BIA BAY AREA

BUILDING INDUSTRY ASSOCIATION

DATE: Jan. 7, 2019

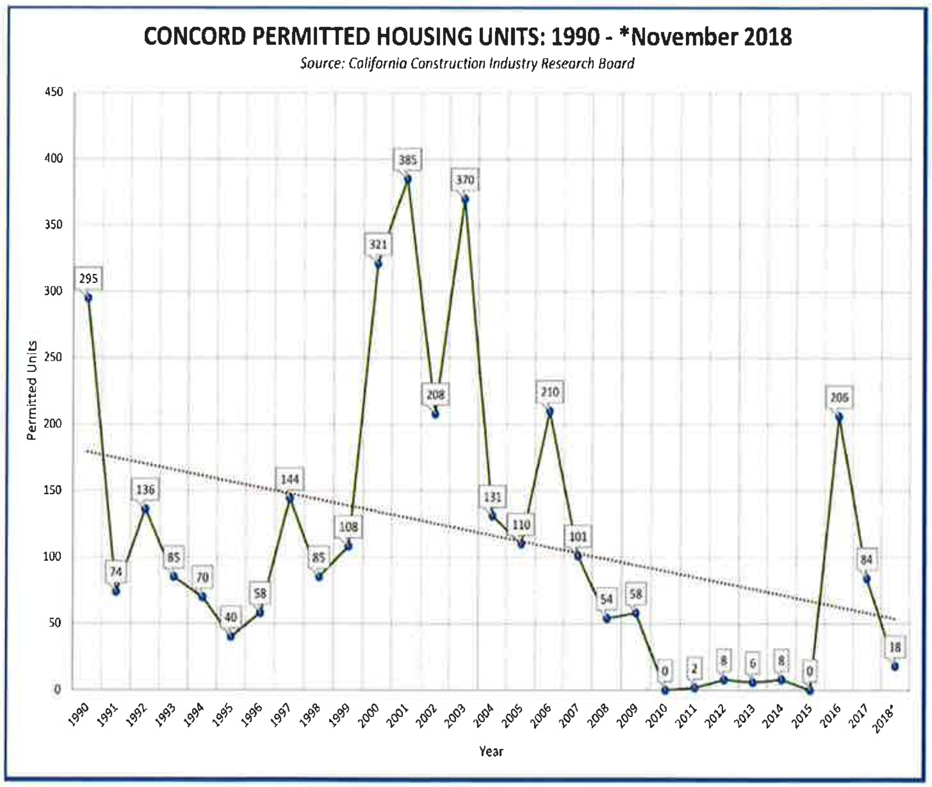
TO: Concord Mayor Carlyn Obringer, Vice Mayor Tim McGallian and Councilmembers Dominic Aliano, Edi Birsan and Laura Hoffmeister

FROM: BIA|Bay Area East Bay Executive Director for Governmental Affairs Lisa Vorderbrueggen

RE: Public Art Fee Proposal

Dear Mayor ~~Obringer~~ Carlyn and Concord Councilmembers:

Thank you for the opportunity to participate in the discussion about a proposed Concord public art program and a potential new fee on development to fund its operation. BIA|Bay Area consists of more than 400 members working to entitle, develop and construct residential housing in Concord and throughout the Bay Area.



While art is undeniably an important component of a thriving community, we respectfully ask that the City Council reject any proposal to fund public art that will discourage housing production amidst the Bay Area's massive affordability and supply crisis or make buying and renting a home more expensive.

As the chart on the right shows, Concord is already struggling to attract residential developers. The city permitted just 18 residential units in January through November of 2018, a significant drop from 84 units in 2017 and 206 in 2016. The stagnant residential construction market led the city to postpone its new affordable housing impact fee until the situation improves. Another new fee is counter-productive, especially as the nation and region head toward an economic downturn. Your staff report on

Page 5 accurately quotes local developers who say that higher costs will threaten projects' financial viability and ultimately lead to fewer desperately needed new homes being constructed in Concord. A recent article in the San Francisco Chronicle (attached) illustrates how even San Francisco – which had been experiencing strong residential growth – is seeing sharp housing production declines as a result of sky-high construction costs.

