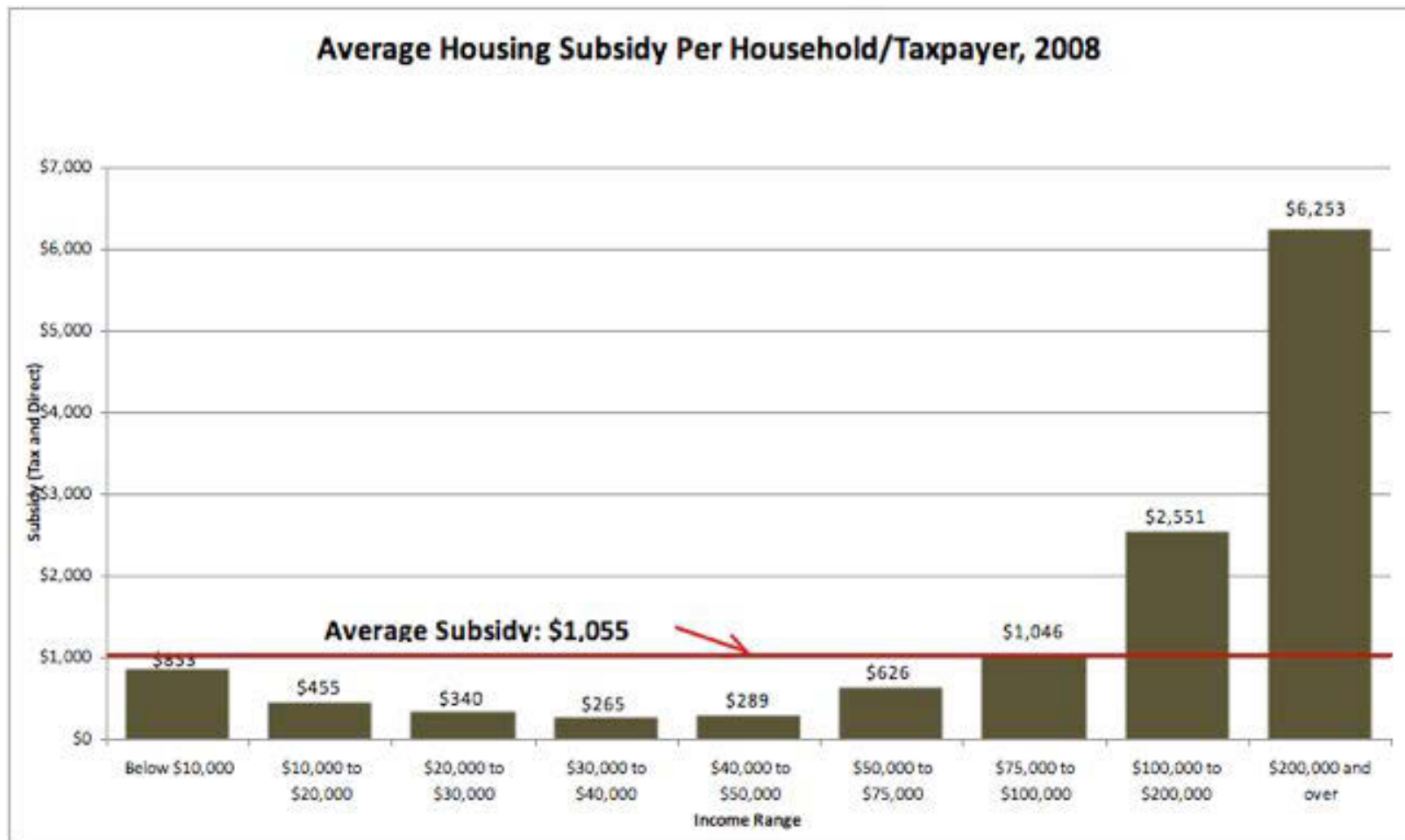


Distribution of Federal Housing Programs, 2008



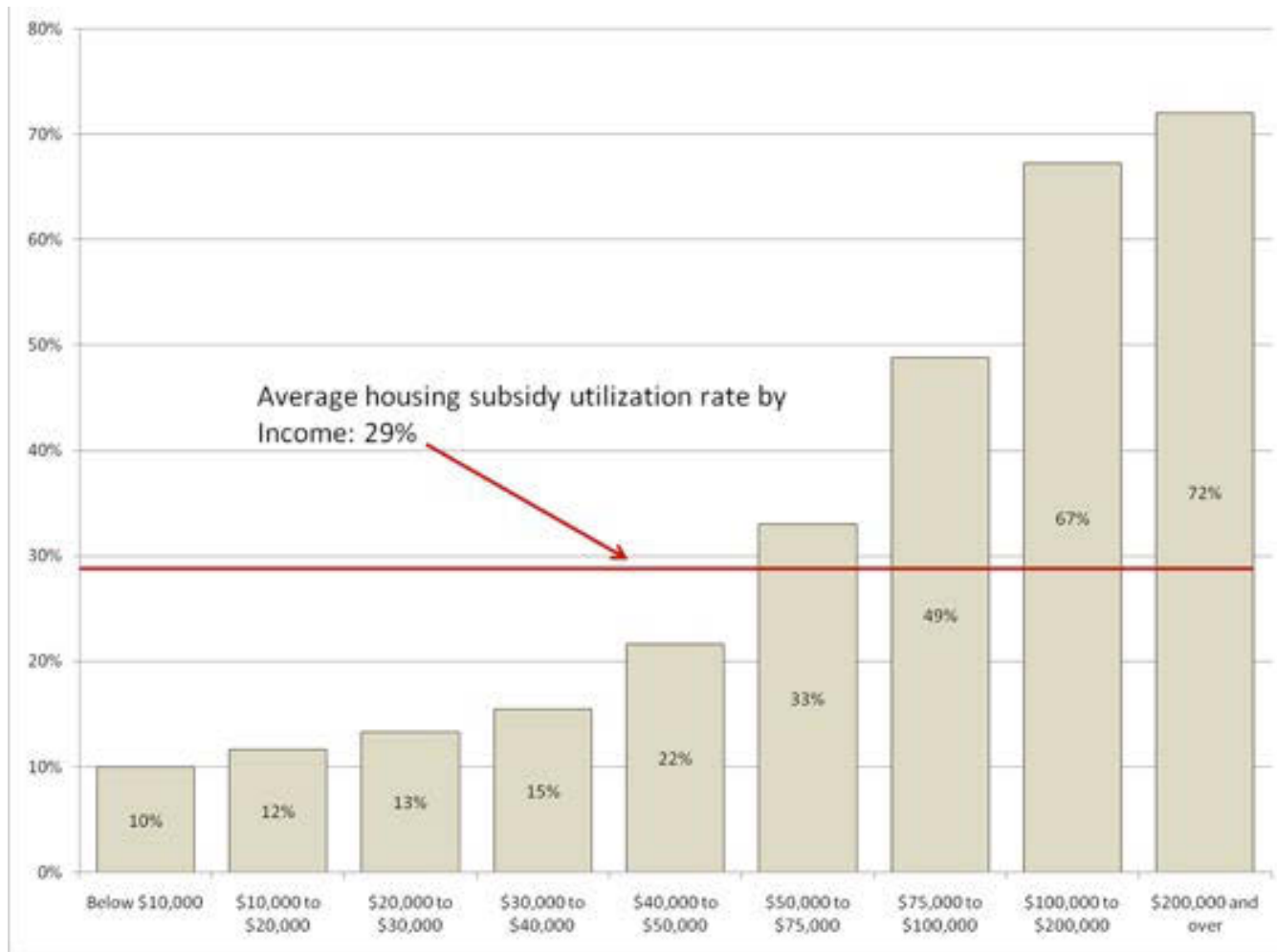


