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#HowManyHomes?

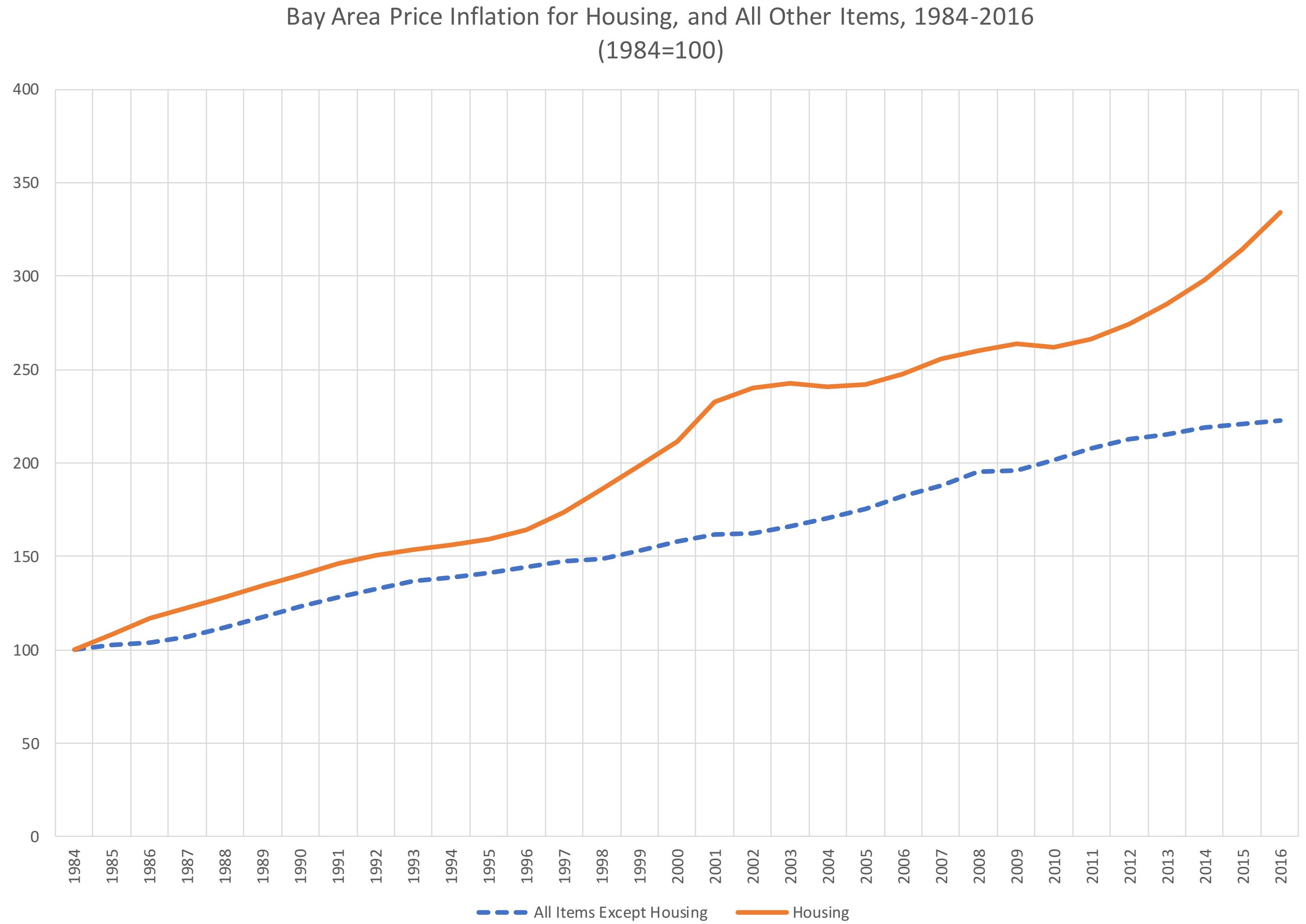
The Bay Area Economy and the Regional Housing Needs Assessment

Ted Egan, Ph.D.
Chief Economist, Controller's Office
June 27th, 2017

How Much Housing Do We Need?

- Some background…
- In 1980, the State Legislature has declared “the availability of housing is of vital statewide importance”.
- It recognized that “Local and state governments have a responsibility to use the powers vested in them to facilitate the improvement and development of housing to make adequate provision for the housing needs of all economic segments of the community.”
- It created a process that mandated cities plan for their fair share of the regional housing need: the Regional Housing Needs Assessment.
- RHNA is the State’s answer to the question: how much housing do we need?

Since the 1980s, Bay Area Housing Prices Have Risen at Twice the Rate of Inflation of Other Commodities, and the Gap Has Been Widening

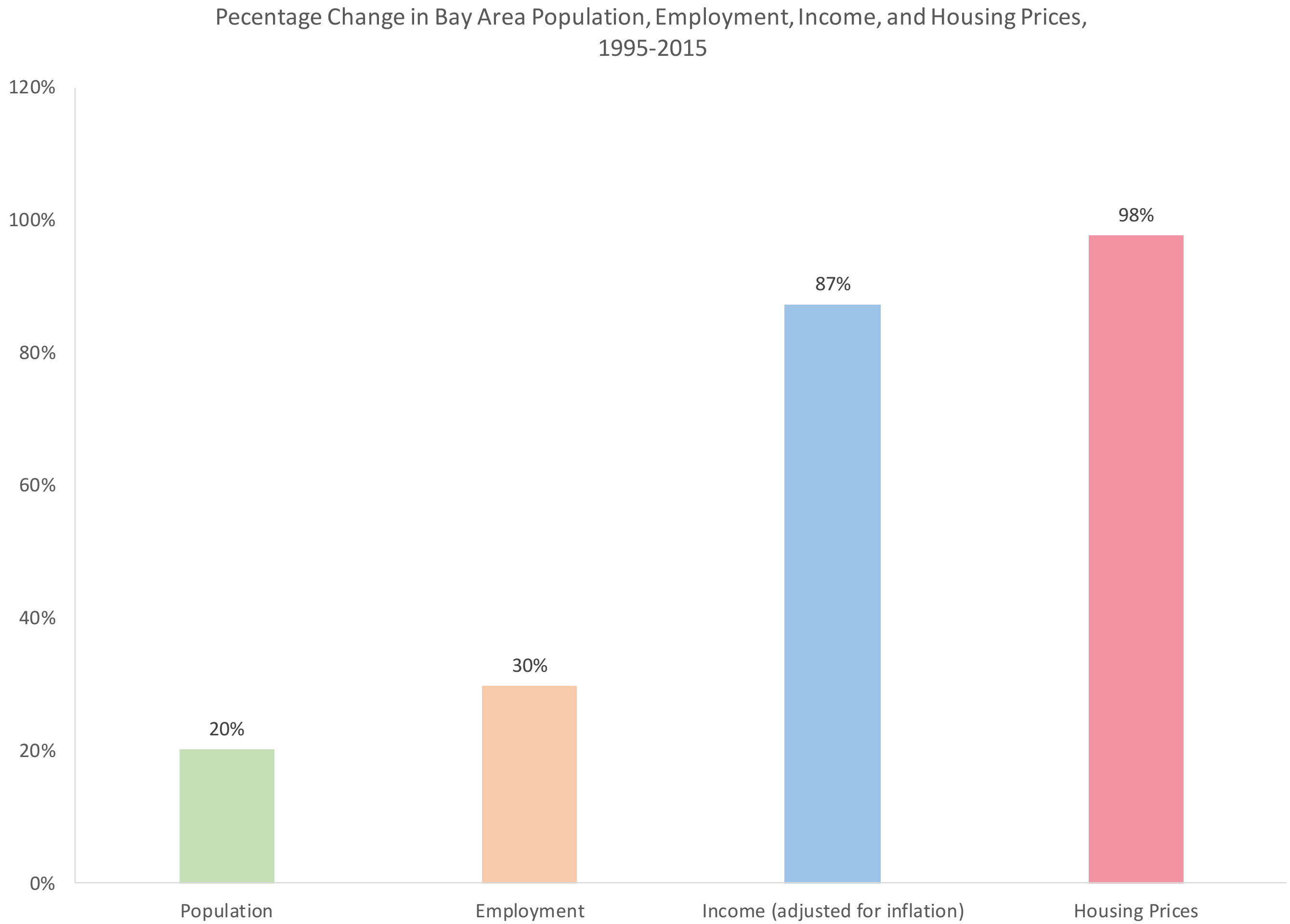


Source: Bureau of Labor Statistics

The RHNA Process Establishes a Housing Target that Will Keep Housing Prices Stable….Most of the Time

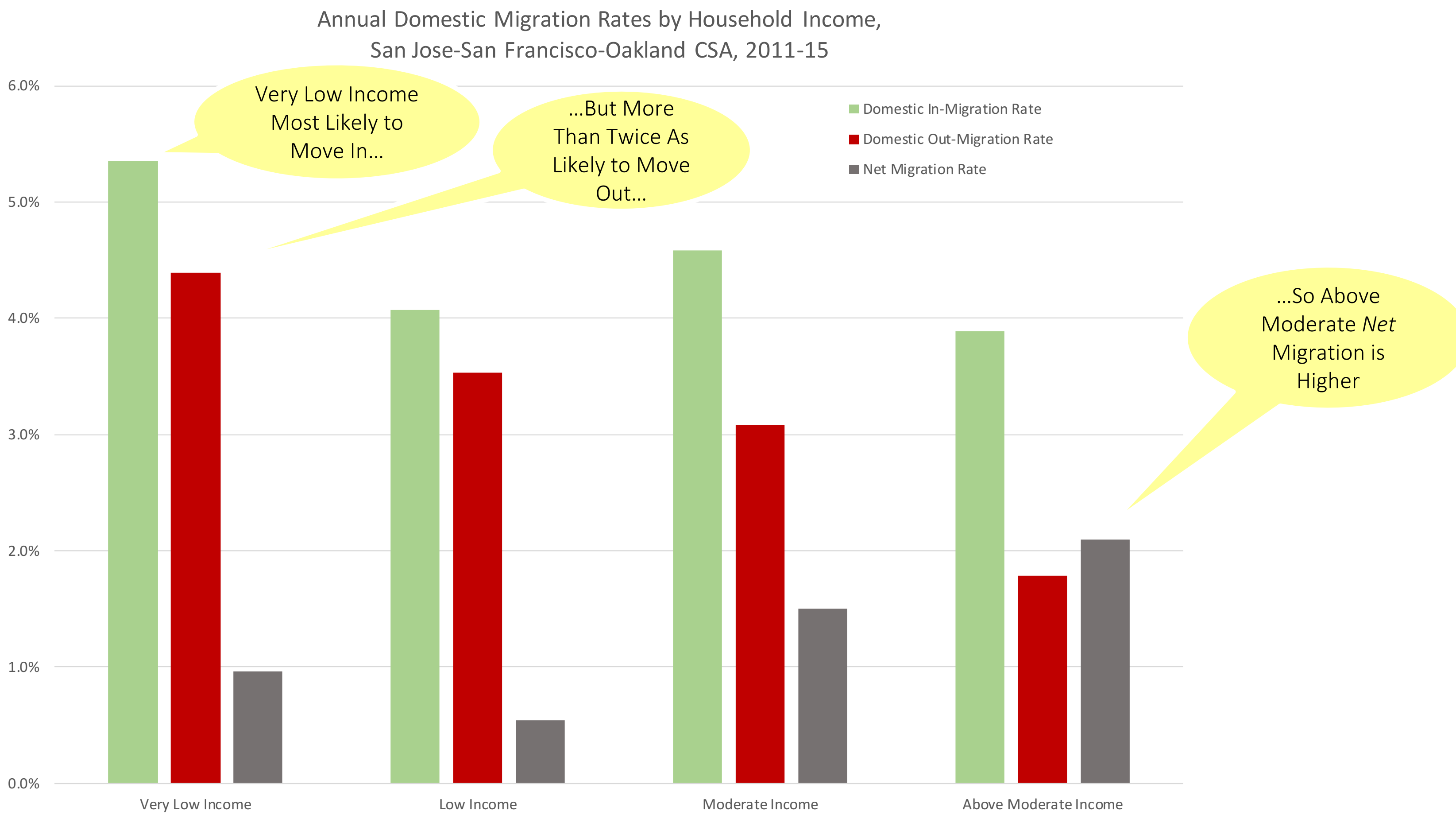
- Projecting population and households (based on past migration and household formation trends)
- Councils of Government allocate the regional need to cities and counties.
- Population, Income, and Housing Demand.
- When is Regional Population is a Good Proxy for Regional Income?
- Missing the Target: Self-Correction, or Vicious Cycle?

In the Bay Area, Personal Income (Adjusted for Inflation) Have Grown Four Times Faster than Population from 1995 to 2015.



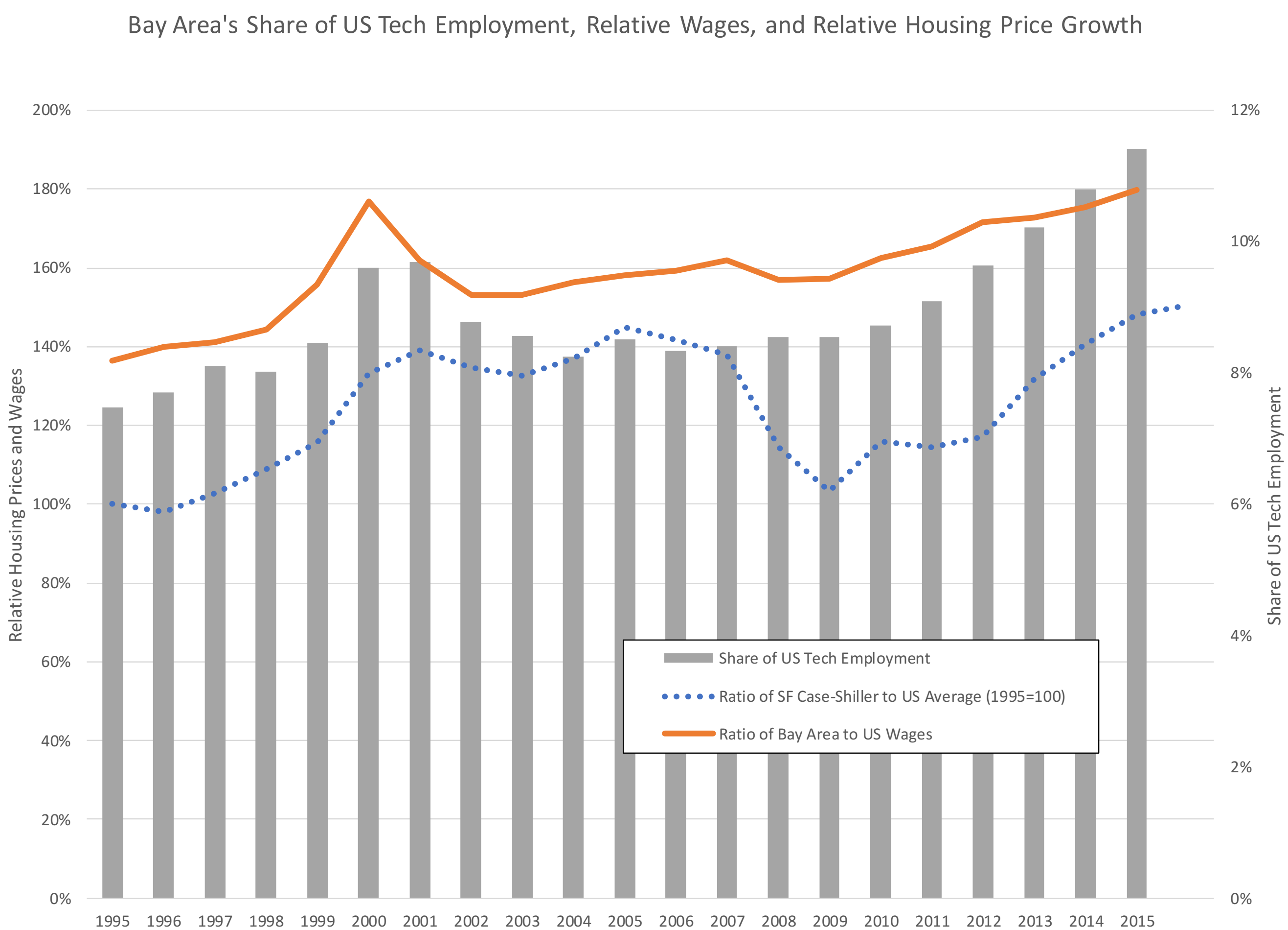
Source: Bureau of Economic Analysis;
Bureau of Labor Statistics

Household Income Shapes Migration Patterns in the Bay Area



Source: Census Bureau. American Communities Survey; IPUMS-USA, University of Minnesota

“Non-Self-Correcting” Growth of the Tech Industry, Despite Rising Wages / Incomes



Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

An Alternative Approach, Based on Long-Term Real Income Growth in the Bay Area

- The *income elasticity of demand* for housing, which reflects how much of real personal income growth gets spent on housing, can be estimated econometrically.
- In order to prevent new income from driving up housing prices faster than inflation, housing supply must increase at least as much as this demand.
- An illustration is shown below:

Annual % change in inflation-adjusted personal income (1995-2015)	3.2%
x Income elasticity of demand for housing	0.59
Annual % increase in housing demand = Required % increase in housing supply	1.9%
x Current number of housing units in the Bay Area (2015)	2,727,042
Annual number of new units needed to meet demand	51,847

How Many Homes Should We Have?