Equally significant, homes that are built will be more expensive as higher construction costs mean higher price points are required to achieve the financial returns that investors in the market demand. For every $1,000 increase in the sales price or rent for a home, another approximately 15,000 California households are priced out of the market, according to the National Association of Home Builders (NAHB.) A recent Bay Area News Group story (attached) illustrates how rising construction costs have even forced Habitat for Humanity to sell its homes for higher prices than what many of its target low-income families can afford.

Lastly, public art by its very definition is intended to benefit the general public. It is unfair to disproportionately burden home buyers and renters with the cost of a program that is meant to improve the quality of life for the community as a whole. If the city wants a public art program, it should consider how to pay for it through a broad community source such as the general fund or a special tax.

Based on the above points, BIA and its members again respectfully ask the City Council to reject any proposal to fund a public art program through fees on new development. Please feel free to call me with any further questions or comments at 925-348-1956.

Sincerely yours,

Lisa Vorderbrueggen

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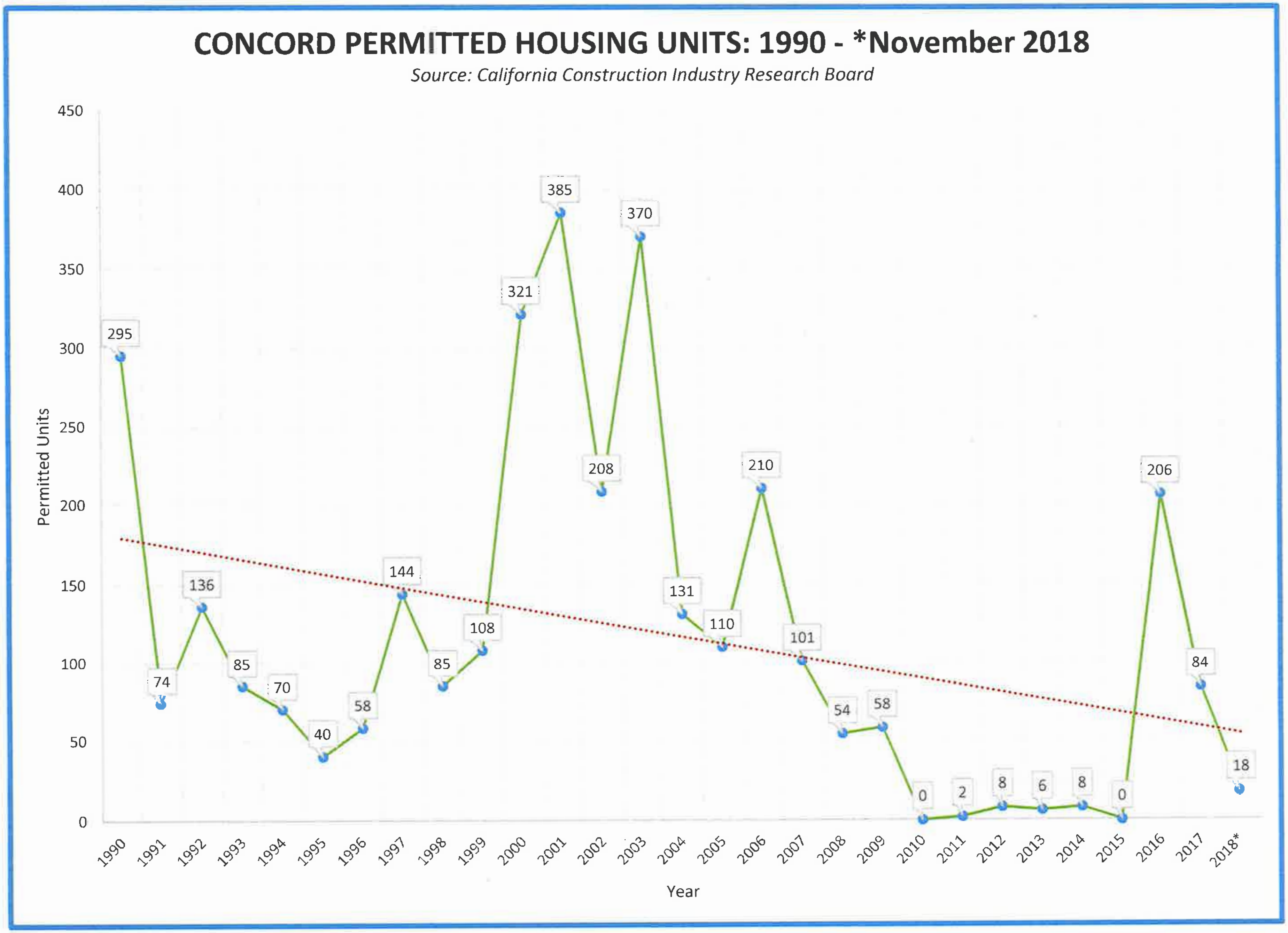
cc:
Concord City Manager Valerie Barone
Concord City Clerk Joelle Fockler
Concord Principal Planner Michael Cass
Concord Assistant Planner Jessica Gonzalez

