

ULI Bay Area **Multi-Family Real Estate 101**

Prepared for the City of San Jose

November 1, 2022

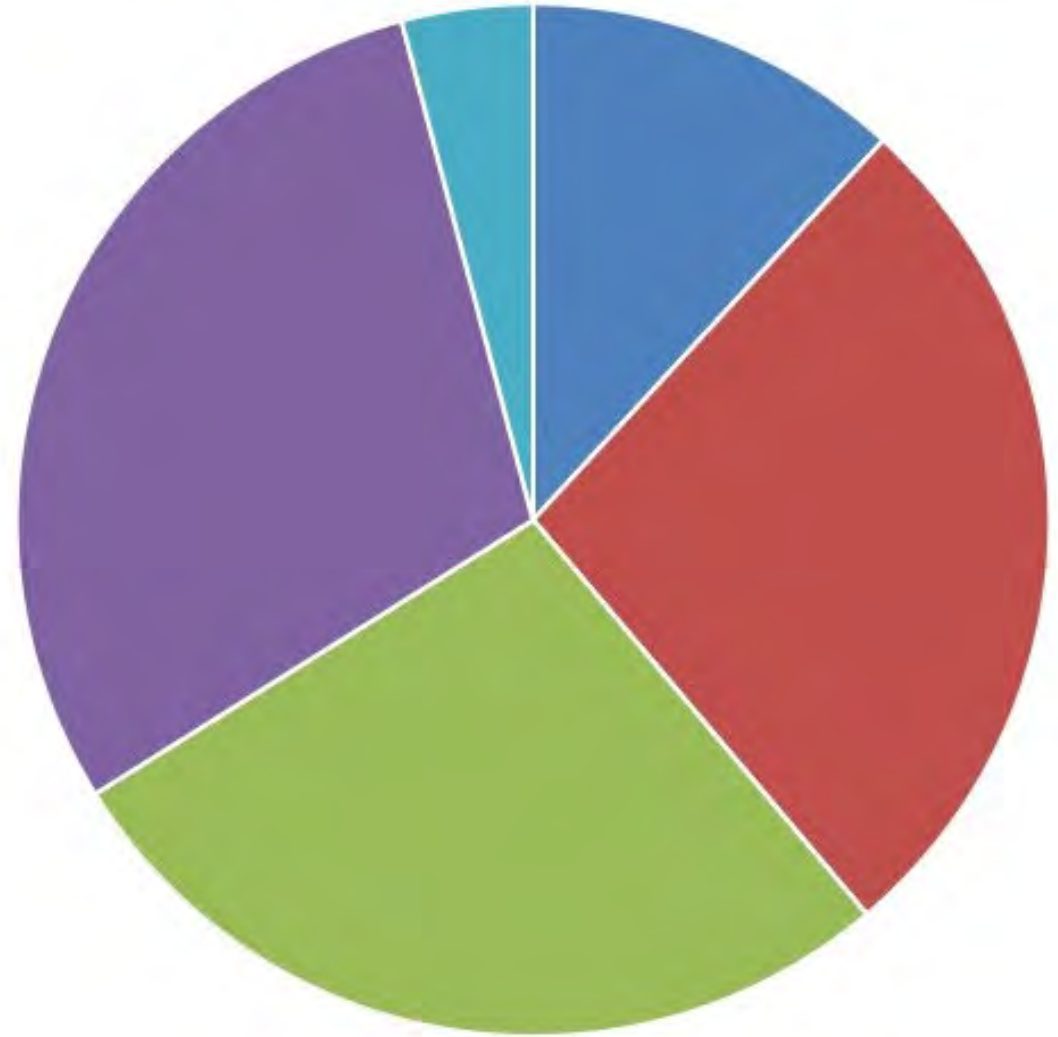




About Urban Land Institute (ULI)

- The mission of ULI is to shape the future of the built environment for transformative impact on communities worldwide.
- What ULI San Francisco does:
 - Provides a forum for sharing of best practices
 - Creates opportunities for young professionals to develop skills and build relationship
 - Organizes and conducts meetings.
 - Directs outreach programs
 - Administers UrbanPlan program
 - Conducts Technical Assistance Panels

Our Members





ULI SF Public Agency Offerings

- **Technical Assistance Panels (TAPs):** Industry experts volunteer to assist on specific public issues.
- **UrbanPlan for Communities:** An immersive workshop for public officials. With Legos!
- **Development Fundamentals:** A series of courses designed for public sector staff.
- **Housing Opportunities Consultations:** A one-on-one “test-fit” advisory session for public agencies.

Today's Presenters



Libby Seifel

SEIFEL CONSULTING

President & Founder



Eric Tao

L37

Managing Partner



Drew Hudacek

SARES REGIS

Chief Investment Officer

Purpose of the Training

What are our goals and purpose?

What do YOU hope to get out of this?



Agenda for the Presentation

- 1. Developers' view of Risk and Return**
- 2. Multi-family costs and valuations**
- 3. What policy levers can you pull?**

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Chapter 1

Risk & Return



Chapter 1 - Risk and Return

Residential – Rental

- Multi-Family Apartments
- SRO's
- Single Family for Rent
- Mobile Homes



Chapter 1 – Risk and Return

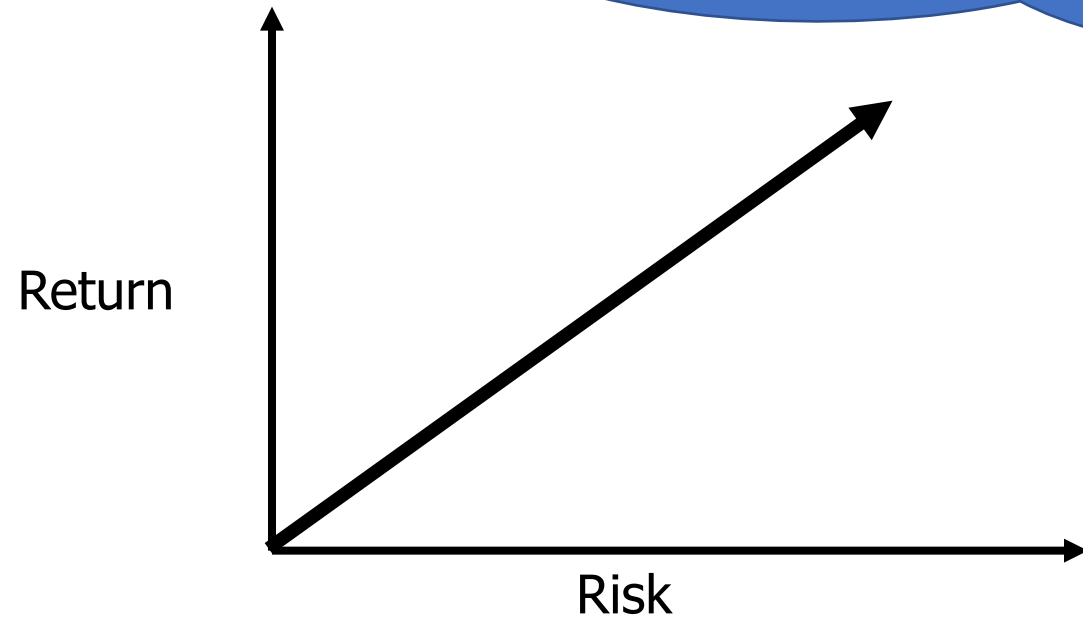
Market forces are outside of the control of developers

