

El Dorado County Affordable Housing Policy Update Background Analysis

May 10, 2022

bae urban economics

Study Overview

1. Summary of existing demographic and economic conditions, real estate market conditions, and workforce characteristics
2. Estimate of workforce and 'missing middle' housing demand
3. Best practices: literature review, and review of affordable housing policies in nearby jurisdictions
4. Summary of policy options for El Dorado County

Focus on Unincorporated parts of the West Slope and Tahoe Basin

Summary of Existing Demographic Conditions

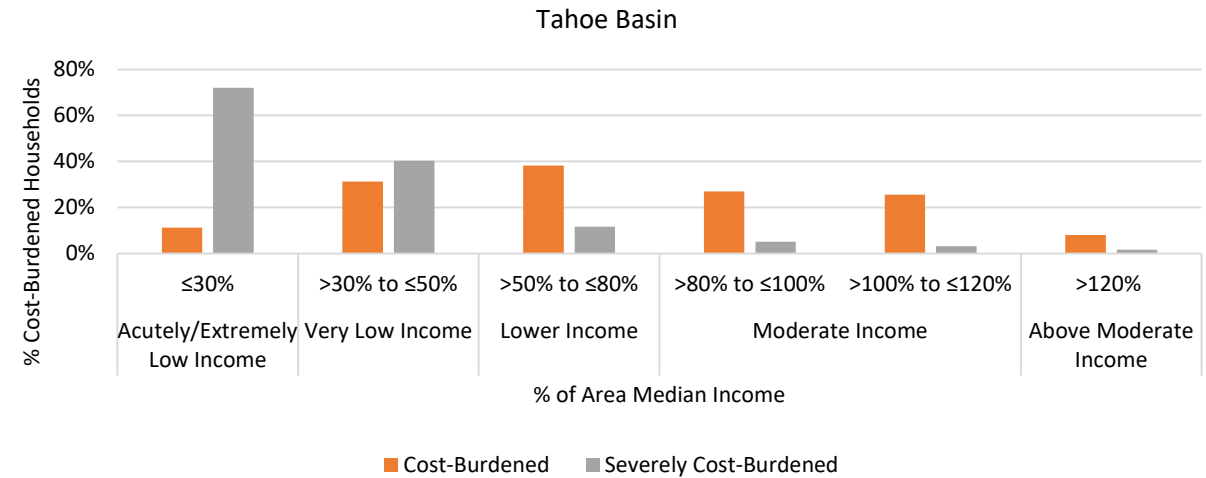
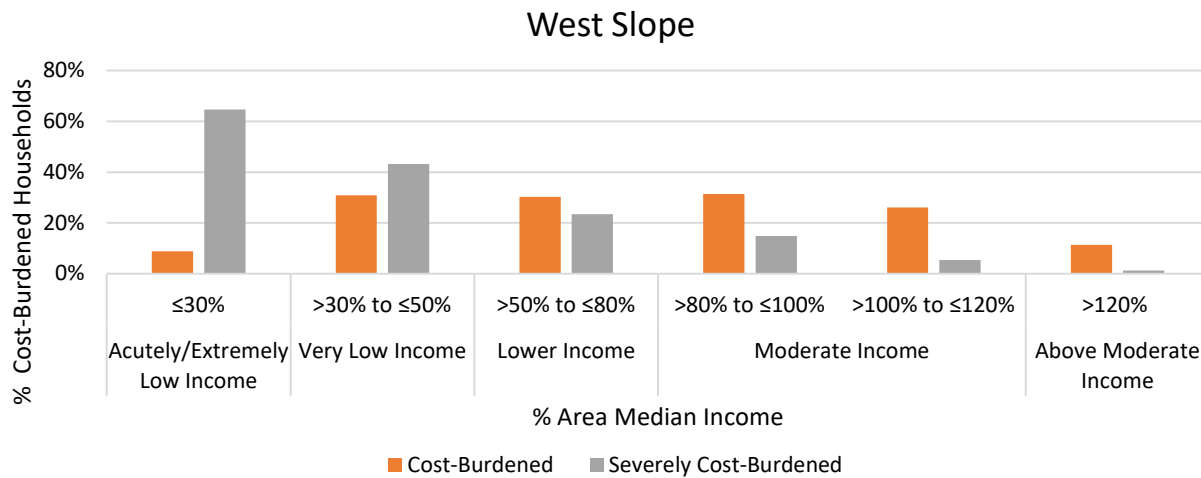
West Slope (2021)