Estimated Average Household Subsidy per Household/Taxpayer, 2008





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

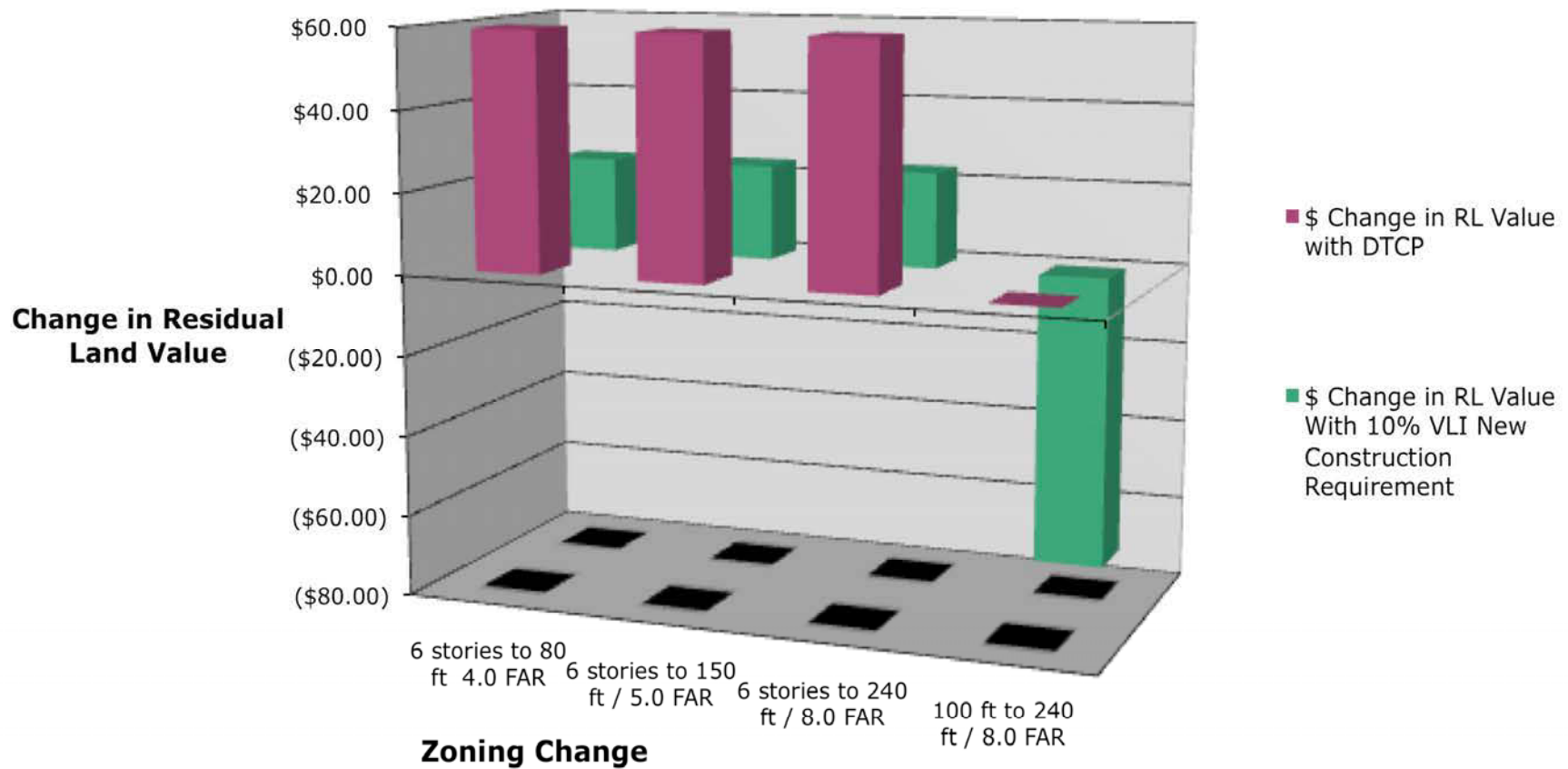
When DTP incentives create value, we quantify the reduction in land value due to proposed community benefits:

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



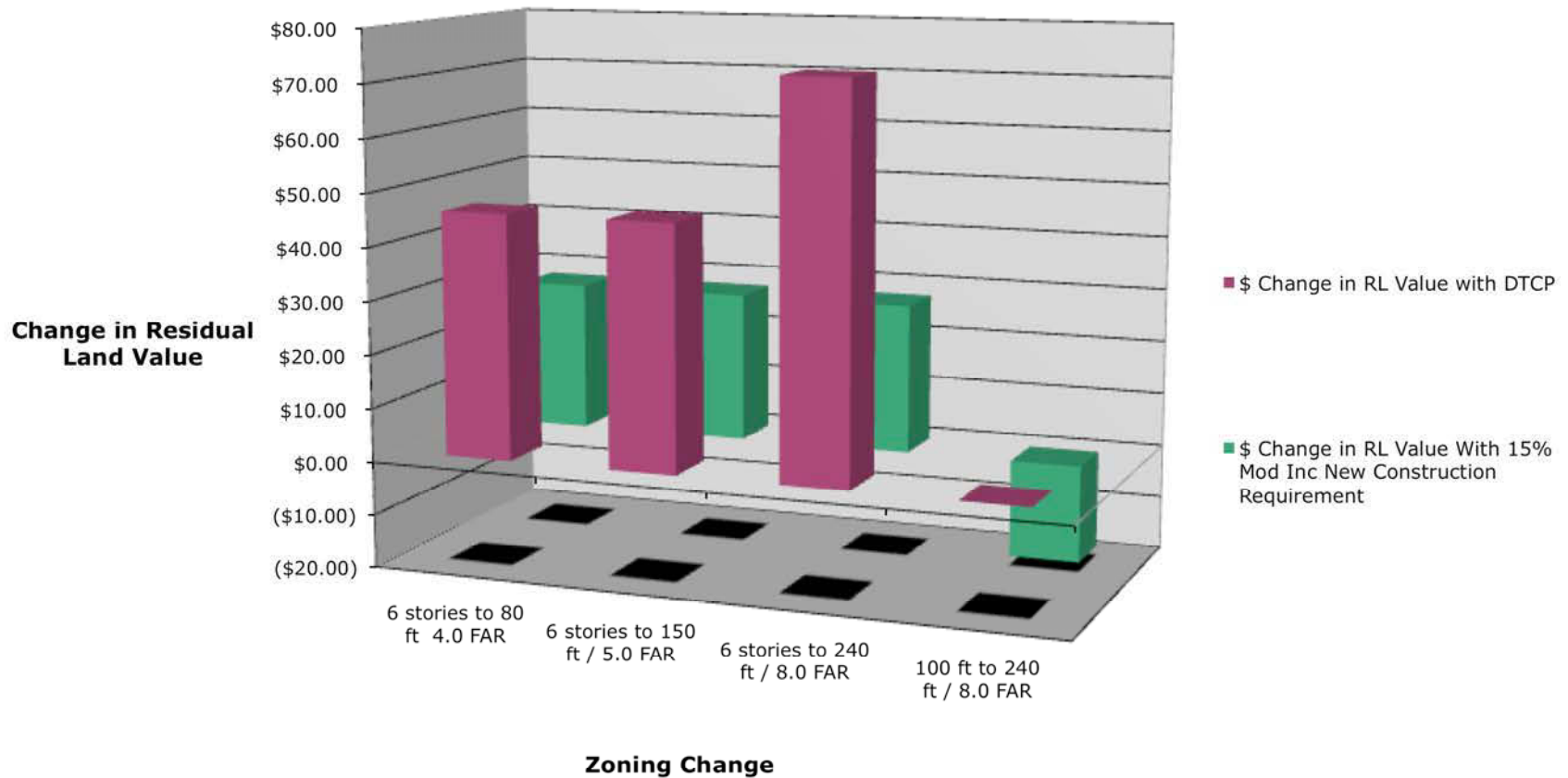


Change in Residual Land Value with DTP and Affordable Housing Inclusionary Requirement: Apartment Prototype