The market decides what works...not us, not you



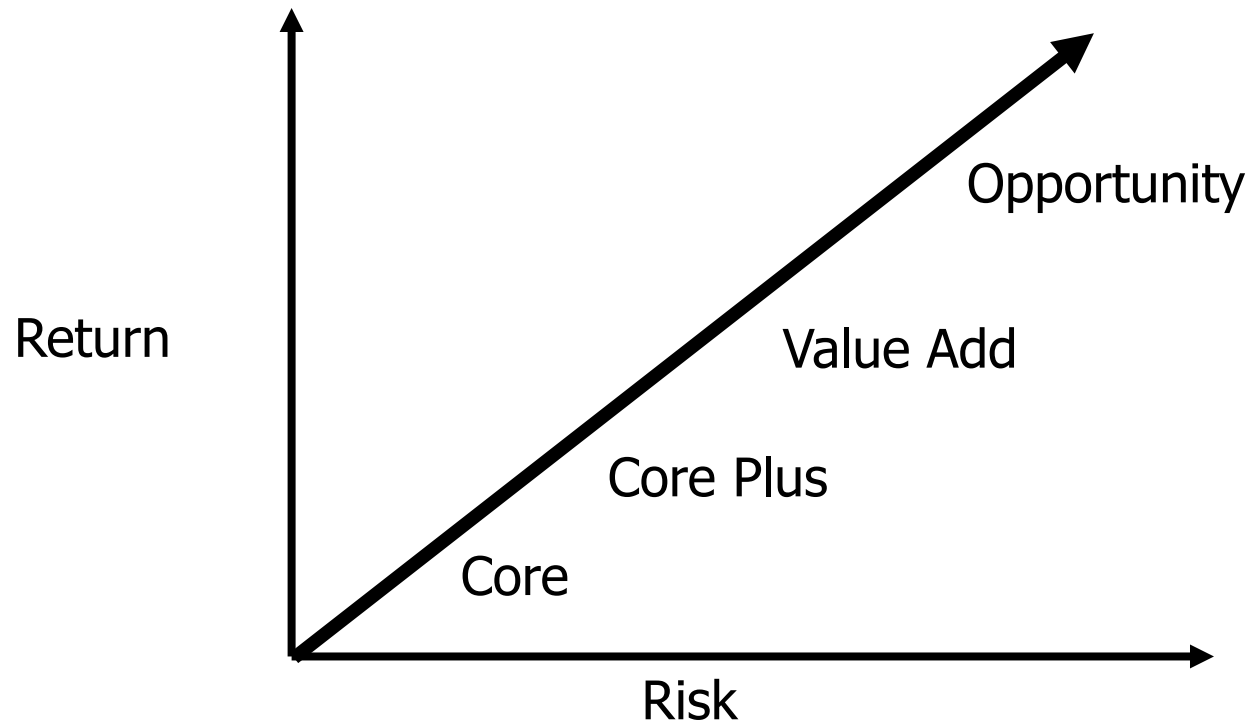
Chapter 1 - Risk and Return

A universal truth of all investment is that capital strives to generate the highest return for the least amount of risk



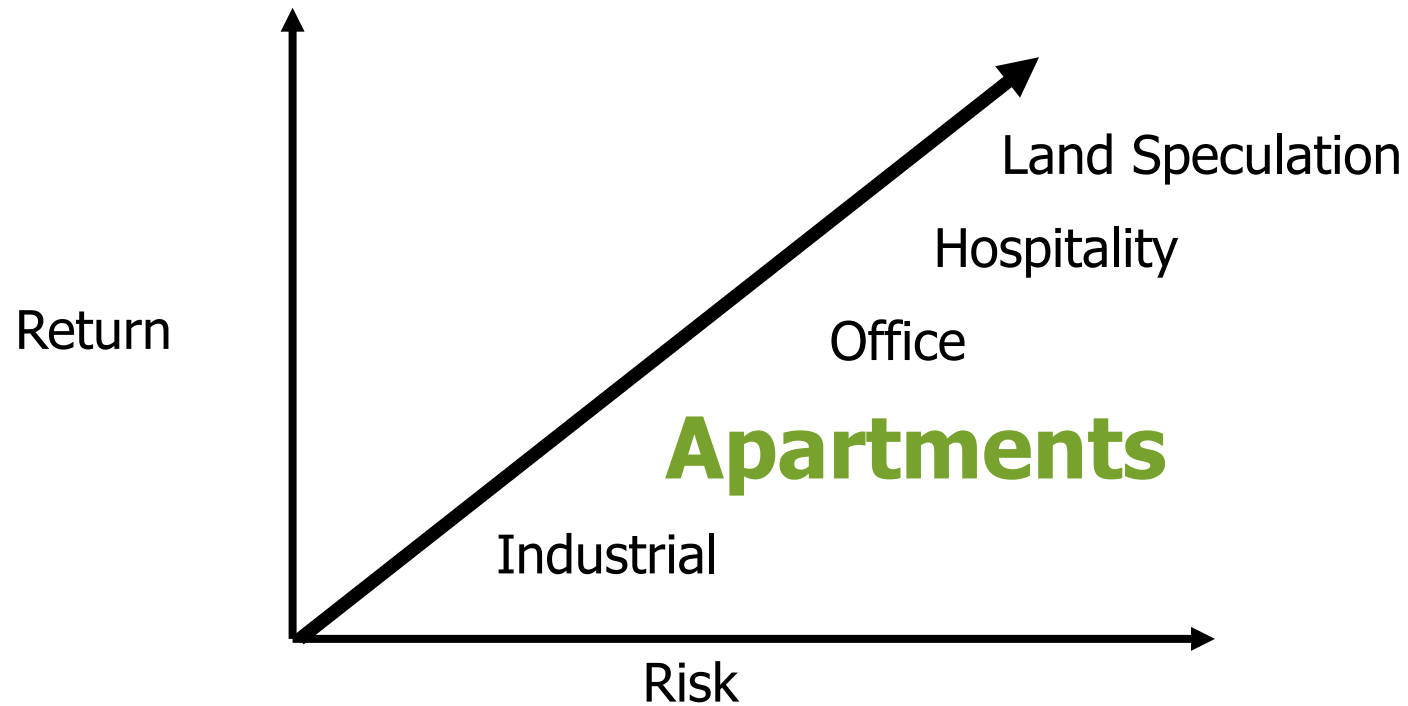
However, the market is competitive (even if not entirely efficient), so trade-offs must be made.