- Population: 151,922
 - +8.6% from 2010-2021
- Households: 57,542
 - +8.1% from 2010-2021
- Avg. HH Size: 2.63
- Median Age: 43-47 years
- Median HH Income: \$92,754

Tahoe Basin (2021)

- Population: 10,110
 - +8.5% from 2010-2021
- Households: 4,273
 - +8.0% from 2010-2021
- Avg. HH Size: 2.35
- Median Age: 37-40 years
- Median HH Income: \$61,215

Housing Cost-Burdened Households, 2014-2018



- These data serve as the basis for calculating the existing affordable, workforce, and missing middle housing gap
- Households spending more than 30% of household income on housing expenses (cost burdened) represent unmet need for affordable (below market rate) housing.
- Households spending more than 50% are considered severely cost-burdened

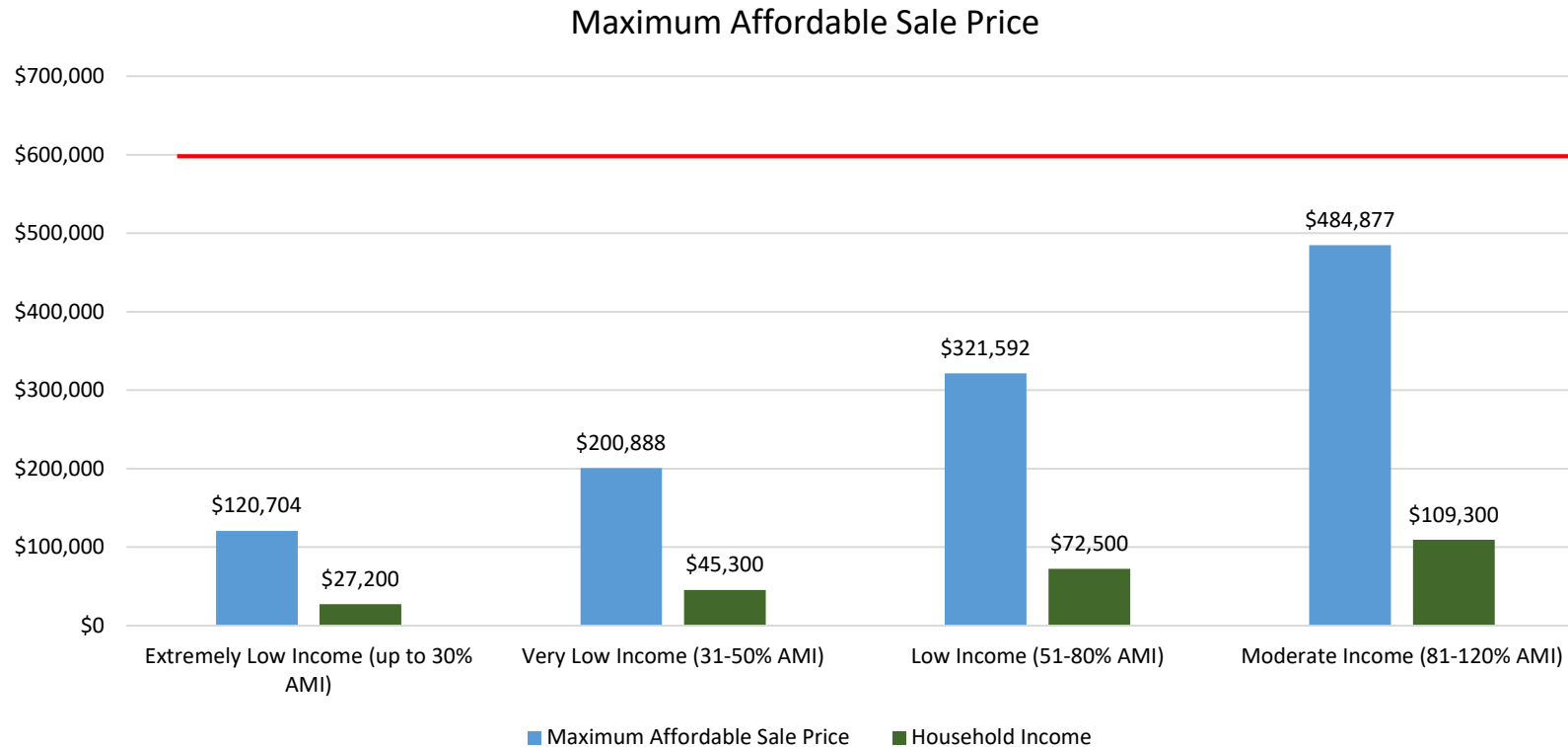
Housing Cost-Burdened Households, 2021

