

*Regional Policy Background Papers – Fall 2012*  
**Housing the Workforce in the Bay Area**

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## 1. Introduction

This policy background report asks, what is the need for housing in the future? It explores how the wages from forecasted job growth might impact household incomes, what levels of housing affordability will be needed, and potential strategies to meet our housing needs. Section two briefly reviews the spatial pattern of housing production in recent decades. Section three describes projected regional growth, including housing needs by income category, and the likely amount of housing supplied given recent production trends. Section four describes where new housing could be located to improve access to jobs, and challenges to producing housing in these locations.

The fifth and last section suggests three strategies that could support the availability of housing for residents in the future. These strategies include: 1) policy changes that could increase new housing production including a replacement to redevelopment; 2) investing in existing areas with good job access but where housing may need rehabilitation and neighborhoods may need improvements to schools, streets, sidewalks, sewers or other public infrastructure; and 3) an example of how much money a Regional Affordable Housing Trust Fund could generate to finance both.

## 2. Recent housing development trends

Because housing is a long-lived durable asset, the distribution of affordable housing is largely an artifact of changing development processes over time. The second half of the twentieth century brought dramatic changes: the rapid decline of many older central cities, the rapid growth of suburban areas, and competition among jurisdictions for residents and businesses to expand tax bases. Encouraged by rising incomes and significant housing subsidies, that increased with income, larger houses on large lots became the norm for development in suburban locations. The increasing poverty in declining central cities substantially dampened their market for new housing development and limited investment.

When moving, households tend to pursue housing they can afford, which, in many cases, results in communities that have relatively homogenous incomes and house prices. Some communities house high-income residents, while others house lower-income residents. Lack of affordable housing in higher income communities however, means that workers in lower paying jobs such as police, fire, and clerical, are forced to commute longer distances from other communities, which drives up costs for the higher-income community.

Because of high land costs in places closer to employment centers and availability of undeveloped land, more housing has been produced in areas far from the region's employment centers circling the Bay. These areas accommodated substantial new housing production at more affordable prices, but at a cost of increased commutes.<sup>1</sup> Some older neighborhoods remained close to jobs but suffered from

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<sup>1</sup> The health impact of a sedentary lifestyle has also been increasingly linked to suburban living.

infrastructure, market, and regulatory constraints to housing production. These areas did not produce as much housing, but remained more affordable.

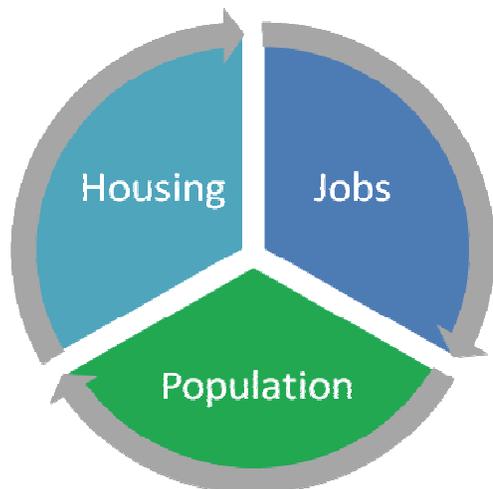
Today, we need more housing near jobs that is affordable to our workforce. In the future, this trend of housing and employment dispersal may reverse for several reasons. First, the region is geographically constrained with fewer “greenfield” development sites left, while traffic congestion continues to worsen. Secondly, strong growth in technology and professional services will enhance transit accessible locations. And finally, we project tremendous demographic change as the Baby Boomers age and their children mature. This may increase demand for more compact housing in central cities with good access to transit and services.<sup>2</sup>

### 3. Projected Regional Growth

By 2040 ABAG projects an additional 1.1 million jobs, 2.1 million people, and 660,000 new homes. These projections are based on national employment growth by industry sector and the region’s share of that growth. Population and housing projections are based on forecasted job growth.

Growth in high-tech and other knowledge intensive industries will drive growth in the service sectors that support these industries. Overall, knowledge industries pay more and create higher income households that demand services such as retail, restaurants, and childcare that pay less. This creates additional demand for affordable workforce housing. Total regional economic performance could be compromised, if we do not provide the housing necessary to support households at all income levels.

FIGURE 1. UNDERSTANDING REGIONAL PROJECTIONS



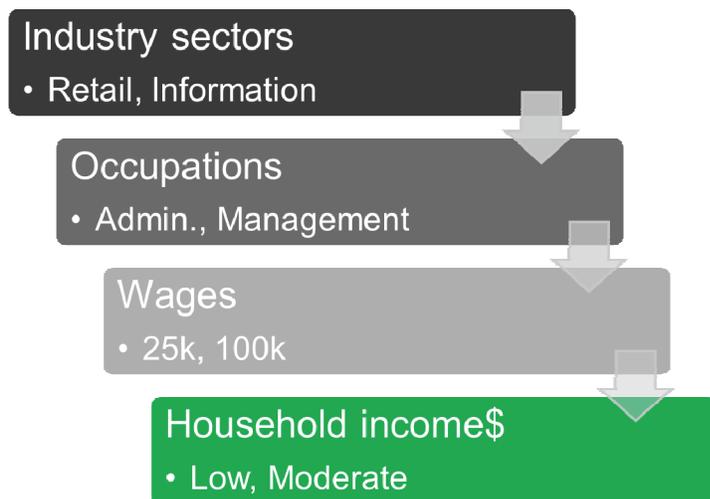
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<sup>2</sup> *The New American Dream*, Urban Land Institute, Arthur Sullivan 2011.

### 3.1 Projected regional housing need from jobs

To estimate future housing needs, we analyzed employment growth by industry sector, the expected occupational makeup of each sector, and estimated wages for these occupations to derive household incomes (Figure 2).<sup>3</sup> For example, the retail sector typically pays lower wages. Within the retail sector however, are a variety of occupations including highly paid management positions as well as lower paid sales representatives.

**FIGURE 2. TRANSLATING JOB GROWTH INTO HOUSEHOLD INCOME 2010-2040**



Based on this translation of projected household incomes, approximately 56% of the forecasted 660,000 new housing units need to be affordable to very low and low income households (Table 1).<sup>4</sup> Today, about 40% of the existing 2.6 million households, (or just over 1 million), fall into the very low and low income groups.<sup>5</sup> Figure 3 shows that by 2040 the very low and low income groups will increase from 40% of households to 43% of households, while those in the moderate and above moderate categories will decrease from 60% to 57% of households.<sup>6</sup>

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<sup>3</sup> *Evaluating the Effects of Projected Job Growth on Housing Demand*, UC Berkeley, Karen Chapple 2012.

<sup>4</sup> This is based on 30% of income spent on housing. Today however, households on average pay about 37% of their incomes on housing.

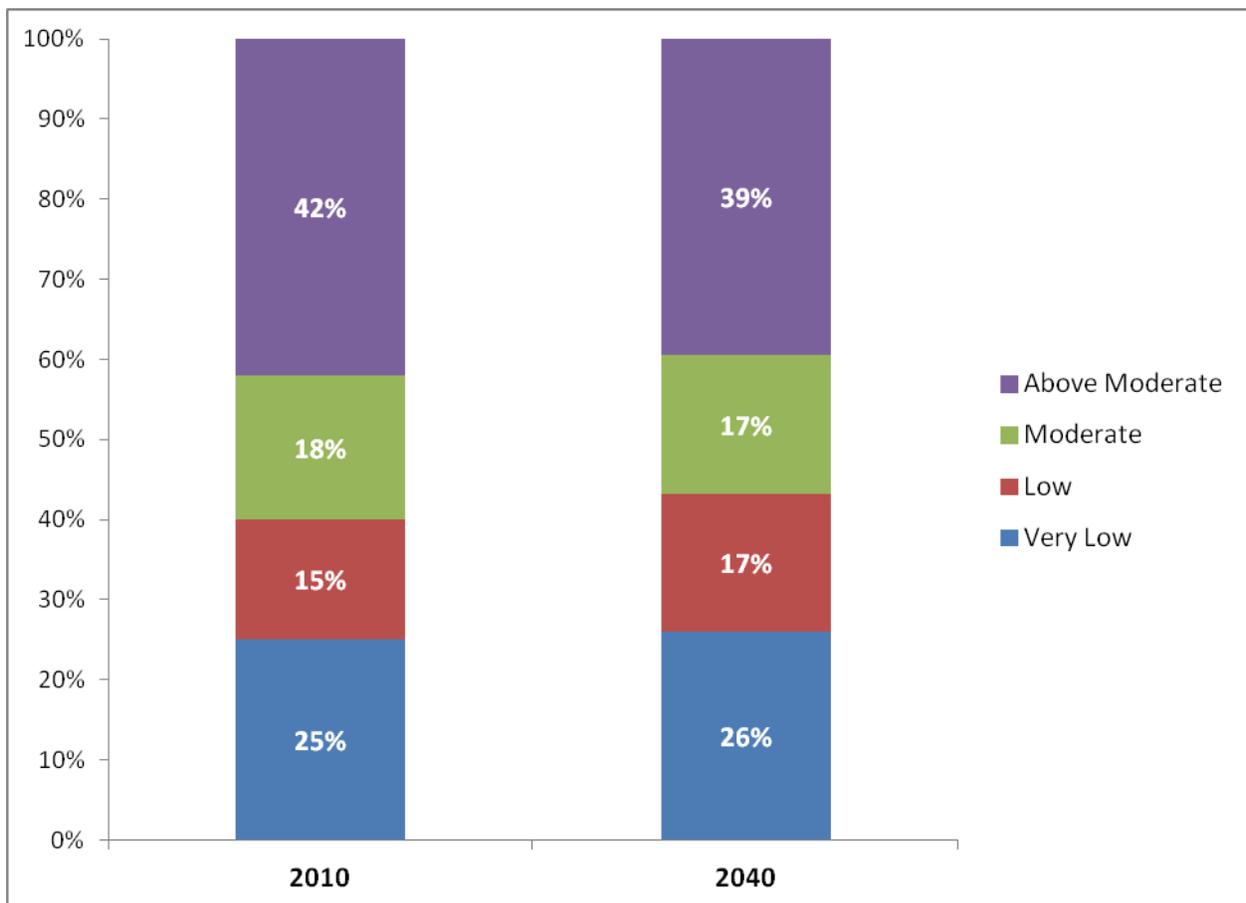
<sup>5</sup> Census 2010.

