

Feasibility Assessment of Housing Change in Rockridge

Presented to:

RCPC Land Use Committee

Presented by:

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What are the Questions?

- Potential State law may increase minimum densities in transit-served areas like Rockridge
 - Existing single-family parcels may be required to allow up to four units
 - Commercial parcels may be required to increase heights and densities as well
1. What might upzoning single-family parcels mean for the character of Rockridge?
 2. Also, how might development value be harnessed to address community objectives like affordable housing?

First, Housing Economics 101

- Housing development only happens when the revenues generated by the development exceed the costs of development by a sufficient margin
 - Revenues = sale prices, rental income, or subsidies
 - Costs = land acquisition, “hard” construction costs, “soft” costs
- Developers/investors need to foresee a financial return that justifies the risk relative to other investment opportunities
- Affordable housing and other community benefits can diminish revenues and/or add costs, presenting a feasibility challenge

Land Cost and Availability are a Challenge

- Rockridge is virtually built-out, so development must happen on lots with existing homes
- Site acquisition will be expensive because developers must compete with homebuyers
- An acre of land may cost > \$11 million, and likely requires assembly of multiple homes

	<u>94618</u>	<u>94609</u>
Redfin Avg Unit sale price (Nov 2018-May 2019)	\$1,384,435	\$1,087,860
Redfin avg SF/unit	1,826	1,474
Redfin avg price/unit SF	\$758	\$738
Redfin avg lot size	5,329	4,029
Redfin avg price/lot SF	\$260	\$270
Equivalent cost/acre	\$11,317,080	\$11,760,665

Demolishing Single-Family Units for 2-4 Unit Lots seems Unlikely

- Even if there's a willing property seller, the costs of redeveloping lots are high
 - Acquiring an average home lot will cost > \$1 million
 - Other development costs are also expensive (construction, fees, etc.)
- The more replacement units are built, the more feasible the project
 - Allowing 4 units is more feasible than 2 or 3 units
- Even a 4-plex requires much higher pricing per SqFt than average homes have achieved
- **Conclusion: "Tear-downs" of single-family homes to create 2-4 new homes will be rare***

*Adding Accessory dwelling units instead of "tear-downs" are more likely, but would have a lesser impact on neighborhood character

Redevelopment Feasibility for Duplex-Fourplex

	Duplex	Triplex	Four-plex
Land Area (SF)	4,000	4,000	4,000
Units/Lot	2	3	4
Avg. Unit Size (Net)	1,500	1,100	900
Land Cost	\$1,039,218	\$1,039,218	\$1,039,218
Land Cost/Unit	\$519,609	\$346,406	\$259,804
Development Cost/Unit SF (Hard and Soft Costs)	\$450	\$450	\$450
Development Cost/Unit	\$675,000	\$495,000	\$405,000
Developer Profit (% of Costs)	15%	15%	15%
Developer Profit \$	\$179,191	\$126,211	\$99,721
Total Project Cost	\$2,747,600	\$2,902,850	\$3,058,100
Total Cost/Unit	\$1,373,800	\$967,617	\$764,525
Value/SF required for feasibility	\$916	\$880	\$849
Redfin avg. price/unit SF (11/18-5/19, ZIP 94618)	\$758	\$758	\$758
Premium over observed avg. prices/SF	21%	16%	12%

Assembling Single-Family Lots for Larger Projects seems Unlikely

- Few lots in neighborhoods are large enough to accommodate large-scale projects
 - Average lot sizes of homes sold have been around 4,000-5,000 square feet
 - An efficient project typically requires at least a half-acre parcel, so roughly 4-5 contiguous lots
 - Acquiring an average home lot will cost > \$1 million, possibly much more to motivate sellers
- Multifamily buildings cost even more per sqft to build than 2- to 4-plexes
 - Require even greater pricing premiums relative to market averages
- **Conclusion: Assembly of single-family homes to create multifamily will be rare**

Redevelopment Feasibility at 36-60 units per acre

	<u>35' Height Limit</u>	<u>50 DU/ac</u>	<u>60 DU/ac</u>
Land Acres	0.5	0.5	0.5
Density/Acre	36	50	60
Units	18	25	30
Avg. Unit Size (Net)	800	800	800
Land Cost	\$5,658,540	\$5,658,540	\$5,658,540
Land Cost/Unit	\$314,363	\$226,342	\$188,618
Development Cost/Unit SF (Hard and Soft Costs)	\$500	\$500	\$500
Development Cost/Unit	\$400,000	\$400,000	\$400,000
Developer Profit (% of Costs)	15%	15%	15%
Developer Profit \$	\$107,155	\$93,951	\$88,293
Total Project Cost	\$14,787,321	\$18,007,321	\$20,307,321
Total Cost/Unit	\$821,518	\$720,293	\$676,911
Value/SF required for feasibility	\$1,027	\$900	\$846
Redfin avg. price/unit SF (11/18-5/19, ZIP 94618)	\$758	\$758	\$758
Premium over observed prices/SF	35%	19%	12%