Attachments:
[1]Concord Residential Permits, 1990 through November 2018, data from the California Construction Industry Research Board and chart compiled by BIA|Bay Area
[2]Bay Area News Group, *"Even Habitat For Humanity Can't Build Bay Area Homes Cheaply Enough for Lower-Income Buyers,"* Jan. 2, 2019
[3]San Francisco Chronicle, *"SF Residential Projects Languish as Rising Costs Force Developers to Cash Out,"* Aug. 27, 2018


CONCORD PERMITTED HOUSING UNITS: 1990 - *November 2018
Source: California Construction Industry Research Board
Permitted Units
Year
450
400
350
300
250
200
150
100
50
0
295
74
136
85
70
40
58
144
85
108
321
385
208
370
131
110
210
101
54
58
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8
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Even Habitat for Humanity can't build Bay Area homes cheaply enough for lower-income buyers

'Roughest patch' in state history for affordable development

By **JOSEPH GEHA** | jgeha@bayareanewsgroup.com | Bay Area News Group

PUBLISHED: January 2, 2019 at 6:00 am | UPDATED: January 2, 2019 at 1:54 pm

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Rising construction costs and a big drop in public funding is forcing an organization that builds inexpensive homes for low-income buyers to sell them for higher prices than many of those people can afford.

The group, Habitat for Humanity, says it can't raise money fast enough to cover the gap between what very low-income residents can pay and the actual costs of providing homes, even with the help of legions of volunteers.

That scenario is playing itself out right now in Fremont, where Habitat for Humanity is selling 19 of 30 planned condos to families whose income is 40 to 115 percent higher than that of the buyers originally targeted.

Janice Jensen, president and CEO of Habitat for Humanity East Bay/Silicon Valley, said costs for everything from raw materials such as wood and drywall, to labor and real estate have soared over the past five years. Materials alone jumped almost 5 percent from December 2016 to December 2017, the fastest rate in six years, according to the Associated Builders and Contractors, Inc.

"If you look broadly at affordable housing, it's never been more expensive than it is right now to build," Jensen said.

When first envisioned, half of the condos in Habitat's Central Commons project were supposed to be sold to very low-income families and half to low-income families. But Habitat had to raise the price of the homes twice in the past couple of years to cover the additional $3.54 million the project was costing, effectively excluding very low-income families from a shot at the homes. Those families earn up to half of the median income for the area, or $58,100 for a family of

So far, 11 condos are nearly complete and have been sold to low-income families earning a maximum of 80 percent of the area median income, which amounts to roughly $89,600 annually for a family of four. Those two-, three- and four-bedroom units sold for between $169,100 and $200,500, according to Habitat.