- Cost-burdened households estimated using the distribution of housing cost burdens by income category in the previous slide and applying it to the 2021 estimate of households in the West Slope and Tahoe Basin.
 - e.g.:
 - Of 57,542 households in the West Slope, 16.6% are Moderate-Income, and of those, 38.6% are cost-burdened.
 - Therefore, there are approximately 9,533 Moderate-Income households in the West Slope, and among them, 3,681 households are cost-burdened, comprising the Missing Middle Housing Gap.

Summary of Existing Housing Affordability Gap (Households):

<u>Existing Affordability Gap, 2021</u>	<u>West Slope</u>	<u>Tahoe Basin</u>	<u>Unincorporated El Dorado County</u>
Overall Affordability Gap (All Households)	18,810	1,681	20,491
Workforce Housing Gap (Up to 120% AMI)	14,949	1,535	16,484
Missing Middle Housing Gap (80%-120% AMI)	3,681	236	3,918

Maximum Affordable Sale Price



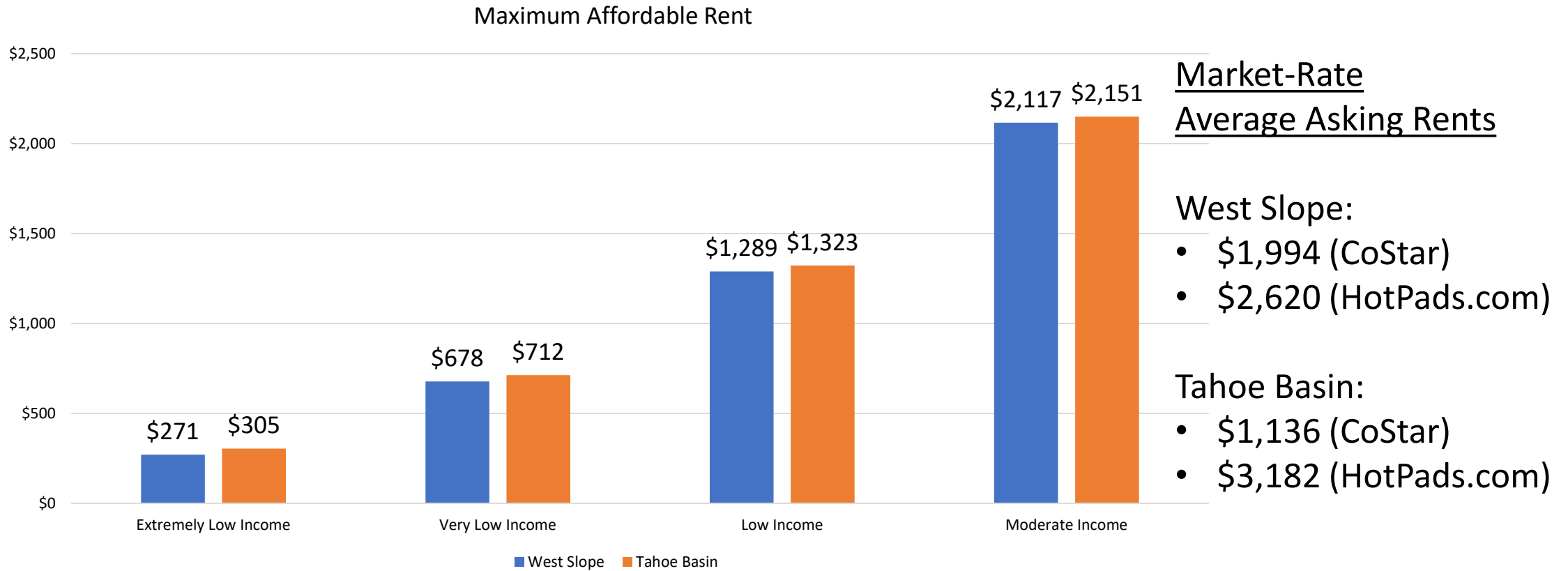
Market-Rate Median Sale Prices (June to December 2021)