SFHAC-SPUR Lunchtime Panel

June 27, 2017

Pedro Galvao

Regional Planning and Policy Manager

Non-Profit Housing Association of Northern California

NPH NON-PROFIT HOUSING ASSOCIATION OF NORTHERN CALIFORNIA

The Voice of Affordable Housing

Since 1988,
the Bay Area met
87% of luxury housing needs,
but only 42% of the area's low income housing needs.

NPH
NON-PROFIT HOUSING ASSOCIATION OF NORTHERN CALIFORNIA

The Voice of Affordable Housing

In three 2016 polls commissioned by NPH covering Alameda, Santa Clara, and San Mateo Counties,

voters identified the cost of housing as their

#1 concern

above traffic, health, safety, and education

NPH

NON-PROFIT HOUSING ASSOCIATION OF NORTHERN CALIFORNIA

The Voice of Affordable Housing

MAJOR funding cuts

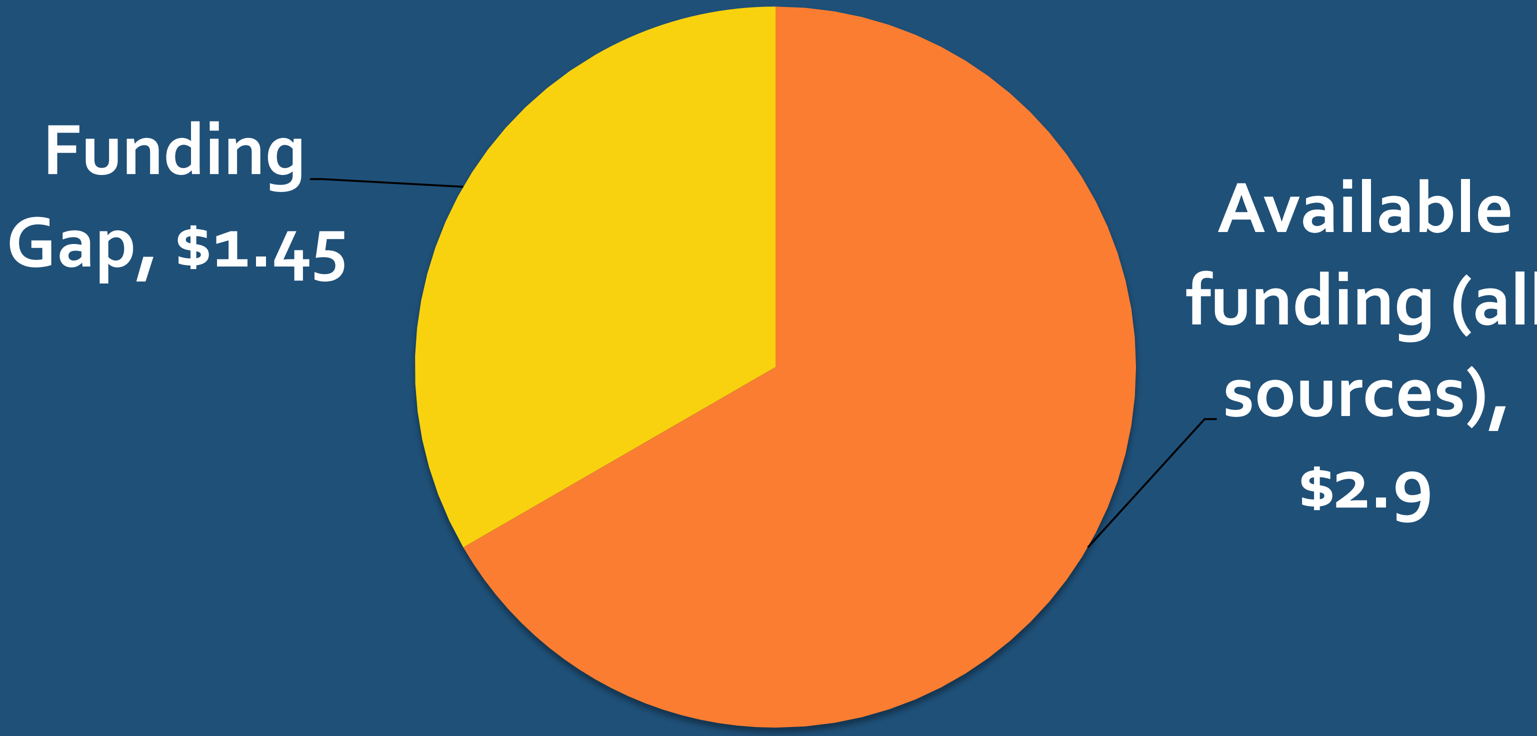
- Major cuts to HUD budget (sequestration)
- State housing bonds (Measure 46, Prop 1C) fully spent: $4.95 billion
- Redevelopment was dissolved: $220 million in the Bay Area, $1 billion in the state
- 2008-2014: The State of California lost $1.74 billion in annual funding for affordable housing

Plan Bay Area's success will hinge on successfully accommodating the Bay Area's **future population growth of 2.3 million more people by 2040**

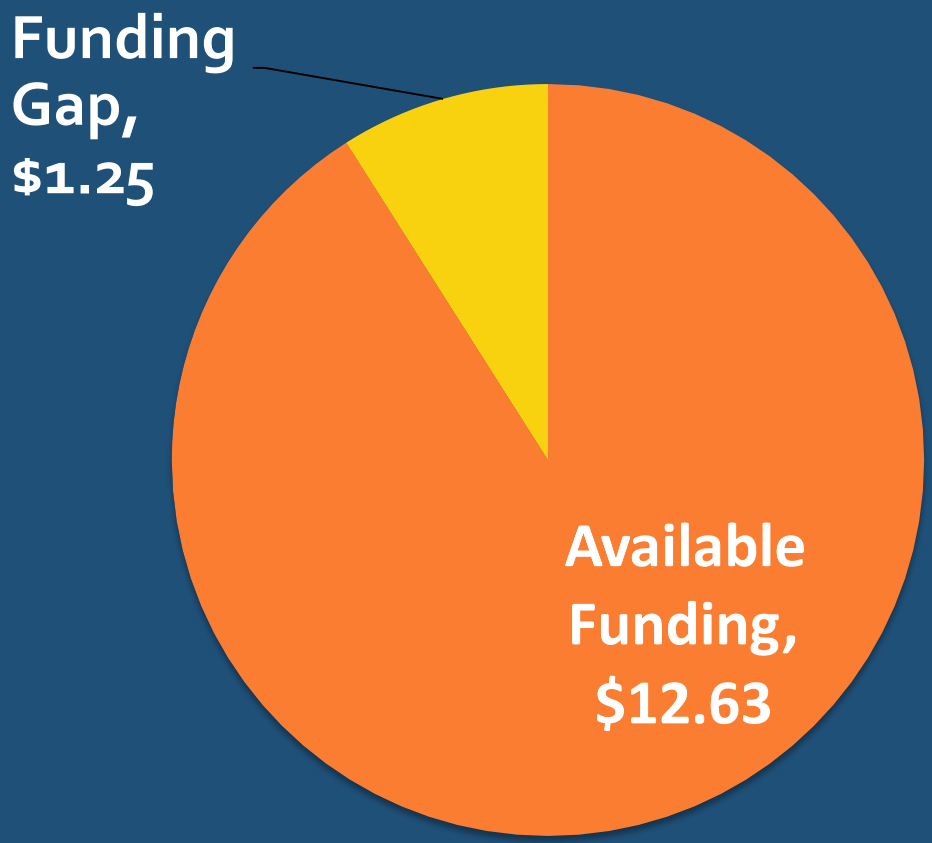
NON-PROFIT HOUSING ASSOCIATION OF NORTHERN CALIFORNIA

The Voice of Affordable Housing

Available Annualized Affordable Housing Funding and Gap for RHNA in the Bay Area (billions)



Available Annualized Transportation Funding and Gap for "State of Good Repair" (billions)



NON-PROFIT HOUSING ASSOCIATION OF NORTHERN CALIFORNIA

The Voice of Affordable Housing

Incentivizing Better Housing Outcomes

- **One Bay Area Grant program tied regional transportation funding to affordable housing outcomes. 28 jurisdictions adopted housing elements.**

Near Term Opportunities for Action

- Use a portion of proposed bridge toll increases (Regional Measure 3) to directly fund TOD Affordable Housing and related infrastructure
- Subsidize infill development (I-bank, bridge tolls)
- Use all existing and future regional transportation funding to incentivize better housing outcomes

NPH
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The Voice of Affordable Housing

The Bay Area is at a Unique Moment for Action

- **June 28th 2017:** CASA kickoff meeting
- **July 1st 2017:** ABAG staff is consolidated into MTC
- **Mid-July 2017:** Plan Bay Area adopted

THAN K YOU!

Pedro Galvao

Regional Planning and Policy Manager, NPH

Pedro@nonprofithousing.org

Check out our report:

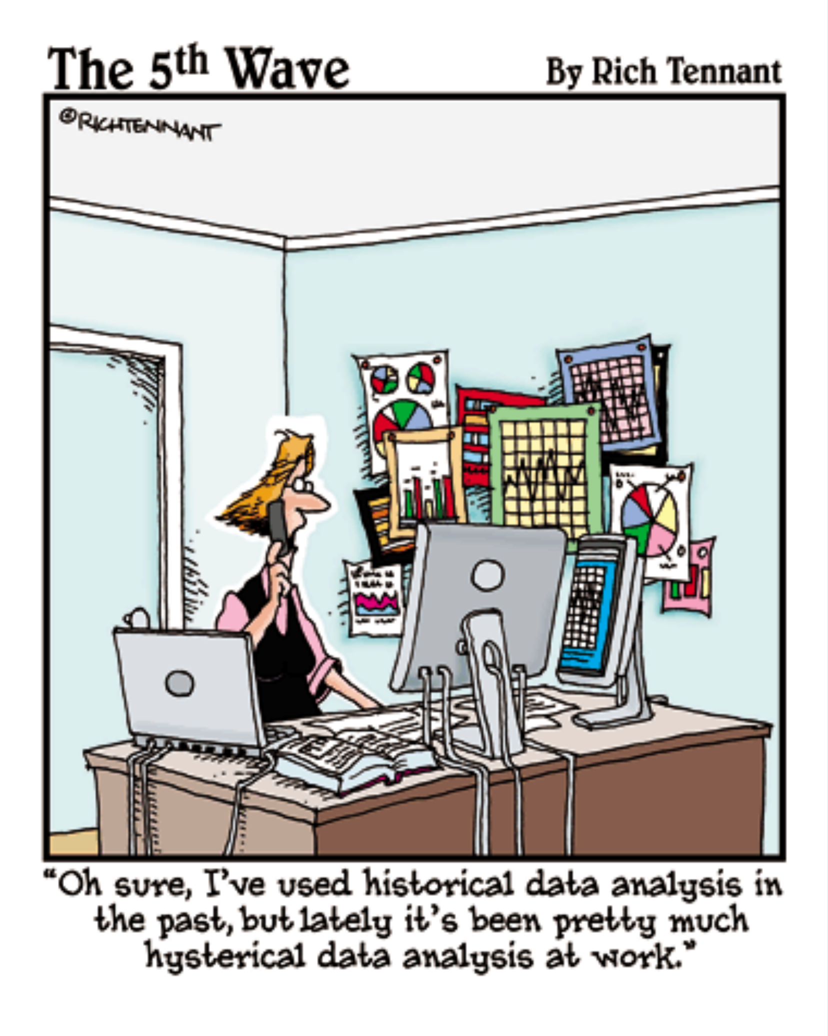
www.nonprofithousing.org/ontracktogether

How many homes should we have?
(More than everyone might think we need!)

SPUR
June 27, 2017

Seifel
CONSULTING INC.

Why do we need more, more and even more housing than we might think?

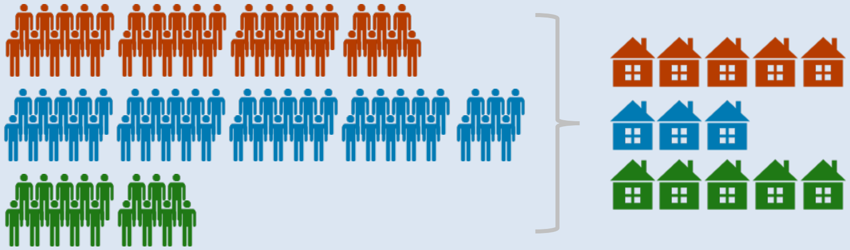


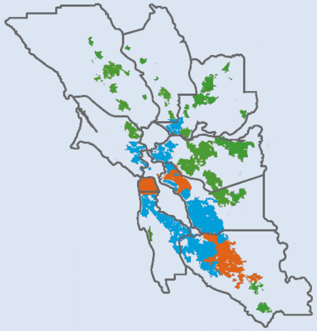
Our economy is booming – but we're not building enough housing.