<sup>6</sup> Assuming existing households remain in the same income categories.

**TABLE 1. HOUSEHOLD GROWTH BY INCOME CATEGORY 2010-2040**

Households	Very Low	Low	Moderate	Above Mod.	Total
Existing 2010	648,600	401,470	463,642	1,094,312	2,608,023
	25%	15%	18%	42%	100%
New 2010-2040	222,372	173,817	110,515	193,384	700,087
	32%	25%	16%	28%	100%
Total Households 2040	870,972	575,287	574,156	1,287,695	3,308,110
	26%	17%	17%	39%	100%

**FIGURE 3. TOTAL HOUSEHOLDS BY INCOME CATEGORY 2010-2040**



**3.2 Projected housing construction**

How likely is it that we will produce new housing at the needed income levels? To estimate market production by income category, we compared production trends from available data and projected this to 2040. Between 1999 and 2006, over 70% of new housing was produced for above moderate income households (Figure 4). Preliminary estimates for 2007 to 2011 indicate a similar pattern. Although the past decade was marked by tremendous market fluctuations, this suggests high levels of production in the above moderate category.

**FIGURE 4. HOUSING BY INCOME CATEGORY: 2010-2014 NEED VS. 1999- 2006 PRODUCTION**

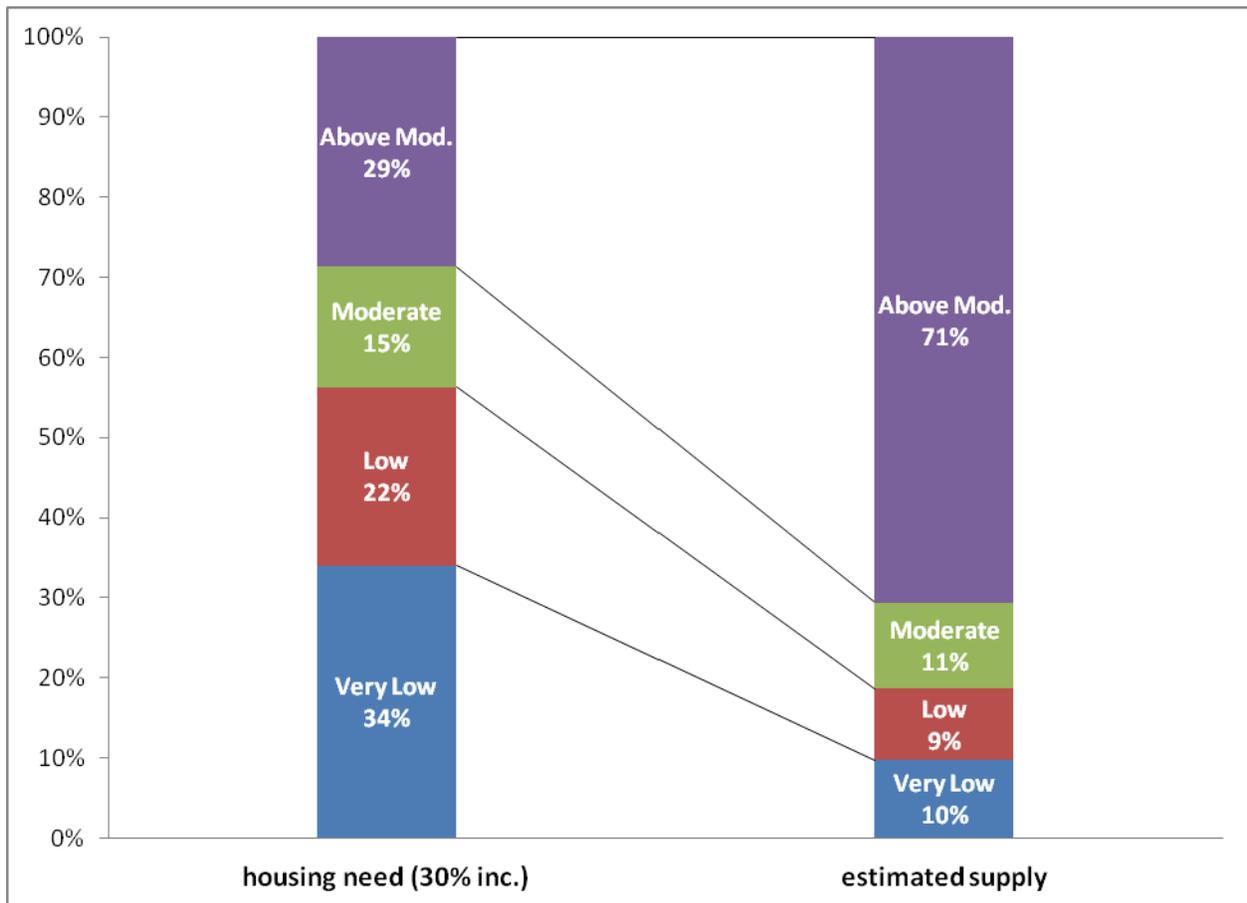
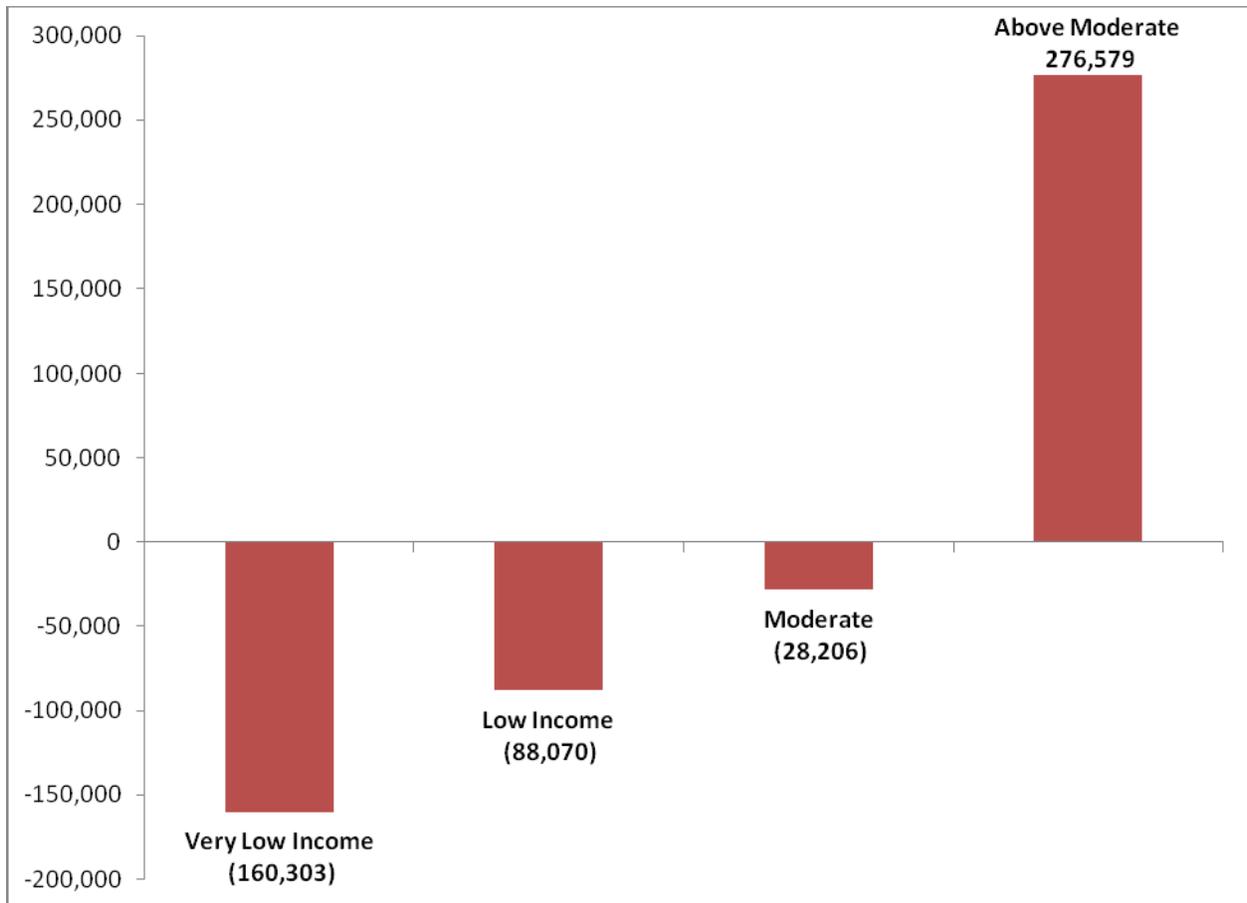


Figure 5 shows that, assuming these trends continue, more than enough homes for above moderate households will be produced, and too few homes will be created for lower income households. The region may produce 660,000 homes as ABAG forecasts by 2040, but this housing will likely be affordable to higher income households only.

**FIGURE 5. PROJECTED HOUSING NEED COMPARED TO RECENT PRODUCTION TRENDS**



As the majority of the region’s cheaper housing was produced at the fringes of the region, and that plans across the region are supporting the production of a variety of housing types within the urban footprint, it is also likely that demand for housing among moderate income households will increase compared to the amount supplied. This analysis is not contained herein, but will be completed in the future.

The majority of new housing affordable to lower income households will be created by non-profit housing developers utilizing available public subsidies for housing production. Because these households have the greatest housing need, we estimated the amount of housing production that these subsidies could create. From a sample of 27 affordable housing developments constructed since 2006,

we analyzed total development costs per unit and the average amount of subsidy required per unit. We then compared this to projected funds available in the future, absent redevelopment funds, to estimate total production.<sup>7</sup> Figure 6 shows federal and state subsidies together as affordable rental.

