TERNER CENTER FOR HOUSING INNOVATION
UC BERKELEY

Carol Galante

CASA Technical Committee Presentation

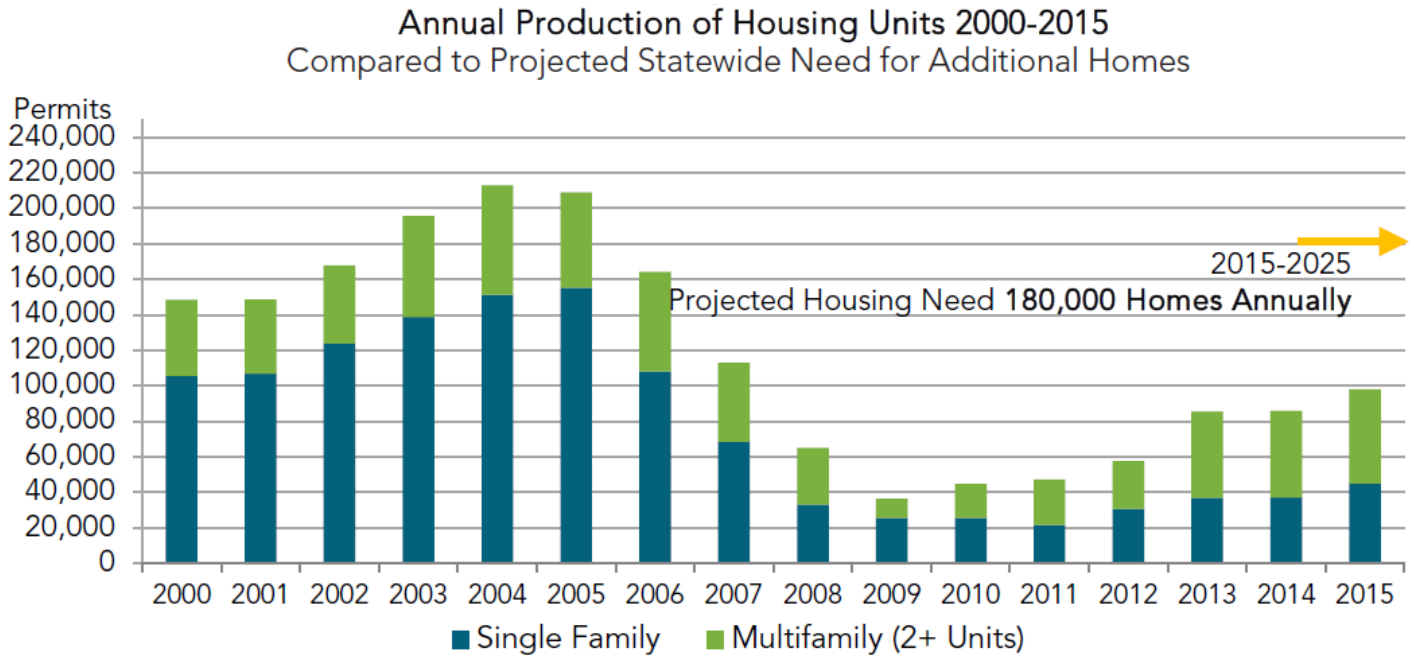
October 25th, 2017

The mission of the
Terner Center for Housing Innovation
is to formulate bold strategies
to house families from all walks of life
in vibrant, sustainable, and affordable
homes and communities.