Plan BayArea 2040

Jobs added from 2011 through 2015: 501,000

Housing units built from 2011 through 2015: 65,000





Big 3 Cities:
1 housing unit built for every 7 jobs created

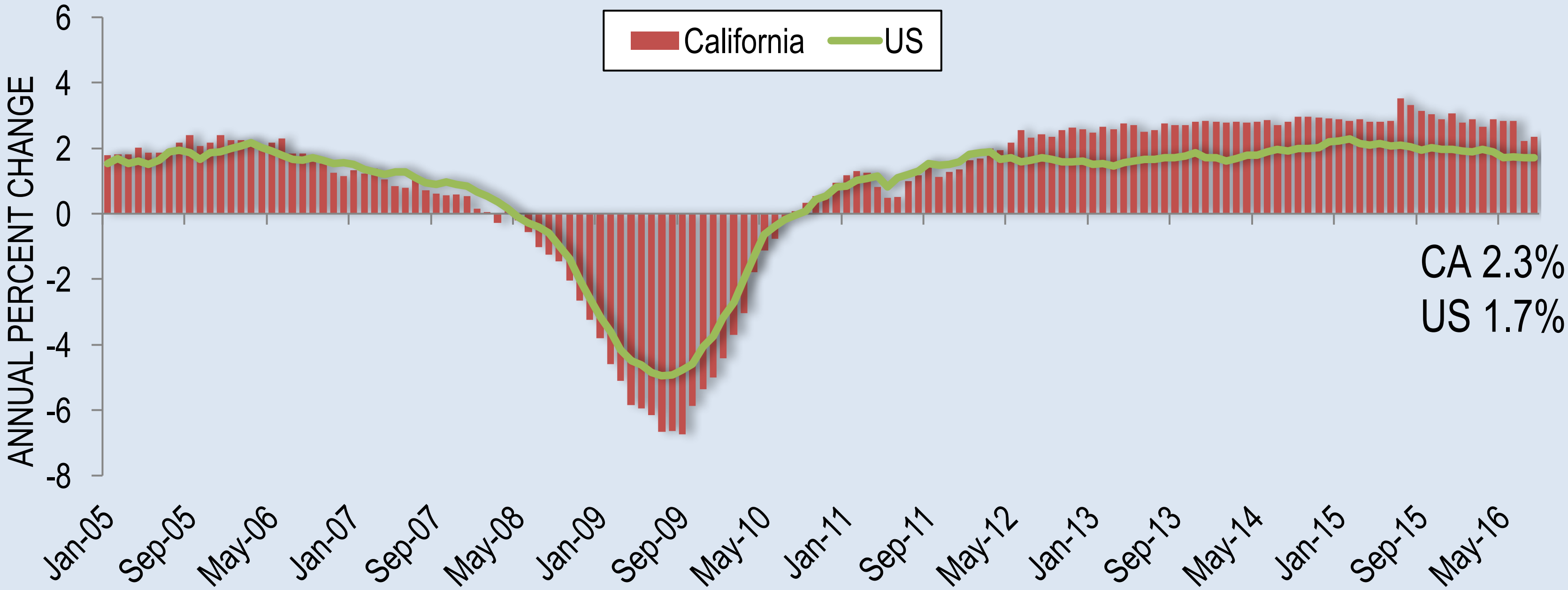
Bayside Cities and Towns:
1 housing unit built for every 15 jobs created

Inland, Coastal, Delta Cities and Towns:
1 housing unit built for every 3 jobs created

Regionally: 1 house was built for every 8 jobs created

http://www.dof.ca.gov/research/demographic/reports/estimates/e-5/2011-20/view.php

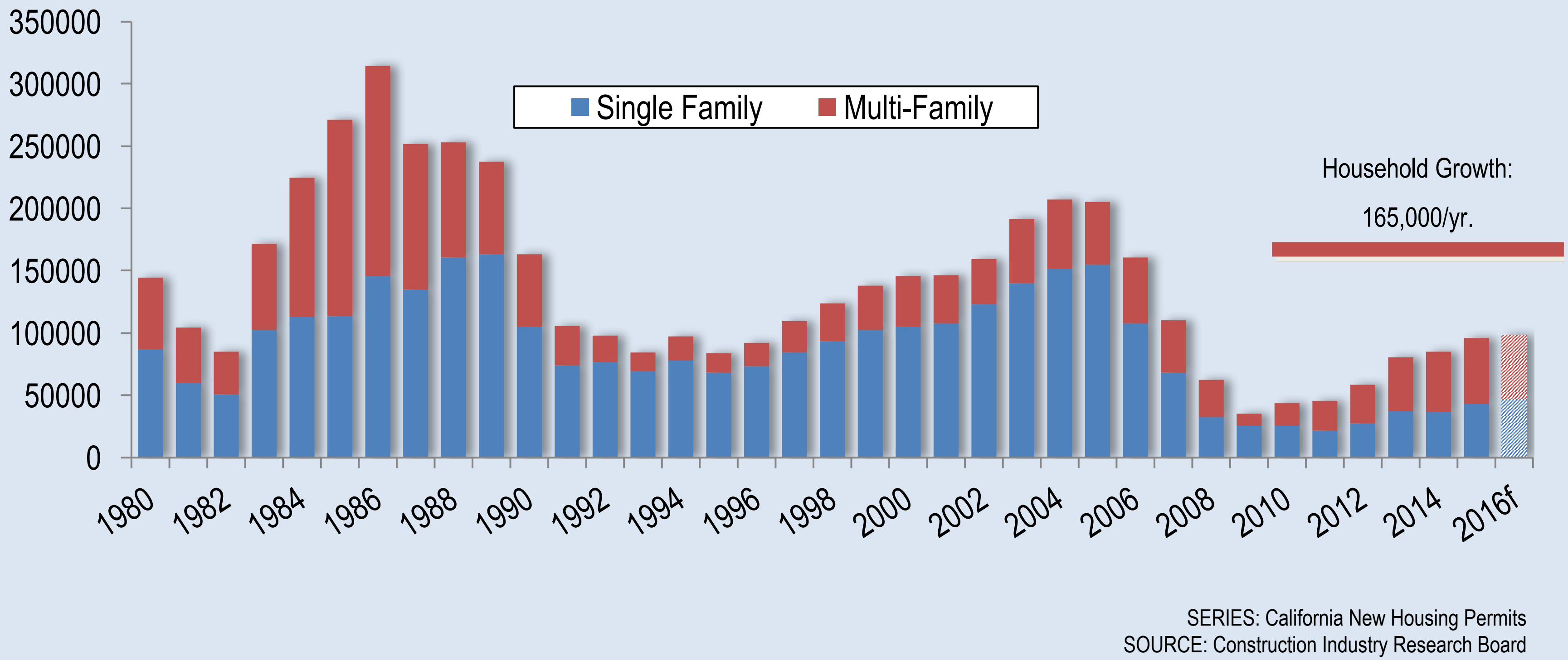
CA Jobs Growing Faster Than Nation



SERIES: Total Nonfarm Employment
SOURCE: US Bureau of Labor Statistics, CA Employment Development Division

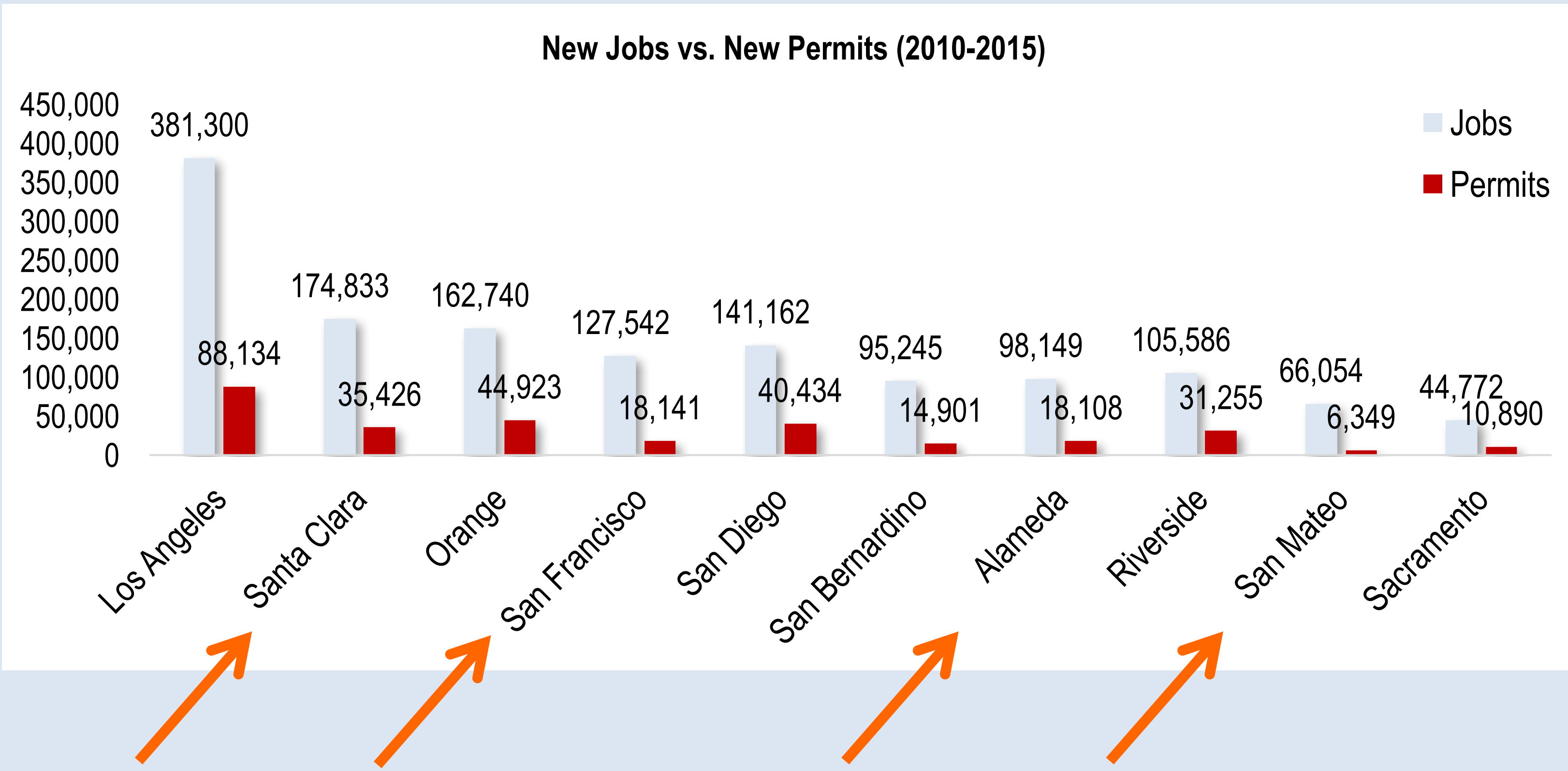
Source: CAR 2016

“Missing” 65,000 New Units Annually



Source: CAR 2016

Most Underbuilt Counties in California

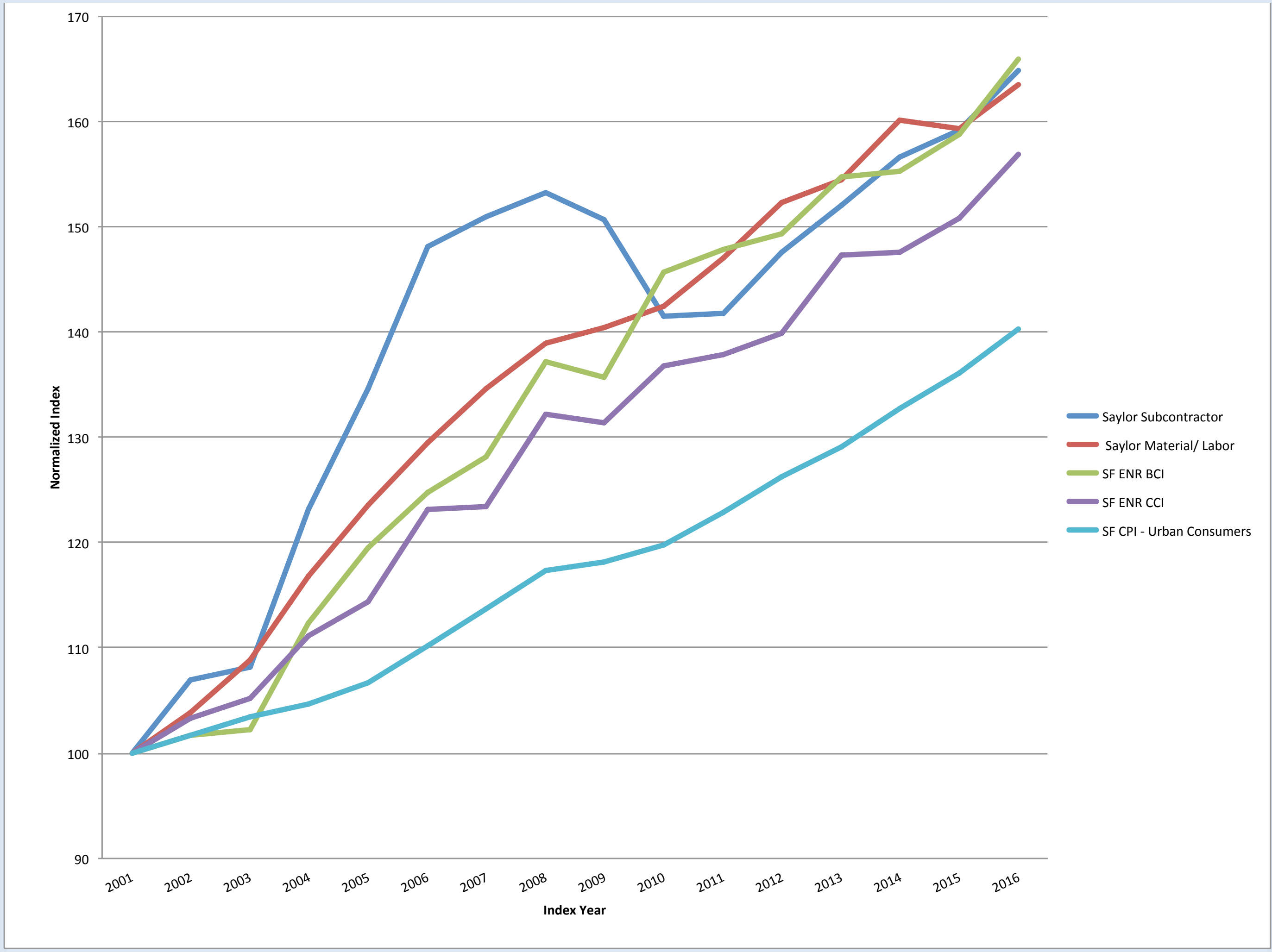


SOURCE: CAR 2016, California Employment Development Department, Construction Industry Research Board.

Why do we need to allow more housing to be built much faster?

"Looks like you're on top of the new regulations."

Construction costs continue to increase faster than inflation.



Pre-development often expensive and time consuming

Item	Cost
Land Purchase Option Payment/Deposit or Upfront Land Purchase	**Thousands of dollars** (up to 10% of purchase cost) or could cost **millions of dollars**
Development Consultants/Overhead	3-5% of construction cost
Project design (upfront)	2%-5% of project cost
Environmental analysis and entitlement process	Depends on project scope and time **(thousands or millions of dollars?)**
Pre-construction services	Depends on project scope and time **(thousands of dollars?)**

As pre-development is most risky phase, capital is most expensive.

Project Risk

High Cost Equity

What can go wrong with acquisition, design, entitlement?

Streamlining reduces costs, especially given "time value of money"

" Yes, you are a developer and yes, you're agile but that doesn't necessarily make you an agile developer. "

Density
is not a
four letter
word….