**FIGURE 6. ESTIMATED REGIONAL AFFORDABLE HOUSING PRODUCTION WITHOUT REDEVELOPMENT**

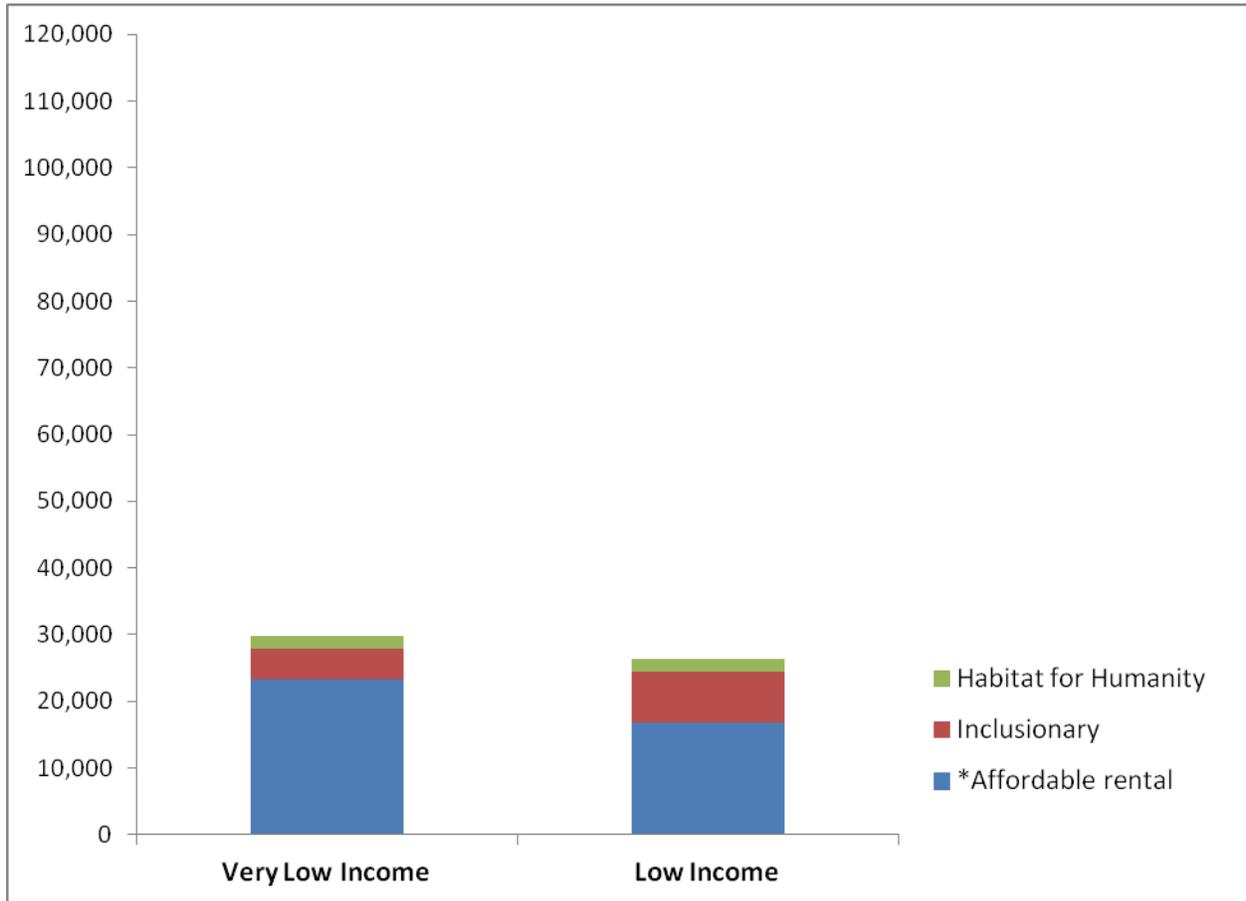


Figure 6 also shows the amount of housing that could be created by inclusionary programs. Contrary to popular belief, inclusionary programs have produced primarily rental housing for lower income households.<sup>8</sup> However, the recent Costa-Hawkins ruling casts doubt on whether inclusionary housing programs as currently formulated will apply to new rental housing developments in the future. As a result, inclusionary housing production may occur at substantially reduced levels than shown.

<sup>7</sup> *Affordable Housing Demand and Supply Analysis 2010-2040*, Jacob Wegman 2012.

<sup>8</sup> See "Affordable by Choice: Trends in California Inclusionary Housing Programs", Non-Profit Housing Association of Northern California, 2007.

Figure 6 also shows the housing that may be produced by Habitat for Humanity. While Habitat for Humanity creates relatively few homes, they notably focus on producing larger family sized dwellings for lower income households.

Together, we estimate that all these programs could produce approximately 56,000 units for the very low and low income categories. An analysis of moderate income household needs is underway, but preliminary results show another 3,400 units could be produced by these programs.

#### 4. New housing link to job growth

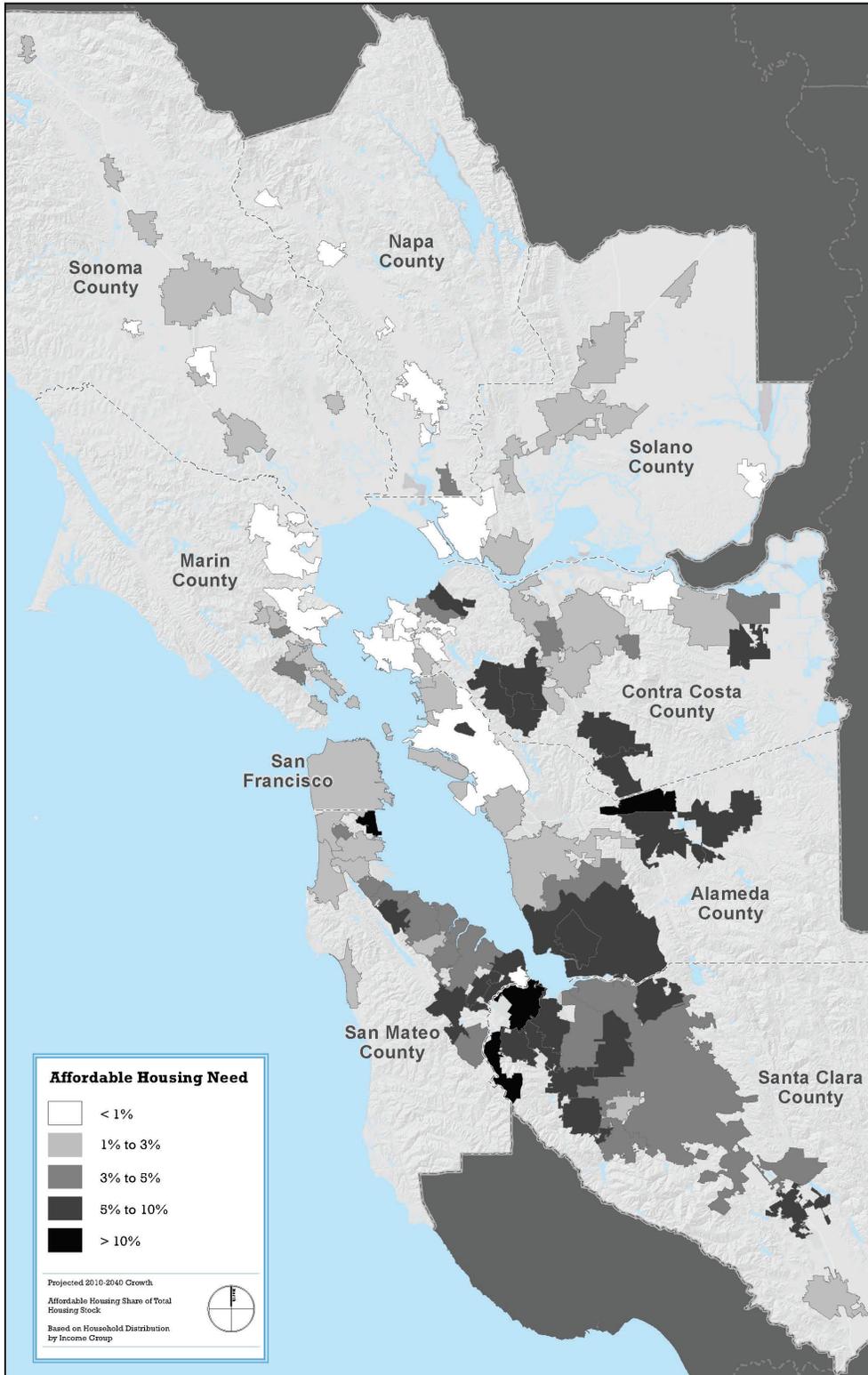
So where should we produce new housing to improve household’s access to jobs? Household growth by county and income category was estimated from the employment forecast contained in the *Jobs-Housing Connection*. Table 2 shows county demand for housing as a result of projected job growth by income category.

**TABLE 2. HOUSEHOLD GROWTH BY INCOME CATEGORY AND COUNTY, 2010-2040**

County	Household Growth 2010-2040	VLI	Low Inc.	Mod Inc.	Above Mod.
Alameda	152,347	28%	26%	16%	30%
Contra Costa	87,989	34%	28%	14%	24%
Marin	9,176	42%	25%	7%	25%
Napa	5,014	27%	33%	8%	32%
San Francisco	100,543	17%	38%	12%	32%
San Mateo	65,462	43%	16%	18%	24%
Santa Clara	223,405	41%	14%	21%	24%
Solano	26,101	24%	33%	11%	33%
Sonoma	30,050	34%	23%	13%	31%
SF Bay Area	700,087	32%	25%	16%	28%

Jurisdictions should provide housing at the appropriate income levels for the type of jobs they create. Given the data constraints on commutesheds, this estimate uses the county as a proxy for its cities’ commuteshed and links projected county jobs and wages to housing affordability at the local level. If a city creates low wage jobs, then that city should produce housing affordable enough for its new workers and their families. Figure 7 maps household growth by income category for very-low, low, and moderate income groups at the city level.

FIGURE 7. LINKING AFFORDABLE HOUSING NEED WITH PROJECTED JOB GROWTH



#### *4.2 Challenges to this growth pattern today*

Regional coordination to support investment in Priority Development Areas (PDAs) selected by local jurisdictions as places for future housing can help address obstacles to increased production of units at a variety of income levels. Growth in PDAs provides a variety of social and economic benefits, including expanded access to employment by transit and other affordable transportation modes. Although local plans for PDAs share many common goals, they vary in the quality of their schools, streets, sidewalks, and other infrastructure as well as their desirability for new households.