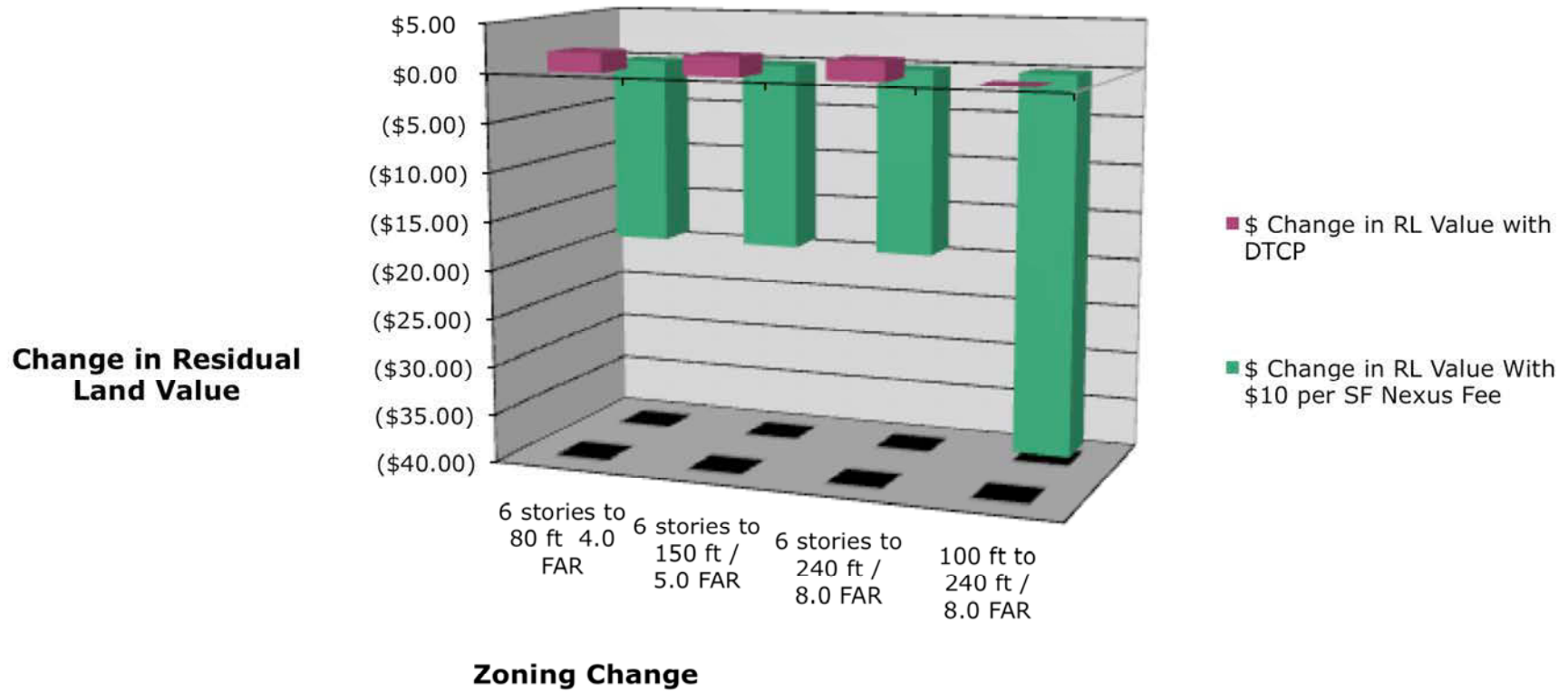


Change in Residual Land Value with DTP and Affordable Housing Inclusionary Requirement: Condominium Prototype