The Housing Challenge

We're not building enough homes

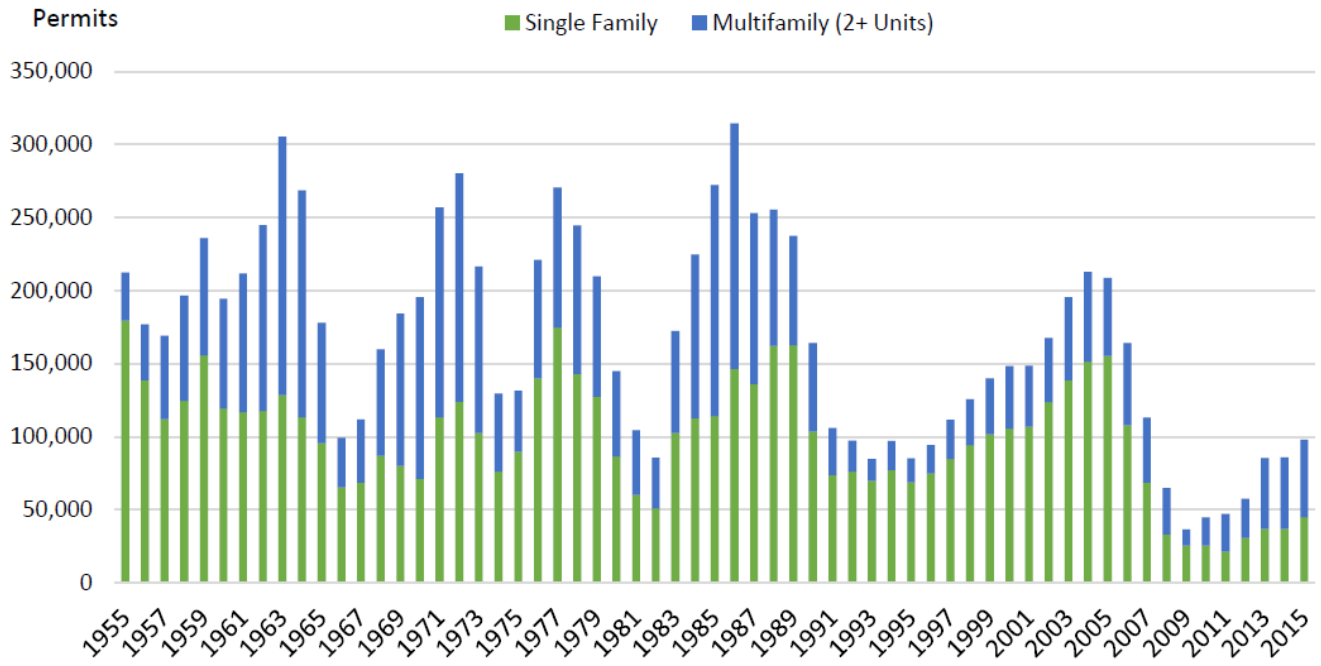
We need to build 180,000 homes a year in California to keep up with demand, or 1.8 million by 2025 (HCD)



The Housing Challenge

We're not building enough homes

While we've seen an uptick in production in recent years, we are well below historic homebuilding rates



The Housing Challenge

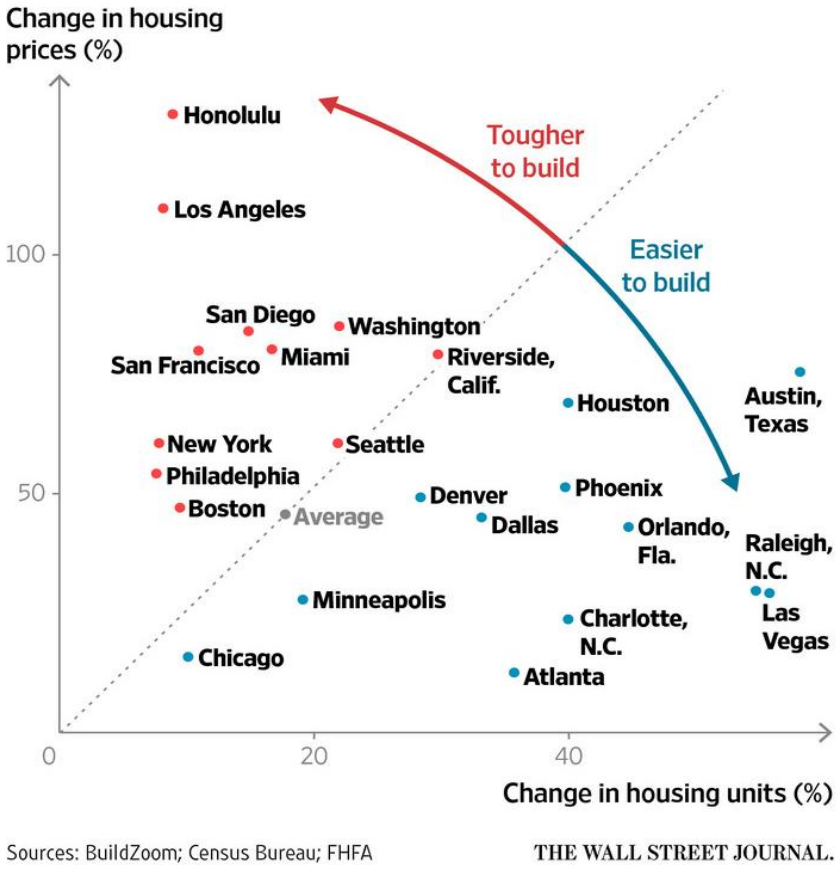
Attracting jobs without the homes

Jobs added to housing permitted, 2010-2015

- San Francisco-Oakland-Hayward: 6.8 to 1
- San Jose- Sunnyvale- Santa Clara: 5.5 to 1

