



SANTA CLARA COUNTY
PLANNING COLLABORATIVE

Housing Developer Roundtable Summary Market-Rate and Affordable Housing Developers

10/12/2023 via Zoom

Recording: <https://citiesassociation.org/documents/developer-roundtable-10-2023/>

Overview

As part of the October 2023 regular meeting, the Santa Clara County Planning Collaborative (SCCPC) held a roundtable discussion with two regional housing developers (a third was scheduled to attend but had to cancel). The two developers were Abby Goldware Potluri, VP of Housing Development at MidPen Housing, and Joe Kirchofer, Senior Vice President at AvalonBay Communities.

Members of 21 Elements, San Mateo's equivalent of the SCCPC, were also invited to attend. The conversation was facilitated by Collaborative staff, drawing upon questions posed in a previous meeting by members of the SCCPC. The conversation covered topics related to new state laws, market trends, and how cities can incentivize the types of housing they need most.

Key Takeaways

- **State streamlining legislation has been a game changer.** These options have changed how affordable developers assess the viability of sites, the entitlement process, and overall project schedules and financing.
- **Rising interest rates have significantly increased loan costs** for both market rate and affordable developers.
 - While these impacts are beyond the control of local government, new or temporary policies that can reduce or defer upfront costs (like impact and permitting fees) can make a big difference. If you want to see housing developments (especially affordable developments) move forward in this climate, work directly with developers explore options that work.
 - Introduce a property tax exemption or cap at the state level for moderate income households or mixed income multi-family properties to encourage building missing middle housing.
- **Infrastructure capacity** is a major issue for high density projects. The high cost of infrastructure financing can make a project infeasible for a developer.
 - Tax increment financing (or similar mechanism) could reduce the infrastructure financing burden for developers who otherwise may not be able to subsidize infrastructure costs in the current economic context.

- **Low density housing is often more profitable** than high density housing.
 - Jurisdictions can be creative about incentivizing high density housing on critical sites, for example consider implementing minimum density zoning.
 - Jurisdictions can put resources towards tracking market trends and partner with developers to take advantage of market opportunities for critical high density housing. It is a very competitive property market.
- **Insurance costs** represent one of the most significant barriers to development, in both the development and operation phases of a housing project.
- **Alternative construction types** like modular and mass timber have the potential to be useful in the future, but for now issues like insurance costs, construction schedules, and industry capacity make these options less feasible than traditional stick-built construction.
- **Objective design standards** have been largely beneficial, but in some cases can make the process more onerous. Standards should be written with a realistic understanding of the market and with flexibility for developer partners. Forthcoming regional tools may help with this.
- **Density bonuses** have been a valuable tool for cities and developers. Cities that have not yet had an SB 35 or other density bonus project can talk with jurisdictions and developers who have already used these tools for insight and advice about how to make the process work.
- **Parking maximums** generally do not concern developers, even in lower density areas, as long as those maximums are based on realistic resident usage.
 - As cities increasingly invest in public transit infrastructure, residents have learned to adapt.
 - Cities and developers can be creative about alternative transit options like car and bike share.
- **City partnerships are critical**, especially for major projects.
 - **Cities can act as a champion** to help get a project through the entitlement and political process, and work with developers to form the project vision and address barriers.
 - **Cities can manage partnerships between market rate and affordable developers** for major area or master plans. Partnerships between market rate and affordable developers are highly effective at delivering a diversity of housing types, and policy decisions should prioritize these partnerships. Cities can work with developers to find creative options for the unique circumstances of each project and developer.
- **Cities can champion political messaging for extremely low income housing.** City staff and electeds can guide public support towards productive solutions and inclusive language, and can advocate to the state and federal governments for increased funding and support.

Panelist and Facilitator Contacts

Organization	Speaker Name	Contact
Community Planning Collaborative Facilitator	David Driskell	driskell@planningcollaborative.com
MidPen Housing Affordable Developer	Abby Goldware Potluri	agoldware@midpen-housing.org
AvalonBay Communities Market-Rate Developer	Joe Kirchofer	joe_kirchofer@avalonbay.com