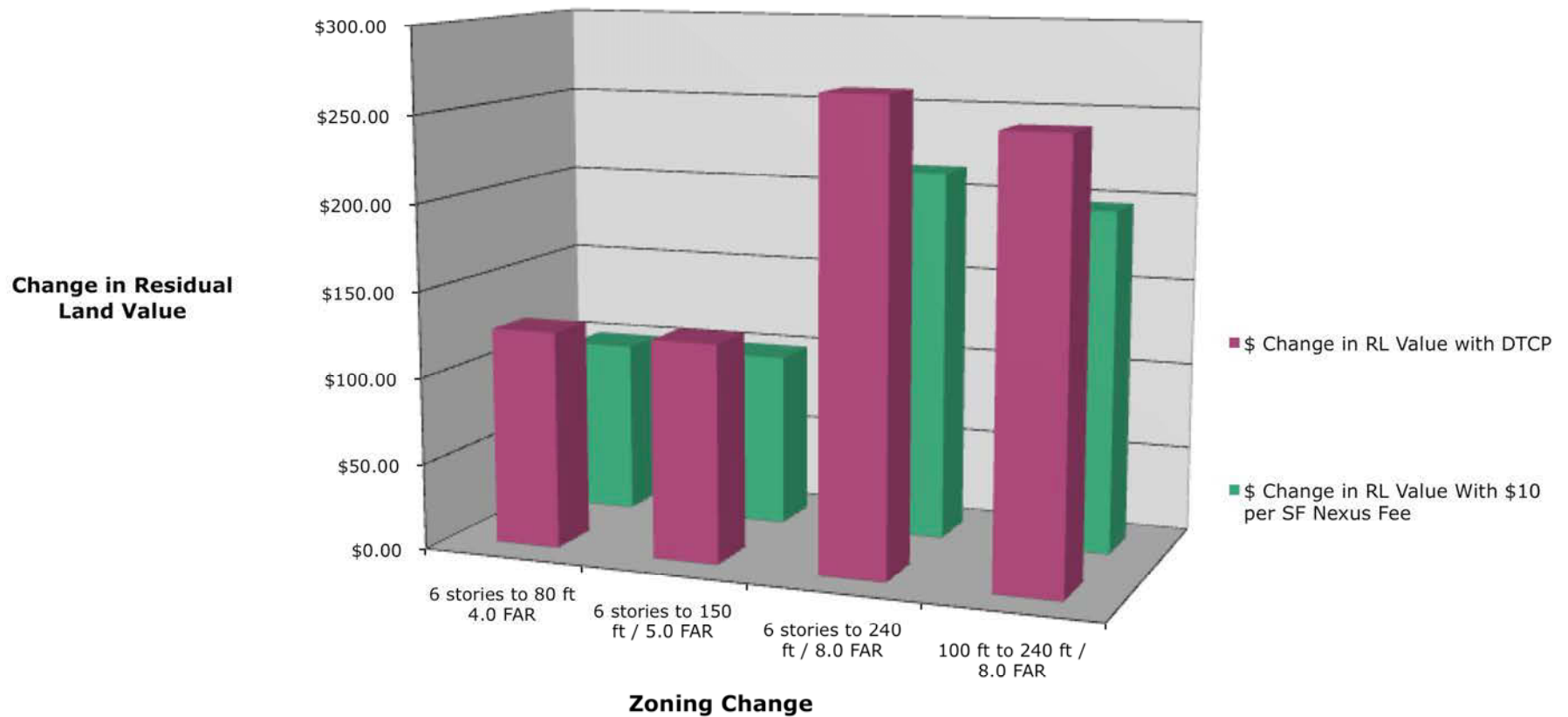


Change in Residual Land Value with DTP and Affordable Housing Nexus Fee Requirement: **Office Prototype**