The Housing Challenge

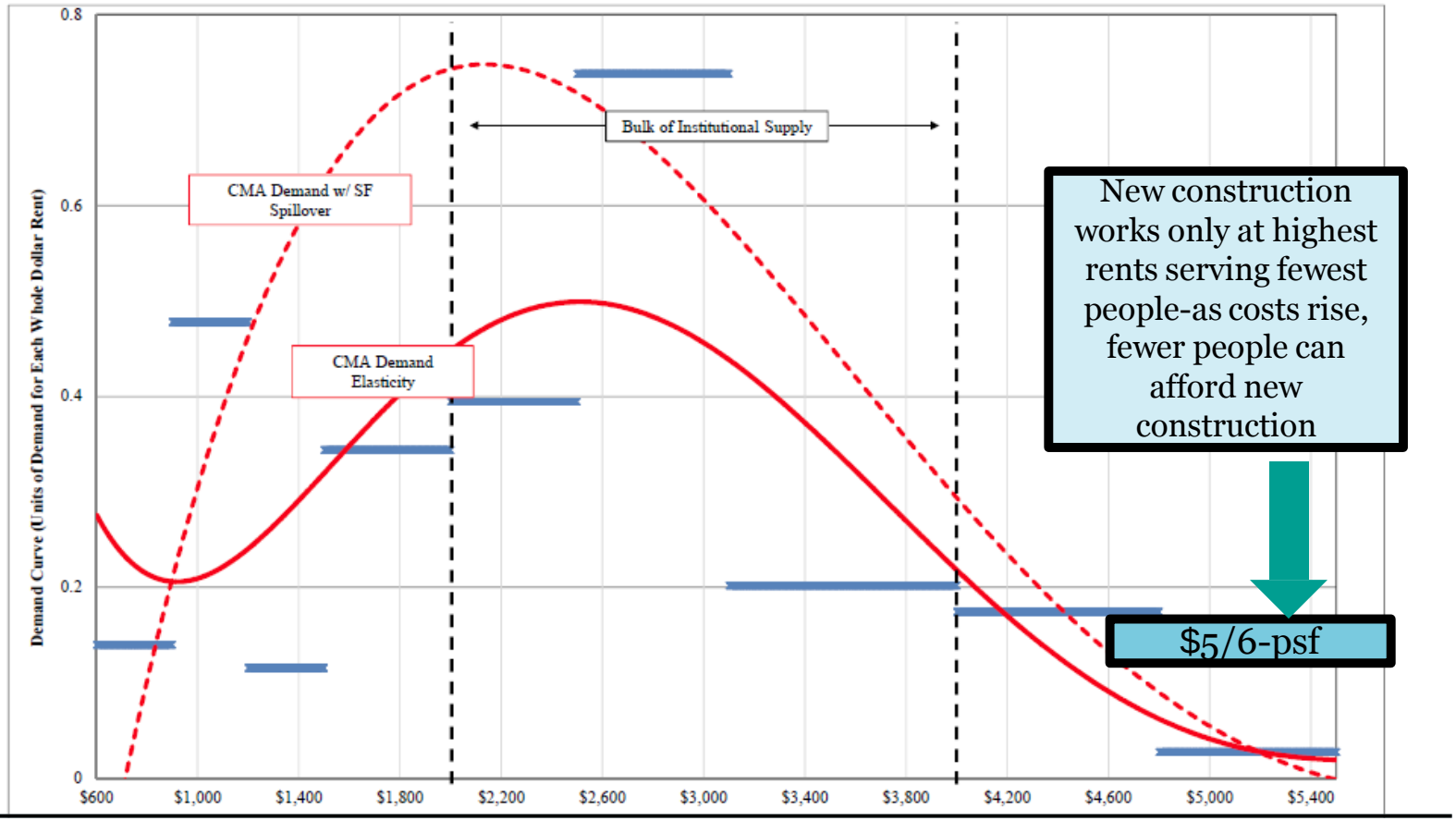
Cities that produced the fewest housing units between 2000-2015 tend to have larger price increases



The Realities of Development

Because of cost, new construction limited to highest rents

East Bay demand at various rents and new construction rents (2015- Concord Group)



The Realities of Development

To explain the challenges facing the production of housing, we've developed two "prototype" developments

- **Market Rate and Affordable**
  - **Affordable: 50% AMI (Alameda County)**
  - **4% LIHTC**
- **100 units**
- **1:1 parking**
- **5 over 1 construction (stick over podium)**
  - Least expensive infill construction type

