Technical Assistance
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Missing Middle Housing Work Group

Work Session 5 / November 10, 2021

Projecting Middle Housing Production

Missing Middle Work Group #5

Agenda

3:00 pm **Introduction**

- *What we've covered*
- *Today's focus and agenda*

3:10 pm **Projecting Middle Housing Production**

- *The Impacts of SB9*
- *Experiences from Elsewhere*
- *An Interactive Tool for the Bay Area*

4:00 pm **Breakouts**

- *Workshopping Key Issues, Challenges and Opportunities*

4:50 pm **Look-ahead**

5:00 pm ***close***

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Our Team

Opticos Design

- Stefan Pellegrini
- Tony Perez
- Beth Cichon
- Singeh Saliki

ECONorthwest

- Tyler Bump
- Becky Hewitt

Baird+Driskell Community Planning

- David Driskell
- Josh Abrams
- Brandi Campbell Wood
- Corinne Tsai

Where We're At

08.26 **What Is the "Missing Middle"?**

09.23 **The Middle Housing Market**

Bay Area Middle Housing Market Report

10.07 **Making Middle Housing Happen**

Guidebook on Zoning for Middle Housing

10.21 **Making Middle Housing Affordable**

Affordability Strategies for Middle Housing

11.10 **Projecting Production**

Middle Housing + RHNA Guidance

Interactive Tool on Middle Housing Feasibility

12.09 **Talking About Middle Housing**

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Association of Bay Area Governments Missing Middle Housing Workgroup

Session 5: November 10, 2021

ECONorthwest Presenters:

Tyler Bump, Project Director

Becky Hewitt, Senior Project Manager

ECONorthwest

ECONOMICS · FINANCE · PLANNING

How much housing production to expect?

- What's expected to be "market-feasible" given SB-9?
- What have other studies found might be feasible with a broader range of middle housing types?
- What's actually happened in places that have allowed middle housing for many years?

Housing Production vs. Market-Feasible Capacity

- What does market feasible mean?
  - What's financially viable?
  - What's the "highest & best" use?

- How does market-feasible capacity translate to housing production?
  - Property owner open to selling for estimated market value
  - Developer interested and able to acquire property
  - Demand from buyers/renters to "absorb" housing as it is developed