How investors label their pools of Money



Chapter 1 - Risk and Return

How real estate food groups line up



Apartment development is inherently risky



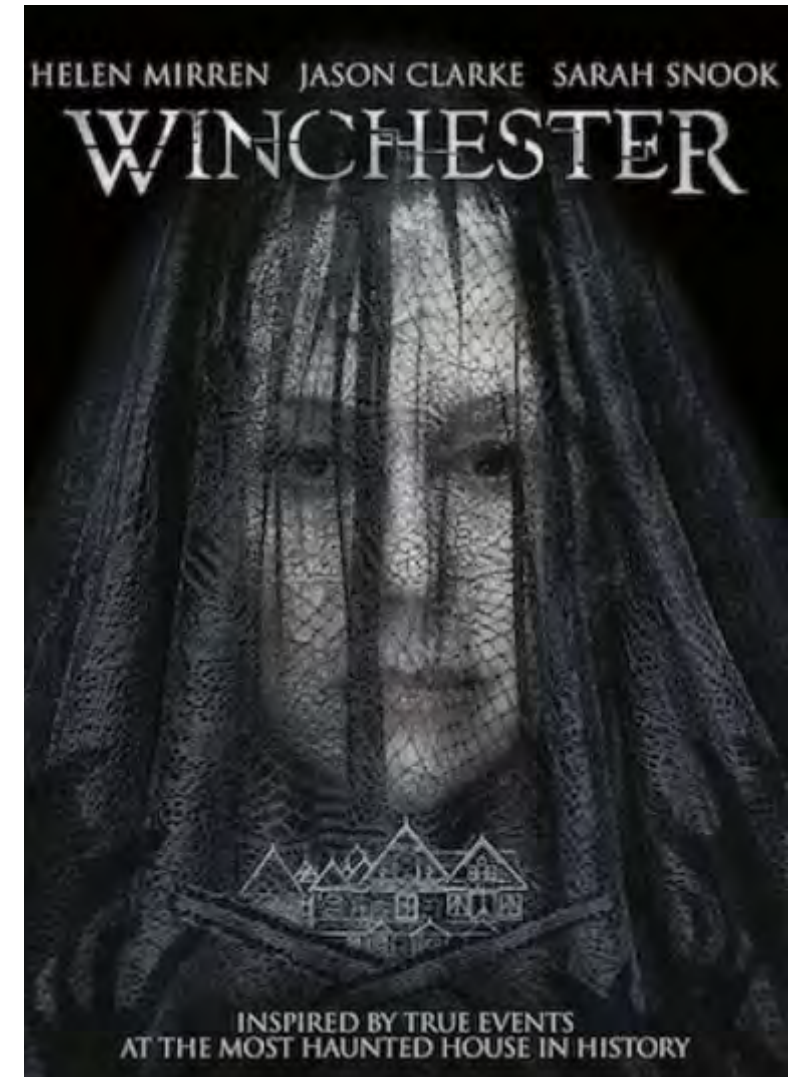
Chapter 1 - Risk and Return

Developers are the “movie producers” of real estate

We bring together the opportunity

We put together

- The team
- The money
- The experience and know-how



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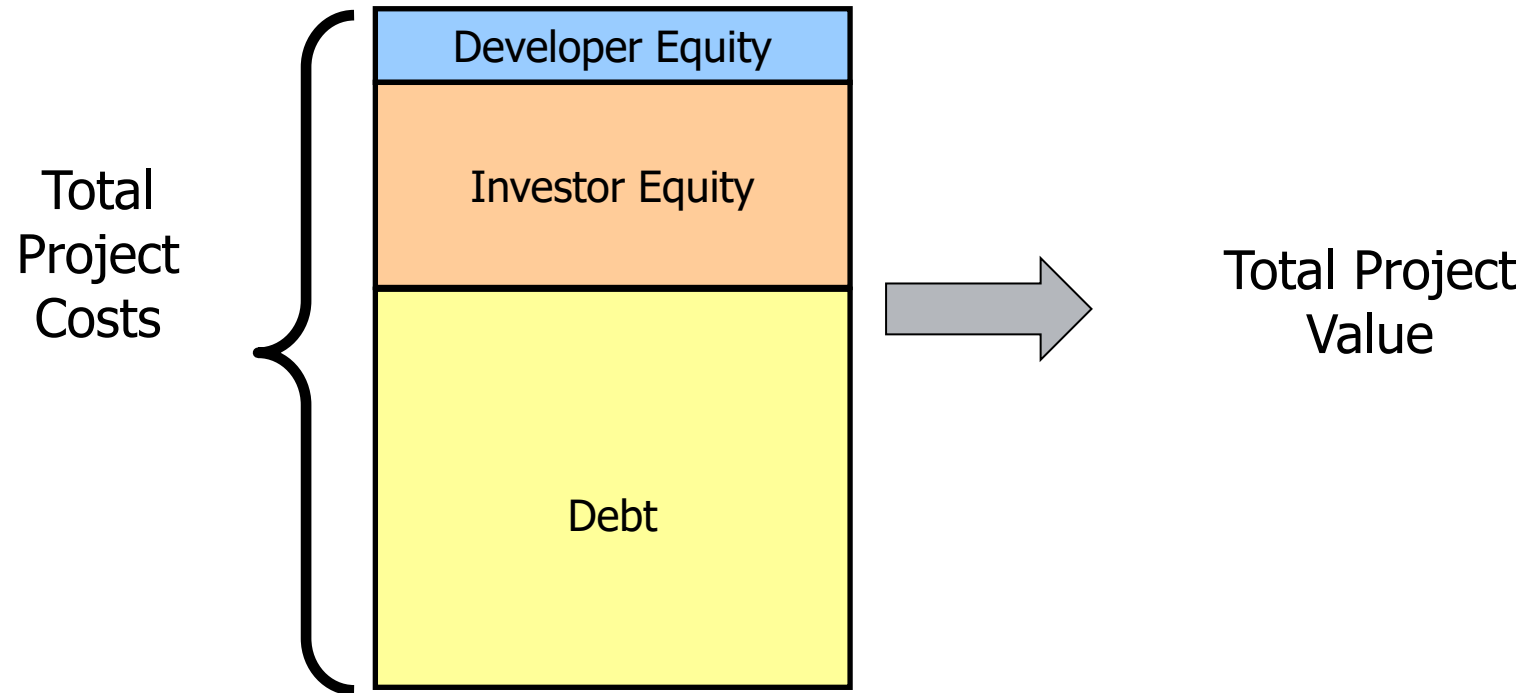
Chapter 2

The Cost of Producing Multifamily Housing

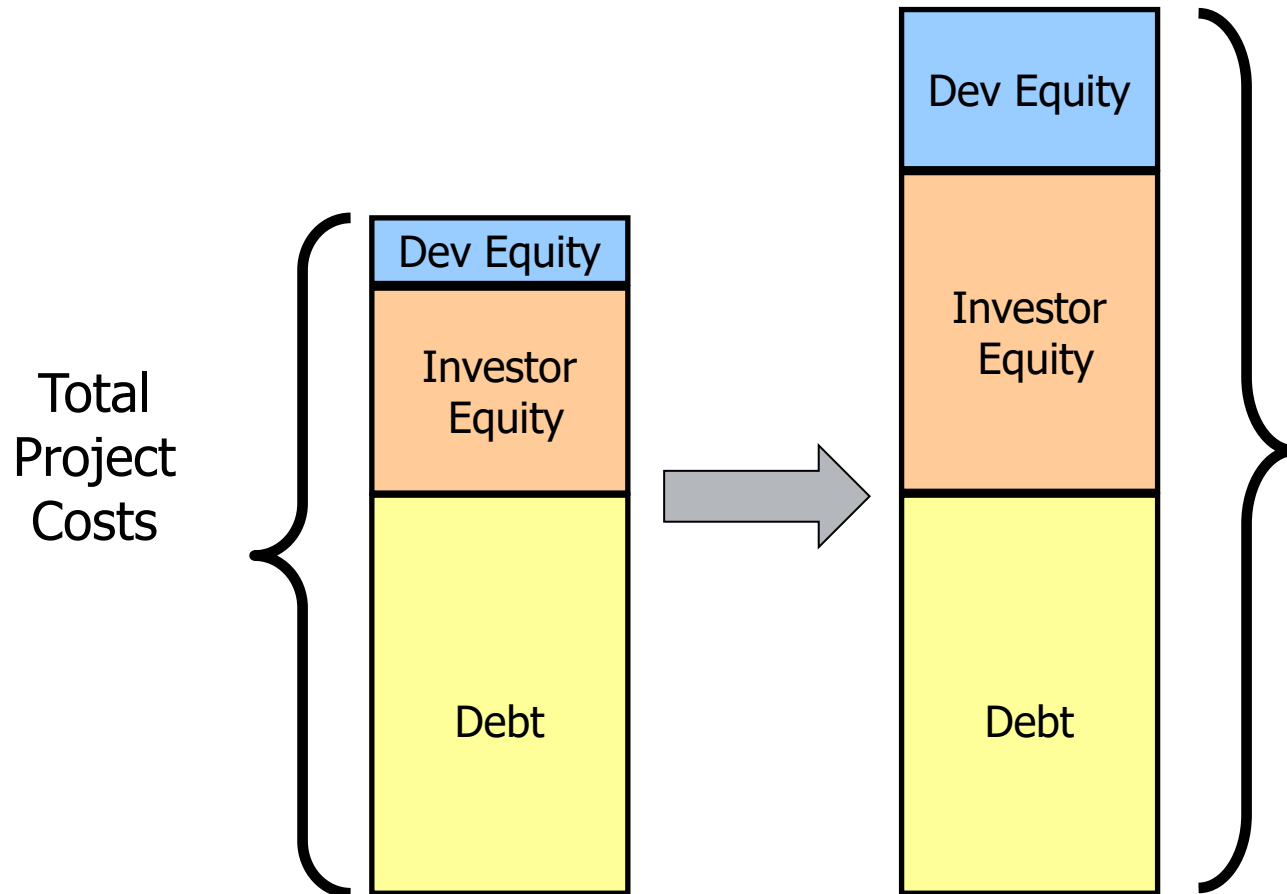


Chapter 2 – The Cost of Multifamily Housing

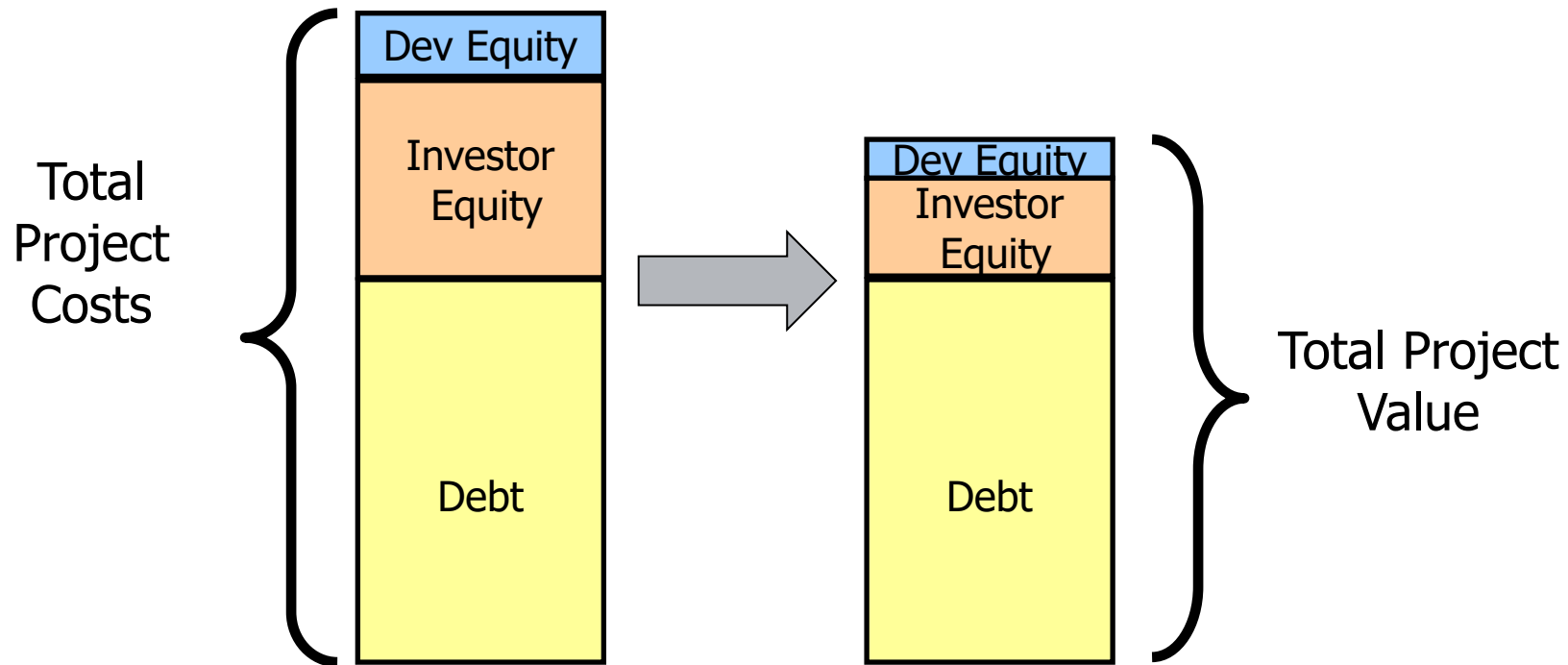
The capital “stack” represents all the money it takes to build a building



