Building Inclusive and Resilient Communities: Affordability & Developer Economics

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EFA Economic Forensics & Analytics™

BAY AREA COUNCIL ECONOMIC INSTITUTE

Housing Affordability in Sonoma County

- Real wages in Sonoma County are up **6%** since 2011;
- Rents are up **32%** and home prices are up **58%;**
- 78,567 households spend more than 30% of their income on housing costs, or **40.6%** of households.

% of Households Cost-Burdened

Bay Area Counties	
Sonoma	41%
Contra Costa	38%
Marin	38%
Napa	38%
Solano	38%
Alameda	37%
San Mateo	36%
Santa Clara	36%
San Francisco	33%
Bay Area	37%

Source: American Community Survey, one-year estimates 2017

Housing Affordability in Sonoma County by Race

Race/Ethnicity		
	Share of all households	Share cost burdened
White	64%	31%
Latinx	27%	41%
Asian	5%	22%
Other	3%	36%
African American	2%	34%

Source: American Community Survey, one-year estimates 2017

Change in Population and Housing, 2011-2018

Sonoma County	Population	Housing Units	Single-Family	Multi-Family	Mobile Home
Cloverdale	516	41	9	32	0
Cotati	451	37	31	6	0
Healdsburg	807	189	123	66	0
Petaluma	4,767	699	387	312	0
Rohnert Park	2,804	265	181	84	0
Santa Rosa	**10,673**	**869**	**(616)**	**1,170**	**315**
Sebastopol	407	44	35	8	1
Sonoma	742	124	85	43	(4)
Windsor	1,259	154	44	111	(1)
Incorporated Areas	**22,426**	**2,422**	**279**	**1,832**	**311**
Unincorporated County	(2,972)	(3,415)	(2,965)	(220)	(230)
County Total	**19,454**	**(993)**	**(2,686)**	**1,612**	**81**

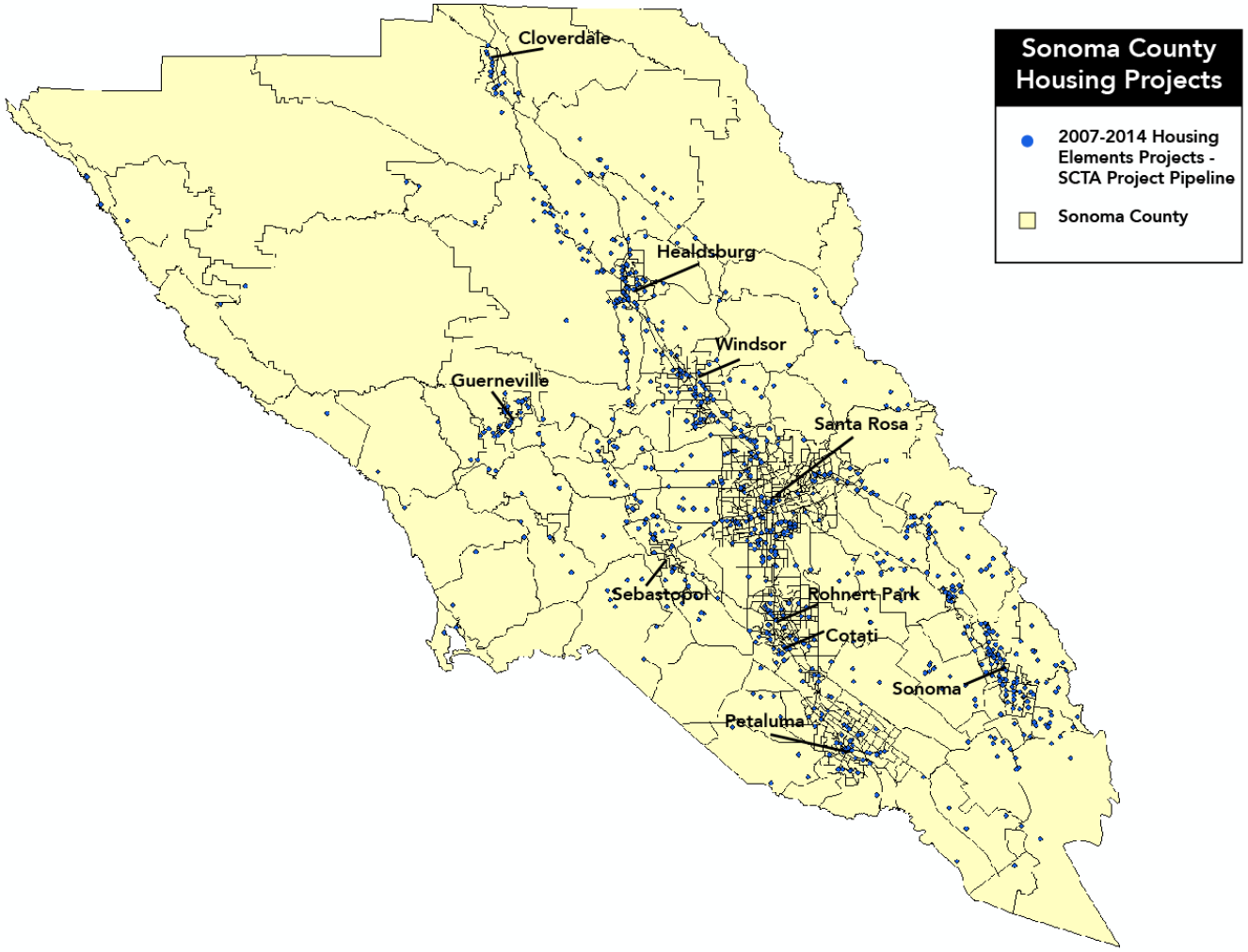
Source: California Department of Finance (http://www.dof.ca.gov/Forecasting/Demographics/Estimates/