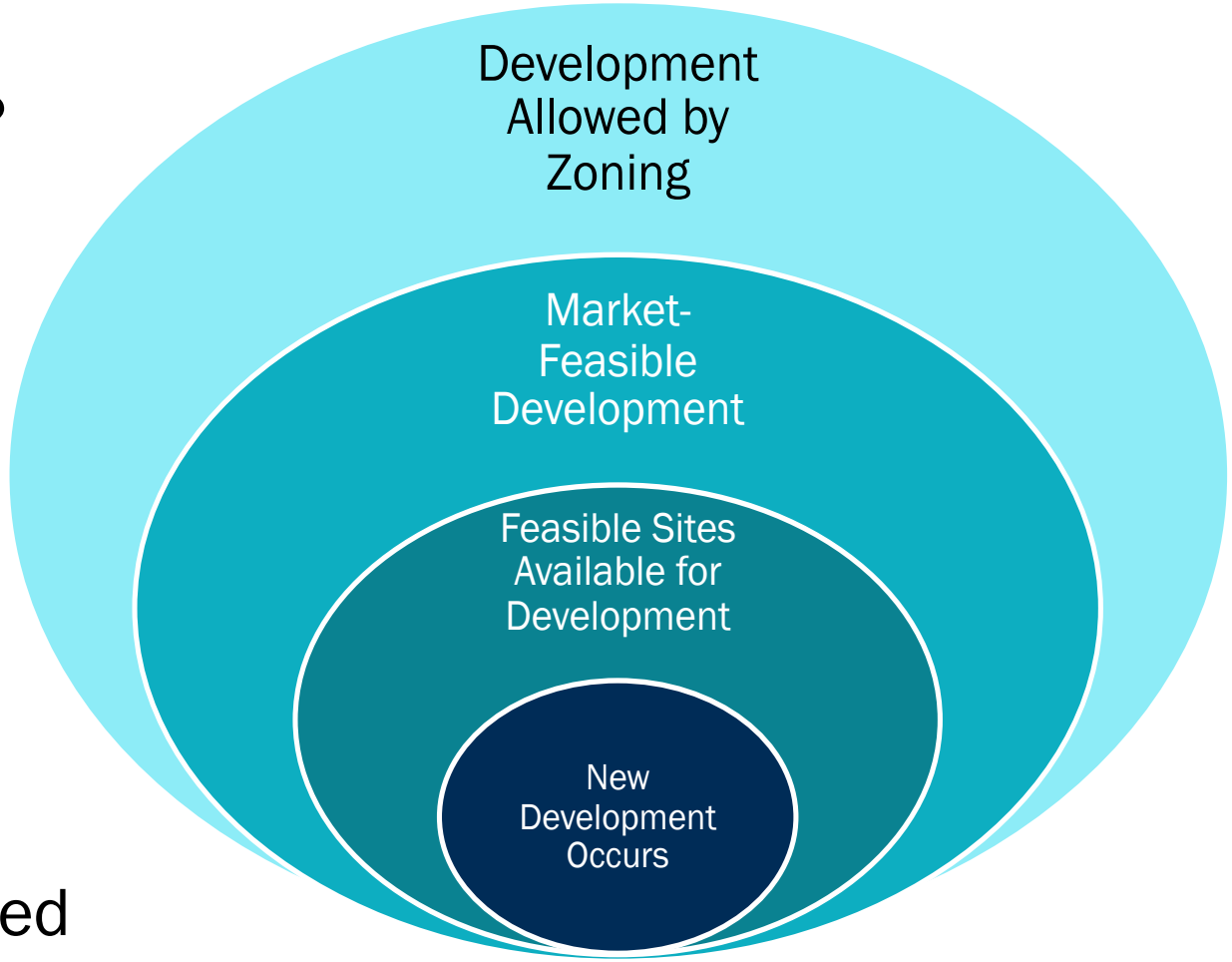


Image Credit: ECONorthwest

What’s expected to be “market-feasible” given CA SB-9?

Example: California SB9 Analysis

Location	California (statewide)
Middle Housing policy evaluated	CA SB9
Type of evaluation	Estimating market-feasible capacity for additional development due to SB9 compared to existing options, including single family with ADUs