Roundtable Discussion: Detailed Notes on Questions and Answers

1. Facilitator Question: How are new State laws impacting your plans and proposals?
 - a. Change is constant in both the market and state law. Developers and cities have to partner to figure out how to build the housing they need, and developers should work with cities to figure out how to implement their vision for a project.
 - b. **One of the biggest changes for affordable developers has been utilizing state streamlining laws.** These options have changed how affordable developers assess the viability of sites, the entitlement process, and overall project schedules and financing. Streamlining bills allow for less upfront risk to the developer, allowing them to move projects forward despite financing uncertainty. The streamlined entitlement process also demands less time and resources from city staff and other project partners.
 - c. The streamlined entitlement process has been a game changer for developer strategy on site selection. Sites that are already zoned to accommodate the desired housing type, or even commercial sites that have streamlined approval options, are significantly more attractive.
2. Facilitator Question: If you could wave a magic wand and put in place new policies, programs or incentives to support housing, what would you do? If you have examples, please share.
 - a. The economic environment has had a significant impact on the housing market and the financial feasibility of projects. A project that previously may have required a 5% return may now require more than a 6% return. Simultaneously the valuation of apartment buildings seems to be dropping. This is likely to have a major impact on market rate development going into next year. Market trends can shift quickly, but this dampening effect could persist.
 - b. **Developers and jurisdictions can both be flexible on project vision and requirements to account for market challenges and make new projects possible.**
 - c. The cost of borrowing funds, loan rates, has gone up significantly and currently represents a major barrier to both affordable and market rate development.
 - i. Example: A 176 unit project in Sunnyvale has a construction loan of \$16 million to be paid over the course of the building process.
 - d. In a high interest rate context, an effective approach to encouraging development is to find ways to **defer or reduce fees**. Upfront costs paid to cities like impact fees and application fees lower the budget available for loan financing.
 - e. Introduce a **property tax exemption** at the state level to encourage building missing middle housing.
 - i. A property tax exemption or cap for moderate income households or mixed-income, multi-family buildings would dramatically improve the feasibility of market rate, mixed income projects. It would especially improve the feasibility of building on challenging sites that have been allocated for housing but have sat vacant.
 - ii. Example: New York State offered a property tax exemption for market rate buildings that include 20%-40% affordable units. In combination with significantly higher construction rates this led to an increase in moderate income housing options.
 - f. Cities can introduce **tax increment financing** to address the challenges of financing projects with complicated infrastructure issues. These major projects often contribute to the exciting

- a. Developers are hopeful that the supply chain issues are calming down and costs are stabilizing, but it's likely that overseas building materials and lumber are going to remain expensive for the foreseeable future.
 - b. Mass timber can be a good option and looks great, but for high density buildings with several stories the material is comparable to a Type 1 concrete or steel building in terms of cost. **For now mass timber is not as cost effective as other options, although it is more feasible for high rise buildings than medium or low rise buildings.**
 - i. Example: oWow is currently building a mass timber high rise in Oakland that will be a good case study in cost effectiveness.
 - c. Modular is a challenging business model, between general contracting expenses and factory operation costs. Modular construction may be feasible if you have a good company that has immediate capacity.
 - d. **Currently modular construction is largely unfeasible due to insurance costs.** Getting insurance for modular construction is significantly more expensive.
 - i. Example: One quote for liability insurance on a modular construction project included a \$1 million deductible for water damage during construction, and the premium was twice as expensive as regular stick built construction.
 - ii. **Industry capacity and timeline delays are also major issues for modular construction**, especially since developers must meet financing deadlines.
6. Audience Question: AB 835 encourages development on challenging sites, what are the panelists' thoughts on this legislation?
- a. High density, market rate developers generally are not looking to build the lower density projects that would fit on these odd parcels.
 - b. For affordable developers, usage of this bill's provisions depends on local rules, jurisdiction partnership, and market feasibility.
 - c. These zoning reform provisions are more useful for encouraging medium density, missing middle housing, which can make a big difference for naturally occurring affordable housing. **Currently there aren't many developers operating in this industry space so it may take some time to see an effect, but it has the potential to make a big impact in the long run.**
7. Audience Question: Many jurisdictions have adopted objective design standards for higher density housing. Have the panelists encountered issues conforming to objective design standards? Are there any standards that are burdensome? Or is this a non-issue?
- a. **Objective design standards are a major benefit in the streamlining process and make a significant difference in feasibility.**
 - b. Some objective design requirements are more burdensome and can make standard negotiation more challenging. There have been projects where developers have needed to ask for waivers on some objective design standards, but largely these standards have been an improvement and reduced barriers.
 - c. **Standards need to be written with a realistic understanding of the market and with flexibility for developer partners.**