To better understand the market strength of these areas to accommodate growth, we analyzed median household incomes, median housing value trends, prevailing market rents, and recent levels of sales activity. We also calculated the median multiple by dividing median housing value by median household income.<sup>9</sup> (See Appendix B).

With some exceptions, communities that are more affordable have poor access to jobs or represent areas of concentrated poverty.<sup>10</sup> Therefore, unaffordable areas are most desirable to households and more likely to see greater levels of development activity.

Some jurisdictions are places where housing is currently more difficult to produce as measured by low housing values, low household incomes, and sluggish absorption. Such areas may be less attractive due to poor schools, other infrastructure deficiencies, and location, since communities far from jobs represent weaker markets.

Other areas however, have good access to jobs, but suffer from longstanding concentrations of poverty and disinvestment that make them unattractive for new residents and new development. Over time this can be addressed through needed infrastructure investments to attract and retain middle income workers. Such areas include communities like Suisun City, Vallejo, and Richmond.<sup>11</sup>

Strong markets are the best places to build more housing at all income levels. Although these areas may need significant infrastructure investments to realize their full housing potential, households and developers are drawn to them due to their superior access to jobs and quality of life. These areas include San Francisco, Sunnyvale, and Mountain View.

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<sup>9</sup> For example, if a jurisdiction's median housing value is \$200,000 and median household income is \$50,000, that jurisdiction has a median multiple of four ( $\$200,000/\$50,000 = 4$ ), or simply that median housing value is four times median household income. Lower numbers indicate greater affordability and higher numbers less affordability.

<sup>10</sup> Regional variation in housing values is closely linked to job access, quality of infrastructure, and community services including schools, parks, hospitals and clinics.

<sup>11</sup> Where appropriate, anti-displacement controls should also be in place to ensure improvements benefit existing residents as well as new residents.

## 5. Strategies to house our workforce

So how do we address these challenges to housing our workforce at all income levels? Enough housing will be provided for new households earning above moderate incomes. Moderate and lower income households represent the greatest need for housing, especially given the compromised status of inclusionary programs and the loss of redevelopment. Overcoming today's market challenges in communities with good job access, but that suffer from disinvestment is key: these locations are often where land for new construction exists and where new development could proceed along underutilized commercial streets without displacing existing residents, all while providing additional shops, services, and street improvements.

As a first step to reduce the distance between housing and jobs, we looked at three strategies to house the workforce. Because of the impact of existing policies on new construction, we first estimated the amount of additional housing we might expect if permit streamlining and parking policies were modified and a replacement to redevelopment was created at the state level. As a substantial amount of housing could be provided in existing areas with good job access but little market interest due to disinvestment, we also analyzed how investments could be provided to improve market conditions by rehabilitating existing housing and improving neighborhood amenities. And to further support new construction while reversing the cycle of disinvestment in key locations, we analyzed the impact of creating a regional affordable housing trust fund to close the gap between future housing supply and demand.

*Strategy 1: Promote permit streamlining, parking requirement modifications, and replace redevelopment funds to increase total housing production at all income levels.*

### Permit Streamlining

Job access alone does not completely determine land prices.<sup>12</sup> A study by John M. Quigley of single family housing prices, found that the estimated effects of permit streamlining to reduce regulatory restrictiveness upon housing values are substantial.<sup>13</sup> For example, a reduction in the extent of delay between application and approval for residential construction from the current average of 16 to about 8 months could increase the affordability of housing by \$22,000 on average across the Bay Area, with much greater reductions in high priced areas like Palo Alto.

Although this study looked at single family homes, from this we estimated that permit streamlining could produce an additional 16,000 units to meet lower income household needs. The impact would

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<sup>12</sup> The decentralization of workplaces and residences in the San Francisco region over time now means that locations most accessible to jobs in the region are located in the East Bay slightly south of San Francisco where land prices are relatively moderate. Areas with better local schools (as reported by the Academic Performance Index) are also much more valuable on average.

<sup>13</sup> John M. Quigley, et al., "Economic Geography, Jobs, and Regulations: The Value of Land and Housing." UC Berkeley 2011.

likely be greater for the moderate and above moderate income categories: this analysis is not contained herein, but will be completed in the future.<sup>14</sup>

### Parking policies

The cost of providing parking also adds to the cost of new housing. One study has estimated that 20% of the total development cost of some affordable housing projects goes toward the construction of parking structures, facilities that in some cases are 50% vacant at peak occupancies.<sup>15</sup> This suggests that, in some cases, affordable housing developments could trim their costs by 10% by only building enough parking to serve the actual demand that exists.

Changing parking policies to reduce parking prices by 5% could yield an estimated 4,000 units for lower income households.<sup>16</sup> Like permit streamlining, the impact would likely be greater for the moderate and above moderate categories.

### Redevelopment and Prop 1C replacement

There are various ongoing efforts to develop a replacement to redevelopment including SB 1156, that would create an alternative way to generate tax-increment financing revenue or sales tax for affordable housing and other purposes. This would create a replacement source of funding (albeit a smaller one) for redevelopment which could be used to support PDAs.

In summary, the bill allows a city and county within a region with an adopted and approved SCS to form a Sustainable Communities Investment Authority to enable tax-increment financing within a designated area, generally ½ mile from a major transit stop or high quality transit corridor.<sup>17</sup> Funds could be used for projects that implement the goals of an SCS, such as improving jobs-housing balance and reducing air pollution and vehicle miles traveled to improve public health. It requires that a local jurisdiction adopts the following:

- A land use plan that is consistent with the use designation, density, building intensity, and applicable policies in the SCS.
- An ordinance creating a jobs plan that requires all entities doing business with the Sustainable Communities Investment Authority to enter into an agreement describing how the project will "further construction careers that pay prevailing wages and create living wage permanent jobs" and implement a community outreach program for disadvantaged residents.

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<sup>14</sup> Also, reducing the number of reviews required for approval from an average of 3 to 1.5 would decrease average house prices by about 14%. Affordability in traditionally more restricted areas, like San Francisco and Palo Alto, could increase by more than double that number.

<sup>15</sup> Litman, T. 2009. Parking Requirement Impacts on Housing Affordability. Victoria, British Columbia, Canada: Victoria Transportation Policy Institute.

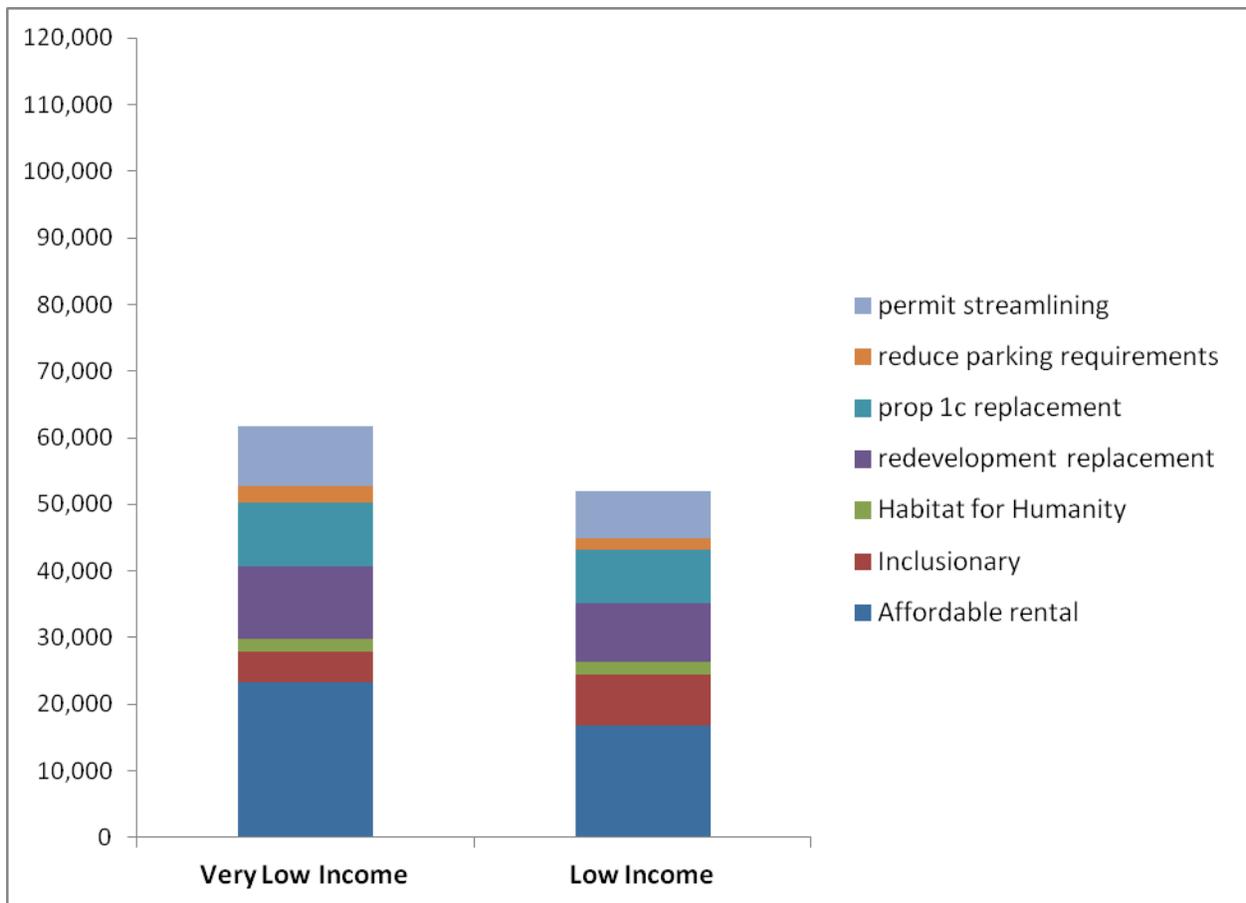
<sup>16</sup> Jake Wegman, Solutions to the Bay Areas Affordable Housing Shortfall, Berkeley 2012.

<sup>17</sup> As defined in Resources Code 21155.