Housing permits remain low in the North Bay

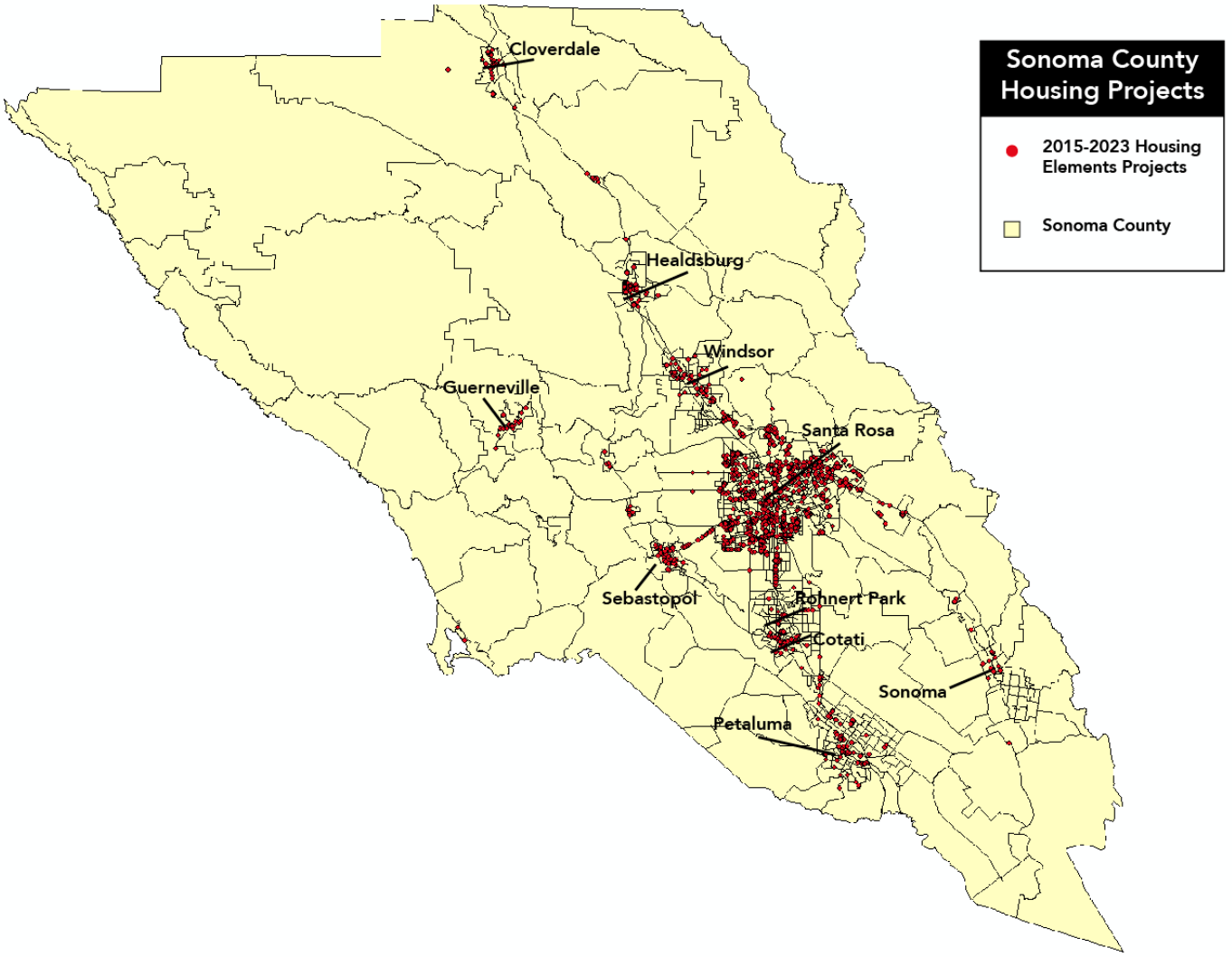
Year	Sonoma	Napa	Marin	Mendocino	Lake
Baseline (1999)	183,153	48,554	104,990	36,937	32,528
2000	2,119	539	455	273	132
2001	1,819	790	197	319	102
2002	1,443	633	303	358	305
2003	1,584	577	653	396	419
2004	1,424	665	646	367	544
2005	1,742	635	519	289	474
2006	1,420	285	375	279	466
2007	971	275	284	225	345
2008	563	220	210	144	127
2009	383	128	120	113	57
2010	312	110	133	126	46
2011	469	132	110	104	43
2012	328	108	136	72	40
2013	483	83	199	111	48
2014	437	104	218	106	45
2015	458	171	223	106	71
2016	656	209	97	120	241
2017	1,178	183	94	192	159
Average	**988**	**325**	**276**	**206**	**204**

Source: FRED database (http://fred.stlouisfed.org), "Baseline" represents total housing units at January 1, 2000.

