

STAFF REPORT

Date: August 12, 2020

To: Tahoe Living: Housing & Community Revitalization Working Group

From: TRPA Staff

Subject: Housing Cost Analysis Tool

Summary and Staff Recommendation:

This staff summary provides a description of the Housing Cost Analysis Tool, which was created to analyze possible housing-related actions that the Housing and Community Revitalization Working Group may consider. This item will include a presentation of how the tool will be used to evaluate an example set of actions. This item is for informational purposes and no action is required.

Project Description/Background:

The availability of resident housing in Tahoe is influenced by multiple factors. Development costs and regulations create a building environment that produces large homes that are generally unaffordable to local residents. These larger homes can be built at a lower cost per square foot and generate a return on investment, while smaller homes generally do not. As a result, the majority of new construction enters the vacation rental or second homeowner market, as local wages are not high enough to afford these homes. The figure below shows the root causes of the gap in affordable housing in Lake Tahoe.

Figure 1: Root Causes of Gap in Availability of Local Resident Housing



To counteract this trend, a variety of actions were developed and prioritized through the Tahoe Prosperity Center (TPC) and Mountain Housing Council (MHC) collaborative planning processes. As TRPA begins the process of further developing and implementing these recommendations, there is a need for

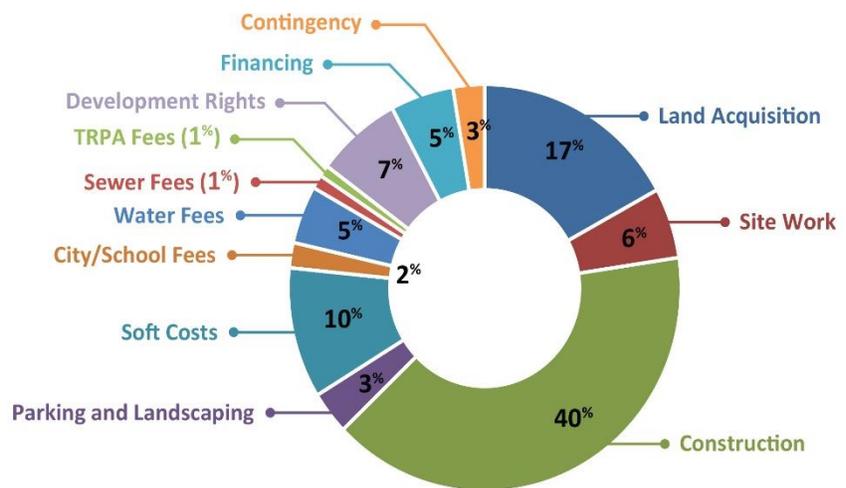
a deeper understanding of the capacity for each of these actions to reduce the cost of housing or increase what local residents can afford, and to deliver the needed housing. To better understand and demonstrate the relative impact of different housing actions, TRPA staff have developed a Housing Cost Analysis Tool. The tool includes three key elements which are explained in the next sections.

Development Cost

Development costs include land acquisition, materials and labor, parking and landscaping, fees, environmental review costs, and financing, to name a few. In the Tahoe basin, these costs can be so high as to render the residual land value of a property too low to support development. The pro forma completed in 2018 for the Development Rights Strategic Initiative found that building construction is the most expensive part of developing, at 40 percent of the total project cost. Land acquisition is next, at 17 percent. Figure 1 shows a breakdown of the development costs for a 45-unit multi-family development in South Lake Tahoe. The work that has been done to identify actions through the South Shore Housing Action Plan, MHC, and local governments, in addition to many other recent initiatives in the basin, can help to lower some of these costs.