Eligio Rivera-Cuevas, of Sunnyvale, his wife Liliana and their sons Sebastian, 6, and Diego, 9, are among the 11 families expecting to move into one of those condos by early this year.

"It meant a lot of things, but the most important is just the stability of my family, and a safe place for my kids," Rivera-Cuevas said of having a home to call their own.

The project was conceived in 2013 and helped along by $530,000 in community development block grants from the city and a little more than $1 million in affordable housing fees from a land purchase development fund.

Because the condos must now go for more than initially intended, the Fremont City Council on Dec. 4 authorized Habitat to sell the remaining 19 to moderate-income families earning 120 percent of the median, or a maximum of $125,300 for four people.

Jensen estimated those homes will be sold for between $419,500 and $462,600, still a significant amount less than their appraised value of $700,000 to $830,000 and affordable to some people who otherwise wouldn't have a hope of owning a home in the region.

Jensen said although Habitat had to deviate from its original plan for Central Commons, moderate-level income housing is badly needed in Fremont as well.

"There's no philosophic change, this is all dollars and cents," she said. "We want to serve more families, not less, and the deeper the subsidy per family we have to invest, the less actual families overall we are able to serve."

Dan Schoenholz, Fremont's community development director, said because the city hasn't seen any of the nearly 1,000 moderate-income housing units needed to meet demand get built, approval of the price increase at Central Commons will help.

"It's true that isn't what we originally planned, but it's an area where we need additional housing, and we have an opportunity to get 19 units without any additional public investment, so the council decided to do that," he said. He also noted that since the council approved the first version of the Habitat project in

Rivera-Cuevas said his family has been living in a small, two-bedroom unit in an aging apartment complex in Sunnyvale where the rent has constantly climbed. They've had to move several times while searching for a home over the past six years.

If not for the Habitat project, they might have left the area to find cheaper housing elsewhere while he would continue to work in South San Francisco as a postal clerk and supervisor.

Although happy with his new home, Rivera-Cuevas said he's concerned about other families priced out of the low-cost housing market.

"It makes me feel sad, because everybody who is living in the Bay Area should be getting affordable housing," he said. "Those people are living in the same conditions like me. Hopefully we can create more spaces for affordable housing. It would be great," he said.

Jensen blamed high construction costs, "outrageous" land prices and a shortage of government subsidies for causing Habitat projects throughout the state to sell at higher prices than preferred, not only in urban areas but also in typically less expensive regions such as the Central Valley.

In the Bay Area from 2000 to 2016, the value of land jumped 129 percent in Oakland, 109 percent in San Francisco and 114 percent in San Jose, according to data from the Lincoln Institute of Land Policy.

Like Habitat for Humanity, other developers of affordable housing also are finding the margins between housing costs and prices getting squeezed.

"I think we're just coming out of the roughest patch" in history for producing affordable housing in California, said Michael Lane, policy director for the Non-Profit Housing Association of Northern California. He noted that because no major bonds were passed between 2011 and 2017, public funds to help pay for affordable housing dried up.

The problem was compounded when the Legislature decided in 2011 to eliminate local redevelopment agencies, which provided more than $1 billion annually to help cities cobble together land and create affordable housing projects

"It's like a perfect storm," Lane said.

But some help is on the way.

And county bonds passed in 2016 to fund affordable housing, including Alameda's $580 million Measure A1 and Santa Clara County's $950 million Measure A, are starting to flow into communities.

Rivera-Cuevas said his goal ever since he came to the Bay Area more than 15 years ago from Mexico City was to buy a home where he could raise a family.

"Because they're going to have their own place, and they're going to have stability to grow up and attend schools, and prepare for college," he said of his sons.

"It's going to be a great future for them."