- A “sustainable parking standards ordinance” that reduces parking in transit priority areas to encourage transit use to the greatest extent feasible.
- The Areas are also subject to Community Redevelopment Law requirements, including that at least 20% of proceeds go toward affordable housing.

Replacing the redevelopment program and replacing \$500 million of Prop 1C bond funds could create more than 37,000 homes for lower income households.<sup>18</sup> Figure 8 shows that together, permit streamlining, parking reform, and replacing redevelopment and Prop 1C funds could create close to 60,000 additional homes.

**FIGURE 8. INCREASING NEW CONSTRUCTION THROUGH PERMIT STREAMLINING, CHANGING PARKING REQUIREMENTS, AND REPLACING REDEVELOPMENT**



<sup>18</sup> Jake Wegman, Solutions to the Bay Areas Affordable Housing Shortfall, Berkeley 2012.

***Strategy 2: Rehabilitate the existing housing stock in disinvested areas with good access to jobs.***

New households can also be accommodated by older housing in existing neighborhoods. Households moving from one region to another typically do so for a variety of reasons, but chief among them are job opportunities. Specific neighborhood choice within the region however, is linked to neighborhood desirability which is closely connected to the quality of infrastructure, schools, and neighborhood perceptions of safety. For the households that can afford it, such established areas are often at the top of their list, not newly constructed housing.

For households that cannot afford higher priced neighborhoods, housing choice vouchers can make that housing affordable to them. Assuming that funding for housing choice vouchers continues at the same rate and that the Bay Area receives the same share, we estimate that an additional 58,000 households could be housed within the existing housing stock (Figure 9).<sup>19</sup>

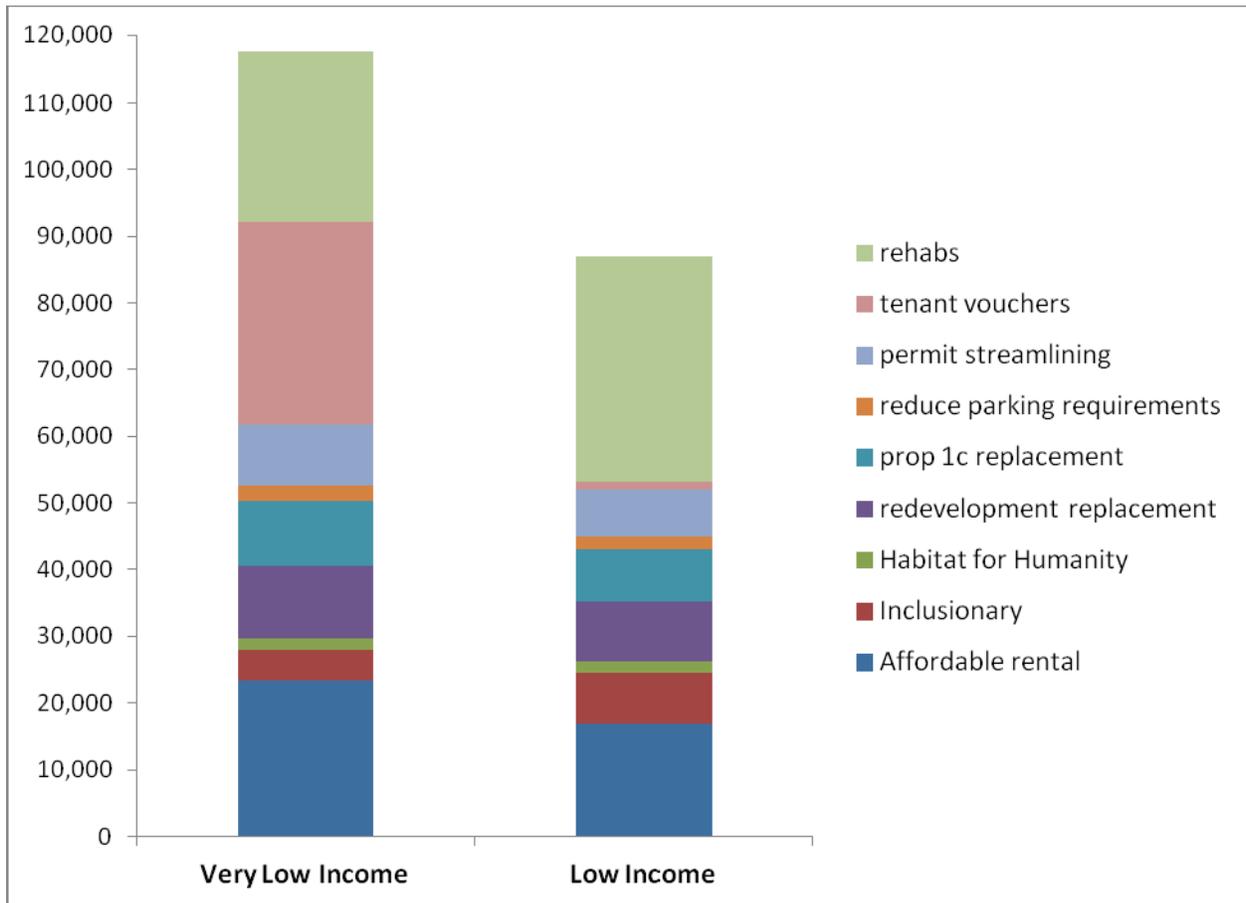
As previously described, areas with high levels of affordability near jobs tend to be neighborhoods suffering from years of disinvestment and therefore little market interest. These areas may have large amounts of land available to build new housing, particularly along commercial streets.

In these areas, improvements to infrastructure and other investments could improve conditions for existing residents and address the conditions that suppress the full utilization of land in these otherwise well-located neighborhoods. Assuming funding availability, these areas also offer the opportunity to buy housing at reduced cost to provide permanent affordability. Such investments would begin to address the factors that currently dampen new housing production in these areas. To minimize the displacement of existing residents, new housing production should be focused along underutilized commercial streets and where it is created in existing residential neighborhoods, it should be provided at the appropriate scale and proportion to ensure compatibility.

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<sup>19</sup> Jake Wegman, Solutions to the Bay Areas Affordable Housing Shortfall, Berkeley 2012.

**FIGURE 9. ACCOUNTING FOR REHABS AND HOUSING CHOICE VOUCHERS**



***Strategy 3: Produce new housing and rehabilitate existing housing by creating a Regional Affordable Housing Trust Fund***

Together, these programs and strategies could go a long way towards housing our future workforce to ensure the Bay Area’s economic competitiveness. To see how we could further support housing production in the region, we also estimated revenues from a potential Regional Affordable Housing Trust Fund.

Communities that enjoy advantaged locations and constrained land supply have greater incentive to address housing affordability issues because land and house prices may grow more rapidly than household incomes. These communities have a motive to hedge the risk that wages paid to low income workers will not keep up with local or regional land values. *Putting aside housing that will be perpetually affordable is therefore a public good.*

If housing prices increase, either employers will have to pay higher wages or the community will have to subsidize housing at ever higher levels. Communities can offset potentially higher labor costs tomorrow by putting aside housing today and preserving its affordability into the future. Appendix A includes several additional examples of Housing Trust Funds.

#### **Potential features of a trust fund in the Bay Area**

One option is through inclusionary techniques. Such a program to mandate affordable housing production should be based on the potential for land value capture on above moderate units only. For example, home ownership shared equity programs, where both the sponsoring jurisdiction and new homeowner have a stake, can help ensure sufficient returns to new owners to maintain the condition of their housing,

We also need to be careful with quantity goals, such as seeking to ensure that 10 percent of new housing is affordable. The costs of achieving this goal could go up over time if land costs go up more than labor costs. This would require that a larger share of a community's resources be devoted to affordable housing over time.

Inclusionary zoning techniques can be effective only where land holds significant value that can be captured. The relationship between value capture and inclusionary zoning is important to keep in mind when applying inclusionary techniques in different communities. In struggling communities, the costs of housing production are greater than the market price for housing. There are opportunities however, to enhance the value of land by increasing allowable density, which in turn increases the potential for generating additional funds in these areas.

Funds could be used to invest in both new construction in PDAs and rehabilitate existing homes in disinvested areas near jobs. Assistance could be offered to moderate and lower income households, or households earning up to 120% of area median income.

The regional housing trust fund could also be a voluntary program that provides partial RHNA credit for contributing jurisdictions that meet certain criteria. Housing could be provided within the contributing jurisdictions boundaries or, to maximize development opportunities, nearby and within the same labor market.