Dynamic

Walkabl**E**

Efficie**N**t

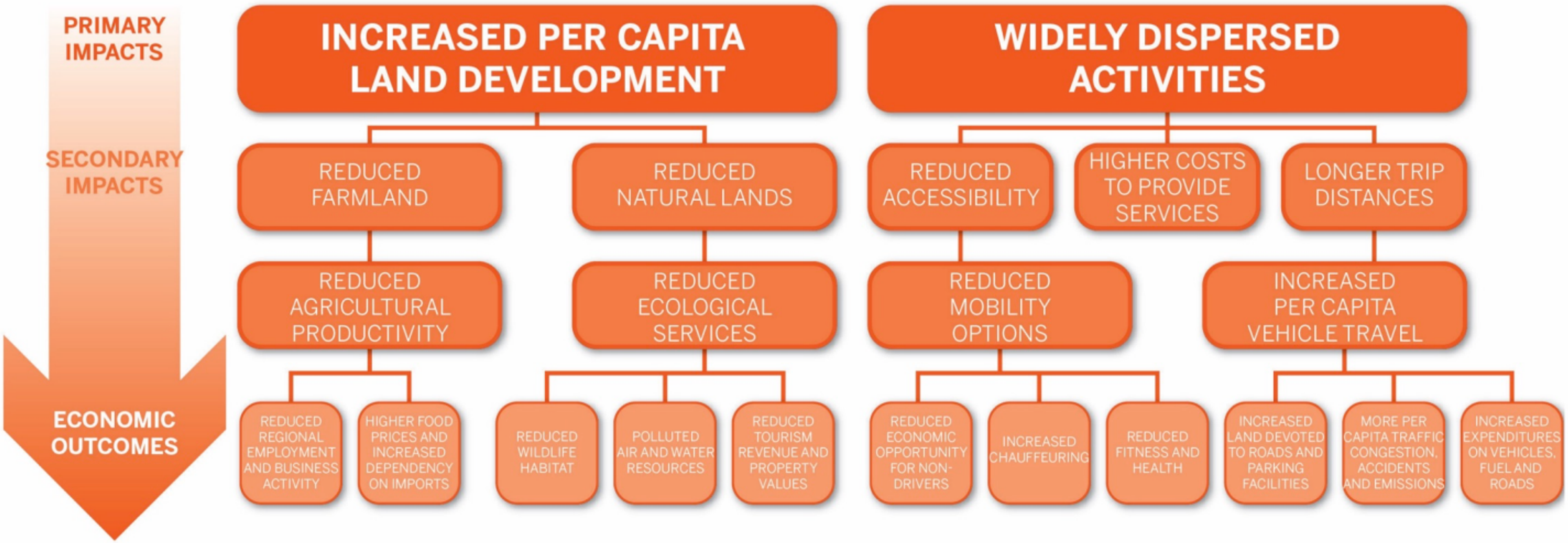
Sustainable

D**I**verse

Transit Supportive

Communit**Y**

REALIZING THE COSTS OF SPRAWL



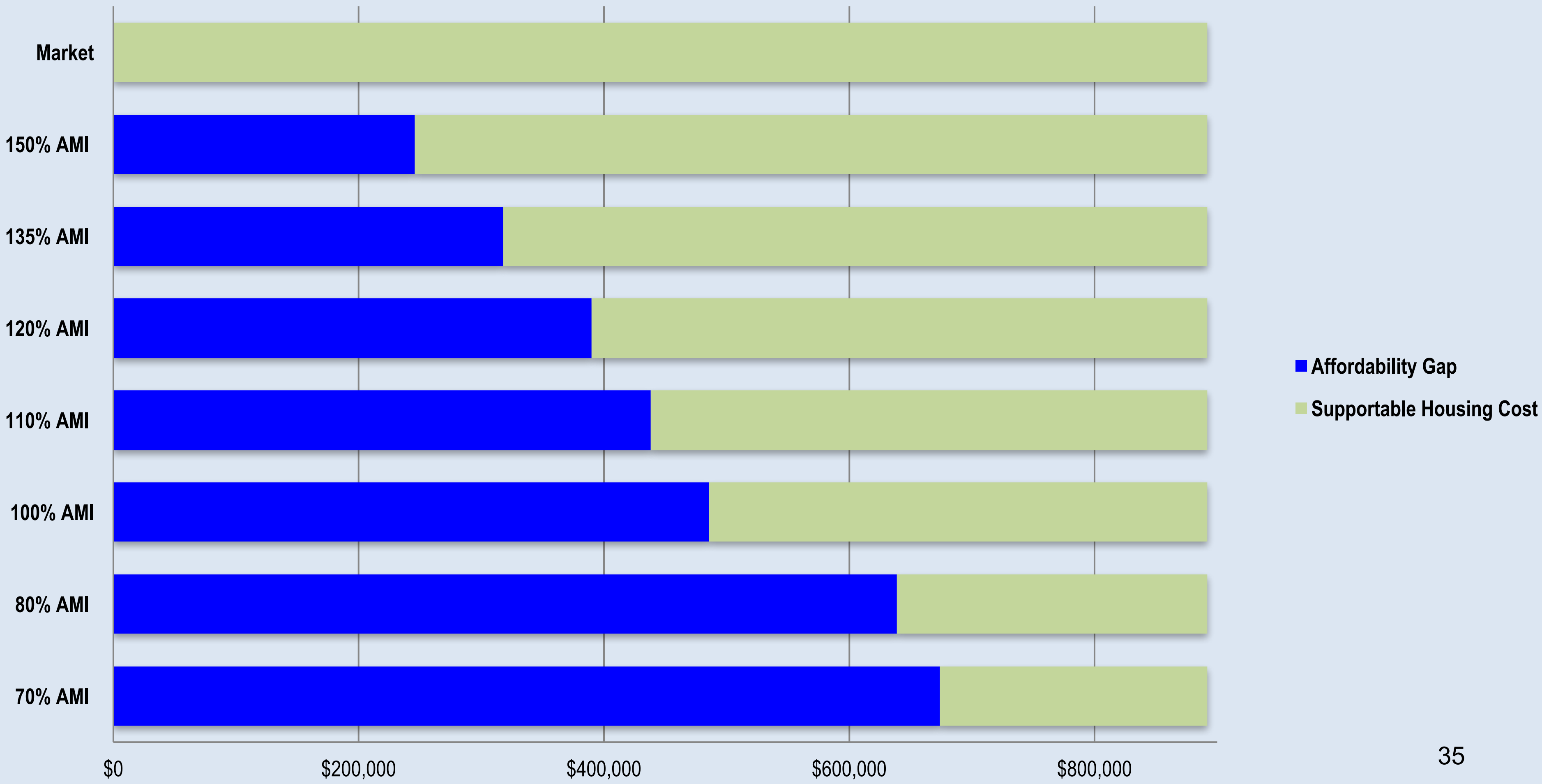
SPRAWL COSTS THE UNITED STATES MORE THAN **$1 TRILLION** ANNUALLY.

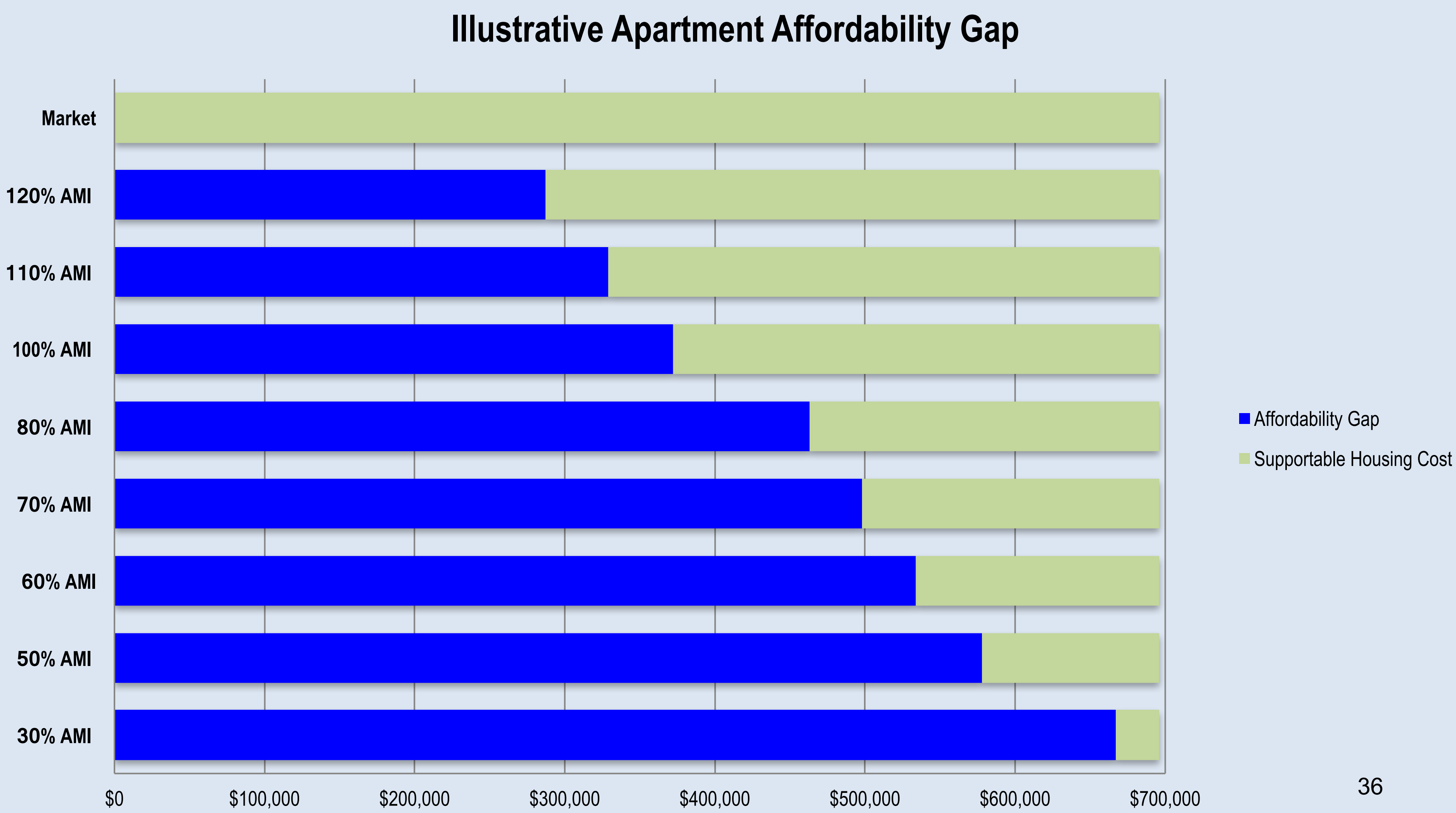
Source: Litman, Todd (2015), "Analysis of Public Policies That Unintentionally Encourage and Subsidize Urban Sprawl," Victoria Transport Policy Institute

Filtering Debate is hereby resolved!

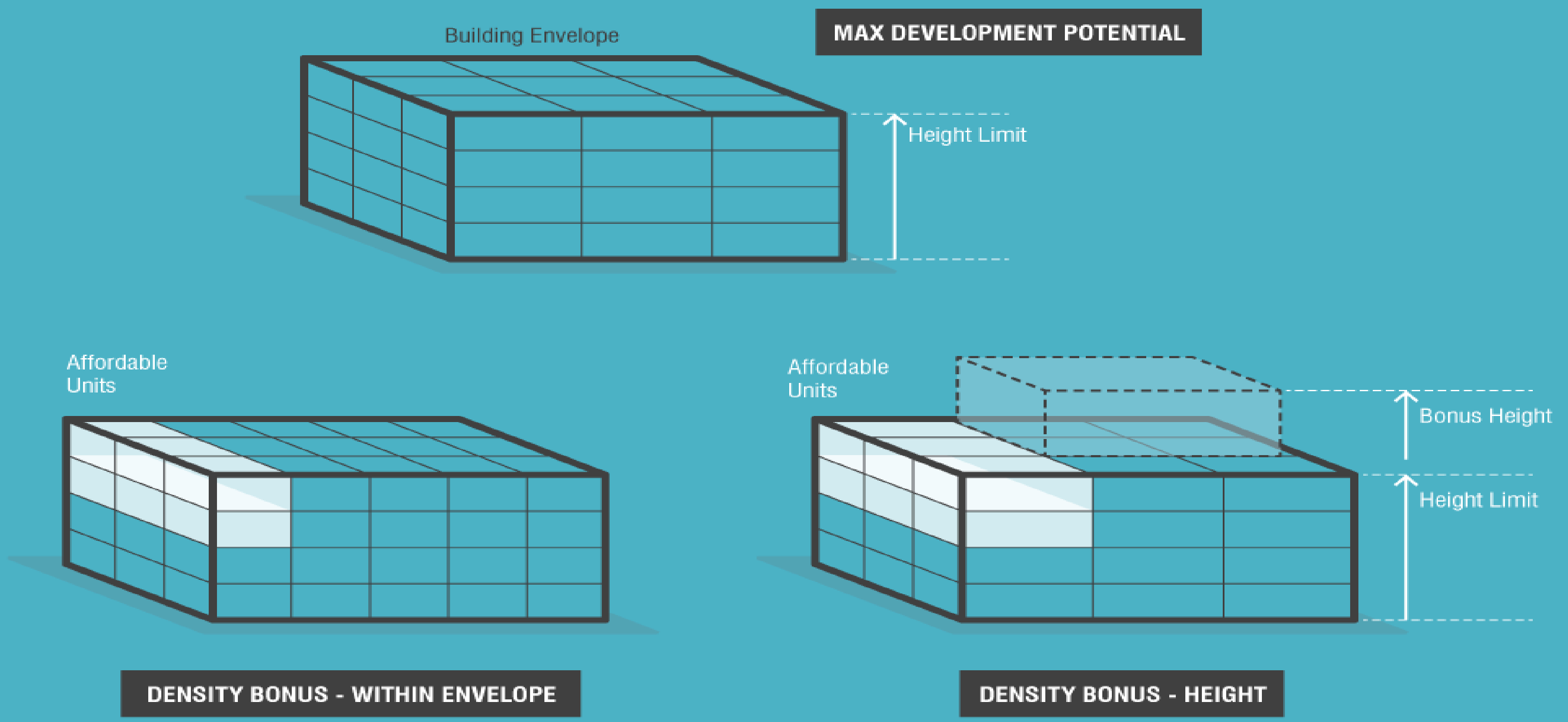
The answer:
We need market rate and affordable (inclusionary and subsidized) housing.

Illustrative Condominium Affordability Gap




Illustrative Apartment Affordability Gap
Market
120% AMI
110% AMI
100% AMI
80% AMI
70% AMI
60% AMI
50% AMI
30% AMI
$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
Affordability Gap
Supportable Housing Cost

WHAT IS A DENSITY BONUS?