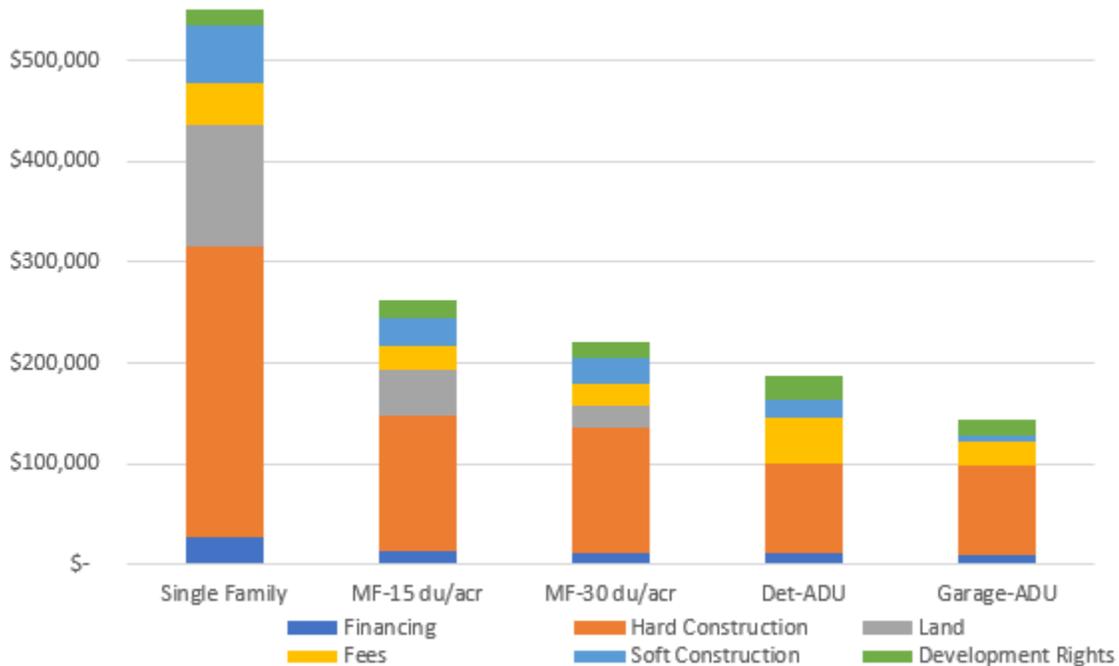
The Housing Cost Analysis Tool uses the pro forma discussed above to show potential project cost reductions when applying different actions. The tool is broken out by various housing types (multi-family and single family, for rent and for sale). Using generalized assumptions and estimations of the cost reductions for specific actions, the tool can provide guidance on which actions or set of actions may have the biggest impact on reducing the cost of development. A static example of this element of the tool is shown in Figure 2 below. Note that since the costs shown in the tool are based on the 2018 Development Rights Strategic Initiative pro forma, they may be lower than current costs. Assumptions about costs and how these costs apply on a per-unit basis may be further refined based on input from Working Group members or additional research by staff and consultants. However, the value of this tool is in discerning the relative impacts of individual actions and whether they should be part of an action plan, not in producing exact cost estimates.

Figure 1. Multi-Family Development Cost – South Lake Tahoe



For example, land donation is an action that can significantly decrease the cost of multi-family housing development. In addition, when land is donated, financing costs will be lower as well. These actions that reduce the cost of land, which was estimated at nearly \$2,000,000 for a 45-unit development in the pro forma, sometimes provide developers with enough financial incentive to build in the Tahoe basin. The tool can help identify which set of actions would be best for various development types.

Figure 2. Costs to Build Different Types of Units in Tahoe, by Unit¹



Development Requirements

In addition to development costs, development requirements, such as zoning requirements or mitigation fees, also add to the cost of building housing. While generally small in and of themselves, these costs can increase or decrease the total cost to a level that changes the financial feasibility of a project. In the basin, these requirements typically include air and water quality fees, development rights, and parking and density requirements, among others. The cost breakdown for these requirements is shown in Figure 1 above.

The Housing Cost Analysis Tool will also take development requirements into consideration using estimates from the pro forma. In Figure 2 for example, the cost to develop one unit is reduced by nearly \$40,000 when increased density is facilitated. For a 90-unit multi-family development, the cost saving per unit is significant. Increased density, paired with other actions such as donated land, reduced parking requirements or reduced air quality mitigation fees, could reduce costs enough to incentivize developers to build in the Basin.

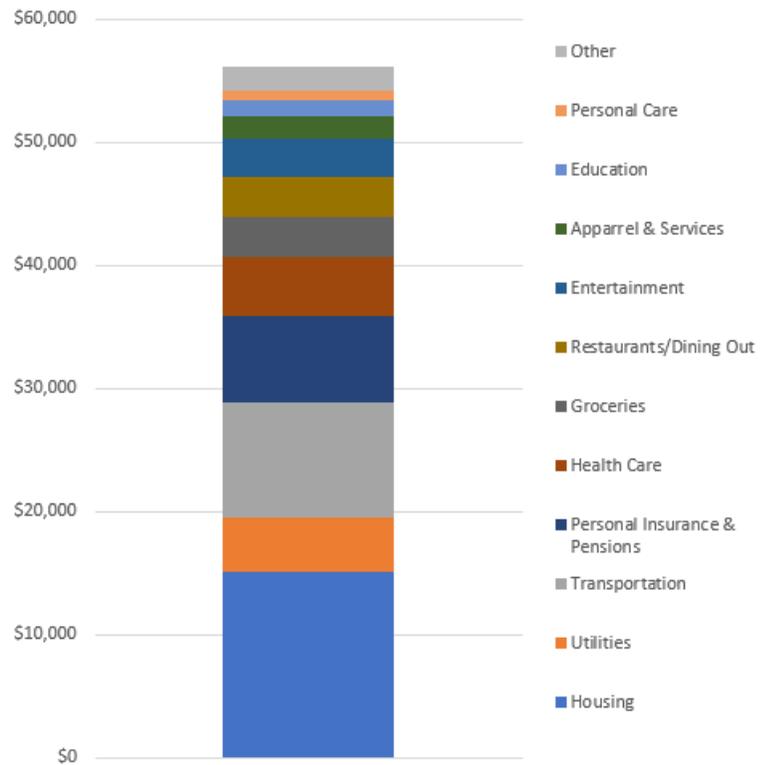
¹ Figure 2 shows the cost difference between various types of development: single family homes, multi-family 15 dwelling units per acre (MF-15 du/acr), multi-family 30 dwelling units per acre (MF-30 du/acr), detached accessory dwelling unit (Det-ADU), and garage conversion accessory dwelling unit (Garage-ADU).