West Slope: \$630,000
Tahoe Basin: \$680,000

<< Countywide Median Sale Price: \$645,000

HCD-adjusted Median Family Income: \$91,100

Maximum Affordable Rents



Future Affordable, Workforce, and Missing Middle Housing Needs

- Step 1: Establish housing unit growth (based on 2019 study by BAE)
 - Overall Housing Unit Growth (2021-2041)
 - Unincorporated El Dorado County: 10,284 new units
 - 9,630 in the West Slope + 654 in the Tahoe Basin
- Step 2: Allocate housing unit growth into RHNA income categories
Countywide RHNA Allocation:
 - 13.5% for both Extremely Low- and Very Low-Income
 - 16.2% Low-Income
 - 16.9% Moderate Income
 - 40.0% Above Moderate Income
- Slight variations between West Slope and Tahoe Basin

Future Affordable, Workforce, and Missing Middle Housing Needs, cont.

- Step 3: Apply existing share of cost-burdened households to household growth by income category
- Step 4: Summary of Future Demand
 - (Does not include existing unmet demand for affordable housing)

<u>Future Affordability Gap, 2021-2041</u>	<u>West Slope</u>	<u>Tahoe Basin</u>	<u>Unincorporated El Dorado County</u>
Overall Affordability Gap (All Households)	3,488	142	3,630
Workforce Housing Gap (Up to 120% AMI)	3,053	126	3,179
Missing Middle Housing Gap (80%-120% AMI)	564	20	584

Best Practices Literature Review

- Rising Construction Costs + Stagnant Incomes = Nationwide Housing Shortage
- Two general approaches for local governments: Regulatory Changes and Funding Mechanisms
 - Regulatory changes can be easier/cheaper to implement, but can be less effective than direct funding interventions
- Three Main Cost Components of Housing Development: Hard Construction Costs, Soft Costs, and Land Costs

Best Practices Literature Review, cont.

Regulatory Changes

Potential Impacts

Relaxing Minimum Design Standards

Lower Hard Costs; Lower Land Costs

Reducing Minimum Parking Requirements

Lower Hard Costs; Lower Land Costs

Establishing By-Right Development

Lower Soft Costs (increased predictability/lower project risk)

Development Bonus

Increased Hard Costs; Increased Revenue Potential

Inclusionary Zoning

Lower Revenue Potential; Increased Hard Costs; Increased Affordable Development if policy is feasible

Best Practices Literature Review, cont.

Funding Mechanisms

Potential Impacts

Reducing/Waiving Impact Fees

Lower Hard Costs; Lower Soft Costs

Housing Trust Fund/Gap
Financing

Lower hard and soft costs via subsidy

Down payment Assistance

Does not impact development

Affordable Housing Policies in Nearby Areas

	Placer County	City of Folsom	Sacramento County
<u>Inclusionary Zoning</u>	10%	10%	No
<u>AH Fee/Fee In-Lieu</u>	\$2.12 psf (res. & nonres.)	Res.: 1% of Lowest- Priced Unit Nonres.: \$1.76 psf	\$3.04 psf (res. only)
<u>Housing Trust Fund</u>	Yes	Yes	Yes
<u>Development Bonus</u>	Density Bonus: 5%-35%	Density Bonus: 5%-35%	Density Bonus: 10%-15%
<u>Homebuyer Assistance</u>	Yes	Yes	Yes
<u>ADU Incentives</u>	Yes	No	No
<u>Fee Deferral</u>	Discretionary Basis	No	Yes
<u>Fee Waiver</u>	No	No	No
<u>Other</u>	Workforce Housing Preservation Program	No	No