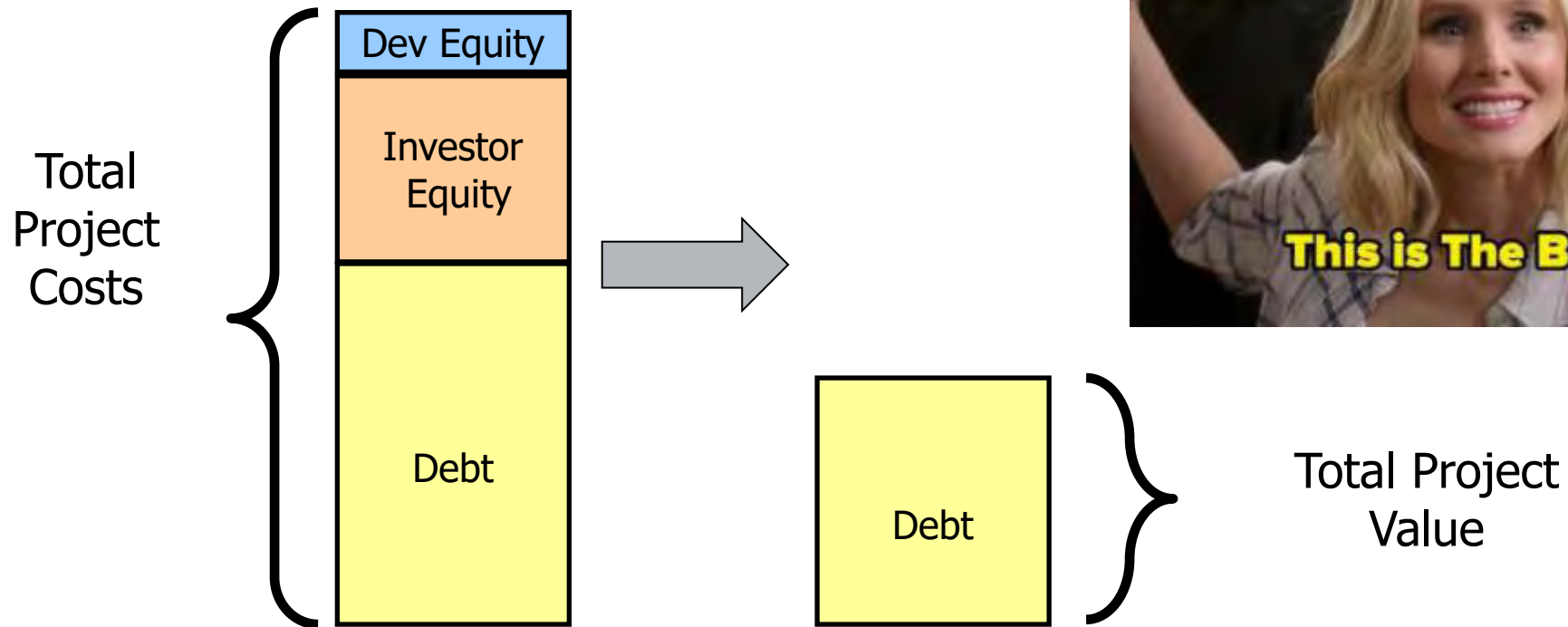
When things go well...



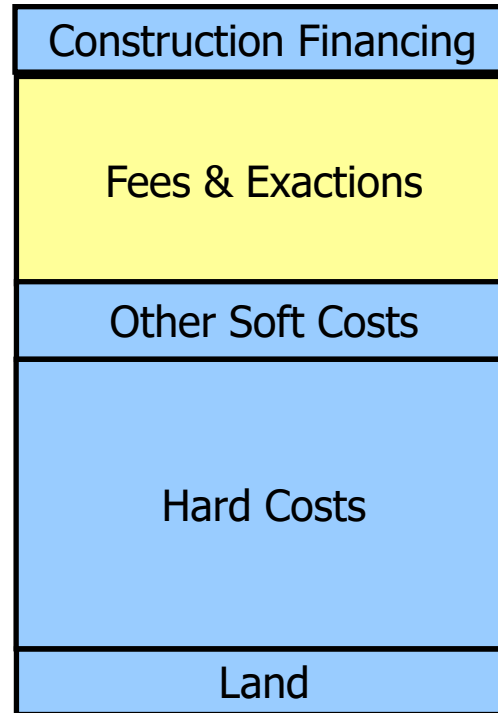
When they don't...



When we see a financial crisis...



What makes up the Costs of Multifamily Housing?



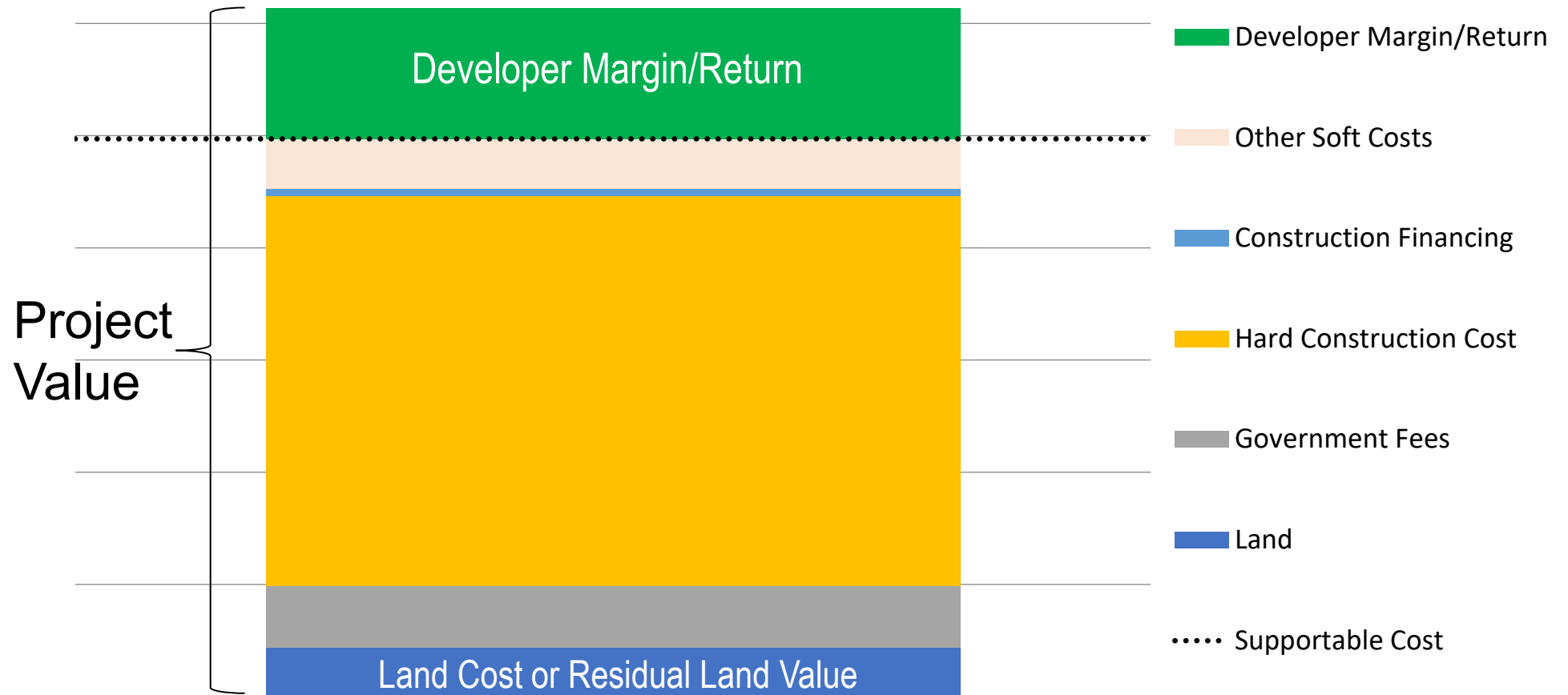
Chapter 2 – The Cost of Multifamily Housing

- Every fee or exaction local government requires, raises costs
- **IF** the market is good, development can move forward with new projects.
 - Local government can require new fees, amenities, parks, affordability, infeasible uses, too much parking, etc. until the project stops penciling.
- **IF** project costs go up and rent and values don't... projects die.
- Bull markets are short... development cycles are long.
 - Don't miss the window!