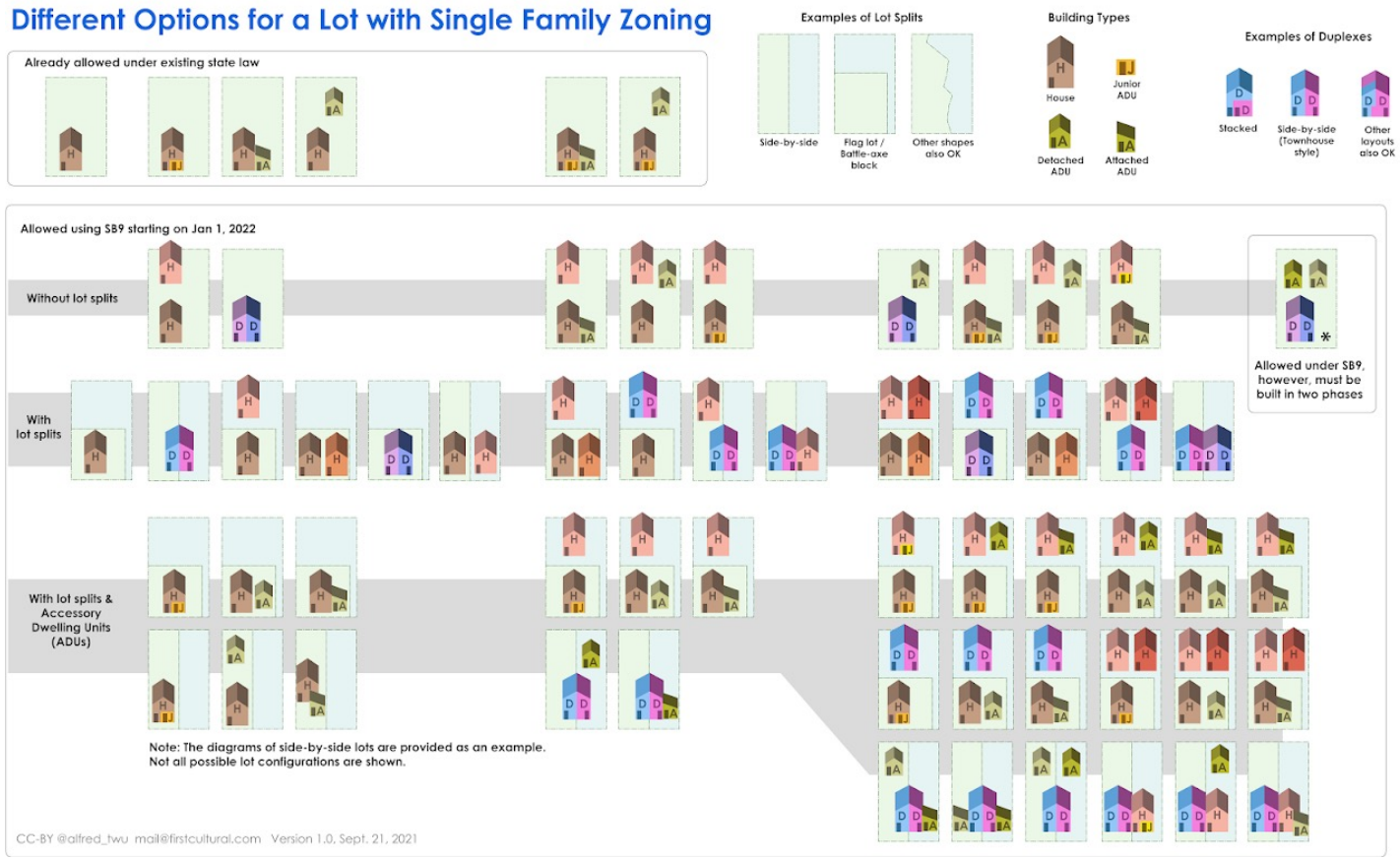


Image Credit: Alfred Twu, https://sites.google.com/view/alfredtwu/infographics/sb9

Example: California SB9 Analysis

Caveats

- Revisions to bill language after analysis – tested up to 6 units/lot (using ADUs+JADUs), final bill limits to 4 units
- Imperfect estimate of lot eligibility
  - Existing SFR land use vs. SFR zoning
  - Lack of data on other limitations (Ellis Act, septic systems, historic designations, protected species habitat, renter occupancy)
- Relied on pre-COVID market data
- No parcel data on presence of existing ADUs/JADUs
- <u>No timeline for build-out</u> for market-feasible units