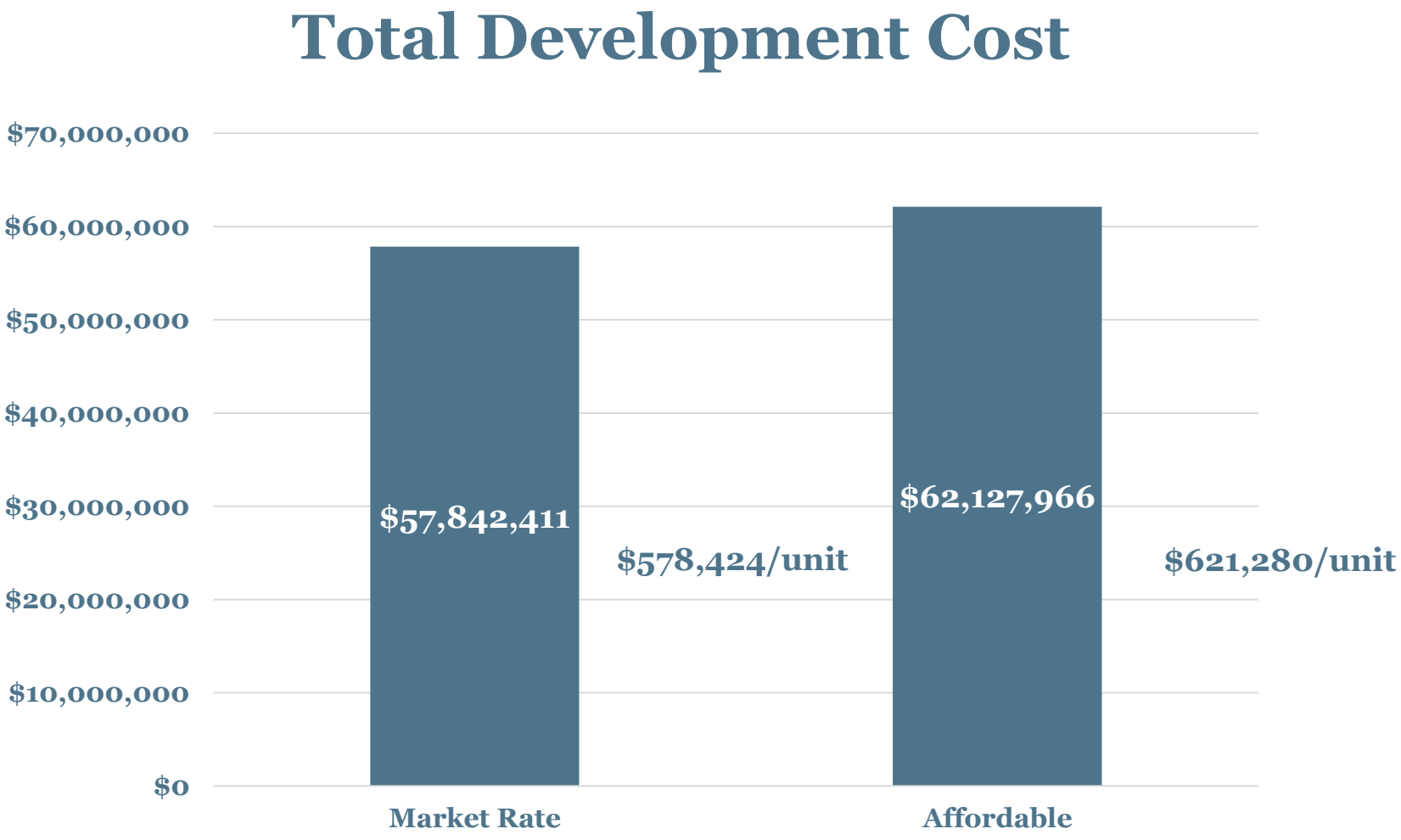
The Realities of Development

Assumptions

- **Prototypes are an average Bay Area location**
- **$6.5 million land price**
- **No EIR***
- **No demolition***
- **No environmental remediation***
- **No inclusionary zoning**
- **No offsite infrastructure improvements***
- **No exactions***
- **Standard approval times**
- **Prevailing wages**
- **Current construction costs**