Development Feasibility 101 - Start

Development Feasibility Framework



The value of land is tied to:

The rights
associated with
the land

The liabilities
associated with
the land

Residual Land Value

Difference between potential value and projected development costs without land (including target return on investment)

Residual Land Value Calculation

Potential Value

Less: Projected Costs without Land

Residual Land Value



Multifamily Apartment Development

- 10% to 15% on-site affordable
- Ground floor retail (street frontage)

Existing Retail Property

- Commercial property with existing retail
- Purchase/sale price of \$6 million

Proposed Building Characteristics

- 7 stories with 2 story podium
 - Ground floor retail + parking garage



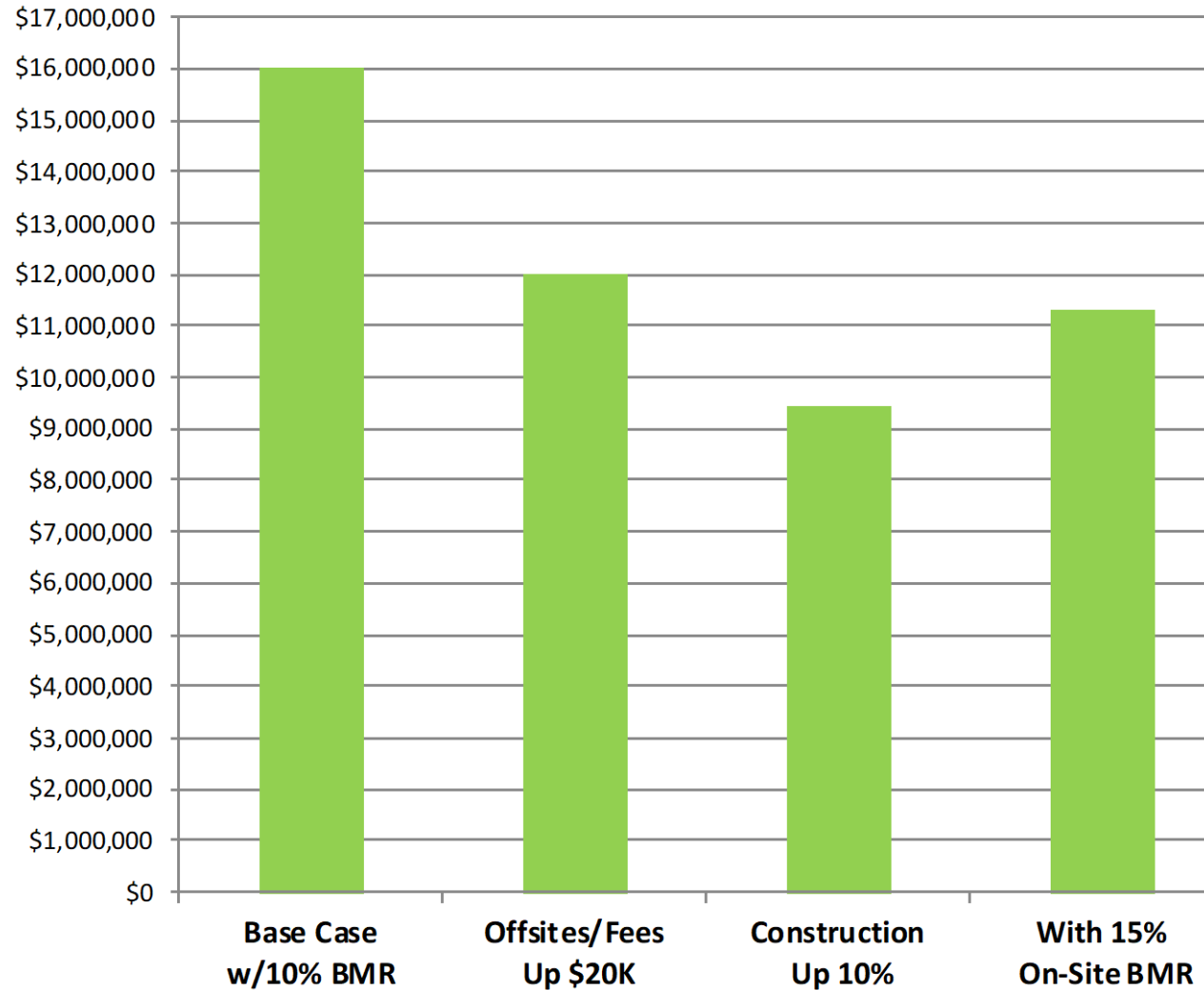
Photo credit: www.sanjose.org

Residual Land Value – Sensitivity Analysis

Four initial scenarios evaluated individually:

1. Base affordable– 10% on-site below market rate (BMR) units
2. Offsites/fees increase by \$20,000 per unit
3. Construction costs increase by 10%
4. Alternative affordable– 15% on-site BMR units

Initial Sensitivity Analysis Results- Individual Scenarios

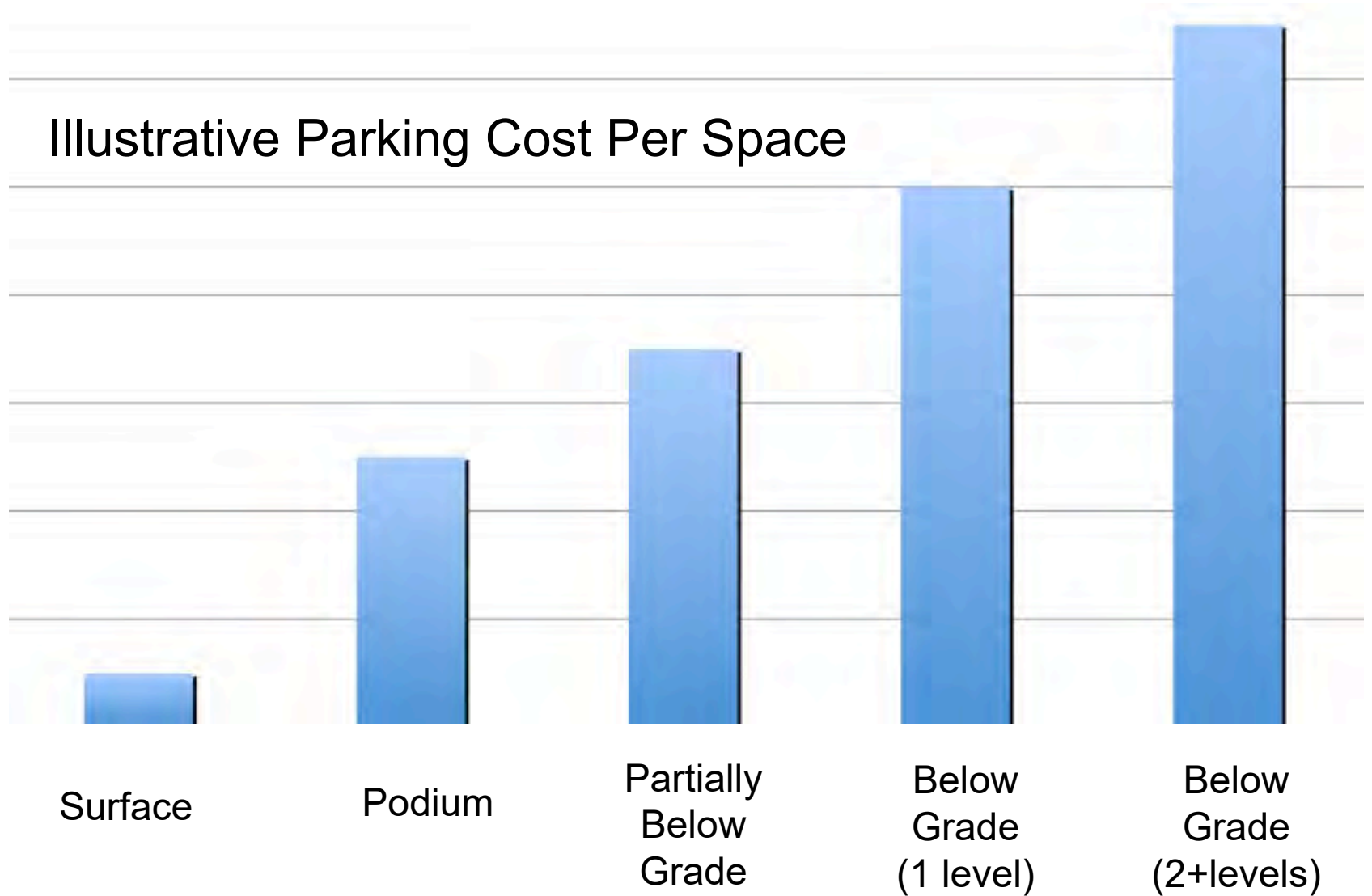


Residual Land Value – Sensitivity Analysis

Additional fifth scenario evaluated (along with combined scenarios):