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





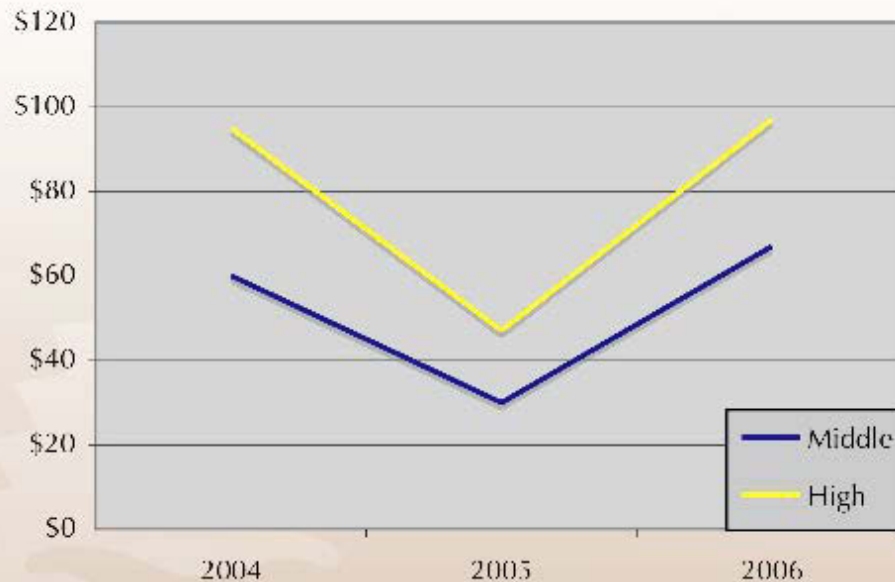
San Jose Residential Land Values





San Jose 2004-2006

Land Costs Per Square Foot Owner 1: High Rise Condos



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

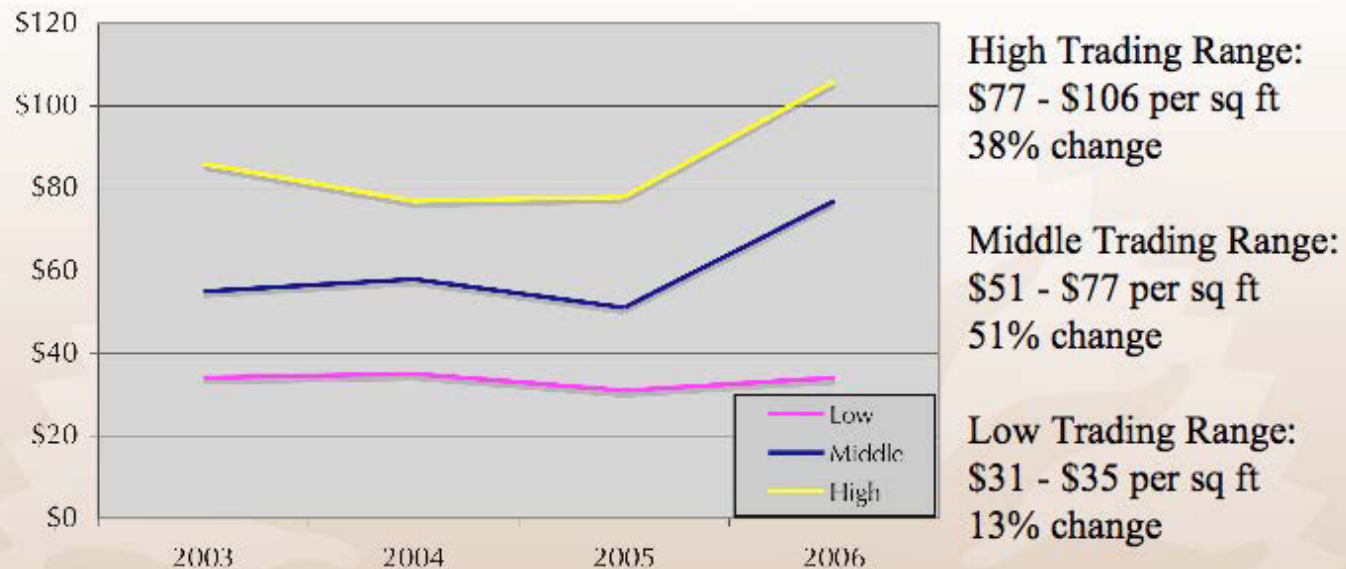
Middle Trading Range:
\$30 - \$67 per sq ft
123% change