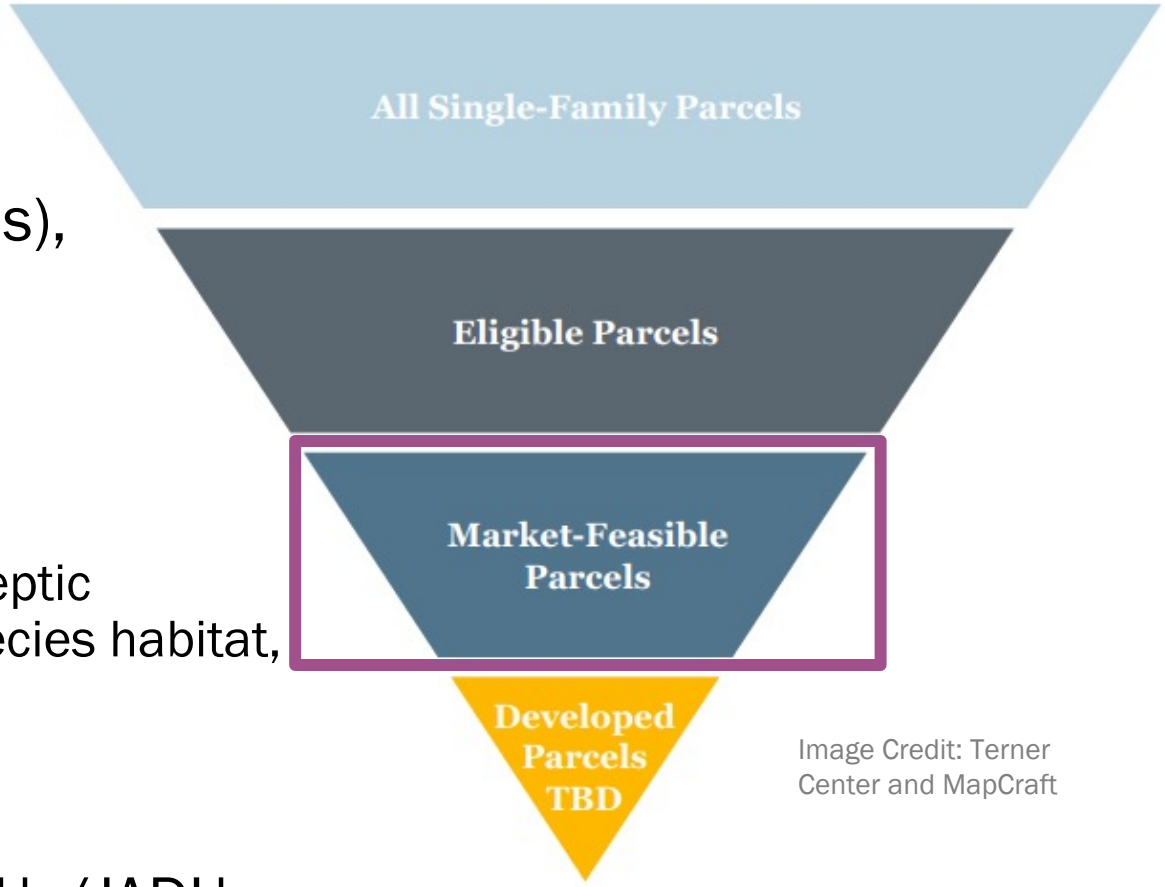
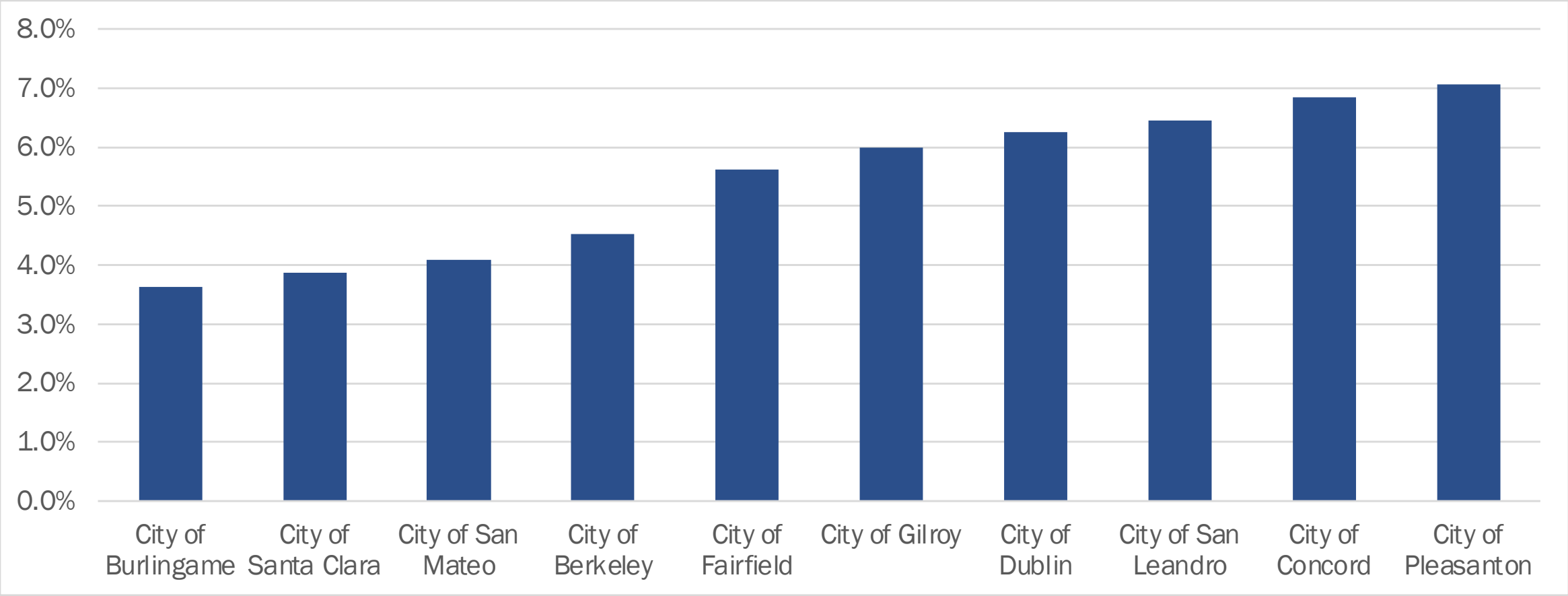