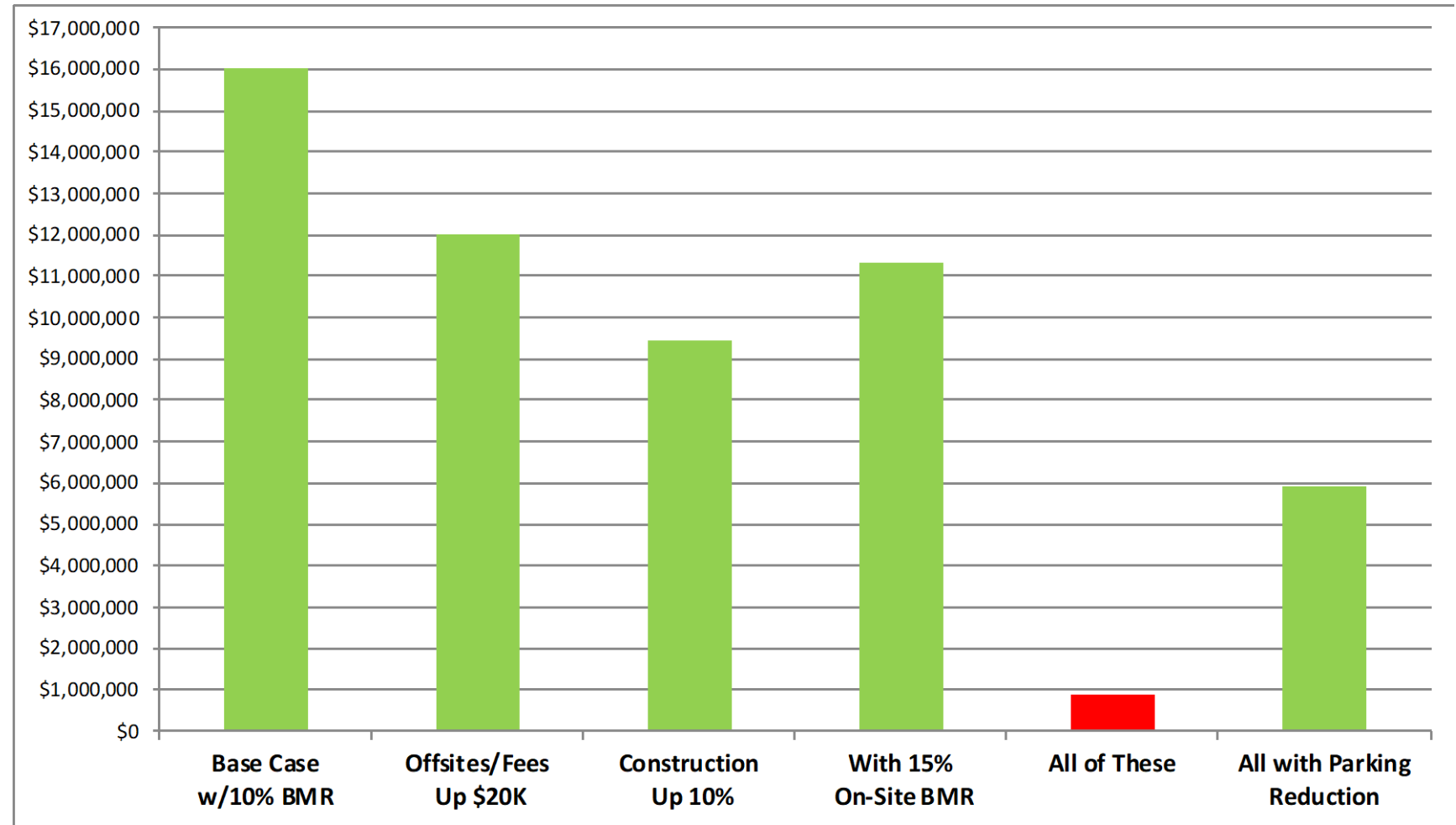
1. Base Case affordable housing – 10% on-site BMR
2. Offsites/fees increase by \$20,000 per unit
3. Construction costs increase by 10%
4. Alternative affordable housing – 15% on-site BMR
5. **Parking reduction for housing and ground floor retail**

Illustrative Parking Cost Per Space



Impact of
ground floor retail
and its parking
plus residential
parking?

Results of Combined Sensitivity Analysis



Residual Land Value Under Base Case and Five Scenarios

Is there still a project and land deal?

Sensitivity Cases (individual requirements):

- | | |
|--|----------------|
| 1. 10% On-site BMR | Deal |
| 2. Offsites/City fee increases by \$20,000 | Deal* |
| 3. Construction costs are 10% higher | Deal* |
| 4. 15% On-site BMR | Deal* |
| <i>*Combined Sensitivity Analysis</i> | <i>NO Deal</i> |
| 5. Combined with significant parking reduction | Deal |

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Chapter 3

What can policy do?



Chapter 3 – What can policy do?

- A. Lower Costs
- B. Increase Revenue
- C. Increase Certainty

We are in a housing CRISIS! Do not let perfection be the enemy of the good

Options to Lower Costs

- Lower or flexible parking requirements



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- **Eliminate retail or other uses in the wrong places**



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- **Lower park fees and park requirements (especially for affordable housing)**



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- Lower park fees and park requirements (especially for affordable housing)
- **Lower processing fees**



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- Lower processing fees
- **Lower utility connection fees**



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- Lower processing fees
- Lower utility connection fees
- **Lower percentage of onsite affordability**



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- Eliminate retail or other uses in the wrong places
- Lower park fees and park requirements (especially for affordable housing)
- Lower processing fees
- Lower utility connection fees
- Lower percentage of onsite affordability
- **Real estate tax abatement**



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- Lower processing fees
- Lower utility connection fees
- Lower percentage of onsite affordability
- Real estate tax abatement
- **Help lower construction costs**



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- Eliminate retail or other uses in the wrong places
- Lower park fees and park requirements (especially for affordable housing)
- Lower processing fees
- Lower utility connection fees
- Lower percentage of onsite affordability
- Real estate tax abatement
- Help lower construction costs
- **Consider costs of sustainability reach goals**



Increase revenue?

- Allow higher income targets for affordable housing



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- **Provide housing funding/subsidies**
 - **Example: Rental housing voucher programs**



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- **Transfer taxes**



Increase revenue?

- Allow higher income targets for affordable housing
- Provide housing funding/subsidies
 - Example: Rental housing voucher programs
- Transfer taxes
- **Limit effect of rent control on new development**



The background of the slide is a grayscale photograph of a foggy street. A single lamppost stands in the foreground on the left side of the path. The path leads into the distance, flanked by trees and other lampposts that are shrouded in mist. The overall atmosphere is quiet and somewhat mysterious.

Streamline development approval and processing time

Entitlement certainty is the most valuable

Chapter 3C – Increase Certainty

Pave the way for Office to Housing + Shopping Center to Housing conversions?

This will take some creativity!



Pave the way to development with CEQA led by City

Downtown Redwood City Example

- 20 years of work
- CEQA lawsuit clearing
- Economy took off
- Downtown transformed in 5 – 7 years.
 - And more development is planned

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Thank You!