Affordability for Local Residents

In addition to development costs and development requirements, many Tahoe basin residents lack the income to rent or purchase quality housing within their budget. This is due to limited local income and the demand for short term rentals and second homes that limit the supply of housing for locals. The third function of the tool considers average household expenditures to identify actions that could have an impact on local discretionary income. In Tahoe, many homes cost less to rent or buy but have higher than average energy costs due to outdated heating sources or lack of insulation. Similarly, for workers who commute into the Tahoe Basin, their housing budget may be lower than that of a full time Tahoe resident. However, they may spend more on transportation than a Tahoe resident.

Using the national household expenditure data from the US Bureau of Labor and Statistics, TRPA staff applied the percentage of each expenditure category to the median income in each jurisdiction. This provides an estimate of how much a Tahoe resident spends in each budget category. Using the same methodology as the Development Costs section above, estimations and assumptions can be used to test actions that reduce costs in different categories. If a household can spend less on transportation or utilities, an additional share of the household budget can be used for rent or mortgage. For example, rebates or payments can be provided to Tahoe residents to make home improvements that reduce energy consumption and/or switch the source of that energy. If these improvements use renewable energy sources they may further reduce greenhouse gas emissions and, as such, be eligible for additional funding.

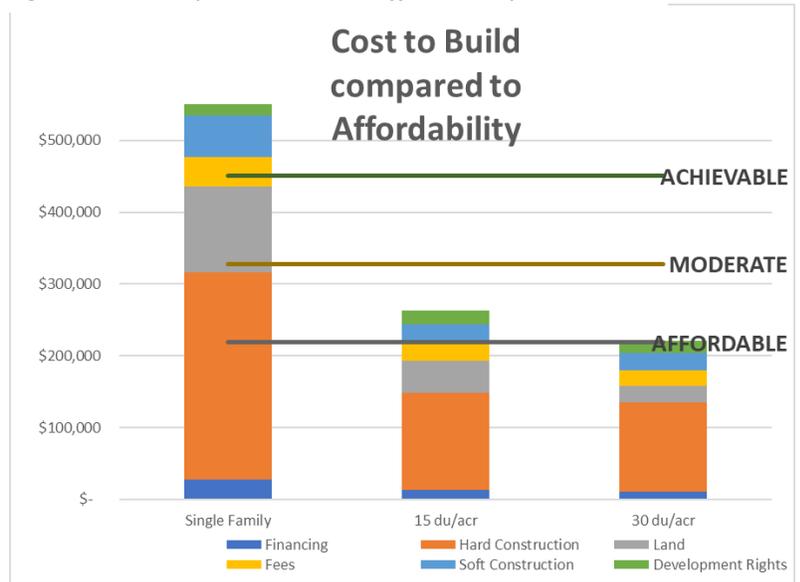
Figure 3. Average Household Expenditures



Development Costs Compared to Affordability

The overarching goal of the tool is to identify a set of actions that allow for development costs to align with household affordability. Increasing density is one example. Figure 4 shows the development costs of a single-family home, and two multi-family developments. The horizontal lines on the right show the affordable home price of households in the affordable, moderate and achievable-income levels. By increasing density from 15 units per acre to 30 units per acre, the development costs are reduced, which ultimately results in more affordability for residents. In the upcoming months, this tool will be used to measure the impact of various actions, find gaps, identify combined local and regional actions that comprise action plans to meet SCS, RHNA, and larger targets, and help the Working Group prioritize next steps.

Figure 4. Development Costs & Affordability



Contact Information:

For questions regarding this agenda item, please contact Alyssa Bettinger at (775) 589-5301 or abettinger@trpa.org.