Image Credit: Terner Center and MapCraft

Example: California SB9 Analysis

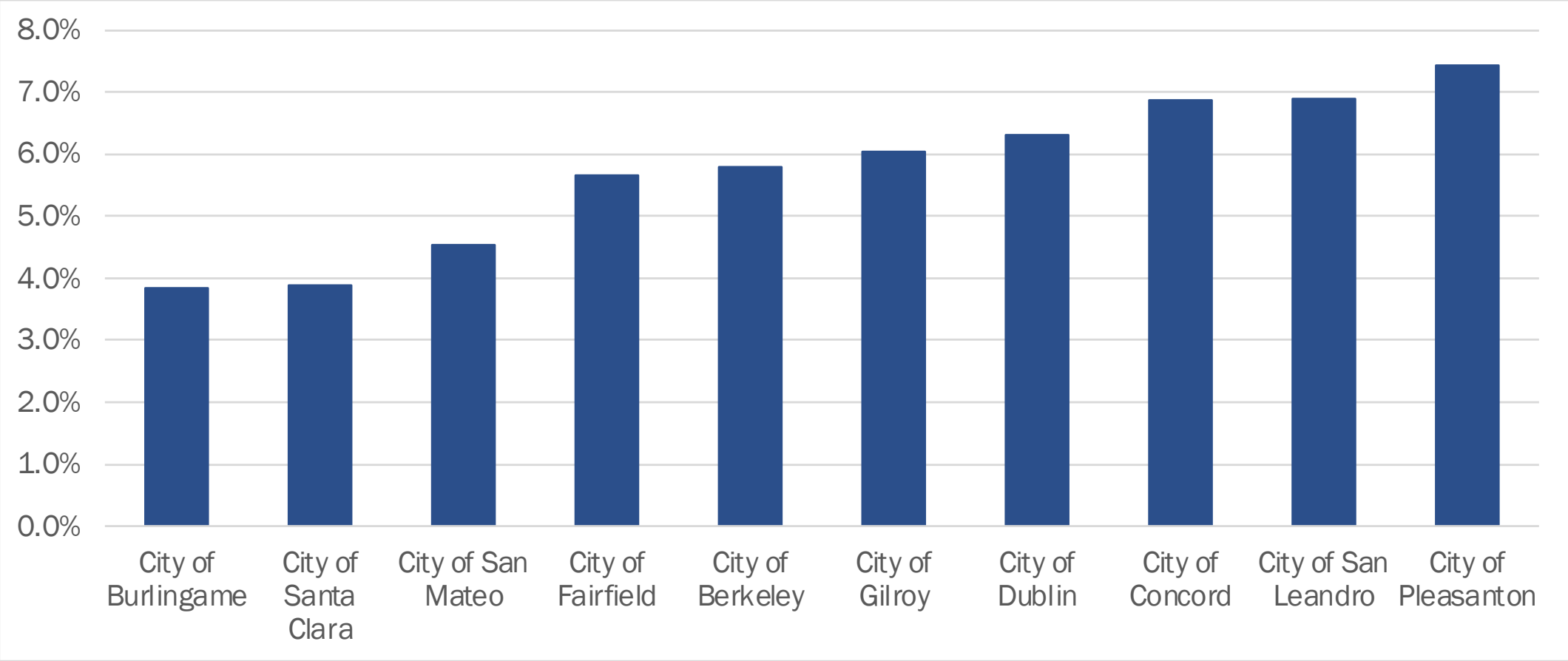
Percent of total single-family parcels where SB9 increases the market-feasible number of housing units, selected Bay Area cities