- IZ policies can include some exemptions based on project size, unit size, and location within priority development areas
- Some jurisdictions have not codified the state’s density bonus, which allows for a maximum density bonus of up to 50 percent for increments of affordable units above the minimum requirement

Affordable Housing Policies in El Dorado County Supporting Homebuyers

First Time Homebuyer Program

- Low interest rate second mortgage loans to households earning up to 80 percent of AMI
- Funded through CDBG and HOME – not permanent

Housing Rehabilitation Loan Program

- Loan is available to both low-income homeowners, or to owner-investors that rent to low-income households
- Funded through CDBG and HOME – not permanent

Mortgage Credit Certificate Program

- Administered through California Rural Home Finance Authority's National Homebuyer Fund
- 20 percent IRS tax credit that reduces the federal liability of qualified borrowers, when funding is available

Affordable Housing Policies in El Dorado County Supporting Construction

Traffic Impact Fee (TIF) Offset Program for Affordable Housing

- Set-aside of \$1 million in state and federal revenues
- Amount of waiver dependent on level of affordability and term of deed-restriction

Development Fee Waivers

- Applicable Planning, Building, Transportation, Environmental Management and Parks and Recreation fees may be deferred for development with affordable units

Priority Processing “Fast Track” Approvals

- Prioritization and expediting of the review process for affordable housing and employment-generating project applications over the review of other land use applications

Affordable Housing Policies in El Dorado County Supporting Construction, cont.

Flexible Development Standards

- Flexibility in design standards if applicant demonstrates waiver or modification requested is necessary in order to make affordable housing units feasible

Predevelopment Loan Program for Affordable Housing

- For low interest, short term loans from the Affordable Housing Fund (AHF)
- Predevelopment loans to assist non-profit developers with project feasibility studies, site acquisition and preliminary design studies for potential affordable housing

Feasibility Testing for Inclusionary Zoning

- BAE tested the financial feasibility of two development prototypes: Single-family detached, and Garden-style apartments
 - From the perspective of a developer who would comply with the policy

Development Program	West Slope	
	SFD	Garden-Style
Unit Type	SFD	Garden-Style
Assumed Density (dua)	6.7	20.0
Average Unit Size (a)	1,800	950
Number of Units	20	50
Total Lot Size (acres)	3.0	2.5
Total Lot Size (sf)	130,680	108,900
Total Building Size (sf)	36,000	47,500
Sale Price/Monthly Rent Assumption (Market Rate)	\$630,000	\$2,708
Parking (b)	Tuck-Under	Surface
Number of Spaces (c)	40	75
Total Parking Size (sf)	6,000	33,750

Is Inclusionary Zoning Feasible for SFD?

Single-family Detached Prototype:

- A 10% IZ requirement at 80% AMI (or less) would **not** be feasible unless there is a 5-10% reduction in hard costs, or a 5-10% increase in sale prices
- A 10% IZ requirement at 120% AMI is marginally feasible

Sale Price Assumptions:

80% AMI: \$321,592 (-49% median sale price)
 120% AMI: \$484,877 (-13% median sale price)
 Median Sale Price: \$630,000 (West Slope)

Feasibility Analysis			
Project Income	Mix 1 (100% Market Rate)	Mix 2 (90% Market Rate, 10% @ 120% AMI)	Mix 3 (90% Market Rate, 10% @ 80% AMI)
Gross Sales Revenue	\$12,600,000	\$12,309,754	\$11,983,183
Less Marketing Fees	(\$189,000)	(\$166,182)	(\$161,773)
Project Value	\$12,411,000	\$12,143,573	\$11,821,410
Feasibility			
Total Development Costs	(\$12,106,960)	(\$12,106,960)	(\$12,106,960)
Per sq.ft.	(\$336)	(\$336)	(\$336)
Per Unit	(\$605,348)	(\$605,348)	(\$605,348)
Feasibility Surplus/(Gap)	\$304,040	\$36,613	(\$285,549)
Per acre	\$101,347	\$12,204	(\$95,183)
Per unit	\$15,202	\$1,831	(\$14,277)

Traffic Impact Fees for the single-family detached prototype are \$42,000, which is greater than the gap per unit under a 10% IZ requirement at 80% AMI.