Attachments:

A. Example Action Plan and Analysis

B. [Development Rights Strategic Initiative 2018 Housing Costs and Affordability Report](#),

http://www.trpa.org/wp-content/uploads/0_GreenReport_Housing-Costs-and-Affordability_011518.pdf

Attachment A
Example Action Plan and Analysis

Example Set of Actions and Analysis

Between the local government (a.k.a., Example Jurisdiction) and TRPA, five actions were identified as an initial set of actions for obtaining more for-sale multi-family town center housing. For the purposes of this example, it has been determined that the market will provide a for-sale multi-family unit in Example Jurisdiction for \$500,000. Using the latest AMI data, it has also been determined that the affordable price at the achievable level of income is \$450,000, at the moderate level \$395,000, and at the affordable level \$340,000. The following table summarizes the multi-family housing needs for Example Jurisdiction:

Jurisdiction	Minimum (RHNA/SCS)			Optimal (Needs Assessment)		
	Affordable (\$340K)	Moderate (\$395K)	Achievable (\$450K)	Affordable (\$340K)	Moderate (\$395K)	Achievable (\$450K)
Example Jurisdiction	10	10	20	20	40	120

The example strategy and analysis results are presented below.

Development Costs

Action 1: Example Jurisdiction and TRPA, using the pro forma component of the Housing Cost Analysis Tool, determined that eliminating the TRPA application fee and changing the TRPA air quality and water quality mitigation fee requirements so that the burden is placed totally on units being sold above the achievable price will result in a 0.9 percent decrease in the development costs (i.e., cost reduction of \$4,500).

Action 2: The developer of a 70-unit for-sale multi-family project in an Example Jurisdiction town center has proposed use of modular construction (e.g., Factory OS, <https://factoryos.com/>; Blokable, <https://blokable.com/>) that will reduce the cost per unit by 20 percent. Example Jurisdiction has made the appropriate code interpretations to allow this type of construction without any discretionary approvals. Based on the pro forma component of the Housing Cost Analysis Tool, construction costs are 40 percent of total development costs (i.e., 40 percent of \$500,000 is \$200,000) so the resulting construction cost reduction will be 20 percent of \$200,000, or \$40,000.

Development Requirements

Action 3: Example Jurisdiction has eliminated its parking requirements in town centers because they all have high quality transit service. Based on the pro forma component of the Housing Cost Analysis Tool, this will result in a reduction in the land costs for the project (typically 17 percent) by 1.5 percent for a reduction in costs of \$7,500 (1.5 percent of \$500,000).

Action 4: Using TRPA's current program to waive development rights requirements for affordable and achievable housing, plus existing coverage from Example Jurisdictions pool, the pro forma component of the Housing Cost Analysis Tool indicates that the development costs can be reduced by 7.7 percent, or \$38,500 (7.7 percent of \$500,000).

Affordability for Local Residents

Action 5: Example Jurisdiction has allocated \$500,000/year for 8 years to buy 5 deed restrictions per year with the expectation that will reduce the average purchase cost of a multi-family unit from \$500,000 to \$400,000 or 20 percent. To be qualified, the initial and all future purchasers must be employed within a certain distance from the housing unit. Based on the average household expenditures component of the Housing Cost Analysis Tool, the percentage of household expenditures for housing is 20 percent. A 20 percent reduction in the purchase price will therefore mean that the qualifying household will effectively have 4 percent more income available for housing expenditures (20 percent reduction in purchase price x 20 percent of expenditures). In other words, for the qualified household it will increase the affordable home price by 4 percent.

Expected Results of Action Plan

Based on this analysis, the cost of the 70 for-sale multi-family units will be reduced by \$91,500 to \$408,500. In addition, the additional income available for the qualified household will increase the achievable price the qualified households can pay from \$450,000 to \$468,000, the moderate price from \$395,000 to \$414,750, and the affordable price from \$340,000 to \$353,600.

As a result of the implementation of this action plan, all of the “minimum” RHNA/SCS affordable, moderate, and achievable targets would be satisfied and over 58 percent of the affordable, moderate, and achievable “optimal” targets would be satisfied (note this is a hypothetical example).

Attachment B
Development Rights Strategic Initiative 2018 Housing Costs and Affordability Report

Access Electronically: [Development Rights Strategic Initiative 2018 Housing Costs and Affordability Report, http://www.trpa.org/wp-content/uploads/0_GreenReport_Housing-Costs-and-Affordability_011518.pdf](http://www.trpa.org/wp-content/uploads/0_GreenReport_Housing-Costs-and-Affordability_011518.pdf)