Source: ECONorthwest calculations based on data from MapCraft and Terner Center

Example: California SB9 Analysis

Percent of eligible* single-family parcels where SB9 increases the market-feasible number of housing units, selected Bay Area cities



Source: ECONorthwest calculations based on data from MapCraft and Terner Center.
* See caveats regarding identification of eligible parcels in this analysis. Not all exclusions are accounted for.

Key Take-Aways from Terner Center Analysis

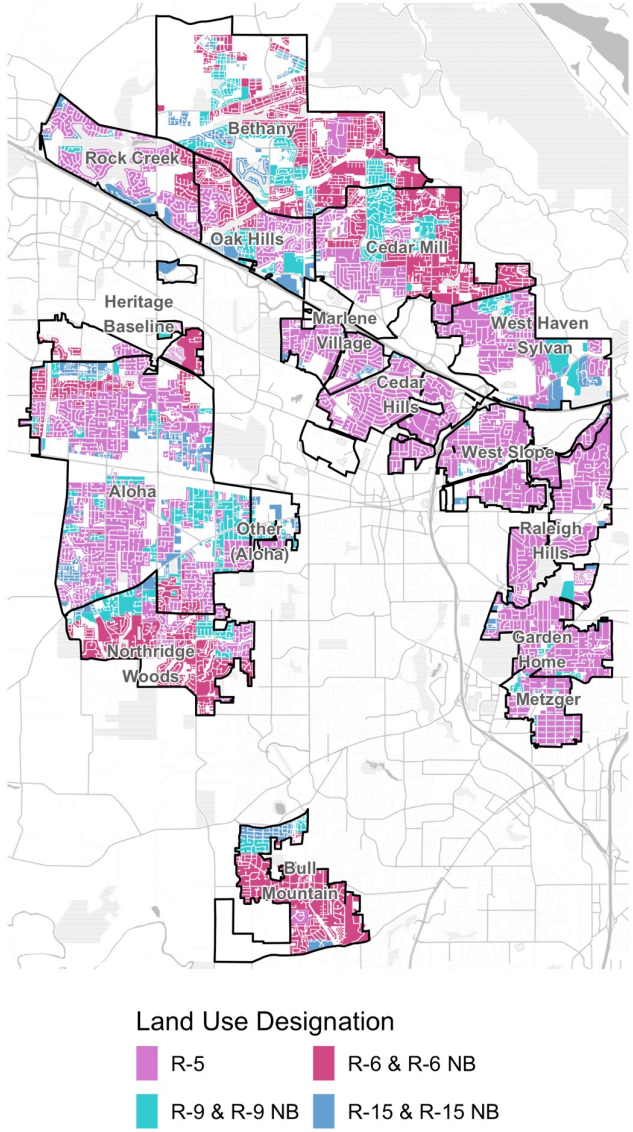
- SB9 increases market-feasible potential on only a small % of lots
  - For the majority of properties, the most feasible thing to do is the status quo
- Local conditions and homeowner preferences will affect outcomes
  - Not all lots are eligible, and local market conditions vary
  - People like living in single family homes (space + privacy)
- Changes in construction costs + rents/sales prices affect feasibility
- Market-feasible capacity is not a forecast of future production (and won't all happen within the 8-year planning period)

What have other studies found might be feasible with a broader range of middle housing types?