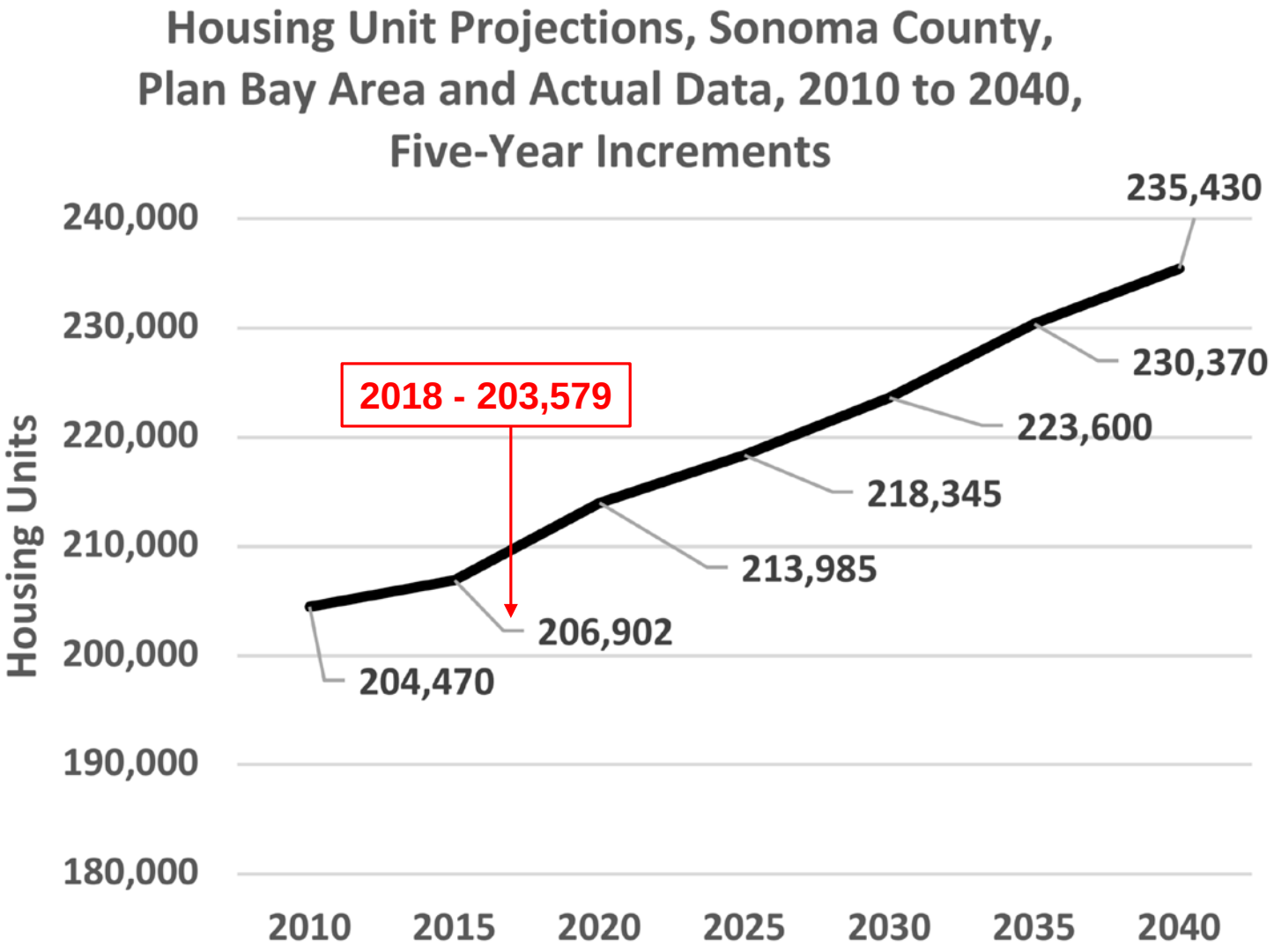
Permitted Projects (2007-Present)



Housing Element Identified Projects (2015-2023)



Sonoma County Off Pace to Produce 30k units in 30 years



Source: Plan Bay Area 2040; there are 203,579 units as of 2018.

What are some key developer considerations?

- **Cost of Land Acquisition**
- **Interest Rates on Borrowed Funds / Financing Costs**
- **Capitalization Rate / Equity Hurdle**
- **Rents / Sales Price (+ any restrictions on rents)**

- **Hard Costs per square foot or per unit:**
  - Contractor/sub-contractor costs
  - Materials
  - Infrastructure costs specific to site
  - Parking construction

- **Soft Costs per square foot or per unit:**
  - Fees and permit costs
  - Community benefit agreements
  - Environmental Impact Review

How rising costs and higher fees can kill a project…

Market Price:	$750,000
Less Soft Costs/Indirect:	$60,000
Less City/Utility fees:	$60,000
Less Construction Cost:	$400,000
Less Structured Parking:	$50,000
Less Financing/Carry:	$50,000
Less Equity Return/Profit	$80,000
AVAILABLE FOR LAND:	$50,000