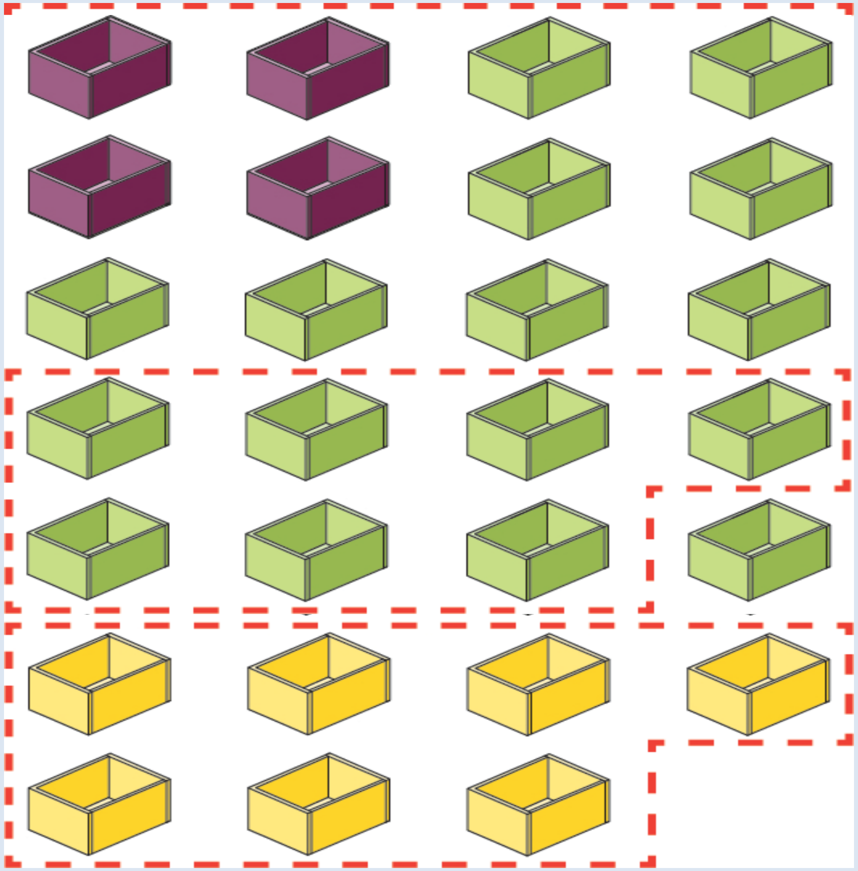


Illustrative State Density Bonus Calculation

4 Affordable Units = **20%**
(for low income households)

% Granted for Density Bonus = **35%**

Density Bonus Units = 7



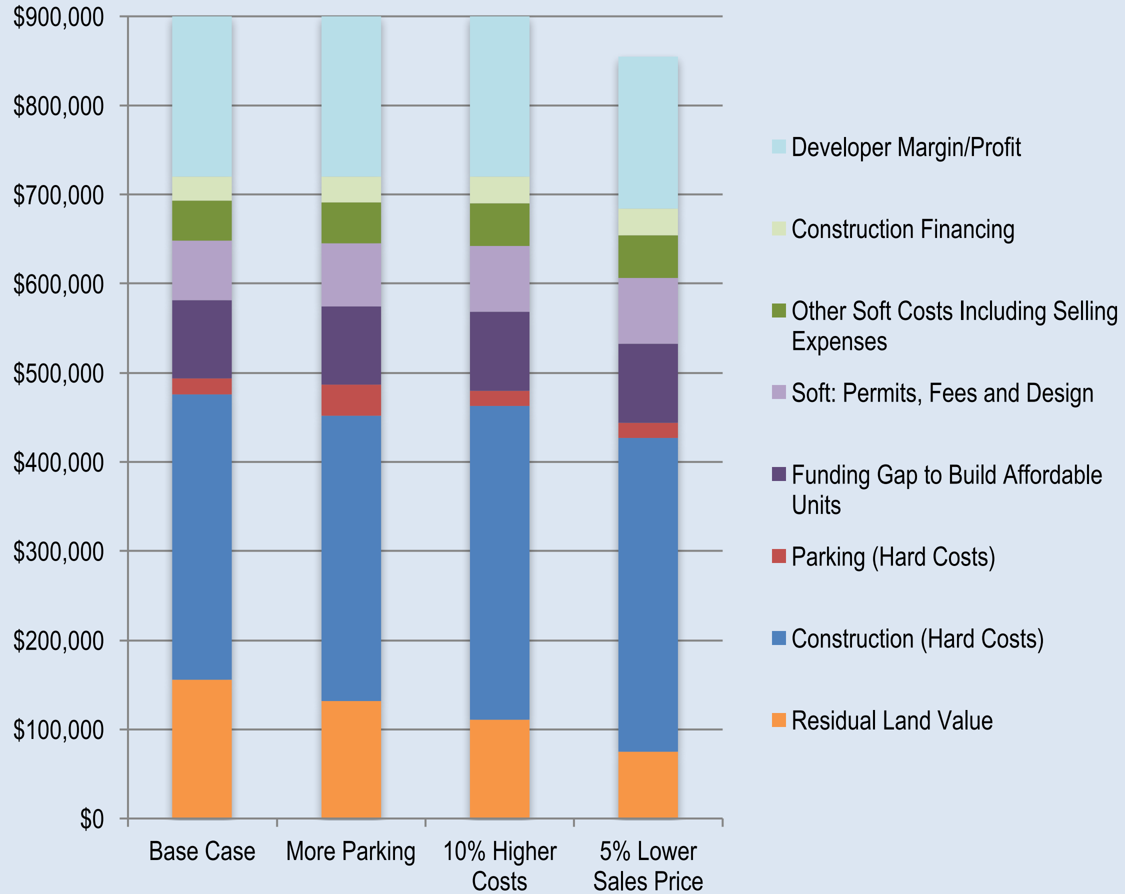
Total Possible Units: **27**

Source: City of Berkeley, November 13, 2014 Presentation on State Density Bonus


HOME-SF
EVERYBODY DESERVES A HOME
FLICKR: LIBRARIANAVENGERS
FLICKR USER: THOMASHAWK

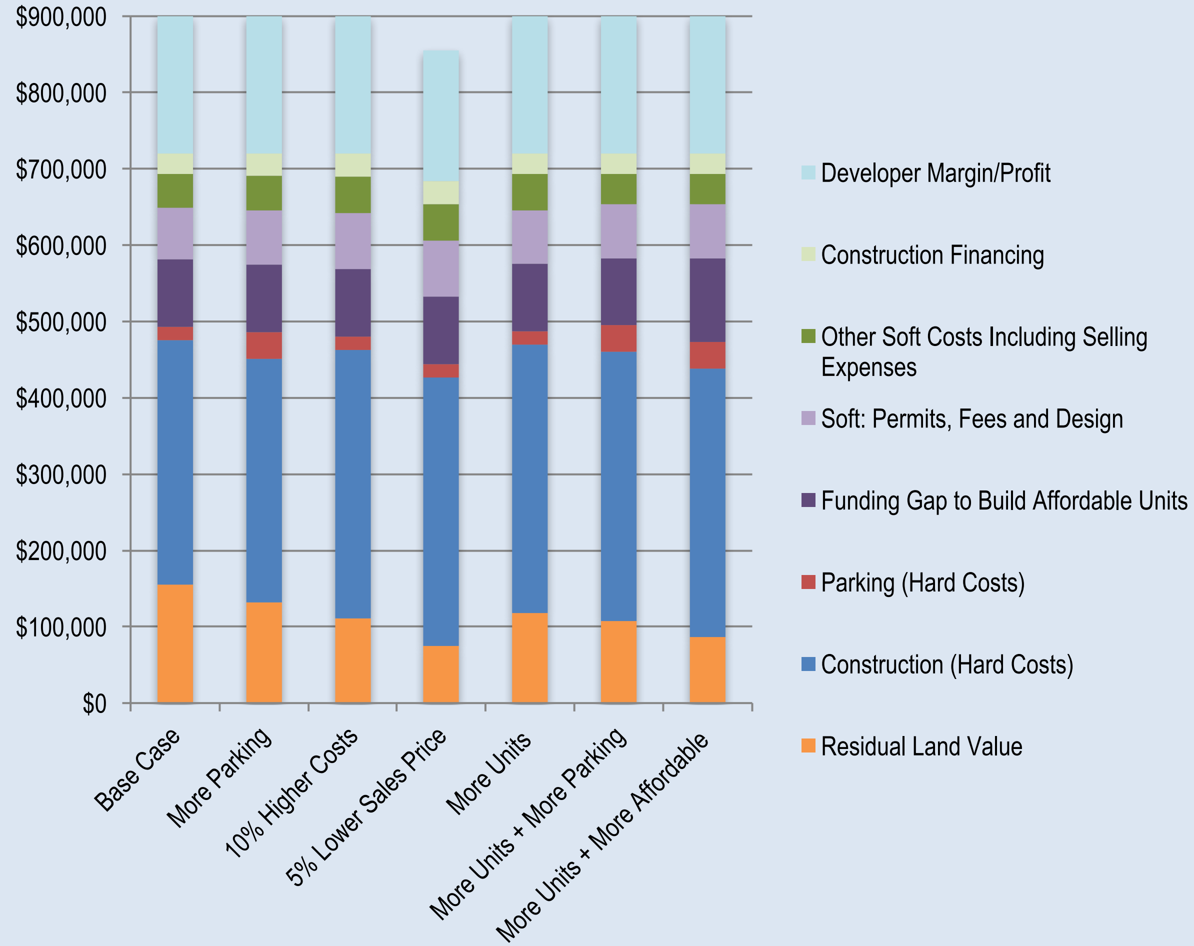
Land Costs – Based on Current Income Generation and Allowable Use

Residual Land Value (What a Developer Can Pay)



Density Bonus Financial Considerations

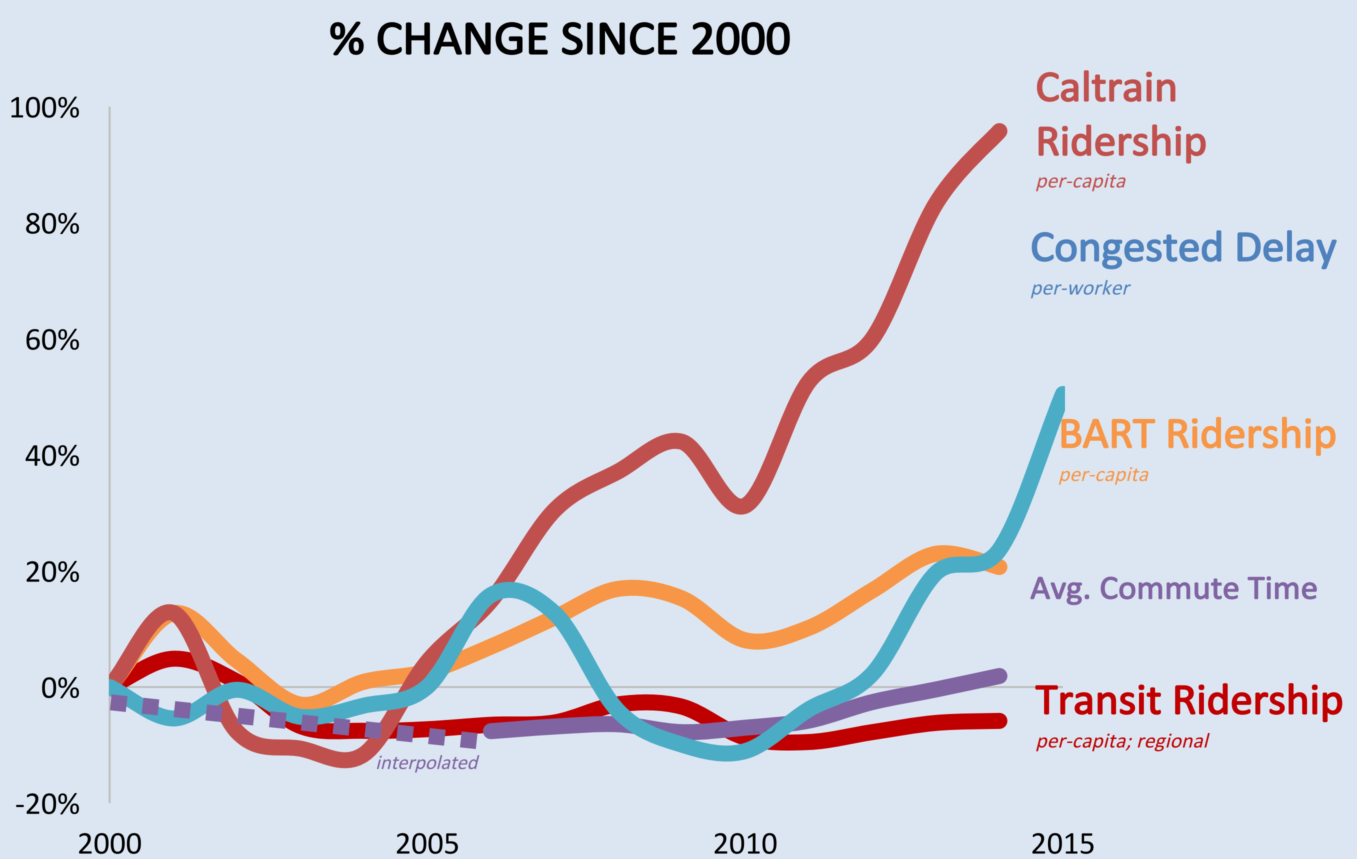
- Height?
- Construction type?
- How many more units?
- Less or more parking?
- Will it be faster to process?
- Will design costs decrease?
- Will other costs decrease?
- How much more affordable housing will be required and at what target incomes?



Why do we need to build more densely along transit corridors?

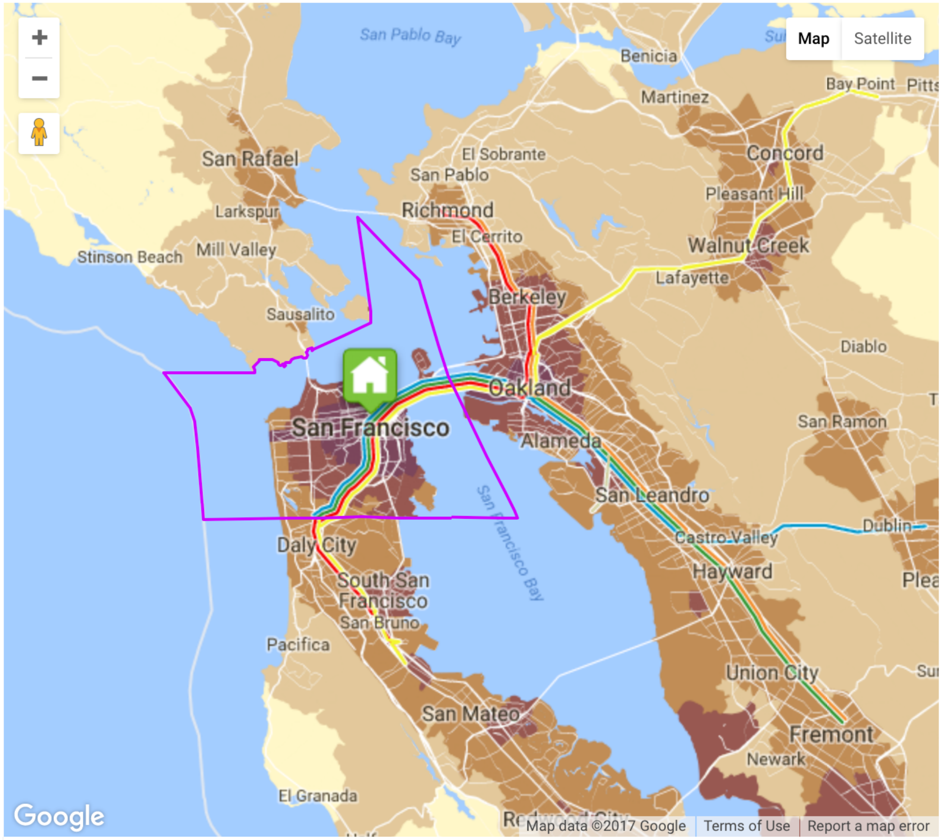
This current boom is translating into new pressures on our transportation system – even worse than the "dot com" boom.