AFFORDABLE HOUSING FINANCE



Nevada V. Merriman
November 1, 2022

MidPen Housing

Real Estate Development:

- 8,500 affordable homes;
- 800+ units under construction in 2021
- Raised over \$1 B for development of affordable housing since 2010



Property Management:

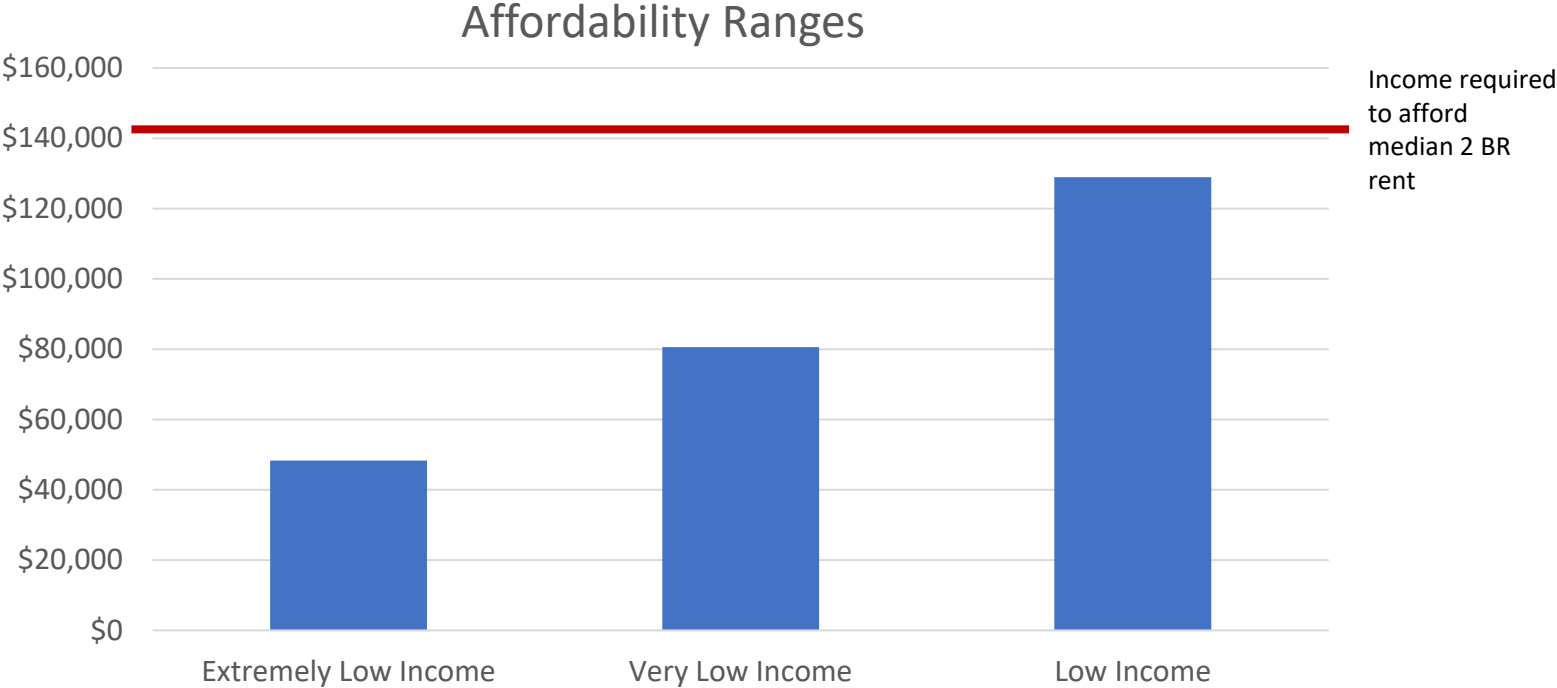
- 120+ properties; 17,000 residents. <1% vacancy
- 68+ properties in Silicon Valley

Resident Services:

- Workforce Development
- After School Literacy
- Older Adults Health and Wellness
- Permanent Supportive Housing



Housing Affordability Gap in Silicon Valley



Affordable Housing Finance Overview

Why doesn't the market produce Affordable Housing? It Doesn't Pencil

Affordable (aka below market) rents, comparatively high expenses

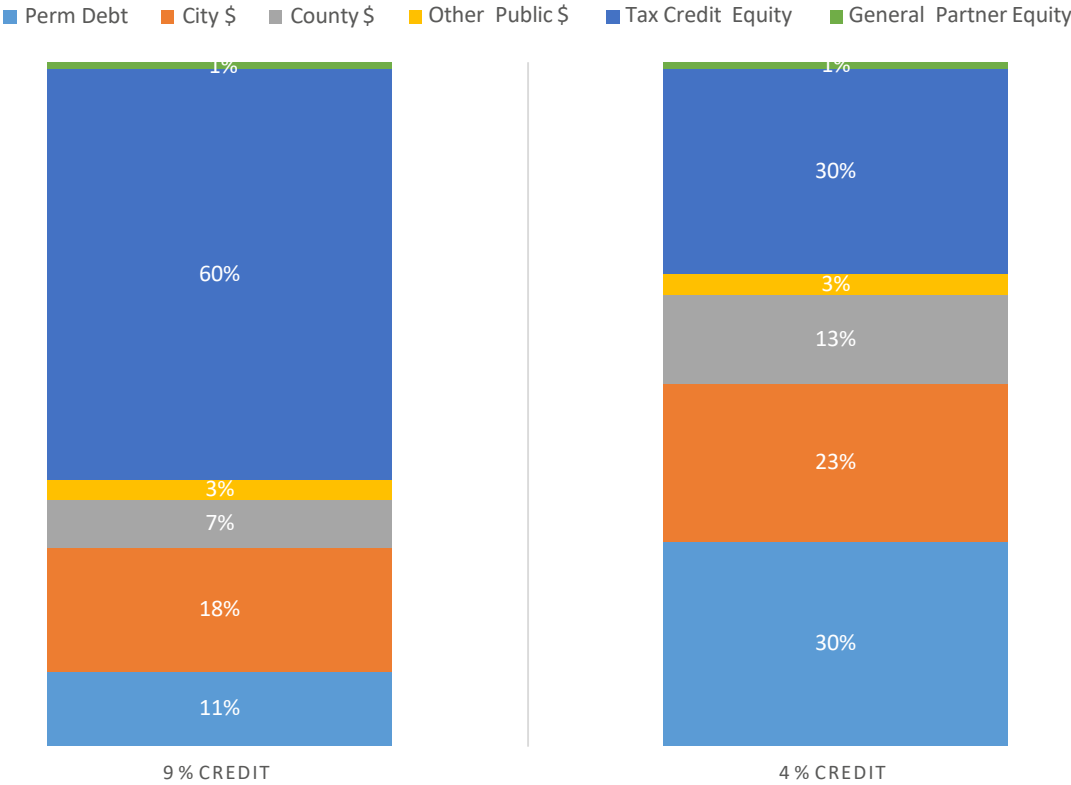
- Depress first mortgage loan proceeds
- Limited cash flow – limited cash on cash return



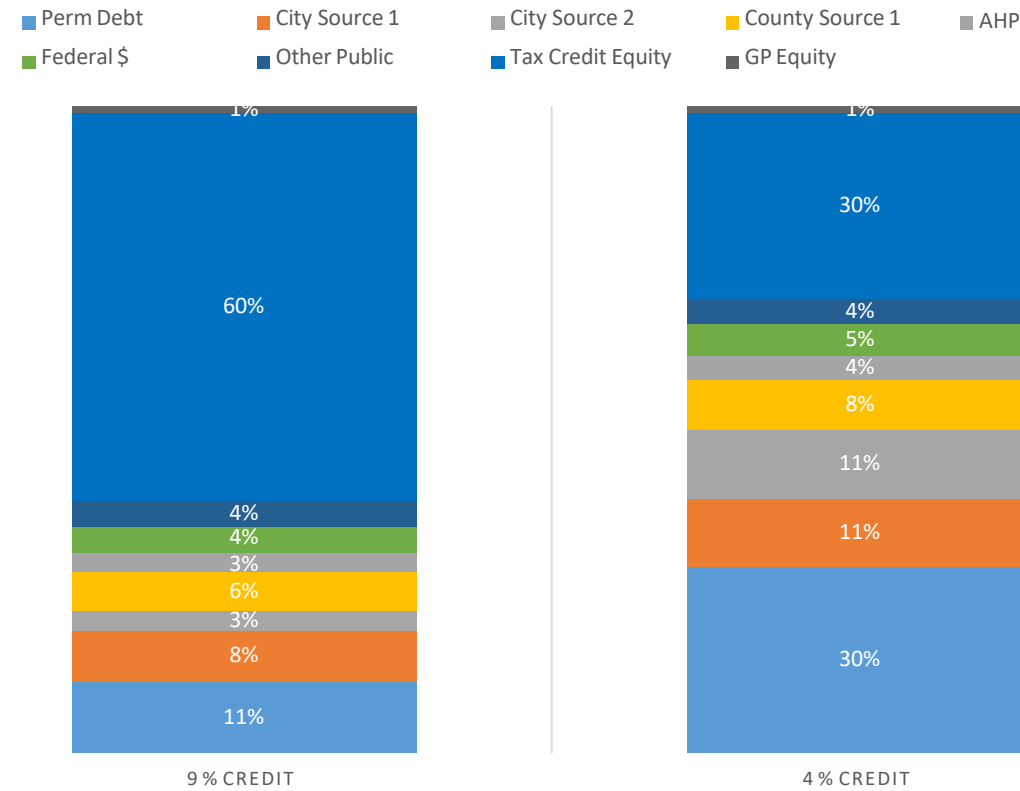
Bridging the Gap - How do we make it pencil?