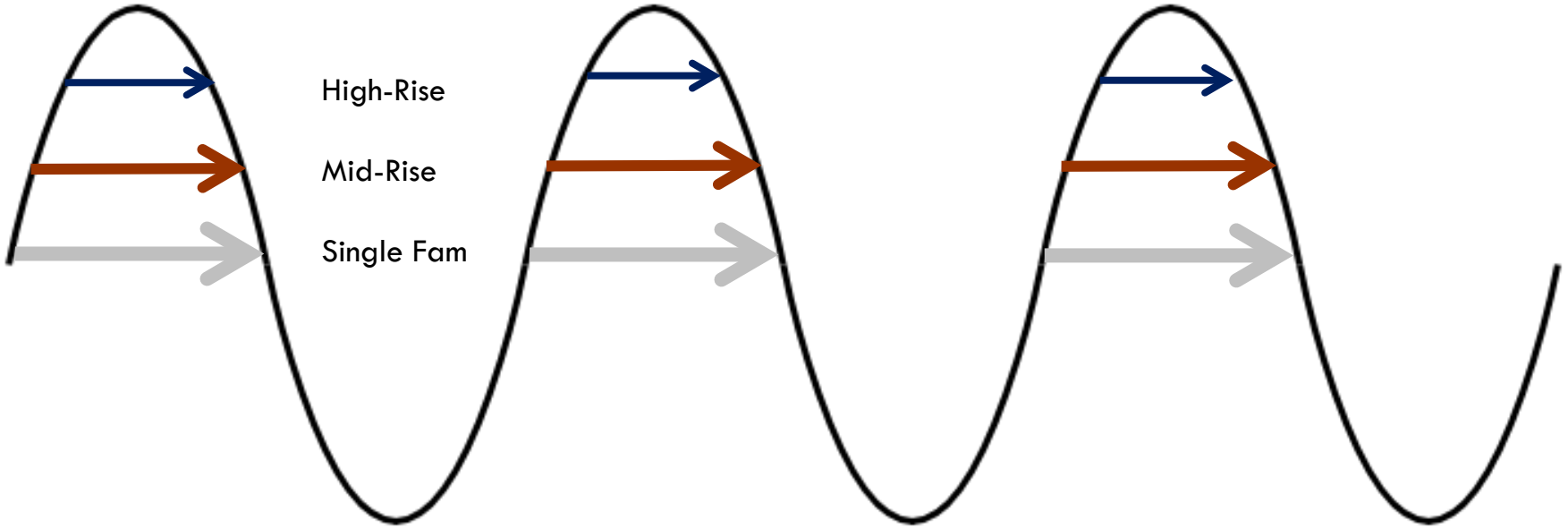
x200 units - $10,000,000

GO: IF SELLER WILL SELL AT THIS PRICE

Market Price:	$750,000
Less Soft Costs/Indirect:	$60,000
Less Fees (+20k affordable fee):	$80,000
Construction costs rise 10%:	$440,000
Less Structured Parking:	$50,000
Less Financing Costs:	$50,000
Less 10% Equity Hurdle/Profit:	$80,000
AVAILABLE FOR LAND:	$-10,000

STOP: Buyer loses money
Seller operates current land use
(mini-mall, garage, gas station, industrial building)