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

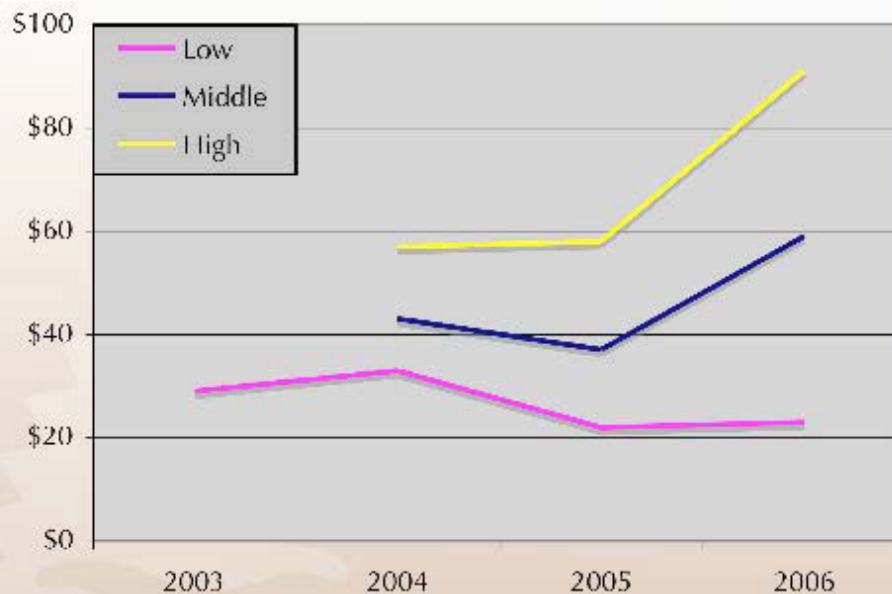


Source: San José Residential Land Value Survey Updates, 2003, 2004, 2005 and 2006, San José Department of Housing, David Paul Rosen & Associates



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

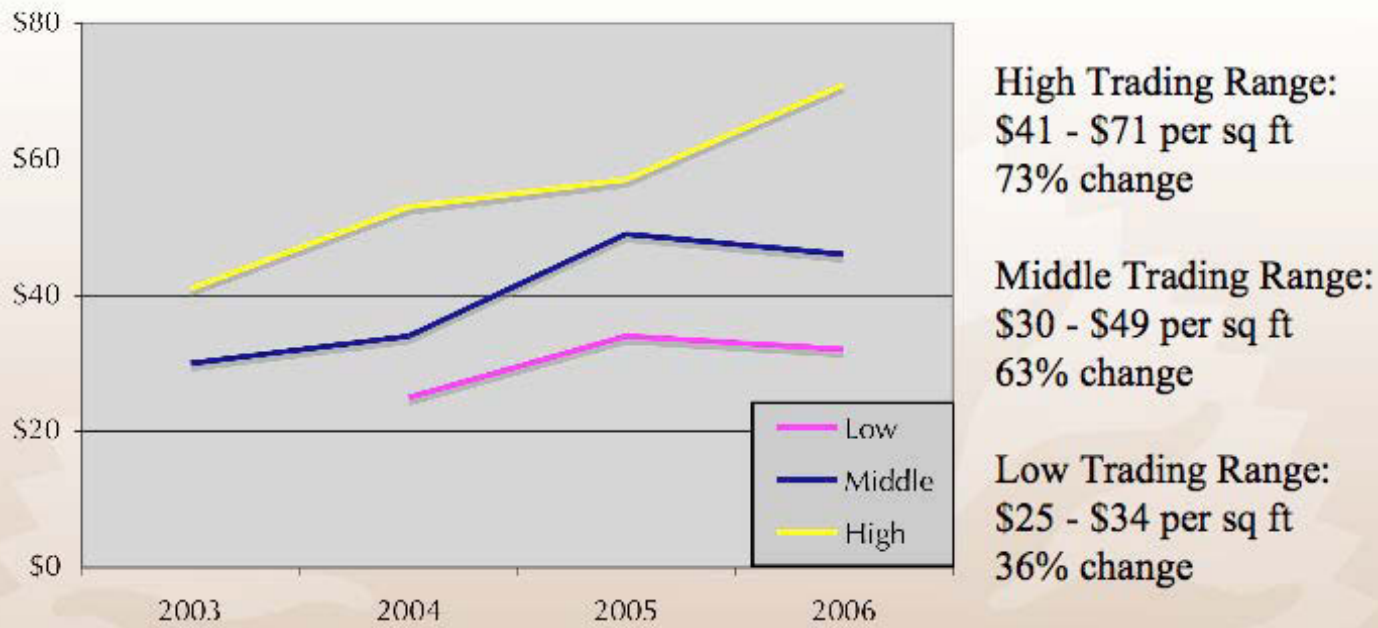
Low Trading Range:
\$22 - \$33 per sq ft
50% change

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



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