Webinar
The Economics of Housing Production
February 10, 2022
Agenda

01 Project Background
02 Housing Market Conditions
03 Modesto's Unmet Housing Needs
04 Moving the Needle on Housing
05 Q & A
06 Next Steps
Housing Plan: Key Tasks

Task 1. Outreach and visioning
Task 2. Opportunity sites
Task 3. Infrastructure and services
Task 4. Performance + density standards
Task 5. Pro-housing policies
Task 6. Barriers to affordable housing
Task 7. Facilitate housing development

Task 8. Scenario Modeling

What will the Housing Plan provide?

✓ Zoning and policy recommendations for General Plan + Housing Element

✓ Scenario modeling of baseline and alternate growth scenarios to inform future land use designation
What is the focus of today’s webinar?

- Understand the economics of housing, and potential tools and strategies to be used by the Housing Plan to boost housing production and expand housing choice.
- Understand how the Scenario Modeling Task will illustrate the citywide impacts of recommended zoning and policy changes, to guide land use and policy decisions.
Cascadia Partners Approach

Scenario Modeling Involves:

• Decoding existing regulations
• Testing and visualizing alternatives
• Scaling up and forecasting citywide patterns
• Measuring broader impacts
• Anticipating impacts of change
Housing Market Conditions

Which national and local trends are contributing to Modesto’s unmet housing needs?
In many parts of the nation, people are spending more than 30% of their income on housing.

On the west coast, California is the epicenter of this crunch.
Local Trends: Home Prices

Median home value in Modesto is currently at $431,000, a new peak since the Great Recession

- Home values steadily increased since 2012, and in Sep 2021 overtook previous 2006 peak
- Between 2020-2021, Modesto home prices increased by 11% (fourth-highest semi-annual increase among all US metros)
Local Trends: Rental Rates

Median rent in Modesto is currently at **$1,486** for all units

- This represents an approx. **8.5% average annual increase** since 2014
- Modesto rents are about **75%** of the California statewide average
### Local Trends: Housing Market Health

<table>
<thead>
<tr>
<th></th>
<th>Healthy Housing Market</th>
<th>Stanislaus County Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Vacancy</td>
<td>5.0%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Rate of Overcrowding</td>
<td>&lt;1%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Cost Burdened</td>
<td>&lt;10%</td>
<td>36.3%</td>
</tr>
</tbody>
</table>

*Source: Department of Housing and Community Development (HCD), Regional Determination of Need, StanCOG (2021)*
What is causing home prices and rents to rise so rapidly?
“Healthy” housing markets typically have enough homes for sale to satisfy 6 months of demand, but Stanislaus County had roughly two weeks of for-sale housing supply throughout 2021.
Healthy housing markets produce at least 1.1 dwelling units for every new household. From 2010 to 2016, the Modesto region’s ratio was 0.28.
It’s All About Supply and Demand

Supply and demand are closely related. As housing supply declined between 2020 and 2021, prices rose accordingly.

Source: Federal Reserve Economic Data; National Association of Realtors Monthly Supply Data
Construction Costs on the Rise

Construction costs have continued to rise during the COVID-19 pandemic.

Encouraging Housing Production

Housing is developed when and where market, policy, and land factors align.

- Market factors are outside City control: must respond to market realities.
- The City has some influence over the availability of land and infrastructure.
- Policy and regulations are the City's best tools for encouraging housing production.

The Housing Plan is one tool that will help the City meet its housing goals.
Moving the Needle

What can the Housing Plan do to help Modesto meet its housing needs?
What is the Housing Plan?

The Housing Plan is a once-in-a-generation opportunity for Modesto to expand housing choices and affordability for its current and future residents.

Led by community input and feedback, the Housing Plan will:

- Focus on the “nuts and bolts” of how and where to develop new housing
- Remove regulatory and other barriers to boost housing production
- Recommend zoning and policy changes to increase housing choices at all levels of affordability.
- Inform the City’s long-term housing policy in the General Plan and Housing Element.
The Economics of Housing Production

Target Return on Investment

Feasibility Gap

EXISTING CONDITIONS

STREAMLINING

INCENTIVES

LAND DISCOUNTS (P3s)

ZONING CODE

CHANGES

Streamlined permitting reduces risk

Bonuses and fee waivers help close the gap

Publicly owned land in exchange for public benefits

Adjustments to height, parking, setbacks, make development more feasible

Developers unable to achieve target return due to high construction costs, low rents, lack of available land, deficient infrastructure, or restrictive zoning
How Can Streamlined Permitting Encourage Housing Production?

Complex and/or subjective permitting processes can cause delays and increase risk for developers.

A Best Practices Model for Streamlined Local Permitting (Massachusetts Association of Regional Planning Agencies, 2007)
How Can Incentives Encourage Housing Production?

This example from Sacramento shows how **impact fees**, which are typically charged to cover costs incurred by the city, can be **partially or fully eliminated to make affordable housing more feasible to build**.

*SACOG TOD Strategic Plan Sacramento Region (Cascadia Partners, 2020)*
How Can Discounted Land Encourage Housing Production?

Public-Private Partnerships can incentivize new development while providing opportunities for the City to define its vision for a site.