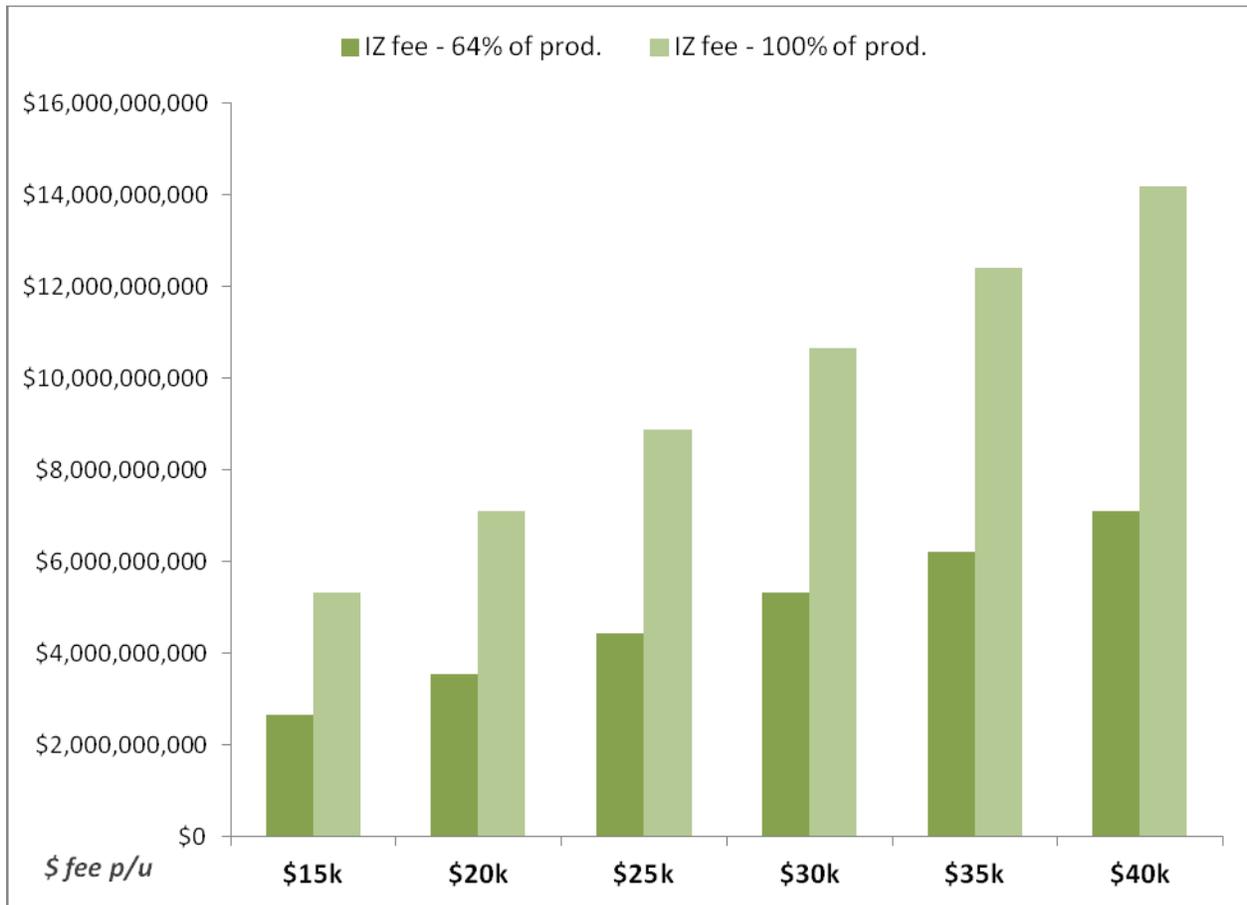
This could provide flexibility for jurisdictions with scarce land available for new housing to contribute to regional housing production, while providing investments to areas that need it. These investments could be coupled with anti-displacement policies, as appropriate, and provide needed funds to purchase, rehabilitate, and make homes permanently affordable while improving streets, sidewalks, schools, and other infrastructure.

### Trust Fund Example

To estimate the impact of a hypothetical regional housing trust fund, we assumed that 100% of the projected amount of above moderate housing pays a linkage fee. We also looked at the impact of applying such a program to locations where inclusionary programs currently exist, or 64% of future above moderate production (Figure 10). Assuming a \$35,000 per unit fee that applies to all areas, approximately \$12.4 billion could be generated. Assuming the same fee for the 64% of the region currently covered by inclusionary housing policies, approximately \$6 billion could be generated for a trust fund. Such a fee would impact the production of above moderate housing, but likely not by more than about 1-2% (or the amount of additional housing that could be created by modifications to existing parking policies).

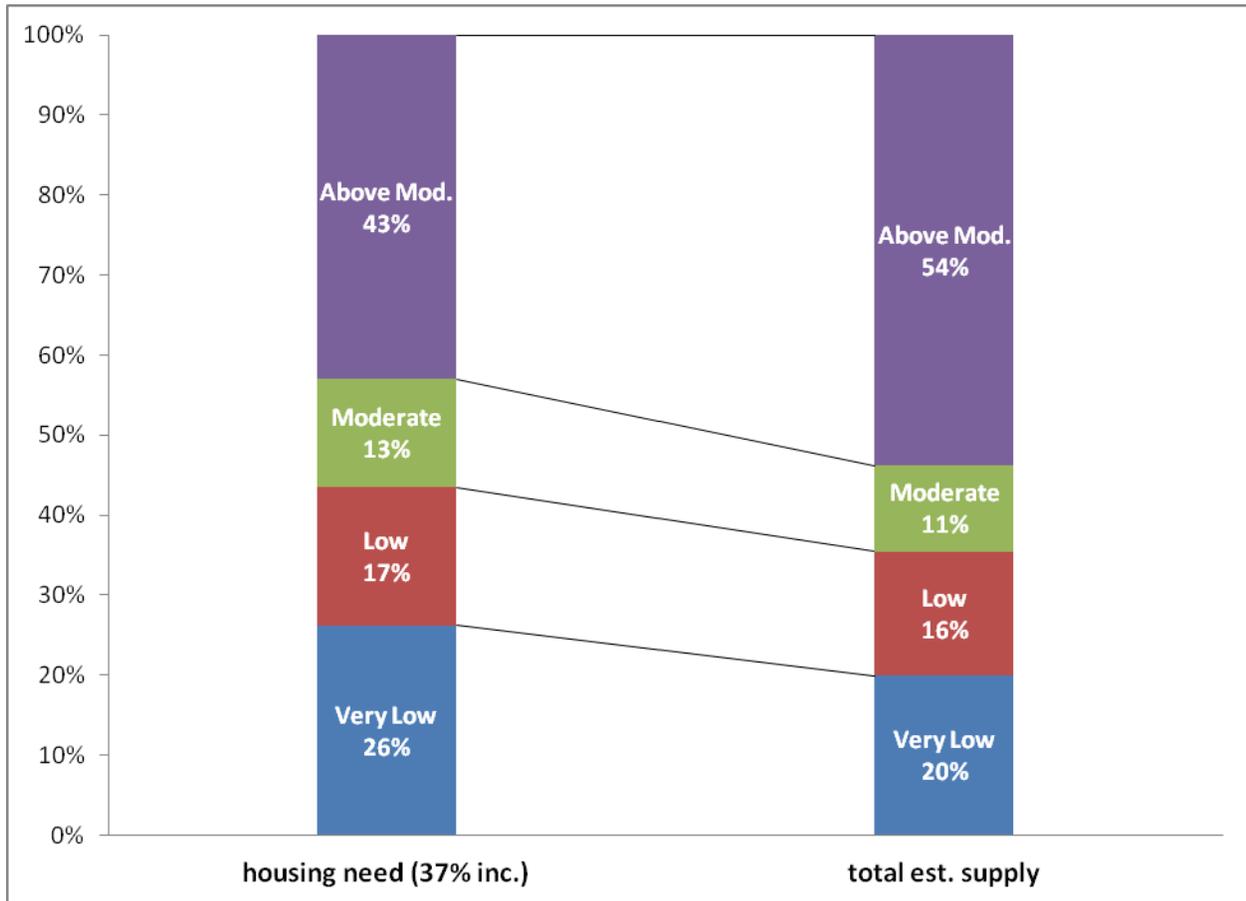
It is also important to note that many households today spend more than 30% of their income on housing as this analysis has assumed. Today, the average amount spent on housing in the Bay Area as a percent of income is about 37%.

**FIGURE 10. POTENTIAL REVENUE FROM A \$35K PER ABOVE MODERATE UNIT LINKAGE FEE**



If we assume that in the future the current average amount spent on housing remains the same (37% of income), the gap between housing need and housing supply could be reduced from 165,000 to about 71,000 (Figure 11).

**FIGURE 11. HOUSING DEMAND AND SUPPLY ASSUMING THE CURRENT AVERAGE AMOUNT SPENT ON HOUSING TODAY**



A key feature of housing trust funds is their ability to leverage federal and state funds and private sources of capital. Other affordable housing trust funds have leveraged funds from 1:4 to 1:9 and beyond. (Or for every dollar deposited into a housing trust fund, an additional four to nine dollars is generated).

As shown in Figure 12, to maintain today’s average affordability level of 37% of income spent on housing, a leverage of only 1:2 leverage would be required. To close the remaining gap between housing need and housing supply assuming 30% of household income available for housing, the HUD standard, a Regional Affordable Housing Trust Fund would need to generate about 1:4.5 in leverage.

**FIGURE 12. MEETING REGIONAL HOUSING NEEDS THROUGH A HOUSING TRUST FUND**

<b>% Income housing</b>	<b>Housing need</b>	<b>Cost</b>	<b>Revenue</b>	<b>Difference</b>	<b>Program leverage</b>
Cost at 30%	165k	(\$54.2) billion	12.4 billion	(41.8) billion	<b>1 : 4.5</b>
Cost at 37%	71k	(\$23.2) billion	12.4 billion	(10.8) billion	<b>1 : 2</b>