- d. ABAG is working on a regional toolkit for objective design standards, part of that process is determining how to assess whether standards are pro housing and how to avoid creating standards that add costs for developers.
8. Audience Question: Are developers using density bonuses? When using density bonuses, what are the most commonly requested waivers?
- a. **Developers don't use density bonuses on every project, but they're not uncommon.**
 - b. **Private outdoor space is a commonly requested waiver.** Balcony requirements represent challenging development and maintenance costs, so developers try to work with the city to design aesthetically enjoyable buildings without balconies, while providing additional shared open space like courtyards.
 - c. **Parking reduction is another commonly requested waiver**, although state law and cities are more frequently encouraging reduced parking as well.
 - d. Some of the density bonus tools are so new that developers haven't had a chance to try using them yet. **Often it's more effective to directly partner with the city by talking with city staff about how to make waiver requests.**
 - e. Affordable developers are primarily using SB 35, which was just granted an extension. The Turner Center recently released a paper on how affordable developers are using SB 35. [Streamlining Multifamily Housing Production in California: Progress Implementing SB 35.](#)
 - f. Cities that haven't done an SB 35 project can reach out to cities and developers that have experience to get insight and advice. In general it's been a useful tool for everyone involved.
 - g. Market rate developers are less likely to use SB 35 because it introduces labor standards that a project may not otherwise require. It's not completely unfeasible, but currently it's not a common option in the market rate industry.
9. Audience Question: Recent state laws have transformed parking standards in many cities, and some new regional MTC policies introduce parking maximums. What impact will this have on housing development and resident interest?
- a. San Francisco has parking maximums. A decade ago this made developers nervous, but over the long term it's been a non-issue as residents adapt and city infrastructure grows.
 - b. Lower density neighborhoods and more suburban cities generally do not have parking maximums, and often developers are asking to reduce minimums in these areas. It would depend on the market in a specific area, but something like a 0.5 parking ratio in a suburban neighborhood may be cause for concern to a developer because it would likely impact rent prices. **Parking maximums based on realistic usage are overall a good idea, especially as cities increasingly invest in public transit.**
 - c. Parking is expensive to build so maximums help reduce development costs.
 - d. **Resident interest in a property with low parking often depends on whether public transit infrastructure is community serving.** Cities and developers can be creative about alternative transit options like car and bike share. Bay Area developers take climate change and community transformation seriously and hope to reduce parking over the long term.
10. Facilitator Question: What does effective partnership with a city look like? With recent laws cities have new tools to contribute to the development process, from the developer perspective what makes for a good partner?

- a. Developers love working with city partners on public land. **Cities can act as a champion to push a project through the entitlement and permitting process, while helping manage the political process as well.**
 - b. City staff can help by starting the due diligence process on a priority site. Explore the title report, assess zoning or environmental challenges, and be realistic about parcel size and density.
 - c. Cities can work to form a clear, realistic, and united vision for a project and who the project will serve.
 - d. Cities can be realistic about the funding and financing landscape and be prepared to contribute where necessary to get the project they want to see. Developers are happy to share information on funding requirements and trends.
 - e. **Partnerships between market rate and affordable developers are highly effective at delivering a diversity of housing types. Policy decisions around major area or master plans should prioritize these partnerships, and cities can help manage these partnerships.**
 - i. Planning for project phasing and financing between market rate developers and affordable developers can be challenging and time consuming. Cities can help guide this planning and contribute to creative financing options.
 - ii. There is no source of affordable housing financing that is not competitive, and that creates uncertainty in the development process. Project requirements that prioritize affordable development before market rate development can often be burdensome for affordable developers. Cities can work with developer partners to get creative about financing and phasing.
 - 1. Example: If the market rate developer on a major project owns the land, they can transfer the land to the affordable developer to help satisfy financing requirements for the affordable development phase and inclusionary requirements for the market rate development phase.
 - iii. Affordable developers are hesitant to sign on to major projects that require them to meet hard deadlines for completing affordable development, due to uncertain financing context. Cities can work with developers to find creative options for each project and developers unique circumstances.
 - 1. Example: Project phases can be staggered between affordable and market rate development so that affordable developers aren't forced to rush the complicated financing process.
11. Audience Question: Are developers interested in restricted moderate income units? What kind of financing tools exist, and what are ideal site characteristics?
- a. **Restricted moderate income units are often built through projects subject to inclusionary requirements. These units often effectively become market rate housing, and developers don't often employ restricted moderate income units as a strategy.**
 - b. There has been discussion among developers about building more restricted moderate income units at around 120% AMI. **The most effective tool to make this feasible is likely a property tax exemption.** This may change based on economic shifts, but otherwise this type of housing is difficult to make work.

- c. One model is for a market rate developer or property owner to sell to an affordable developer, for the affordable developer to move the building to income-restricted units over time to qualify for a property tax exemption.
 - d. As AMI goes up, income caps for affordable units often need to be lowered to maintain low income affordability. Many affordable developers are no longer including units at the upper end of tax credit limits because they come too close to market rate.
 - e. **A key piece of moderate income, missing middle housing may be in creative solutions for homeownership.**
12. Facilitator Question: What is the role of jurisdictions in facilitating housing for the lowest income populations?
- a. Projects geared towards low income households are time consuming. Transitional housing can be a useful tool by supporting households in stabilizing, and then referring them to permanent affordable units as more affordable housing is built.
 - b. **The critical obstacle is the need for increased federal funding and support.** This funding makes projects feasible and sustainable. Housing authorities have increasingly fewer available vouchers, and AMI restrictions sometimes don't keep pace with the market.
 - c. **Cities can champion political messaging for extremely low income housing. City staff and electeds can guide public will towards productive solutions and inclusive language, and can advocate to the state and federal governments for increased funding and support.**