Tags: **Affordable Housing**, **Business**, **Economy**, **Housing**, **Housing Development**, **PM Report**, **Real Estate**, **Regional**

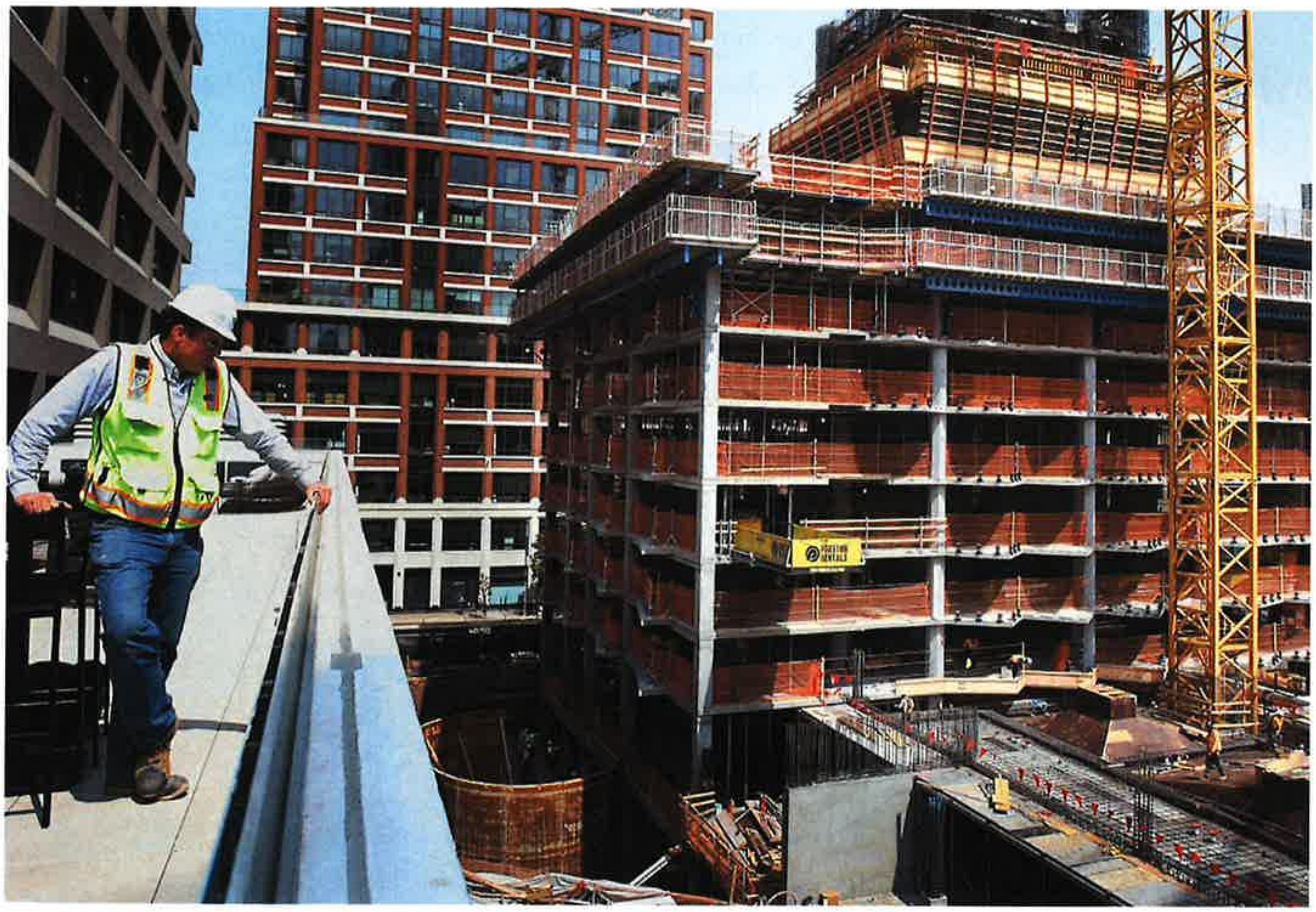
Joseph Geha Joseph Geha is a multimedia journalist covering Fremont, Newark, and Union City for the Bay Area News Group, and is based at The Argus. His prior work has been seen in multiple Bay Area news outlets, including SF Weekly, as well as on KQED and KLIV radio. He is a graduate of California State University, East Bay (Hayward), and is a Fremont native. He is a