Is Inclusionary Zoning Feasible for SFD?

Feasibility Analysis			
<u>Project Income</u>	Mix 1 (100% Market Rate)	Mix 2 (90% Market Rate, 10% @ 120% AMI)	Mix 3 (90% Market Rate, 10% @ 80% AMI)
Gross Sales Revenue	\$12,600,000	\$12,309,754	\$11,983,183
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<i>Per unit</i>	\$15,202	\$1,831	(\$14,277)

Is Inclusionary Zoning Feasible for MFR?

Multifamily Garden-Style Apartments Prototype:

- A 10% IZ requirement at 80% AMI (or less) would not be feasible unless there is a 10% reduction in hard costs, or a 10% increase in sale prices
- A 10% IZ requirement at 120% AMI is marginally infeasible, but a 5% shift in hard costs or sale prices could generate feasibility

Feasibility Analysis			
	Mix 1	Mix 2	Mix 3
Project Income			
Gross Rental Revenue	\$1,624,500	\$1,593,495	\$1,543,845
Less Vacancy	(\$81,225)	(\$79,675)	(\$77,192)
Less Operating Costs	(\$511,718)	(\$501,951)	(\$486,311)
Net Operating Income (NOI)	\$1,031,558	\$1,011,869	\$980,342
Capitalized Market Value	\$18,755,591	\$18,397,624	\$17,824,392
Feasibility			
Total Development Costs	(\$18,668,225)	(\$18,668,225)	(\$18,668,225)
Per sq.ft.	(\$393)	(\$393)	(\$393)
Per Unit	(\$373,365)	(\$373,365)	(\$373,365)
Feasibility Surplus/(Gap)	\$87,366	(\$270,601)	(\$843,833)
Per acre	\$34,946	(\$108,240)	(\$337,533)
Per unit	\$1,747	(\$5,412)	(\$16,877)
Project Yield	5.5%	5.4%	5.3%
YOC Spread (Basis Points)	3	-8	-25

Traffic Impact Fees for the multifamily prototype are \$26,000, which is greater than the gap per unit under a 10% IZ requirement at 80% or 120% AMI.

Is Inclusionary Zoning Feasible for MFR?

Feasibility Analysis			
Project Income	Mix 1	Mix 2	Mix 3
Gross Rental Revenue	\$1,624,500	\$1,593,495	\$1,543,845
Less Vacancy	(\$81,225)	(\$79,675)	(\$77,192)
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Impact of an Inclusionary Zoning Policy

- Applying an IZ requirement of 10% to projections of new single-family units in unincorporated El Dorado County by 2041 could generate 581 affordable units
 - Assumes 72% of new housing unit development is single-family
 - Assumes 84% of new single-family development is in developments of ten or more units
 - Estimated Missing Middle Housing Gap: 564
- An IZ requirement on multifamily development may discourage this form of development given the infeasibility of the prototype

Affordable Housing Policy Options

Regulatory Options

- Inclusionary Zoning:
 - Mandatory 10% requirement on single-family development (80-120% AMI)
 - Voluntary 10% requirement tied to incentives (i.e., density and FAR bonuses; fee waivers or deferrals)
 - Develop an IZ policy for workers employed in El Dorado County, as opposed to a policy based strictly on AMI (based on the framework of Placer County's Workforce Housing Preservation Program)
- Provide Alternative means of compliance, such as:
 - Providing affordable units off-site
 - Pay a fee in-lieu
 - Donate land
 - Purchase deed-restrictions on existing homes

Affordable Housing Policy Options, cont.

Regulatory Options, continued

- Relaxing existing development standards (i.e., density, height, FAR, lot coverage, etc.)
- Increasing land zoned for denser, small-lot, and mixed-use development
 - A mixed-use overlay zone could direct development to existing under-utilized commercial areas
- Allowing by-right residential development by standardizing development design requirements

Affordable Housing Policy Options, cont.

Funding Options

- Expanded down-payment assistance program
 - Funding options: Increase existing taxes, establish new taxes/fees, divert existing funds, secure additional state/federal funding, utilize existing PLHA funds
- ADU Financing
 - Utilize existing PLHA funds
- Additional TIF waivers/deferral

Q&A