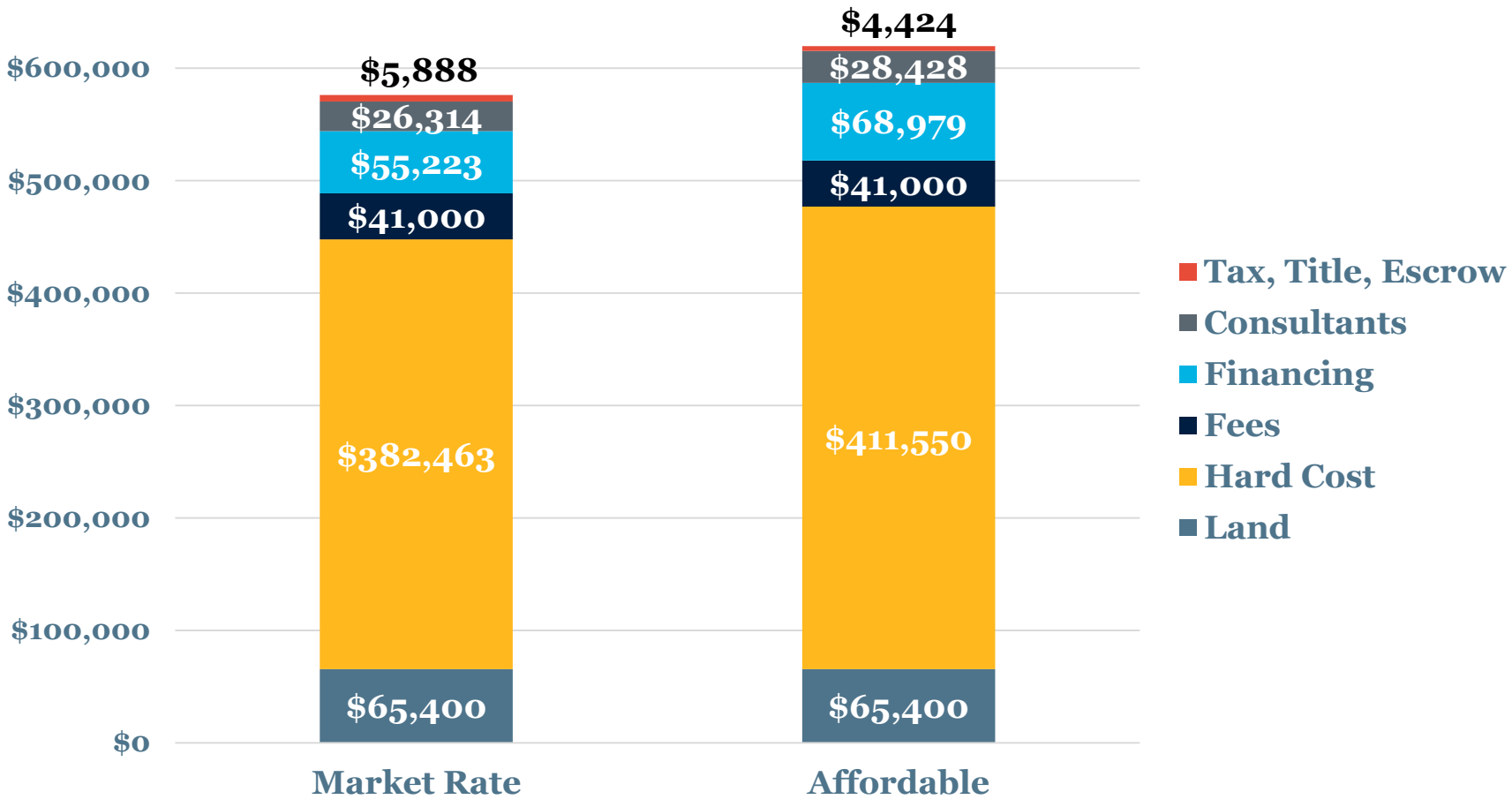
* Rare that infill projects avoid these costs. Any combination of these costs plus current inflation could add as much as $100,000/unit