LOCAL // BAY AREA & STATE

SF residential projects languish as rising costs force developers to cash out

J.K. Dineen

Aug. 27, 2018 | Updated: Aug. 27, 2018 6 a.m.



Lendlease construction senior superintendent Casey Curren surveys condominium construction at 160 Folsom St., a former parking lot in the South of Market.

Photo: Photos by Liz Hafalia / The Chronicle

Just 3 miles separate 2675 Folsom St., a vacant former restaurant equipment warehouse in the Mission District, and 160 Folsom St., a former parking lot near the Transbay Transit Center where a condo tower is under construction.

But in the current economic landscape of the San Francisco's housing development, the two properties are a world apart.

While the next crop of luxury condo towers like 160 Folsom, which developer Tishman Speyer has branded as Mira, continue to rise in the fast-growing eastern end of South of Market, other approved housing projects across the city, like 2675 Folsom St., are stalled and on the market because of soaring construction costs and fees, developers and other industry sources say.

The growing number of developers seeking to cash out rather than risk losing money on building is fueling concerns that residential production will start to decline even as the Bay Area's housing crisis worsens.

Housing construction at 2675 Folsom St., a vacant former restaurant equipment warehouse in the Mission District, is stalled amid soaring construction costs and other fees.
Photo: Liz Hafalia / The Chronicle

Last month Axis Development put 2675 Folsom up for sale. The 117-unit project was approved in 2017 after a contentious political battle but has not yet started construction. Other entitled projects that are languishing before work has even started include the 304-unit One Oak St., the 299-unit development at 1270 Mission St., the 186 units at 1028 Market St., and the 220-unit 1601 Mission St. Some are seeking new financial partners and some an outright sale.

"Most entitled projects in the city are for sale right now — either publicly or privately," said Bill Witte, president of developer Related California, which has 1,300 units under construction in the city. "We're at that point in the cycle."

There are 6,750 units under construction in the city, about 1,000 units more than a year ago. While that is well above the historic average, there are another 15,000 units that have been approved by planning officials but have not started construction. Projects containing 6,690 of those units have secured all the permits needed to start construction but have not broken ground, Planning Department documents show.

Residential projects in San Francisco

Languishing

1. 2675 Folsom St.
2. 304-unit One Oak St.
3. 1270 Mission St.
4. 1028 Market St.
5. 1601 Mission St.

Moving forward

6. 160 Folsom St.
7. 400 Folsom St.
8. One Steuart Lane

Todd Trumbull / The Chronicle

Developer Eric Tao of AGI, which has completed about 1,200 units in SoMa, the Mission and Dogpatch over the past decade, said construction cost increases of 10 to 15 percent annually over the past five years is mostly to blame for the delays. He said his company is re-evaluating aspects of 1270 Mission St.'s design, hoping to reduce costs enough to make it pencil out.

"We are trying to make it work — it's close but not quite there," Tao said. "When we got 1270 Mission approved, if everything else had been frozen in time, we would be building right now. But construction costs went up. Time is not your friend when you are a developer."

Chris Foley, a real estate investor and partner in brokerage firm Polaris Pacific, said that in the current construction environment a condominium developer needs to sell units for at least $1,400 a square foot for a wood-frame building and $1,800 a square for a taller, steel-frame midrise or high-rise. Even in a city where more than 80 percent of the population is priced out of the market, those numbers are a stretch, Foley said.