Plan BayArea 2040



Source: Vital Signs (MTC 2015; ACS 2014; NTD 2014)

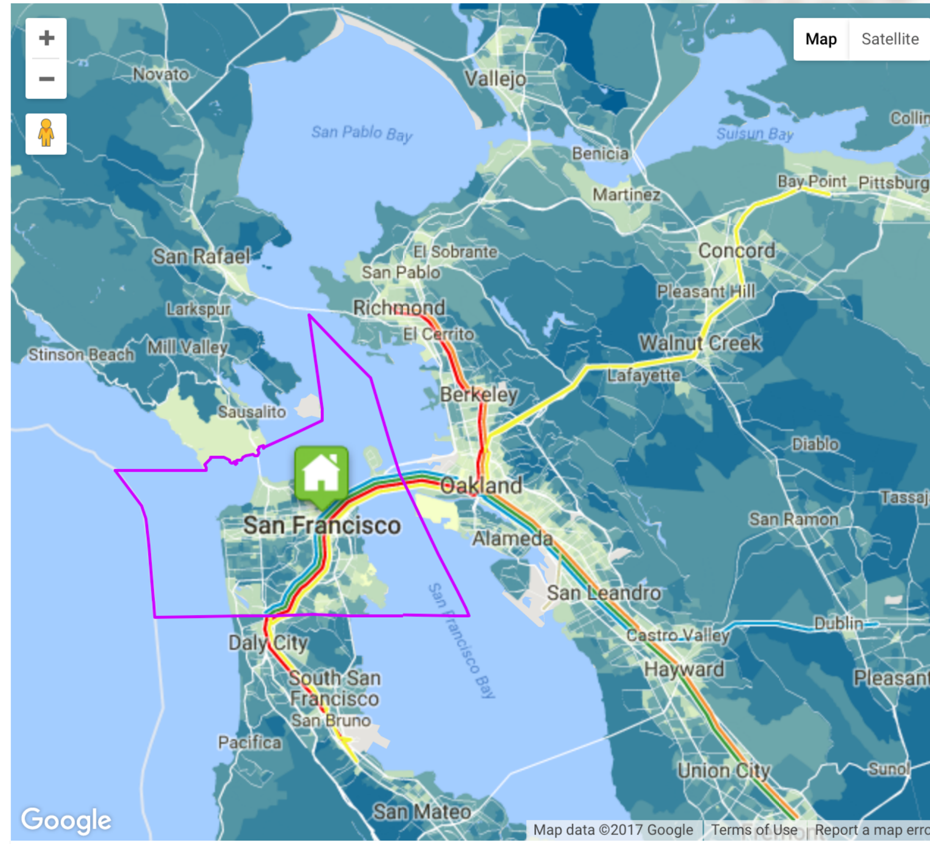
Employment Access Index



Employment Access Index 176,839 Jobs/mi^2

< 10,000 Jobs/mi^2 10,000-25,000 Jobs/mi^2 25,000-50,000 Jobs/mi^2 50,000-100,000 Jobs/mi^2 100,000 Jobs/mi^2+

Housing + Transportation Costs % Income



Housing + Transportation Costs % Income 44%

< 24% 24-36% 36-45% 45-54% 54-66% 66-78% 78-87% 87%+

Plan Bay Area 2040

If we really want to address affordability and equity challenges, action is needed by an engaged public and by all levels of government. Only the most aggressive policies will be sufficient to deal with our housing crisis.

Housing + Transportation Costs (as a share of income)*

2005: **54%** of household income

Housing: +12%

Transportation: +1%

Housing + Transportation: +13%

2040: **67%** of household income

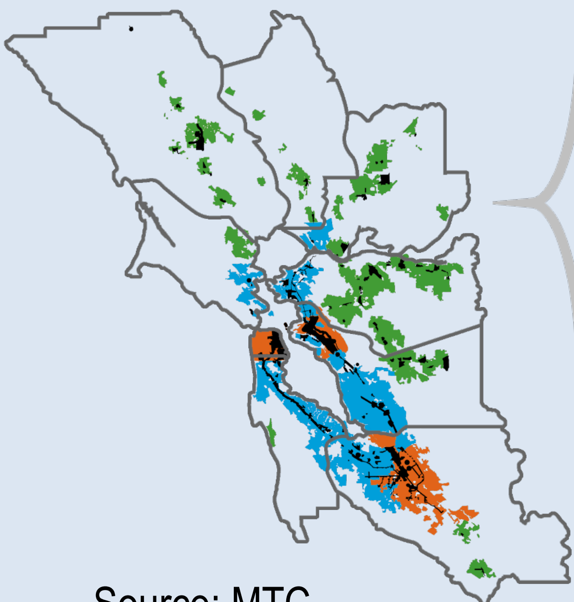
** = for lower-income households*

Image Source: https://www.flickr.com/photos/gdodge/15336815438

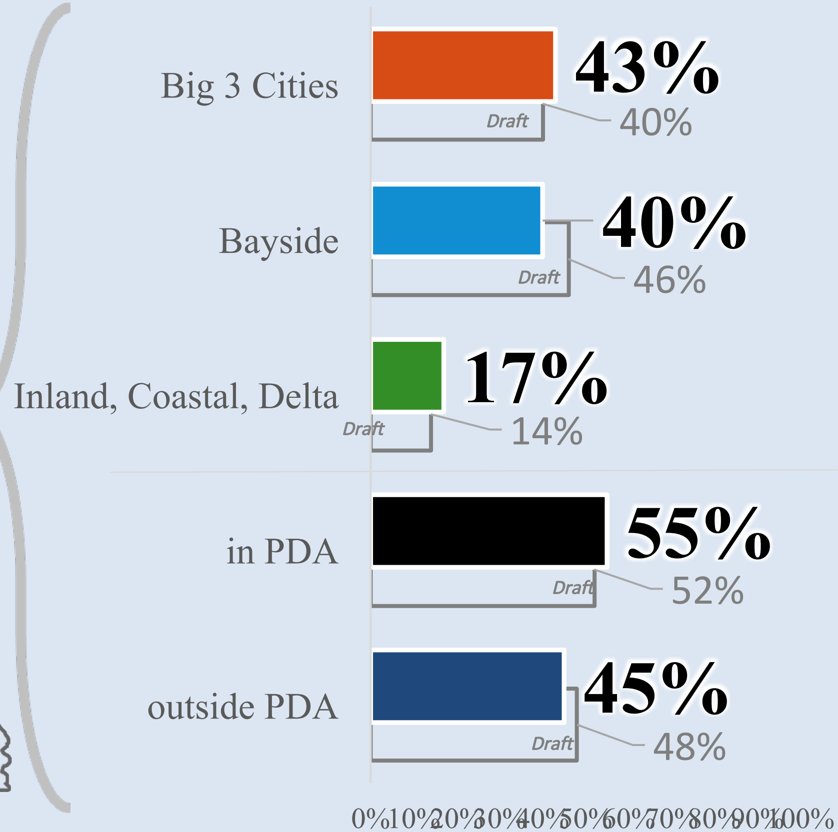
New strategies included in the Final Preferred Scenario shifted some job growth away from Bayside communities.

Plan BayArea 2040

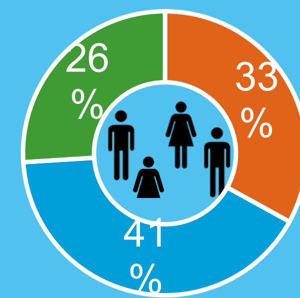
Where will the region plan for the **<u>1.3 million</u>** new jobs?



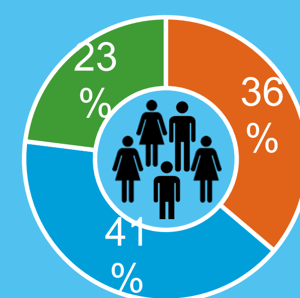
Source: MTC



2010: **3.4 million** jobs



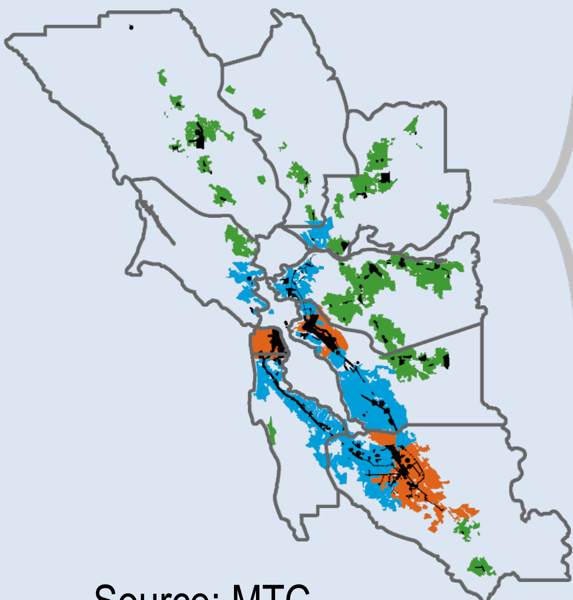
2040: **4.7 million** jobs



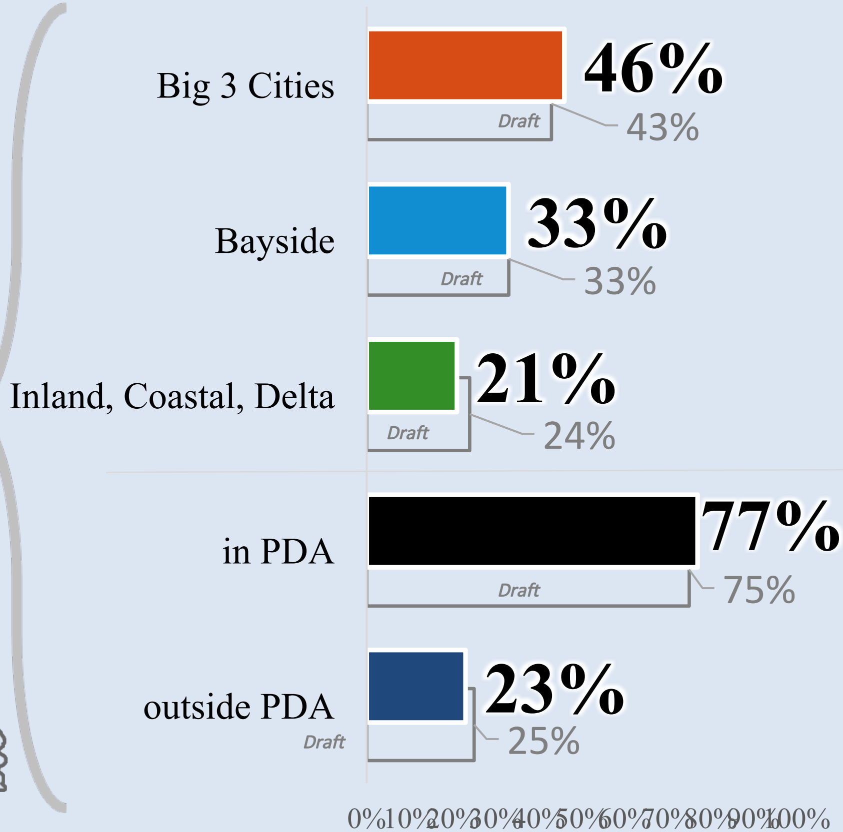
Compared to the Draft Preferred Scenario, the Final Preferred Scenario boosts housing growth in the "Big 3" cities.

Plan BayArea 2040

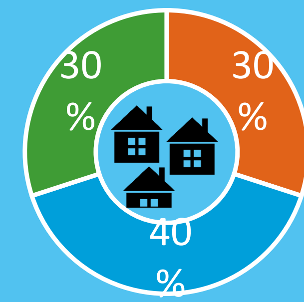
Where will the region plan for the **820,000** new households?



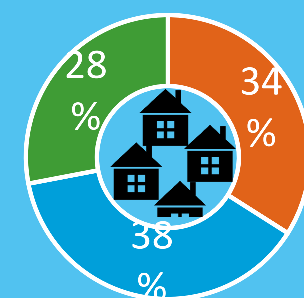
Source: MTC



2010: 2.6 million households

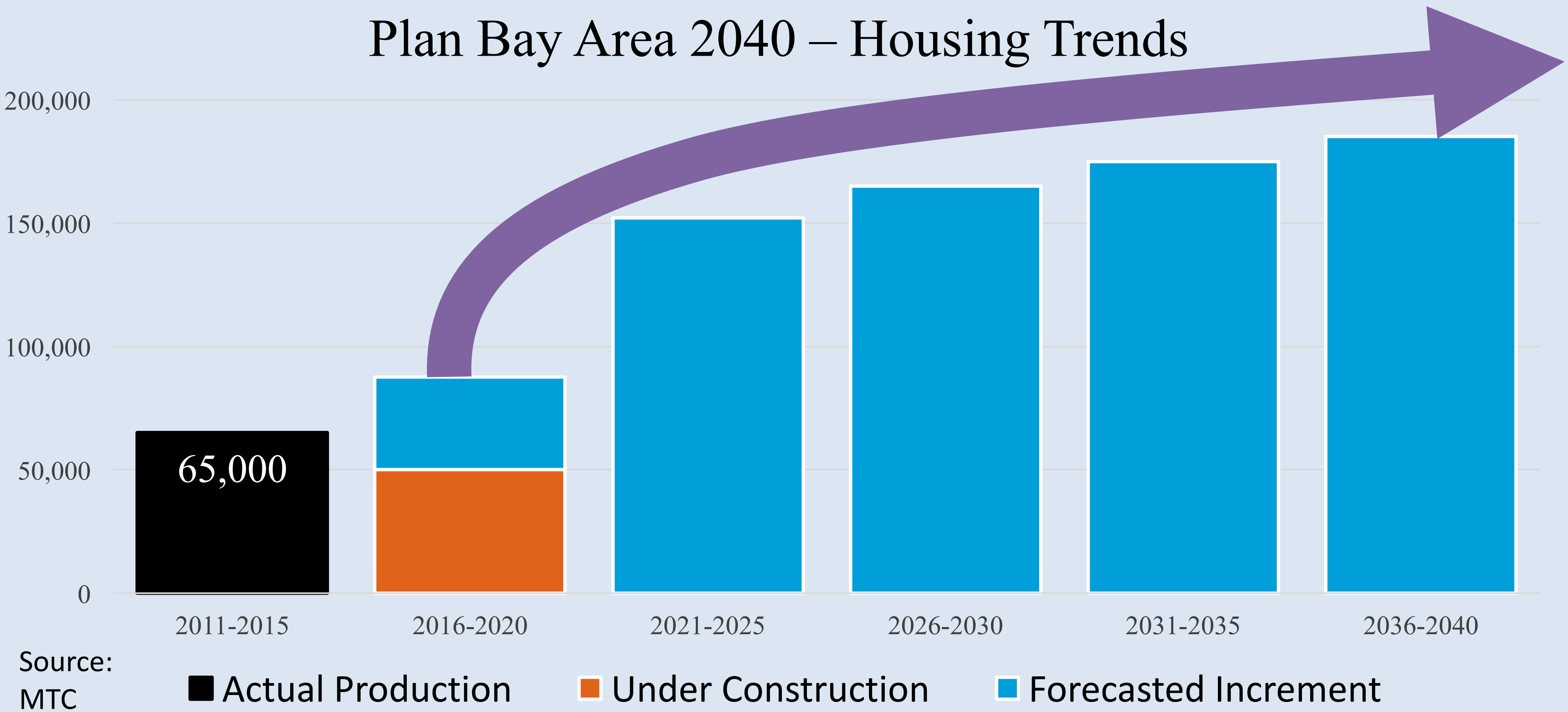


2040: 3.4 million households



Accelerating housing production is critical to achieve this vision.

Plan BayArea 2040



Source: MTC

Special Thanks to Data Sources

- California Association of Realtors (CAR)
- Center for Neighborhood Technology (CNT)
- City of Berkeley
- City of San Francisco
- Metropolitan Transportation Commission (MTC)
- Victoria Transport Policy Institute

Traffic congestion is caused by vehicles, not by people in themselves.