Example: Washington County HB2001 Analysis

Location	Urban Unincorporated Washington County, Oregon (western Portland region)
Middle Housing policy evaluated	Compliance with OR HB2001 – allowing duplexes, triplexes, fourplexes, and townhouses in zones that allow single-family homes
Type of evaluation	Estimating market-feasible capacity for middle housing compared to single-family housing at a parcel level
Caveats	• **No timeline for build-out** – does not predict whether / when property owner will develop/sell to developer • Market conditions may change over time

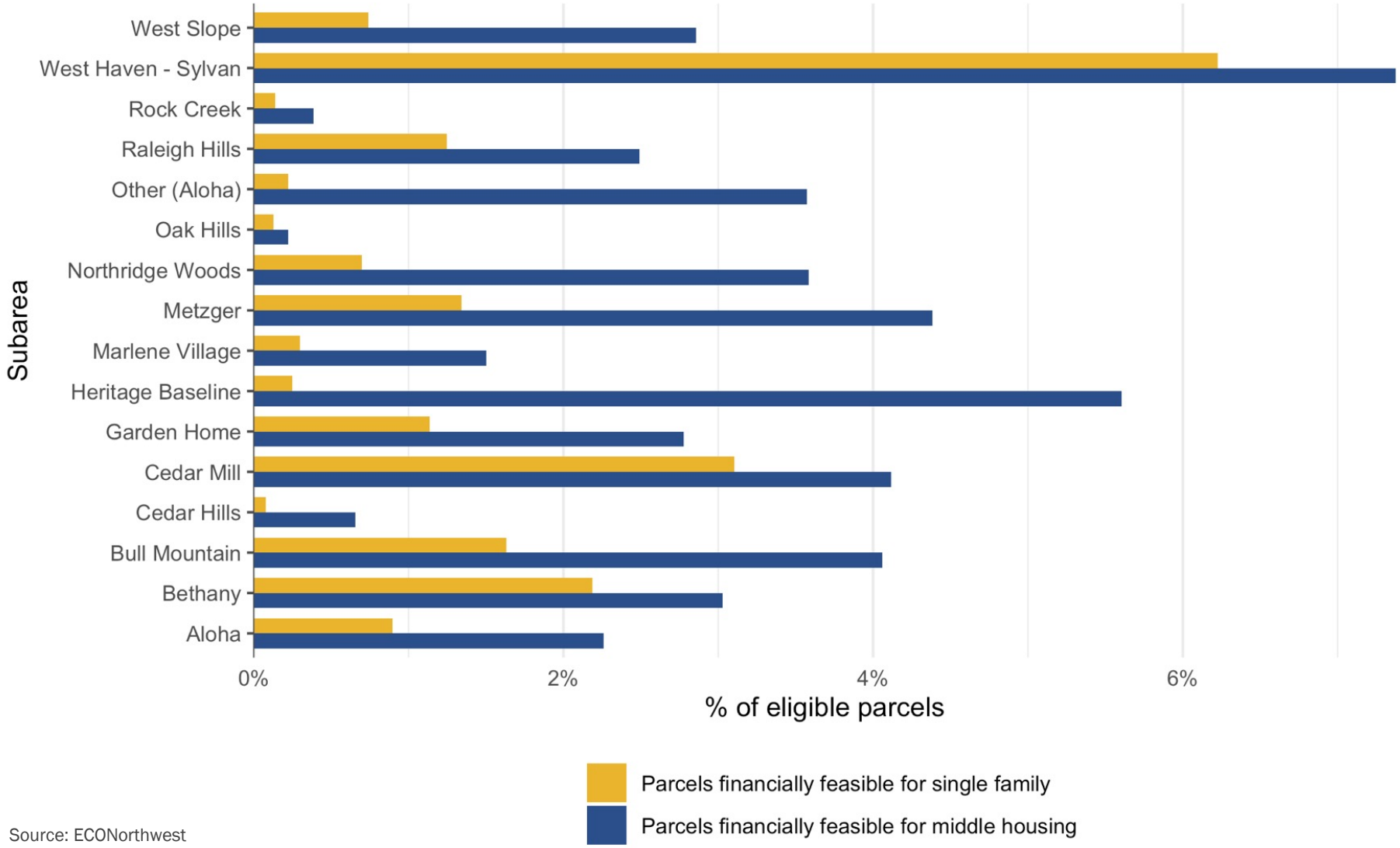
Parcels and Land Use Districts Included in Analysis