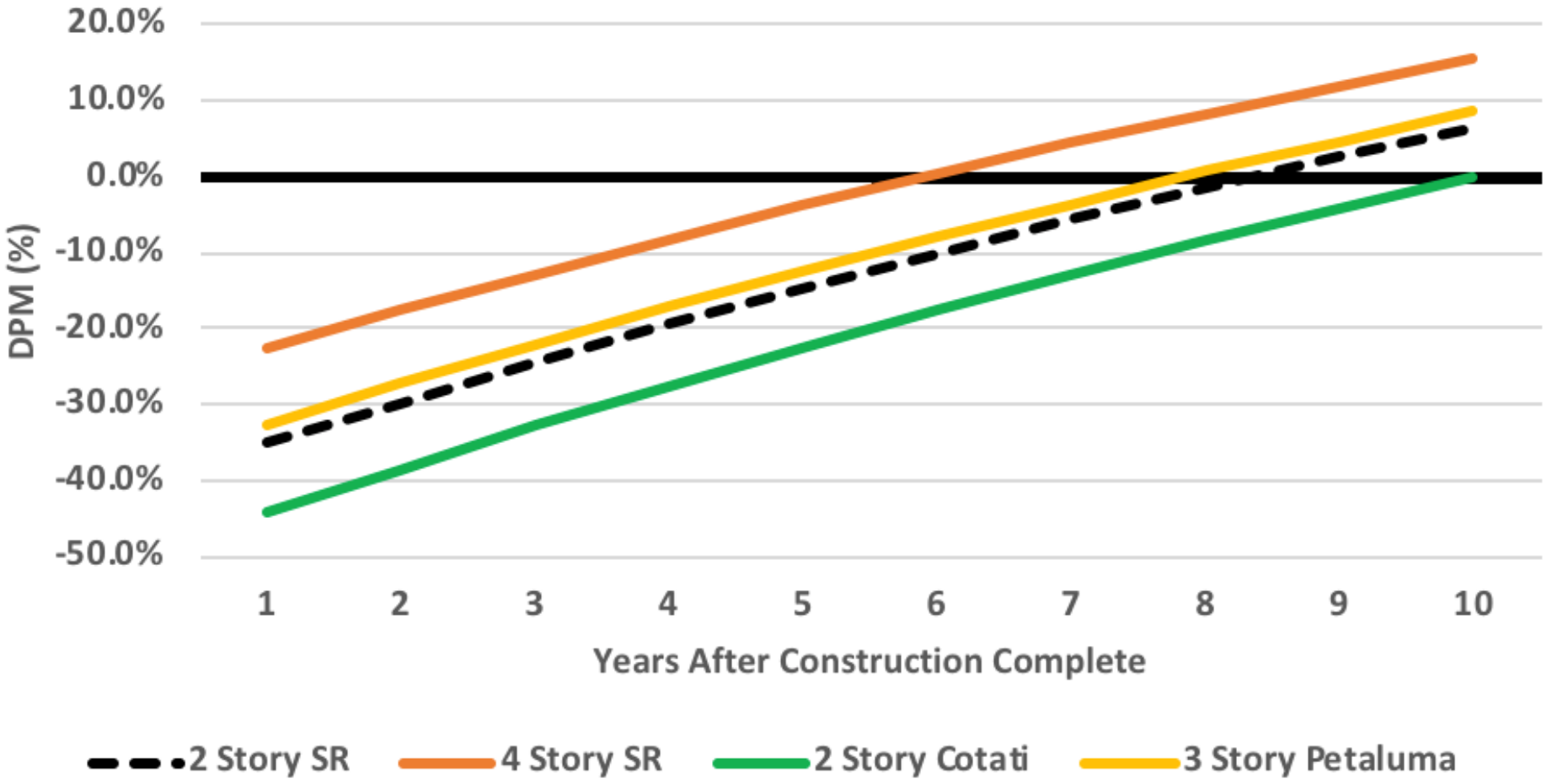
How delay and permitting time can kill a project…



Delays reduce the window of time where development deals are feasible
Dense infill works during high points in rent cycle

- Single-family works longer because it can be lowest cost to build
- Mid-rise works in higher price locations for shorter time, missing the cycle stops deals
- High-rise works only in high price locations at high point in cycle
- Any increase in costs reduces production window, and raises costs by compressing period of time when building works economically

Using four hypothetical projects as case studies for how developer math work



Key Takeaways

- **If permitting costs and construction costs simultaneously rise, projects quickly become infeasible.**
- **Building economics are most sensitive to rental prices.**
- **Permit and fee cost controls can help project economics.**
- **Adding density (up to a point), makes projects more feasible.**

- **Regional buying programs to lower hard costs**
- **Fast-tracking planning and permitting in pilot zones**
- **Be cautious of price controls / increased IZ**