Jane Jacobs

Elizabeth (Libby) Seifel
Seifel Consulting Inc.
libby@seifel.com

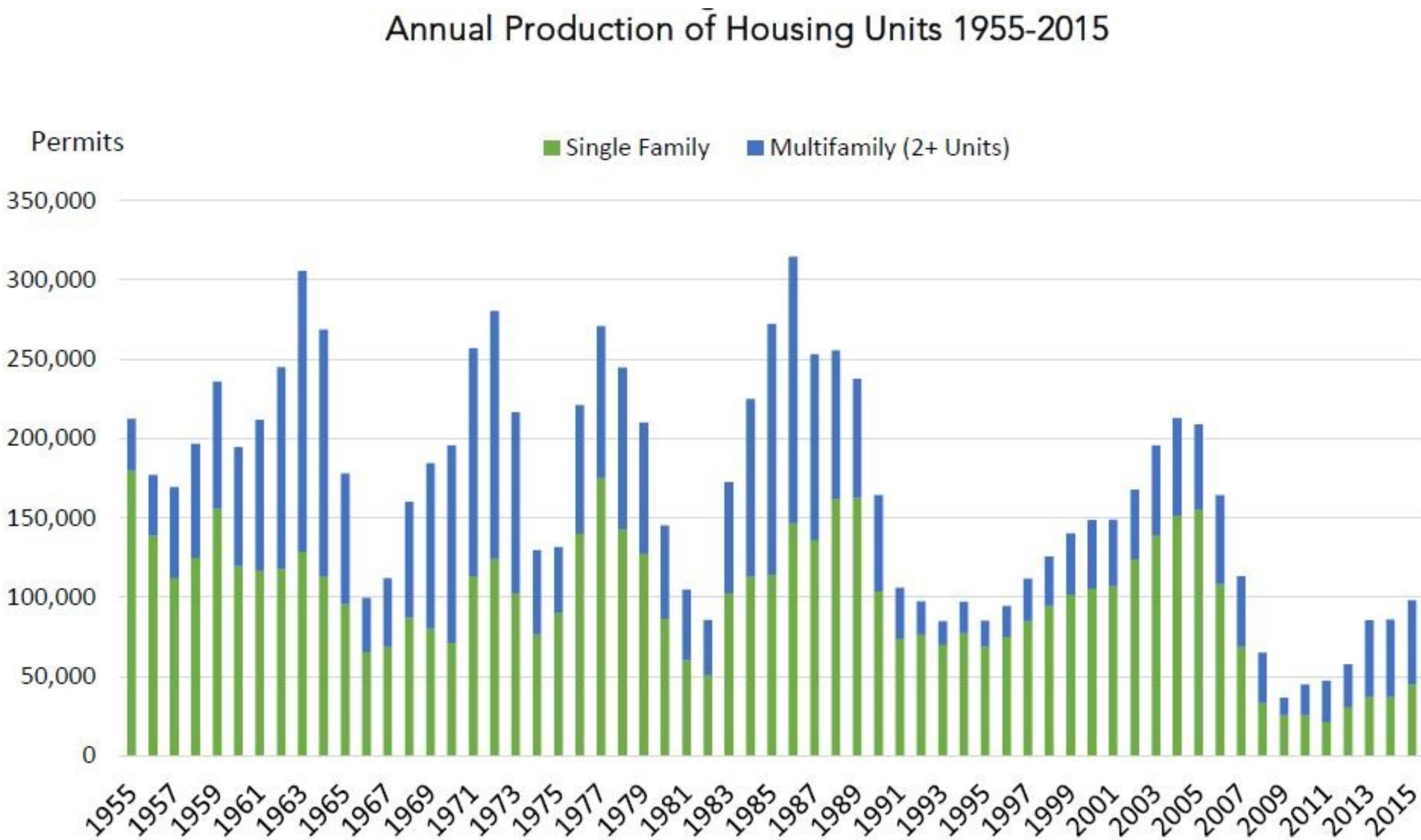
How Many Homes Should We Have?

SPUR Lunchtime Forum

James Pappas
SF Planning Department

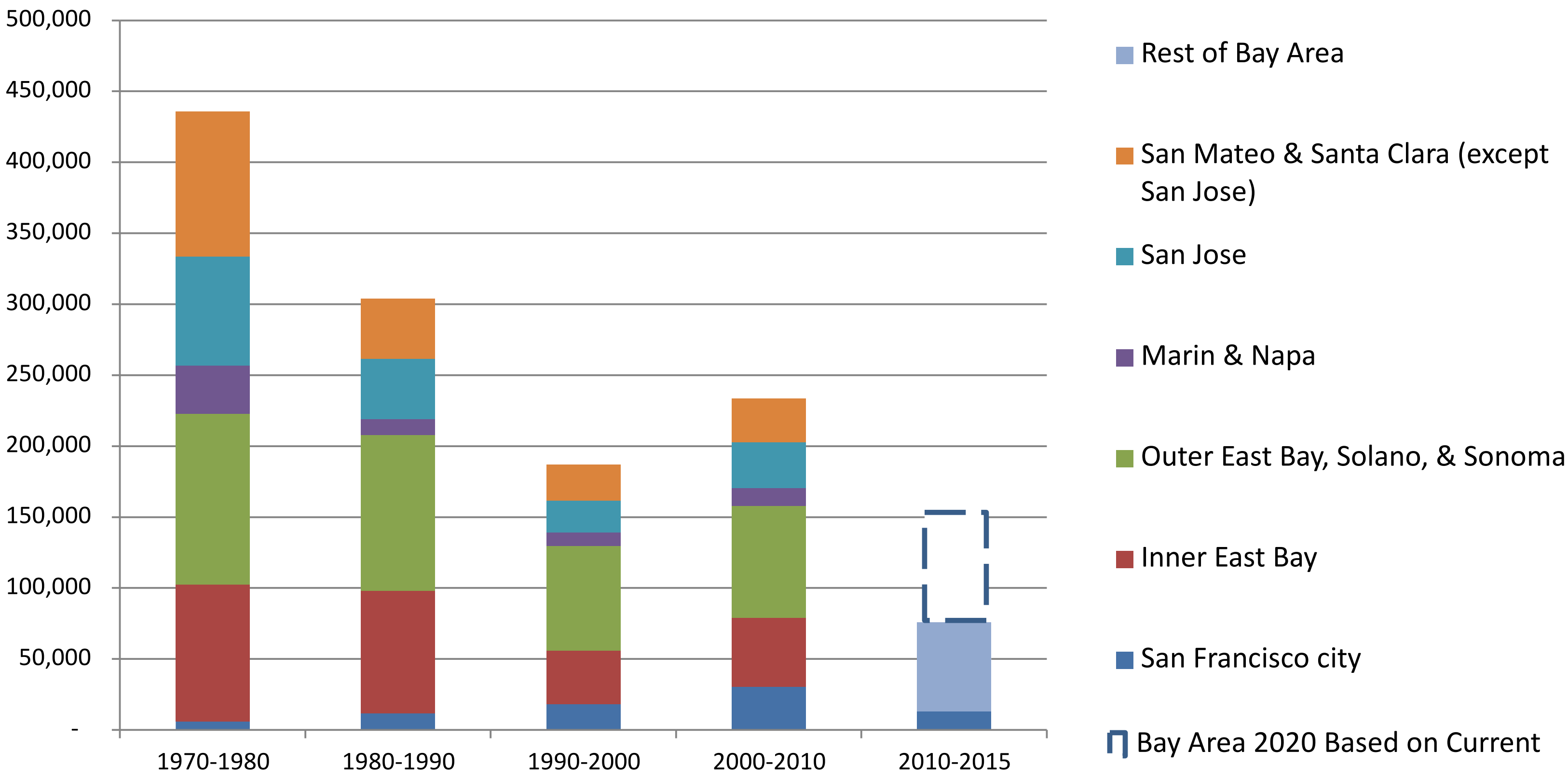
Tuesday,
June 27th, 2017

Statewide housing production has declined since the 1990s



Source: California's Housing Future: Challenges and Opportunities, Public Draft - Statewide Housing Assessment 2025. California Department of Housing and Community Development, January, 2017. http://www.hcd.ca.gov/policy-research/plans-reports/index.shtml#sha

Housing production has also declined in the Bay Area



Source: SF Planning Analysis of US Census and ACS Data

Some counties added far more jobs than housing units

Geography	Jobs Added per Housing Unit Added 1980-2015	Jobs Per Housing Unit	
		1980	2015
United States	**1.08**	1.01	1.03
California	**1.31**	1.09	1.16
San Mateo County	**3.18**	1.08	1.40
Marin County	**2.06**	0.77	0.99
Santa Clara County	**1.82**	1.43	1.54
San Francisco County	**1.64**	1.75	1.73
Alameda County	**1.60**	1.09	1.22
Contra Costa County	**0.96**	0.78	0.85
Bay Area (9 Counties)	**1.55**	1.18	1.28

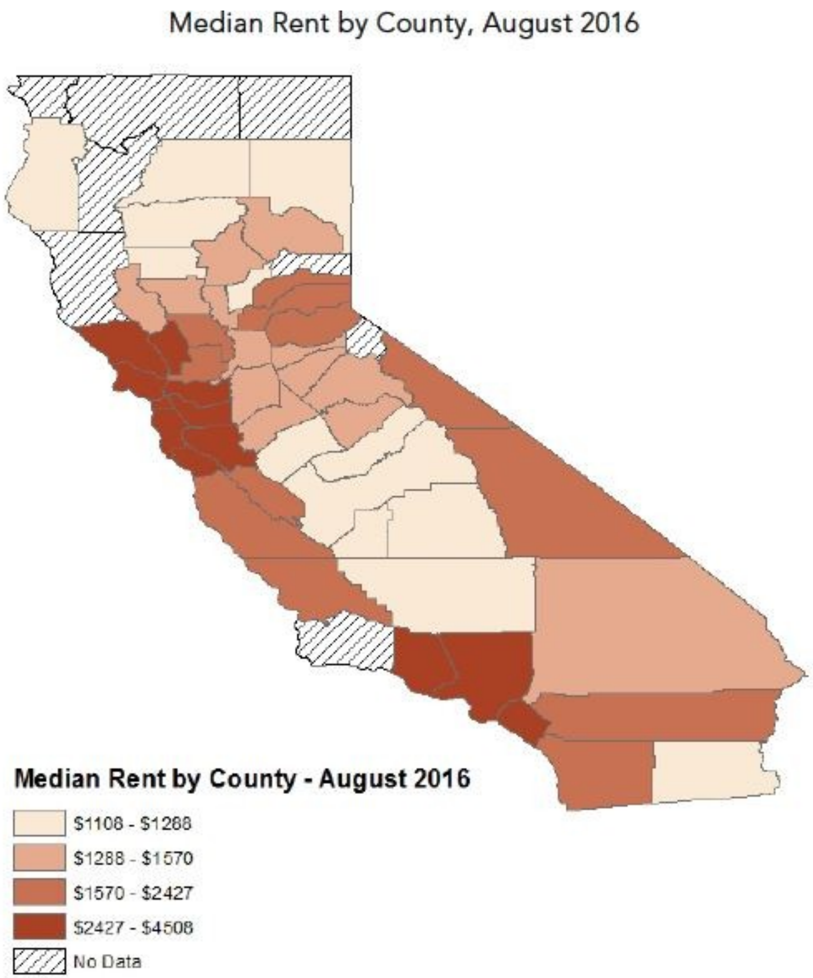
Source: SF Planning Analysis of US Census and Bureau of Labor Statistics Data

Average wages have grown drastically in the Bay Area and San Francisco

Change in Inflation Adjusted Average Wages 1980-2015			
Geography	**1980**	**2015**	**% Change**
United States	$ 41,406	$ 52,942	**28%**
California	$ 44,245	$ 61,698	**39%**
Santa Clara County	$ 48,514	$ 113,390	**134%**
San Mateo County	$ 49,689	$ 102,776	**107%**
San Francisco County	$ 50,273	$ 97,067	**93%**
Marin County	$ 40,006	$ 64,906	**62%**
Alameda County	$ 47,304	$ 68,791	**45%**
Contra Costa County	$ 44,150	$ 63,792	**44%**
Bay Area (9 Counties)	$ 47,518	$ 87,368	**84%**

Source: SF Planning Analysis of US Bureau of Labor Statistics Data

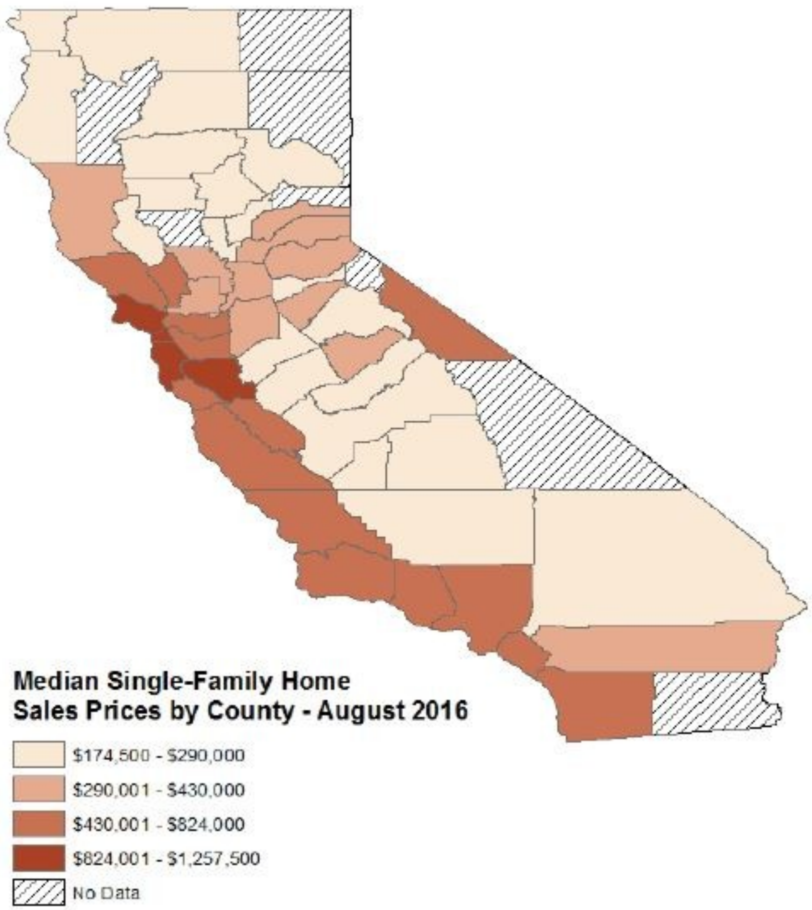
Job, wage, and population growth without sufficient housing means high rents



Source: Zillow Median Rent Index (All Homes; Multifamily, Single Family Rental, Condo) by County. August 2016. Graphic by HCD. For more information on Zillow Median Rent Index methodology visit http://www.zillow.com/research/zillow-rent-index-methodology-2393/

And high sale prices

Median Home Sale Prices by County, August 2016

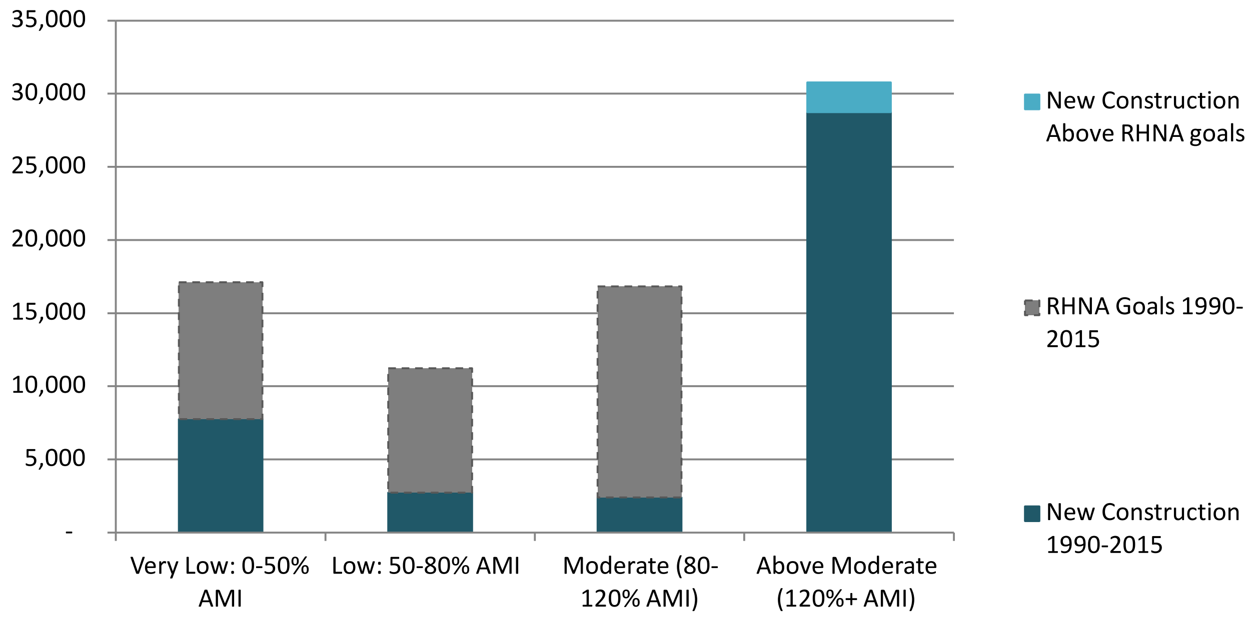


Source: California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes August 2016.