The Realities of Development



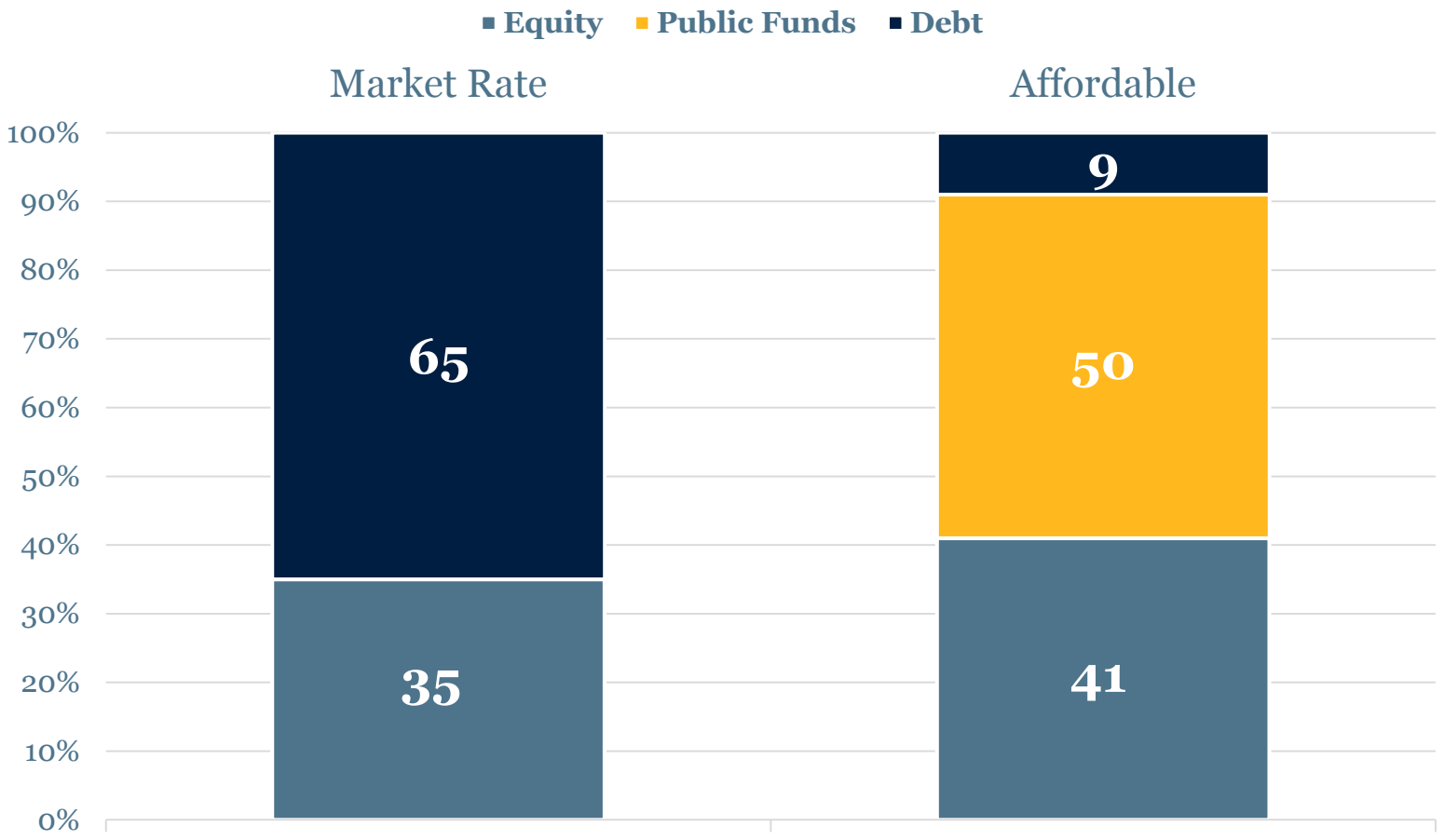
The Realities of Development

Per Unit Development Costs



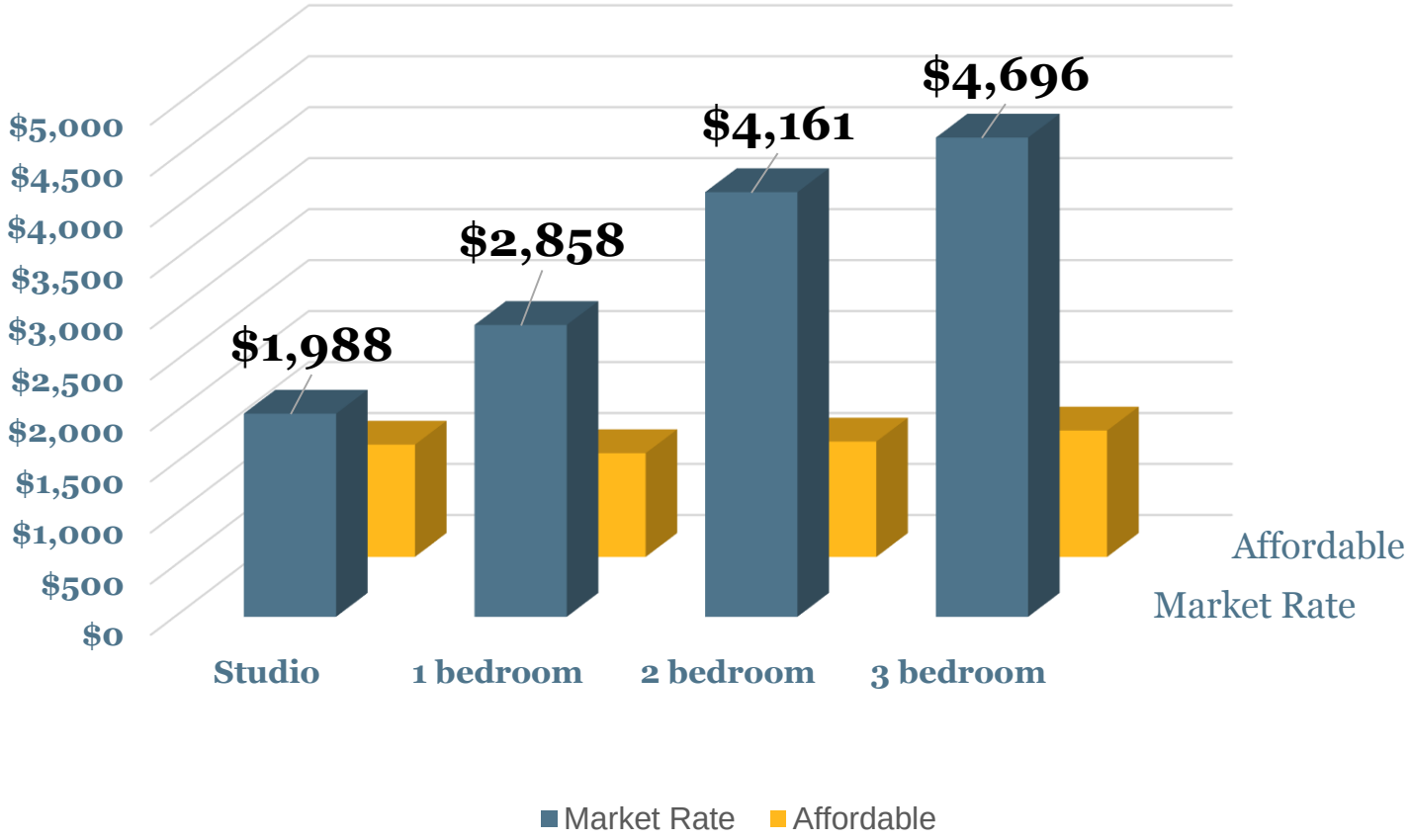
The Realities of Development

Development Funding Sources



The Realities of Development

Rents required with prototype development costs



The Realities of Development

Threshold requirements to make Market Rate prototype feasible

1. Return on Cost must be at least 5.5%

Return on Cost is determined by dividing project's Net Operating Income (income minus expenses= $3,179,685) by total project cost (**$57,842,411)**

Market Rate Prototype Return on Cost: 5.50%

2. How much debt can I raise?

We assume that our debt requires a 1.3% Debt Service Coverage Ratio (DSCR) and a 65% Loan to Cost, which means we can obtain $37,597,567 in debt (at 5% interest rate)