Source: ECONorthwest

Example: Washington County HB2001 Analysis

Percentage of Eligible Parcels with Financially Feasible Single-Family and Middle Housing Development by Subarea



Source: ECONorthwest

Example: Washington County HB2001 Analysis

Key Take-Aways

- Middle housing feasible on a small fraction of parcels
- Redevelopment potential mostly on larger lots—average home in developed subdivision not likely to redevelop with middle housing
- Ownership housing more likely than rentals for new development
- Pace of middle housing development in developed areas will be gradual
  - Redevelopment more likely when property sells to new owner
  - Often easier to remodel existing home than redevelop
- Even where middle housing is financially feasible, single-family may get built instead

What’s actually happened in places that have allowed middle housing for many years?

Example: Portland Corner Lot Duplexes

Location	City of Portland, Oregon
Middle Housing policy evaluated	Allowing duplexes / attached houses on corner lots
Type of evaluation	Empirical – looking back at permit data to quantify production of duplexes on eligible lots

Portland's zoning rules before the Residential Infill Project

Source: City of Portland

Example: Portland Corner Lot Duplexes

Corner lot duplexes and attached houses have been allowed citywide in R20-R2.5 zones since 1991. An inventory of assessor data showed that in RIP zones, ***the "capture rate" or utilization of the corner lot duplex provision ranged from 3.4 to 5.4 percent of corner lots depending on their proximity to designated centers****. … 6.3% in close-in inner neighborhoods near higher amenity centers on the high end and 0.6% for corner lot duplexes in the Western Pattern area on the low end.*

Corner lot duplexes (R7, R5 and R2.5 zones)		
Pattern Area	**All corner lots**	**Only corner lots within ¼ mile of centers**
East	2.0%	2.9%
Inner	4.3%	6.3%
West	0.6%	1.7%
Citywide	3.4%	5.4%

Source: https://www.portland.gov/sites/default/files/2020-08/exhibit_a_rip_findings_adopted1.pdf, Page 224

Example: Portland Corner Lot Duplexes

Key Take-Aways

- More duplexes built in:
  - close-in locations with strong market for many housing types
  - gridded streets and walkable neighborhoods
- Less duplexes built in:
  - Hilly, more suburban areas
  - Premium single-family home market

How much housing production to expect?

Conclusion… ~0.5-7% of eligible parcels may redevelop, depending on:

Regulations: Housing types allowed, specific standards, process

Demand: Housing market conditions, walkable places, demand for middle housing vs. single-family detached

Supply: Availability of eligible and suitable properties

Barriers: Legal risk, developer experience, financing challenges

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Next Steps

- Develop methodology for projecting unit production on single family properties as a result of SB9
  - Likely that Terner Center analysis will serve as basis
  - Jurisdictions can make the case for higher or lower production based on local variables and data
- ABAG-hosted sessions on SB9 with Goldfarb and Lipman
  - Monday, Nov 15 @ 10 am / Friday, Dec 3 @ 10 am
- RFP to develop objective standards for SB9 projects

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