This could result in more affordable housing or public amenities than would be included in a typical market-rate project.
How Can Code Changes Encourage Housing Production?

Increased Per Unit Housing Price Due to Parking Costs

Effect of Parking Costs on Developer Profits per Acre

Parking hits residents’ and developers’ wallets. The more parking that is required, the more expensive housing becomes and the more infeasible it becomes to build.

Source: Victoria Transport Policy Institute, Parking Requirement Impacts on Housing Affordability (2021)
### How Can Code Changes Encourage Housing Production?

**SETBACKS**

<table>
<thead>
<tr>
<th>Zone Standards</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Units</td>
<td>2</td>
</tr>
<tr>
<td>Lot Size</td>
<td>6,200 Sqft</td>
</tr>
<tr>
<td>Density</td>
<td>14 UPA</td>
</tr>
<tr>
<td>Average Unit Size</td>
<td>800 Sqft</td>
</tr>
<tr>
<td>Parking Spaces per Unit</td>
<td>2</td>
</tr>
<tr>
<td>Front Setback</td>
<td>25</td>
</tr>
<tr>
<td>Rear Setback</td>
<td>15</td>
</tr>
<tr>
<td>Side Setbacks</td>
<td>5</td>
</tr>
<tr>
<td>Landscaped Area</td>
<td>69%</td>
</tr>
<tr>
<td>Return on Cost</td>
<td>-27.5%</td>
</tr>
<tr>
<td>Tax Revenue per Acre</td>
<td>$40,275</td>
</tr>
</tbody>
</table>

In this example from Sacramento County, large front, rear, and side setbacks make stacked flats the only viable two-family use. Lack of buildable site area drives a relatively small unit size.

**SACOG TOD Strategic Plan Sacramento Region**
(Cascadia Partners, 2020)
## Zone Standards

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<td>Average Unit Size</td>
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</tr>
<tr>
<td>Side Setbacks</td>
<td>5</td>
</tr>
<tr>
<td>Landscaped Area</td>
<td>48%</td>
</tr>
<tr>
<td>Return on Cost</td>
<td>13.8%</td>
</tr>
<tr>
<td>Tax Revenue per Acre</td>
<td>$80,595</td>
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</tbody>
</table>

**SETBACKS**

- 5ft
- 15ft

**SACOG TOD Strategic Plan**

Sacramento Region

(Cascadia Partners, 2020)

Shallower setbacks allow for larger, more marketable for-sale units. A project like this would be much more likely to get built.
No Single “Silver Bullet” Strategy

Potential Tools to explore:

• Expanding the range of allowed housing types
• Inclusionary zoning
• Infrastructure studies
• Density bonuses
• Transfer of development rights (TDR)
• Enhanced Infrastructure Financing Districts (EIFDs)
• Pro-Housing designation for grant eligibility
• Etc...
Design Testing With Housing Prototypes

Design Testing Process

Test housing typologies on typical lot sizes in Modesto

Evaluate current zoning + other regulatory standards to identify limiting factors

Test for financial feasibility through proforma analysis

Apply a mix of feasible housing typologies to Opportunity Sites to assess citywide applicability
Figuring Out What “Levers” to Pull

Test fits with proforma analysis allow us to pull various policy “levers” to see how they impact livability, affordability, and feasibility.
Exploring Policy Ideas with Test Fits

Test fits help us **test dimensional standards on actual sites** to see if what we are proposing could actually work.

_Housing Production Strategy_  
La Grande, Oregon  
_(Cascadia Partners, 2021)_

**Example: 7,500 Sqft. Site**

**EXISTING ZONING**

**REDUCED MINIMUM LOT SIZE**
Reducing parking requirements in this example made more housing units possible on a site, with rents that are more affordable.

Gunnison Code Audit
Gunnison, Colorado
(Cascadia Partners, 2018)
Residual land value analysis is how we take what we learn from test fits and scale it up to how it will impact the whole city.

Source: Johnson Economics
Measuring Citywide Impacts: Baseline Capacity

We will start by modeling **baseline housing capacity** - what can be built given **existing zoning and policies**.
Measuring Citywide Impacts: Scenario Models

Then we will create example scenarios - to explore what changes to zoning and policy can do for housing capacity.
How Much Are We Moving the Needle?

• Many strategies to close the “feasibility gap”, but no silver bullet
• Cascadia Partners will analyze policy proposals on site-level “prototypes”
• These tests will then scale up to produce a city-wide forecast
• This analysis will help the City understand the impact of policy proposals
• Specifically – how much housing production may each policy encourage?
Questions?
Join us in **March 2022** for the next workshop on **Zoning + Policy Recommendations**

The team will present their analysis on housing policies and zoning, and initial recommendations. Join us and invite your family and friends to give us feedback!

**Workshop 1:** Introducing the Housing Plan [14th Oct 2021]

**Workshop 2:** Analysis of Opportunity Sites [15th Dec 2021]

**Workshop 3:** Zoning + Policy Recommendations – March/ April 2022

**Workshop 4:** Draft Housing Plan – May 2022
Thank you for participating!

Visit the Housing Plan webpage and subscribe for email updates:

https://www.modestogov.com/Housing-Plan

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