3. Equity required

With 65% of costs covered with debt, we must raise $20,244,844 in equity (8% preferred return, 17% Internal Rate of Return)

The Realities of Development

To reach 120% AMI with similar returns, significant cost reductions must be achieved

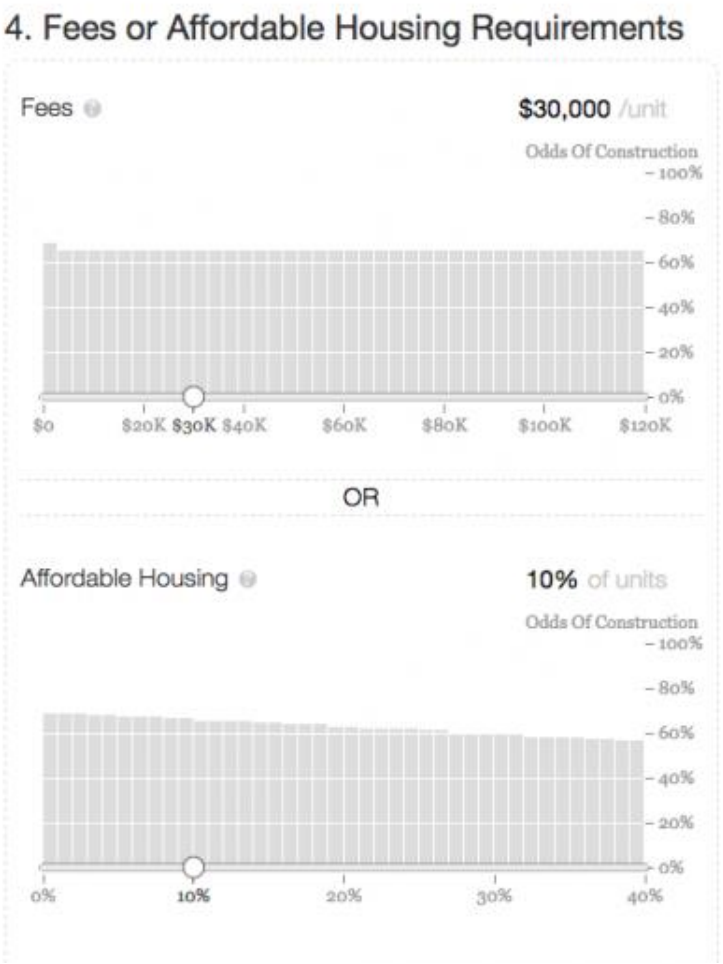
- Reduce impact/utility fees by 50% ($1,750,000)
- Reduce parking requirements by 50% ($1,950,000)
- Construction innovations savings ($4,00,000)
  - As costs are reduced, so are other items (contingency, consultants, etc)

  - Total cost savings: **$9,466,158 ($94,661/unit)**
  - New ROC: **5.20%**

Cost Reduction Strategies

- **Reducing overall cost of housing is paramount**
  - Pursue construction innovations
  - Right size fees
  - Streamline approvals process
  - Revisit parking minimums
  - Utilize public lands