"The demand for condos is there, but construction costs are killing the industry," he said. "Above $1,400 a square foot is a tough sell unless it's an unusually good location."

That's the case with three buildings rising near the new Transbay Transit Center: Mira, the Avery at 400 Folsom St., and One Steuart Lane, which overlooks the Embarcadero at the foot of Howard Street. Unless there is a remarkable drop in the market, units in all three of those buildings will probably have an average sales price of more than $2,000 a square foot and penthouses could fetch $3,000 or even $4,000 a square foot. A 3,326-square-foot penthouse at 181 Fremont St., which opened last spring, recently sold for $15 million, or $4,500 a square foot.

Carl Shannon, managing director of Mira developer Tishman Speyer, said the project was "bought out" well before building started last year, meaning that the construction contracts were agreed to and materials purchased when costs were significantly lower than they are now. The project, a twisty tower designed by notable Chicago architect Jeanne Gang, includes 156 affordable units and 393 market rate condos.

"The job growth in San Francisco and the Bay Area is really strong, and we are building a fraction of the amount of housing that is needed," Shannon said. "So if you build nicely amenitized, quality projects in downtown San Francisco next to transit you should be in good shape."

As is often the case in San Francisco, the debate over the health of the housing development market is overshadowed by land-use politics. As the housing crisis has gotten more serious, lawmakers have moved to require private developers to include more "community benefits" —

below-market units or inexpensive space for artists, nonprofits and manufacturing, all sectors that are being squeezed out in the city's roaring job market.

In the case of 2675 Folsom, Axis development agreed to make the building 27 percent affordable, with 23 on-site affordable units and eight off-site. The builders also agreed to lease 5,200 square feet of ground-floor space to a community nonprofit for 55 years, for $1 per year.

Combine those costs with higher-than-expected materials, and labor and the project might no longer pass muster with the pension fund or financial institution providing the capital to build it.

While the city currently requires that 18 percent of rental projects and 20 percent of condominium developments be below market rate, builders of projects that could arouse opposition often agree to make more units affordable to win community and political support.

Developer Oz Erickson of the Emerald Fund said it would be impossible for his company to get financing for any project with a requirement of more than 15 percent affordable units. The group's recently completed tower, 429 units at 150 Van Ness Ave., was approved when affordable housing requirements were 12 percent. It was financed by the International Brotherhood of Electrical Workers national pension fund, which mandates a certain return on investment, he said.

"It's their property, their project," Erickson said. "We are just the advisers, the experts in getting this done. They have a statutory requirements that they have to get a 6 percent return. If they don't, they can't pay their retirees.

"The combined increase in construction costs and extraordinary increases in affordable housing requirements makes building any project extremely difficult in San Francisco," he added.

Todd David of the San Francisco Housing Action Coalition, an industry group representing residential developers, said city elected officials are prone to "Christmas tree effect" — weighing projects down with so many extra fees and obligations that it doesn't get built. That's the case of 2675 Folsom St., he said.

"All of these things sound great, but now we are getting zero," he said. "When we demand all these community benefits we make housing economically infeasible. We end up with nothing."

In the long run, however, the challenges market rate developers are facing may benefit builders who focus on affordable housing, said Mission Housing Executive Director Sam Moss. Moss said that his group, which develops and manages affordable housing, is teaming up with Related to bid on 2675 Folsom, which they would turn into a 100 percent affordable family complex.

Mission Housing and Related would pay for the development with a mix of financing tools not available to market-rate builders: affordable housing tax credits, tax-exempt bonds, and other sources of state and city money.

"Really 100 percent affordable is the only type of project that pencils out there with current construction costs," Moss said. "It's a fully entitled, ready-to-go project on a corner lot right by Parque Ninos Unidos. This is an example of the stars aligning for us."

J.K. Dineen is a San Francisco Chronicle staff writer. Email: jdineen@sfchronicle.com Twitter: @sfjkdineen