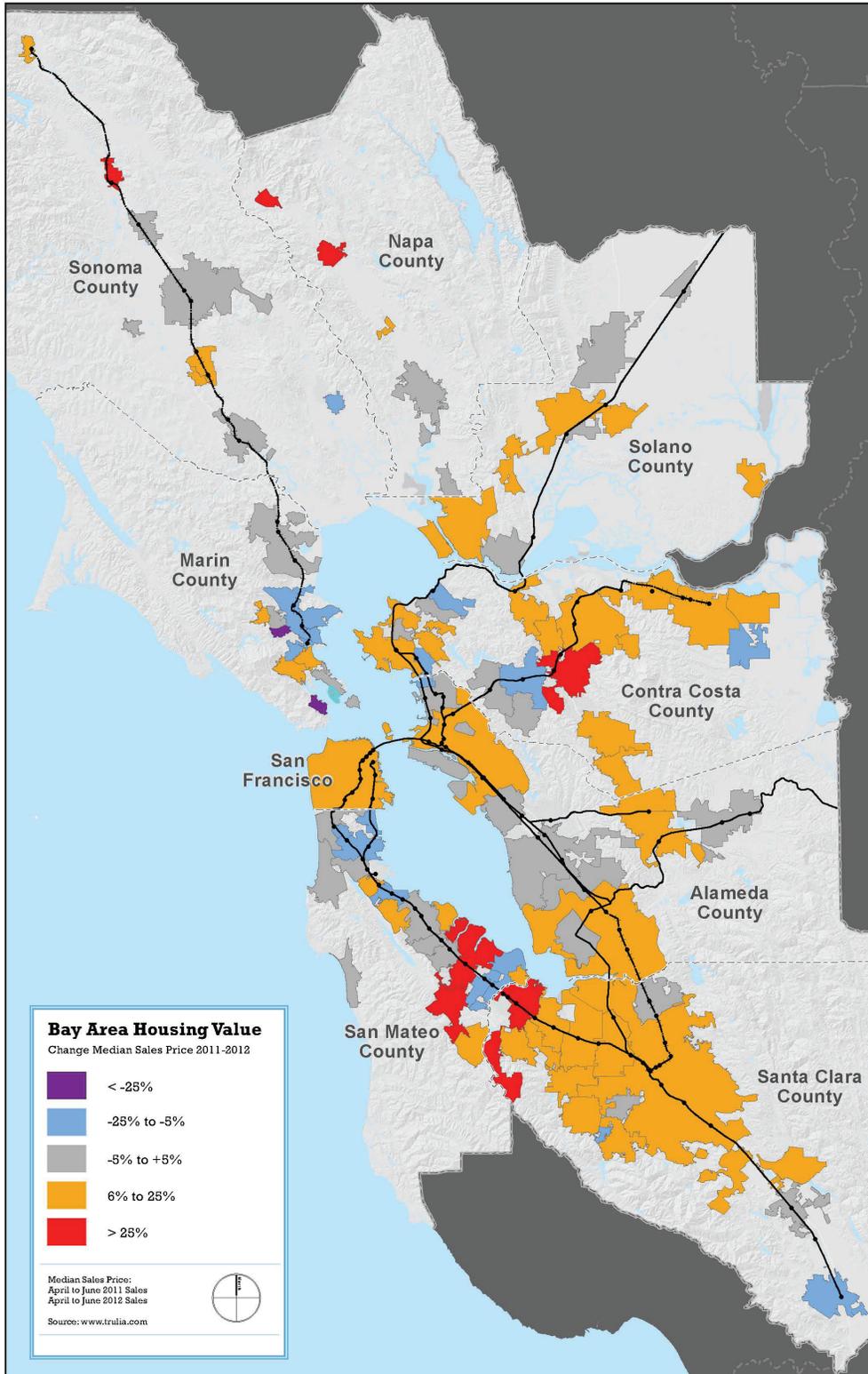
Making deeper impacts would require fundamental changes to land use policies in the region, which would cause developing and building housing to cost less and to take less time than it does today. The three strategies, if enacted, would substantially increase affordability. Making it easier to build housing, particularly attached housing, of all kinds and at all price points in the Bay Area would have a tremendous impact. We must work together as a region to produce the housing necessary to ensure our continued economic prosperity.

Any linkage fee should also not be set too high. Otherwise this could result in the shifting of capital investment and real estate lending to housing developments in jurisdictions with more lenient policies, or to other alternate investment options such as commercial construction outside the region. Efforts to foster “affordability by design,” or changes to land use and building code regulations that reduce the cost of building, could also substantially improve affordability, particularly for moderate income households. Future white papers will examine these impacts in detail.<sup>20</sup>

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<sup>20</sup> These estimates also do not include the potentially much greater impacts of increased production of Moderate and Above Moderate Income multifamily housing that could also be spurred with parking regulation reform.

FIGURE 13. RECENT HOUSING MARKET TRENDS



## Appendix A: Affordable Housing Trust Fund Case Studies

### Establishing a trust fund

A regional housing trust fund could be established in a variety of ways. Most housing trust funds are administered by a public or quasi-public while there are alternatives, such as a corporation or a community foundation administering the fund. The public agency staffs the trust fund and is responsible for the day-to-day operations of administering the fund. The enabling ordinance or legislation sets broad parameters governing the use of available funds. Regulations are then developed to guide the operation of the trust fund.

### Features of a trust fund

Housing trust funds may address housing needs through broad support of new construction and rehabilitation, as well as rental assistance. Often they include new construction, rehabilitation, preservation, acquisition, emergency repairs, accessibility, first-time home purchase, and other activities.

Most housing trust funds serve households earning no more than 80% of the area median income, but many serve other income levels. Many housing trust funds also require that new or rehabilitated units supported through the trust fund remain affordable to the targeted population for a defined amount of time or in perpetuity.

### Governance structure

Housing trust funds usually create an oversight board to govern their operations. Boards are broadly representative of the housing community, including banks, realtors, developers, non-profit development organizations, housing advocates, labor, service providers, and low income residents. These boards can be advisory or may be delegated authority, including determining which projects receive funding from the trust fund. An annual report preparing an annual report on the expenditures and accomplishments of the housing trust fund is typically provided.

### Revenue sources

The most common revenue source for a state housing trust fund is the real estate transfer tax. Other options include the interest from state held funds (unnamed, unclaimed property funds and budget stabilization funds, among others); interest from real estate escrow or mortgage escrow accounts; and document recording fees.

County housing trust funds are most likely to be funded from document recording fees. Other sources include sales taxes, developer fees, or real estate excise taxes.

City housing trust funds are more likely to rely on developer fees, including: impact fees placed on non-residential developers, inclusionary zoning in-lieu fees, condominium conversion fees, and others. Property taxes, other real estate taxes, and hotel taxes are other options.

### **Case Study #1: A Regional Coalition for Housing (ARCH), King County, Washington**

#### Inception

ARCH was created in 1992 by several suburban jurisdictions in east King County, Washington, a wealthy suburban area outside Seattle, to comply with the state of Washington's Growth Management Act that requires that all cities plan for affordable housing. ARCH is a voluntary program and member cities are free to leave when they choose.

#### Administration

Covers 15 cities. Created through an inter-local agreement, it has 2 boards: an executive board made up of the chief administrator of each member city (e.g. City Manager), and a citizen advisory board. The annual budget and work program are developed by the executive board, but must be ratified by all of the member city councils before it can be adopted.

#### Key objectives

Increase the supply of affordable housing to conform with state law.

#### Notable Features

Voluntary program. Trades more process for greater jurisdiction and community buy-in. Permanent affordability not guaranteed.

#### What it does

Distributes grants and low-interest loans (60%). Offers some technical assistance to affordable housing developers.

#### How it works

ARCH's two boards make separate recommendations for projects, but funding must also be approved by the city council of each member city. Because all of the projects funded by the trust must be ratified by every member city council, as well as recommended by the citizen advisory and executive boards, applicants must generate significant community acceptance. This has worked well to build support among member jurisdictions (but reduced affordable housing production).

Projects are approved based on a combination of need and opportunity – ARCH prefers but does not require that projects be located in the city that provides funds. Other factors for project approval include proximity to jobs, transportation, and services.

Funds can be used for acquisition, financing, predevelopment, rehabilitation, new construction, and on-site and off-site costs. Tenant assistance programs can also be funded. Financing for mixed income projects is allowed, but the fund only pays for the parts that house low and moderate income households.

ARCH does not set priorities for housing categories. Through a set of quantified long-term goals it seeks to recognize both the need for housing as well as the depth of subsidy required. For example, the goal for special needs populations is 12% which is higher than the identified need to acknowledge the relatively high amount per capita such housing costs (or they would rather build special needs housing than very-low income housing).

### Funding

Federal Community Development Block Grants, jurisdiction general fund contributions, and other local funds including linkage fees are used to fund ARCH. ARCH assumes that no single formula will adequately consider variation between members, so it uses ranges based on current population, projected housing growth, and projected job growth to set contribution ranges (this also acknowledges jurisdiction budget fluctuations). Funding is measured over a 5 year period so relatively low contributions in the first few years to the trust fund can be offset with higher contributions later on. Jurisdictions can also meet their contribution goals through indirect assistance such as fee waivers and donations of city-owned land.

Three formulas are used to establish the contribution range. The three formulas are based on (1) current population; (2) projected increase in demand for housing due to job growth; and (3) projected housing growth.

In the first formula, based on the current population, each member city's contribution is based on its population relative to other member cities. For example, in 1998 when the formula was developed, the population of Kirkland (43,720) was approximately 17 percent of the overall population of the region covered. Thus Kirkland's contribution would be 17 percent of the overall goal.

The second formula based on projected housing growth is similar. Each member's contribution is based on the amount of projected housing growth, in accordance with its local comprehensive plan, relative to the other member cities. For example, in 1998, Bothell was projected to add 85 new housing units annually, which was approximately 5.25 percent of the projected housing growth for the region covered (1,620 units annually). Under this formula, Bothell's contribution to the trust fund would be 5.25 percent of the overall goal.

The third formula, is based on the projected creation of new jobs. It links member trust fund contributions to the amount of projected job growth as a percentage of the total projected job growth for all member cities. For example, in 1998, Bellevue was expected to add 1,400 jobs annually, which was approximately 35 percent of all the new jobs projected to be added to all of the member cities. Therefore, Bellevue's contribution under this formula would be 35 percent of the overall goal.

The program set an initial baseline goal of \$1 million in local government contributions to the trust fund (for the low-end goal) and an initial challenge of up to \$2 million annually (the high-end goal). The baseline of \$1 million was derived from the contribution levels (to affordable housing) of member cities in the years prior to the development of the program. Using the overall goal, the low end of the contribution range for each city is calculated using the lowest funding level outcome of the three formulas. The high end of the range is the highest outcome of the three formulas. ARCH has increased the program's baseline as additional cities have joined the program. When a new city joins the program, its contribution is calculated and the corresponding contribution amount is added to the range. As of

2003 with 15 member cities the overall goal is \$1.15 million (low end), with a challenge goal of \$2.2 million (high-end).

#### Results

A total of 1,709 units and 74 beds for group housing were constructed between 1993 and 2001. Amount leveraged not available.

### **Case Study #2: Vermont Housing and Conservation Board (VHCB)**

#### Inception

Created in 1987 by state legislature with seed funding of \$20 million.

#### Administration

Nine member board of directors with 5 citizens appointed by the governor and the commissioner of agriculture, secretary of commerce and community development, secretary of natural resources, and the Executive Director of the Vermont Housing Finance Agency authorize grants.

#### Key objectives

Provide affordable housing, conserving natural, agricultural, historic areas.

#### Notable Features

Preference for historic preservation, and projects that are part of a neighborhood or downtown revitalization plan. Areas with low incomes/high unemployment are prioritized for investment. Supported by state appropriations and 50% of the state's real estate property transfer tax. No displacement policy and permanent affordability required. Technical assistance is also offered to non-profit housing developers.

#### What it does

Distributes grants and loans. Offers some technical assistance to affordable housing developers.