- Equity generated from the sale of Low Income Housing Tax Credits – 4% and 9%
- Soft (aka deferred payment) loans
- Grants

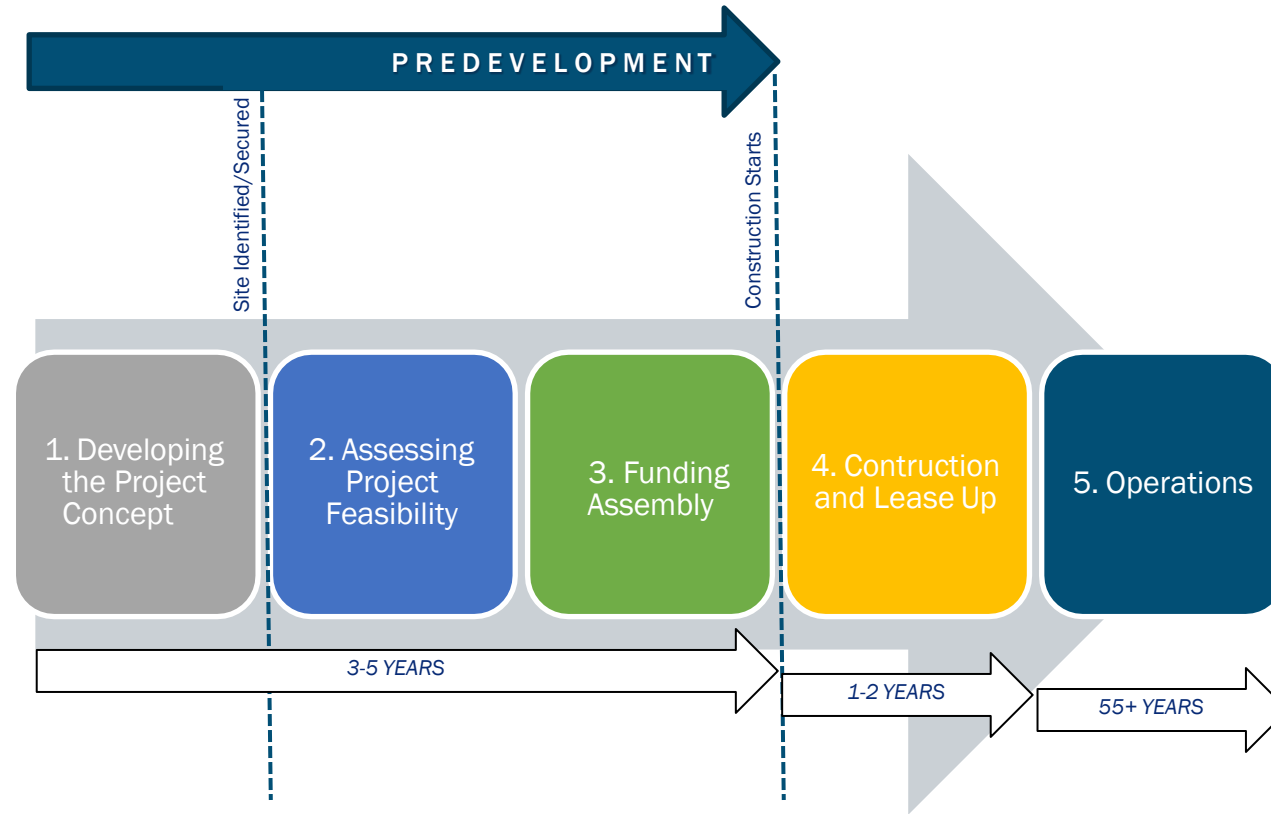
Typical Capital Stack - Simplified



Typical Capital Stack – Not So Simple



Timeline - Project



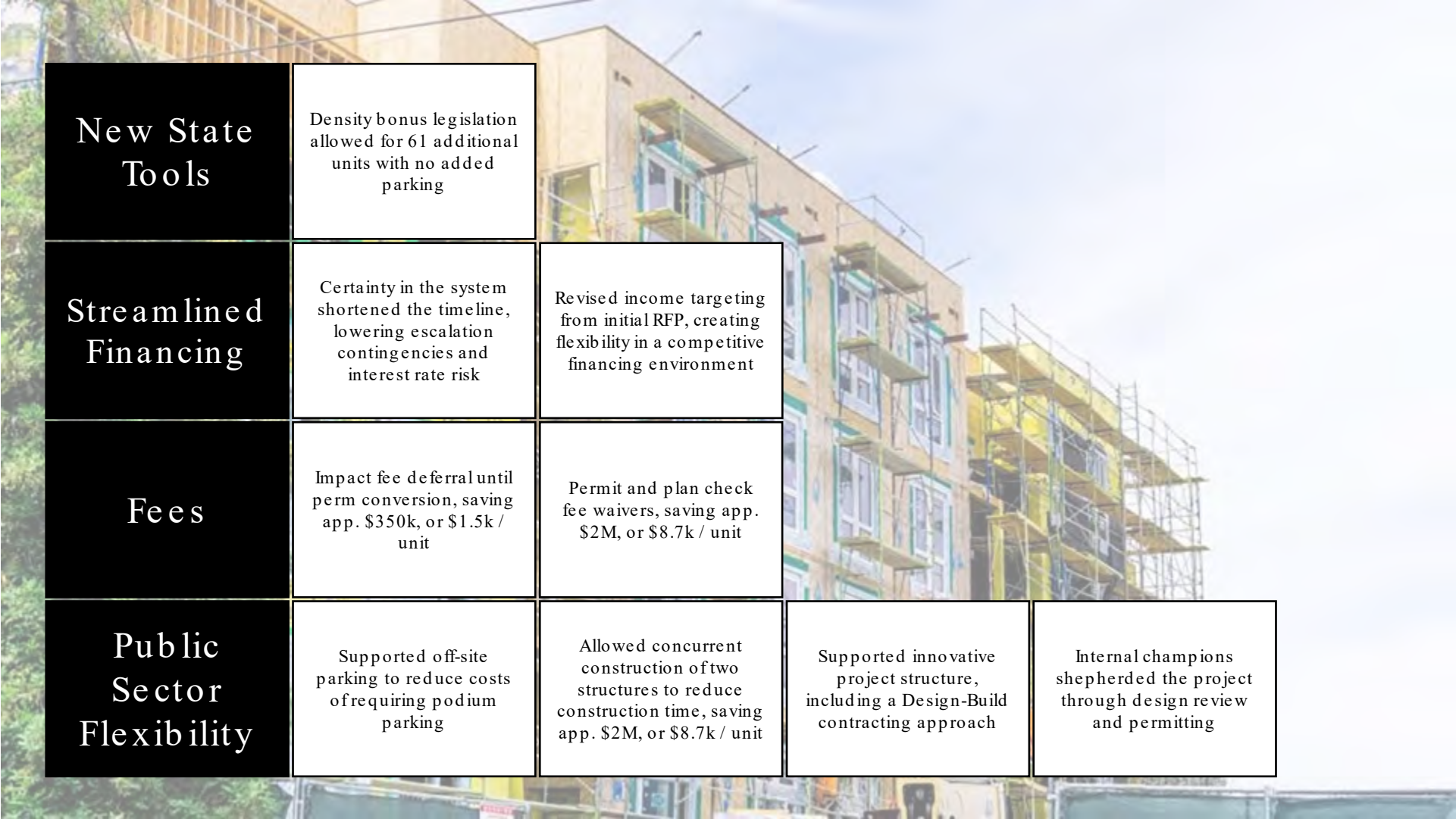
Source: LISC Bay Area



Kiku Crossing, San Mateo







New State Tools	Density bonus legislation allowed for 61 additional units with no added parking			
Streamlined Financing	Certainty in the system shortened the timeline, lowering escalation contingencies and interest rate risk	Revised income targeting from initial RFP, creating flexibility in a competitive financing environment		
Fees	Impact fee deferral until perm conversion, saving app. \$350k, or \$1.5k / unit	Permit and plan check fee waivers, saving app. \$2M, or \$8.7k / unit		
Public Sector Flexibility	Supported off-site parking to reduce costs of requiring podium parking	Allowed concurrent construction of two structures to reduce construction time, saving app. \$2M, or \$8.7k / unit	Supported innovative project structure, including a Design-Build contracting approach	Internal champions shepherded the project through design review and permitting

Thank You!

Nevada V. Merriman
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