RHNA goals based on estimated growth, but actual household growth can be different.

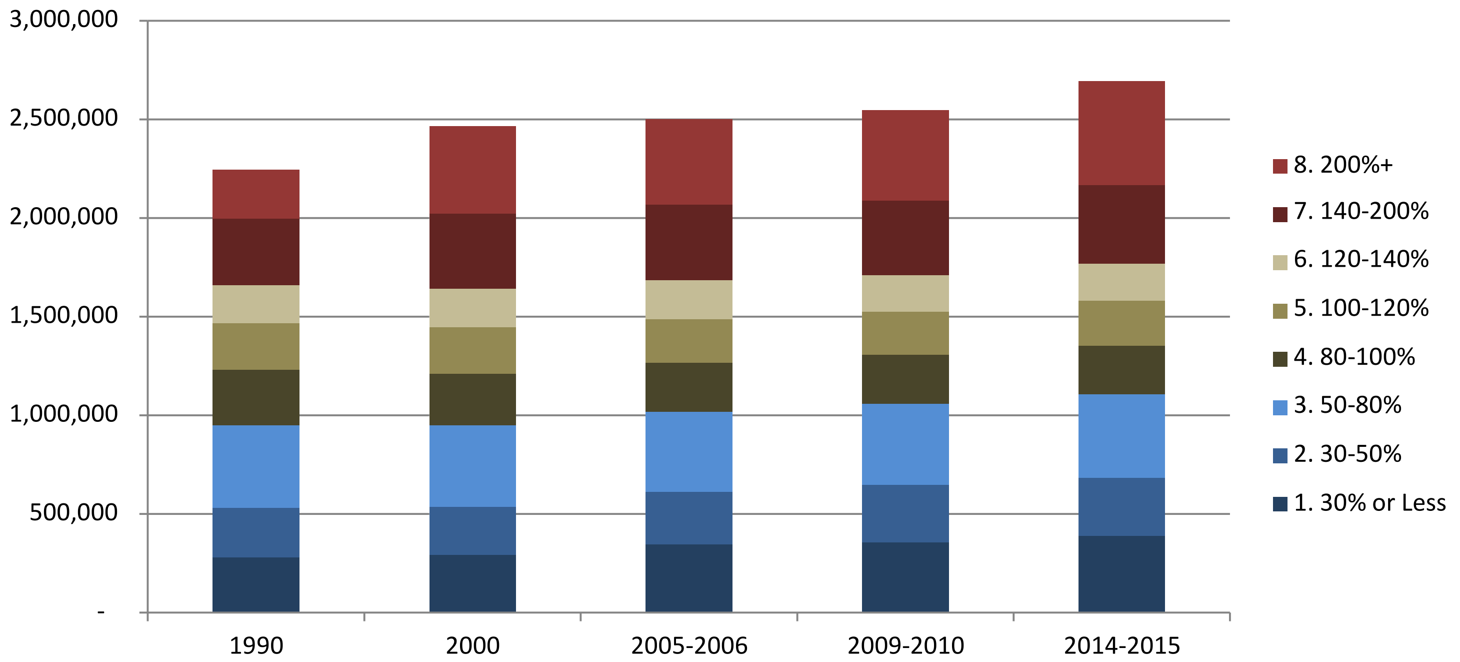
San Francisco appears to have met above moderate need in recent cycles- and a substantial portion of very low income need as well.

RHNA Goals and New Construction 1990-2015



Source: SF Planning Analysis of RHNA goals by period and housing construction data from Housing Inventory Reports

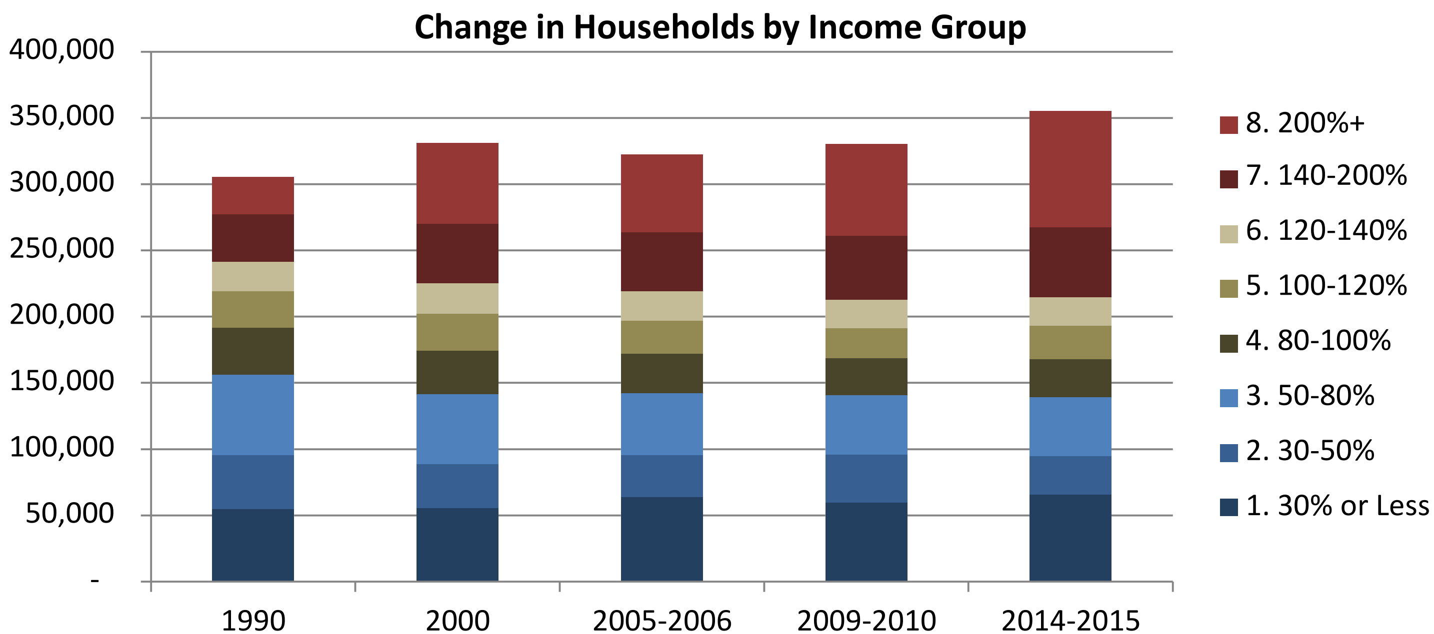
The region added about 450K households since 1990- 340K (75%) were higher income



Source: SF Planning Analysis of IPUMS USA Data courtesy of IPUMS-USA, University of Minnesota, www.ipums.org.

- Very low Income HHs, especially HHs earning 30% of AMI or less, increased
- Moderate and middle income HHs (80-140% of AMI) declined regionally
- The % of higher income HH growth exceeded the % of HH growth overall in SF and San Mateo

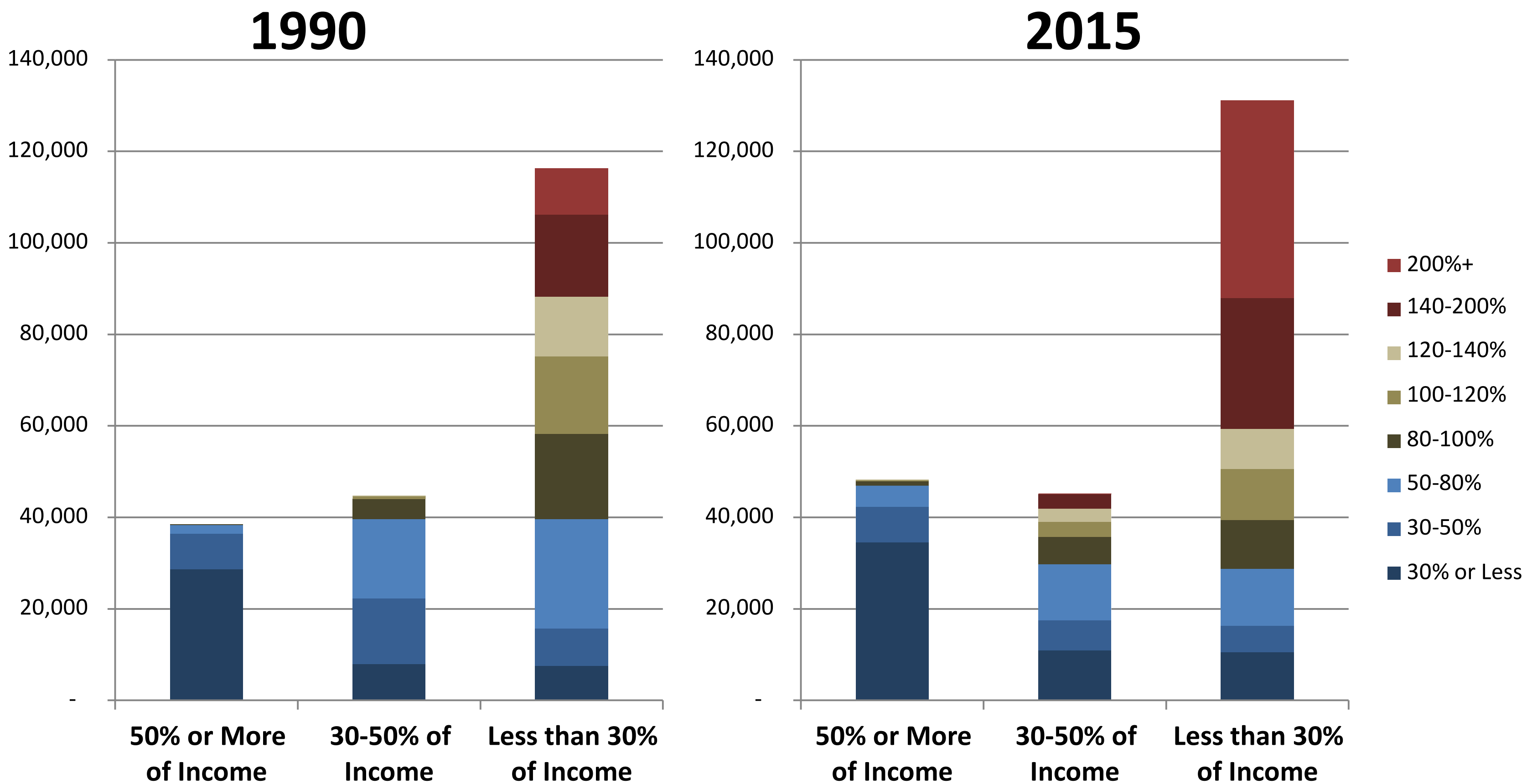
From 1990-2015, SF gained 76K higher inc HHs but lost 26,500 Low & Middle inc HHs



Source: SF Planning Analysis of IPUMS USA Data courtesy of IPUMS-USA, University of Minnesota, www.ipums.org.

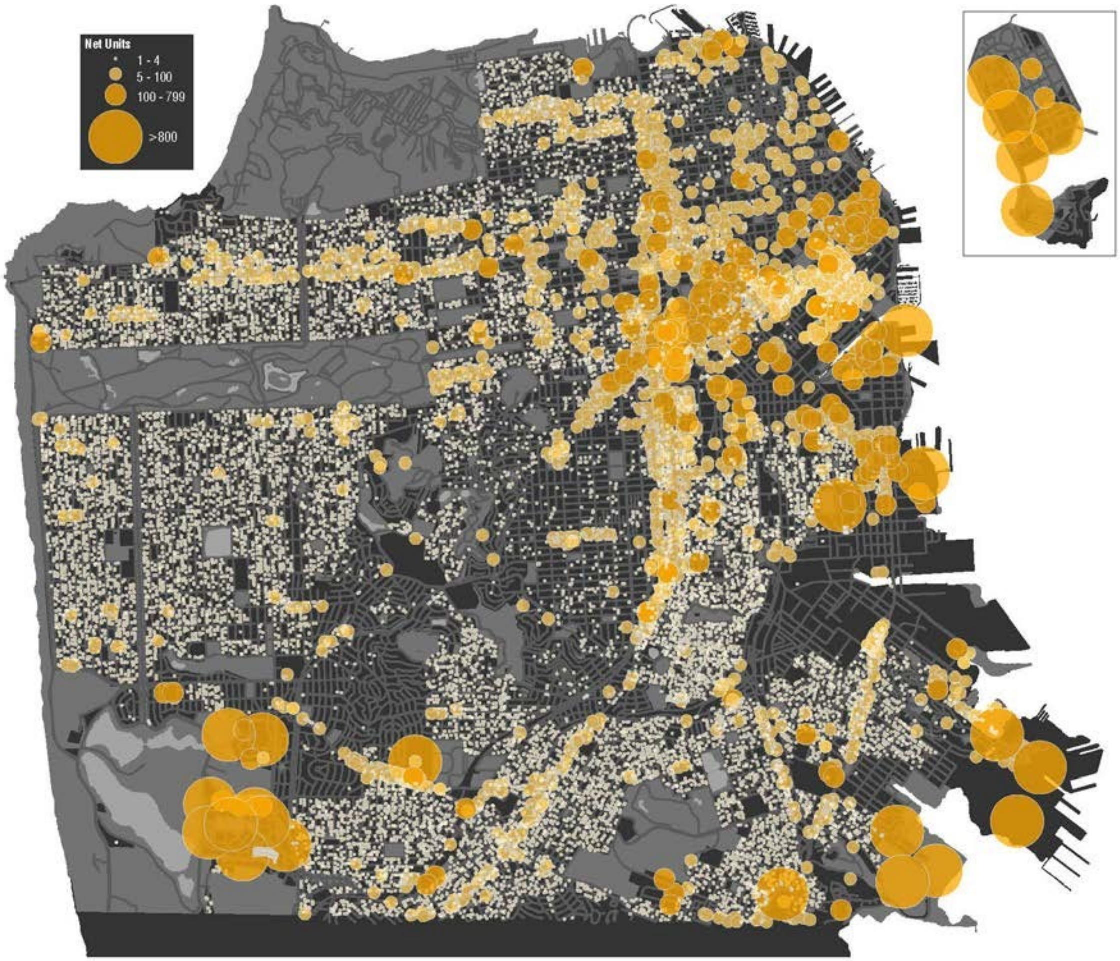
- Higher income household growth greatly exceed RHNA estimates and exceeded "above moderate" unit production
- More high income households housed in existing housing stock
- Low and middle income households declined with greatest loss from 30-80% of AMI

The number of cost burdened households worsened over the last 25 years



Source: SF Planning Analysis of IPUMS USA Data courtesy of IPUMS-USA, University of Minnesota, www.ipums.org.

Housing Capacity: Under Existing Zoning and Plans Underway



Source: SF Planning Analysis

Approx.
140,000 units
(of which >100,000 added since 1985)

=325,000 residents (@ 2.3 per household)

=185,000 workers (@ 1.3 per household)

Can we develop goals that:

- Help us respond to actual economic growth and increases in higher income households

- Address existing needs and deficits for low income households

- Identify the resources needed to achieve the housing affordability outcomes we want