Terner Center Development Dashboard
Development Calculator



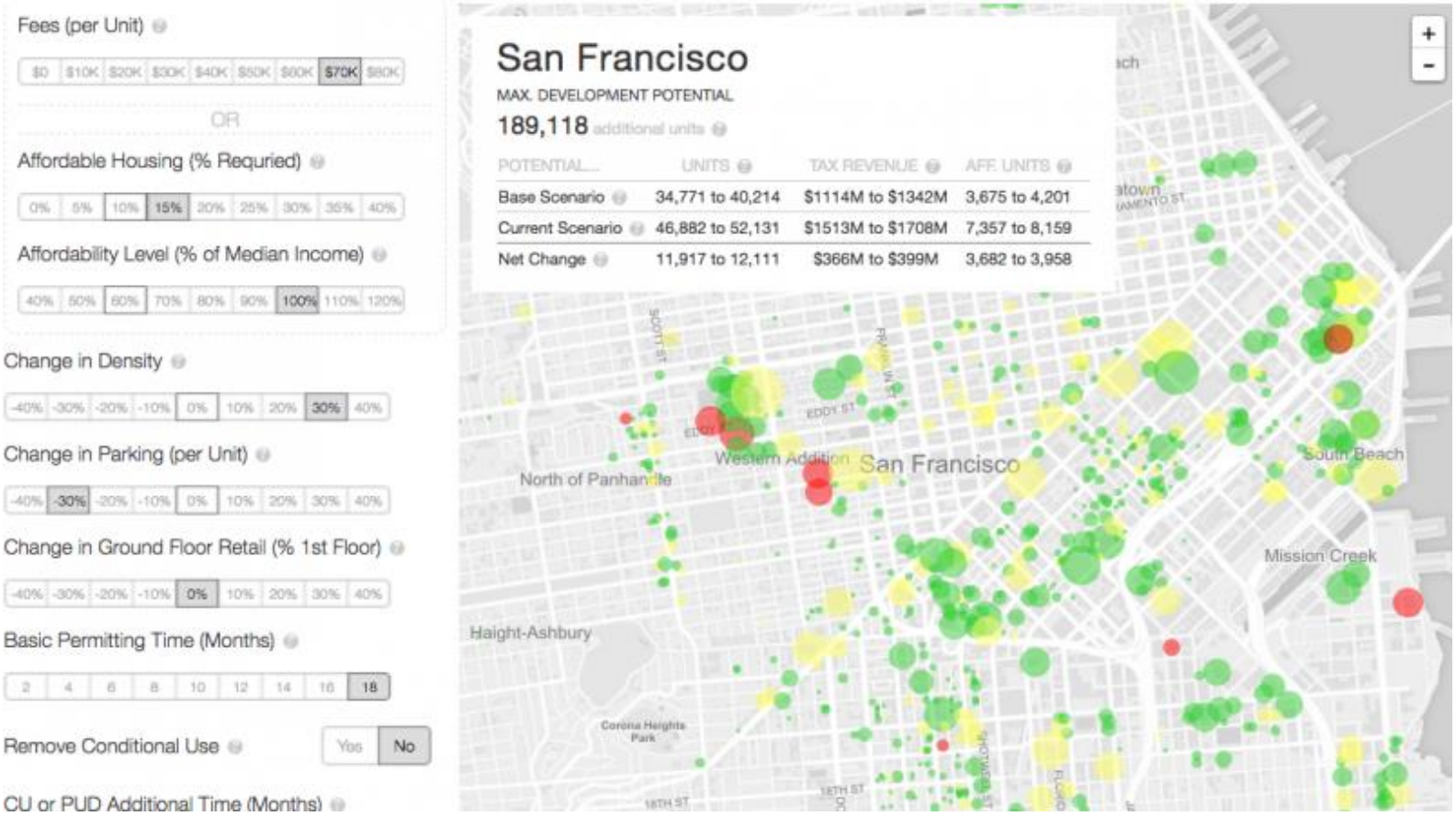
Will the project be built?

Maybe

We have 66% confidence that it will be built.

Land:	$2.1M
Aff. Housing Fees:	$0.0M
Construction (Hard Costs):	$28.4M
Other (Soft Costs):	$11.3M
Total Cost:	$41.7M
Completed Project Value:	$52.3M
Time to Build & Sell:	26 months
Land Cost Paid / SF:	$83
Market Land Price / SF:	$100
Housing Units:	91
Affordable Units:	10

Terner Center Development Dashboard
Policy Gauge



TERNER CENTER FOR HOUSING INNOVATION
UC BERKELEY

Thank you!

Carol Galante, Faculty Director

David Garcia, Policy Director