#### How it works

Projects must meet several thresholds including:

- permanent affordability with long term maintenance plan via deed restrictions
  - multifamily: housing subsidy covenant restricts income/price
  - single family: ground lease separates house from land and restricts income/price
- area free of "negative features" such as excessive traffic or incompatible uses
- project must be ready to proceed with predevelopment work completed
- financial feasibility

Projects are then prioritized based on:

1. how well it fulfills identified need
2. contribution to neighborhood or downtown revitalization (particularly historic buildings)
3. how it serves very low income households or special needs households
4. how it meets the dual goals of land conservation and affordable housing
5. how it corrects health or safety threats

Projects should also create or contribute to mixed-income communities.

#### Funding

- state property tax transfer revenue
- federal grants including farm related funding
- loan repayments and interest income

NRCS Federal Farm Preservation Program, HOME Program, HUD Housing Opportunities for Persons with AIDS, HUD Lead Paint Grant, AmeriCorps, Transportation and Equity Act for the 21<sup>st</sup> Century, Farm Viability Program, “Mitigation Funds” (Housing and ACT 250- Land Use and Development Act).

Source-

[http://www.leg.state.vt.us/jfo/appropriations/fy\\_2013/FY13\\_Agency\\_and\\_Department\\_Budgets/VHCB%20FY2013%20budget%20pkt\\_001.pdf](http://www.leg.state.vt.us/jfo/appropriations/fy_2013/FY13_Agency_and_Department_Budgets/VHCB%20FY2013%20budget%20pkt_001.pdf)

#### Results

Since its inception in 1987 through 2002, \$155 million has been awarded to create 6,675 units of affordable housing and conserve 338,388 acres. Funds have helped leverage \$515 million from other private and public sources. Between 2002 and 2010 more than \$60 million was awarded.

Source- [http://www.cltnetwork.org/doc\\_library/p310-](http://www.cltnetwork.org/doc_library/p310-2010%20February%2015%20Supplemental%20Comments%20HUD%20SAFE%20Act%20Rule.pdf)

[2010%20February%2015%20Supplemental%20Comments%20HUD%20SAFE%20Act%20Rule.pdf](http://www.cltnetwork.org/doc_library/p310-2010%20February%2015%20Supplemental%20Comments%20HUD%20SAFE%20Act%20Rule.pdf)

### **Case Study #3: Sacramento, CA**

#### Inception

Sacramento city and county housing trust fund ordinances were adopted in 1989 and 1990, respectively.

#### Administration

Successor to Sacramento Redevelopment Agency administers both trust funds.

#### Key objectives

Raise local funds to finance the development of affordable housing near employment centers.

#### Notable Features

Housing program grounded on the assumption that economic growth is tied to the production of housing. Housing production is described as a one-time infusion of development capital that creates jobs, generates wages, and ultimately produces tax revenues derived from a stimulated economy. (The agency also used an IMPLAN-type model to estimated direct, indirect and induced economic impacts).

#### What it does

The city of Sacramento trust fund is available to households with incomes up to 80 percent of the area median income, with a preference for very low-income households. The Sacramento County trust fund is available to households earning up to 50 percent of the area median income. For both trust funds, at least 20 percent of the units in a development must be affordable to households earning less than 50 percent of the area median income. Likewise, there must be “a reasonable expectation that the prospective residents will be in the labor force in the area”. Housing funded by the trust fund may be

rental or owner-occupied housing. The funds may be used for a wide range of purposes, including loans, grants, and equity participation. Preference is given to locations within one-quarter mile of existing or planned transit services

#### How it works

Both trusts are administered through the Sacramento Redevelopment Agency

#### Funding

Both trust funds raise revenue for affordable housing through fees for nonresidential development based on a nexus analysis of new very low- and low-income workers who will be attracted to the area as a result of the new development. The nexus analysis determines the extent to which the construction of new commercial projects—such as offices, business parks, hotels, and shopping centers— will attract new very low- and low-income residents to Sacramento. The fees are then used to increase the supply of affordable housing near places of employment. Funds from the trusts are generally used for new construction or substantial rehabilitation.

Because of the jobs/housing nexus, however, elderly housing is not a use eligible for funding. Also, the housing units produced with trust monies must be “located within a reasonable commuting distance of the employment generating uses that pay housing trust fund fees” (SHRA 2001c, 3). A reasonable commuting distance is defined as being within a seven-mile radius.

#### Results

Housing trust fund collections totaled \$27 million as of 2002, with 2,300 units constructed. Together, the trust funds have helped leverage over \$267 million from other private and public sources, ten times the amount invested.

**Appendix B: Jurisdictions by Median Multiple**

County	City	PDA HU Growth	Median Hsg Value	Med Hsg Value as % of Reg Med Value	Med HH inc as % of Reg Med Income	Median Multiple
Solano	Suisun City	1,042	169,000	0.37	0.94	2.4
Solano	Vallejo	844	148,358	0.32	0.81	2.4
Contra Costa	Richmond	4,290	131,701	0.29	0.71	2.4
Contra Costa	Antioch	4,116	177,866	0.39	0.87	2.7
Contra Costa	Oakley	3,335	210,000	0.46	1.01	2.7
Contra Costa	Pittsburg	6,445	160,000	0.35	0.76	2.8
Solano	Fairfield	10,594	200,398	0.44	0.89	2.9
Solano	Rio Vista	363	166,500	0.36	0.72	3.1
Contra Costa	Hercules	4,173	270,000	0.59	1.16	3.1
Solano	Dixon	253	215,000	0.47	0.92	3.1
Contra Costa	Pinole	695	243,000	0.53	1.03	3.1
Solano	Vacaville	791	225,675	0.49	0.93	3.2
Solano	Benicia	929	280,000	0.61	1.15	3.2
Contra Costa	Martinez	694	255,000	0.56	1.00	3.4
Contra Costa	San Pablo	1,466	155,000	0.34	0.58	3.5
Contra Costa	Concord	15,532	238,518	0.52	0.86	3.7
Sonoma	Cotati	401	237,000	0.52	0.84	3.7
Alameda	Emeryville	5,466	235,000	0.51	0.80	3.8
Alameda	Newark	2,774	325,000	0.71	1.07	4.0
Alameda	Dublin	5,952	440,000	0.96	1.42	4.1
Sonoma	Rohnert Park	2,974	236,500	0.52	0.76	4.1
Alameda	Livermore	9,418	387,690	0.85	1.24	4.1
Alameda	Union City	795	350,000	0.76	1.10	4.2
Alameda	Hayward	9,687	263,003	0.57	0.81	4.3
Santa Clara	Milpitas	7,397	400,000	0.87	1.22	4.3
Sonoma	Windsor	1,204	319,000	0.70	0.97	4.3
Sonoma	Cloverdale	729	238,500	0.52	0.71	4.4
Alameda	San Leandro	5,570	276,552	0.60	0.82	4.4
Contra Costa	Pleasant Hill	384	365,000	0.80	1.06	4.5
Sonoma	Santa Rosa	12,228	281,522	0.61	0.78	4.7
Sonoma	Petaluma	1,762	363,761	0.79	0.96	5.0

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Santa Clara	Morgan Hill	1,419	465,000	1.01	1.22	5.0
Alameda	Fremont	11,370	484,784	1.06	1.27	5.0
Contra Costa	San Ramon	2,704	613,416	1.34	1.58	5.1
San Mateo	Colma	242	431,261	0.52	1.10	5.1
Contra Costa	Walnut Creek	3,012	418,472	0.91	1.06	5.2
Alameda	Oakland	48,066	261,126	0.57	0.65	5.3
San Mateo	East Palo Alto	856	258,000	0.96	0.64	5.3
Santa Clara	Gilroy	1,927	390,000	0.85	0.94	5.5
Contra Costa	Orinda	212	882,000	1.92	2.12	5.5
Santa Clara	San Jose	123,157	437,738	0.96	1.04	5.5
San Mateo	San Bruno	3,853	425,000	0.93	0.99	5.6
Contra Costa	El Cerrito	1,015	450,000	0.98	1.04	5.7
Alameda	Pleasanton	3,592	657,952	1.44	1.52	5.7
San Mateo	Daly City	3,454	431,261	0.94	0.99	5.8
Napa	American Canyon	1,543	302,500	0.66	0.69	5.8
San Mateo	South San Francisco	6,646	435,000	0.95	0.98	5.9
Santa Clara	Santa Clara	8,426	502,169	1.10	1.12	5.9
Contra Costa	Danville	754	763,408	1.67	1.70	5.9
Contra Costa	Moraga	337	725,000	1.58	1.56	6.1
Napa	Napa	937	302,969	0.66	0.65	6.2
Alameda	Alameda	4,771	470,678	1.03	0.98	6.3
Alameda	Albany	244	457,000	1.00	0.95	6.3
Contra Costa	Lafayette	938	912,500	1.99	1.76	6.8
Santa Clara	Sunnyvale	15,824	635,952	1.39	1.19	7.1
Santa Clara	Campbell	2,915	569,000	1.24	1.05	7.2
San Mateo	San Carlos	1,158	808,750	1.76	1.46	7.3
Santa Clara	Palo Alto	7,118	895,182	1.95	1.59	7.4
San Mateo	San Mateo	8,285	629,052	1.37	1.10	7.5
Santa Clara	Cupertino	3,446	931,000	2.03	1.58	7.7
Marin	San Rafael	2,392	562,152	1.23	0.95	7.8
San Mateo	Redwood City	7,416	604,473	1.32	0.99	8.0
Sonoma	Sebastopol	386	434,500	0.95	0.70	8.2
Santa Clara	Mountain View	8,303	734,213	1.60	1.16	8.3
San Mateo	Belmont	907	840,000	1.83	1.31	8.4
San Mateo	Millbrae	2,662	750,750	1.64	1.06	9.3
San Francisco	San Francisco	87,172	675,943	1.47	0.94	9.5
Santa Clara	Saratoga	97	1,377,500	3.01	1.91	9.5
Alameda	Berkeley	6,292	607,432	1.33	0.77	10.4
San Mateo	Menlo Park	1,176	1,159,968	2.53	1.42	10.8

## Regional Policy Background Paper: Housing the Workforce

<b>Santa Clara</b>	Los Altos	451	1,648,858	3.60	1.97	11.0
<b>San Mateo</b>	Burlingame	3,258	1,445,000	3.15	1.08	17.7