Most Commercial Sites have too much Value to invite Residential Conversion

- Commercial property listings in Rockridge ZIP Codes show similar or even high value per land square foot than do existing single-family homes
- A few sites may have lower density uses and/or longstanding vacancies that may not maximize their commercial value, and might be considered for housing development
- **Conclusion: Demolition of commercial properties to create multifamily will be rare**

Estimated Value of Commercial Properties

LoopNet Listings for Commercial Buildings and Land, 10/30/19

Address	ZIP	Use	Value*	Bldg SF	Acreage	\$/Acre
2961 Summit St	94609	Office	\$1,890,000	5,300	0.08	\$23,625,000
371 30th St	94609	Office	\$450,000	925	n/a	--
3001-3007 Telegraph	94609	Office	\$5,450,000	13,000	0.63	\$8,650,794
400 30th St	94609	Office	\$8,500,000	25,912	0.19	\$44,736,842
6427-6429 Shattuck	94609	Office	\$2,350,000	5,555	0.12	\$19,583,333
6007-6011 College Ave	94618	Retail	\$1,050,000	1,500	0.07	\$15,000,000
2868 Telegraph	94609	Retail	\$1,649,000	4,108	n/a	--
4611-4617 Shattuck	94609	Land	\$2,200,000	-	0.19	\$11,578,947
3414 Andover St	94609	Land	\$1,600,000	-	0.14	\$11,428,571
5450 College Ave (Rug Store)	94618	Retail	\$5,406,000	6,275	0.36	\$15,016,667
5354 Claremont (DaVita)	94609	Office	\$7,078,664	18,104	1.69	\$4,189,492

* Value reflects asking price for all properties except Rug Store (used 2020 Assessed Value) and DaVita (used avg submarket value/bldg SF)

Affordable Housing presents a Major Feasibility Challenge

- RCPC has asked about potential for “local” affordable housing requirements, possibly in exchange for incentives such as greater heights and densities
- State law grants greater zoning heights and densities if providing affordable units
 - E.g., providing 15% of “base units” at “Very Low Incomes” now triggers a 50% bonus
 - 100% affordable projects get 80% density bonus
- Affordable housing units cost the same to build as market-rate, but generate less revenue
 - Few projects receive tax credits or other subsidies unless they are ~100% affordable
- Density bonus can spread site acquisition costs across more units, but still appear to require higher than average market-rate values
- **Conclusion: Additional “local” affordable housing requirements would likely require incentives beyond the already-generous State density bonus**

Redevelopment Feasibility with Affordable Housing and Density Bonus

	<u>35' Height Limit</u>	<u>55' Height Limit</u>	<u>85' Height Limit (50% Density Bonus)</u>
Units/Acre	40	60	90
Avg. Unit Size (Net)	800	800	800
Land Cost/Acre	\$10,000,000	\$10,000,000	\$10,000,000
Land Cost/Unit	\$250,000	\$166,667	\$111,111
Development Cost/Unit	\$400,000	\$400,000	\$400,000
Developer Profit \$	\$97,500	\$85,000	\$76,667
Total Cost/Unit	\$747,500	\$651,667	\$587,778
Total Project Cost	\$29,900,000	\$39,100,000	\$52,900,000
<i>Market Rate Units</i>	40	60	81
Unit Value/SF (Market Rate)	\$758	\$758	\$758
Value/Market Rate Unit	\$606,436	\$606,436	\$606,436
Total Value of Market Rate Units	\$24,257,422	\$36,386,133	\$49,121,280
<i>Affordable Units</i>	0	0	9
Area Median Income (by Unit Size)			\$89,350
Average Income Level (% of AMI)			50%
Value/Affordable Unit			\$214,589
Total Value of Affordable Units			\$1,931,304
Total Value of All Units	\$24,257,422	\$36,386,133	\$51,052,584
Difference Between Project Values and Costs	(\$5,642,578)	(\$2,713,867)	(\$1,847,416)
Value/SF required to "break even"	\$934	\$815	\$787
Redfin avg. price/unit SF (11/18-5/19, ZIP 94618)	\$758	\$758	\$758
Premium over observed prices/SF	23%	7%	4%

One Man's Conclusions

- **What might upzoning single-family parcels mean for the character of Rockridge?**

Because the cost of acquiring developable property and the cost of construction are so high, even in a high-value area like Rockridge:

- “Tear-downs” of single-family homes to create 2-4 new homes will be rare
- Assembly of single-family homes to create new multifamily will be rare
- Demolition of commercial properties to create new multifamily will be rare

- **Also, how might development value be harnessed to address community objectives like affordable housing?**

Because affordable housing reduces potential revenues in an area where new project feasibility is challenging:

- Additional “local” affordable housing requirements would likely require incentives beyond the already-generous State density bonus
- Added incentives might include still greater density bonus, no on-site parking, direct funding, etc.