

DATE: May 5, 2023  
TO: Regional Housing and Infrastructure Plan (HIP) Members  
FROM: Becky Hewitt and Emmanuel Lopez (ECONorthwest)  
SUBJECT: SLOCOG Affordable-by-Design Market Assumptions

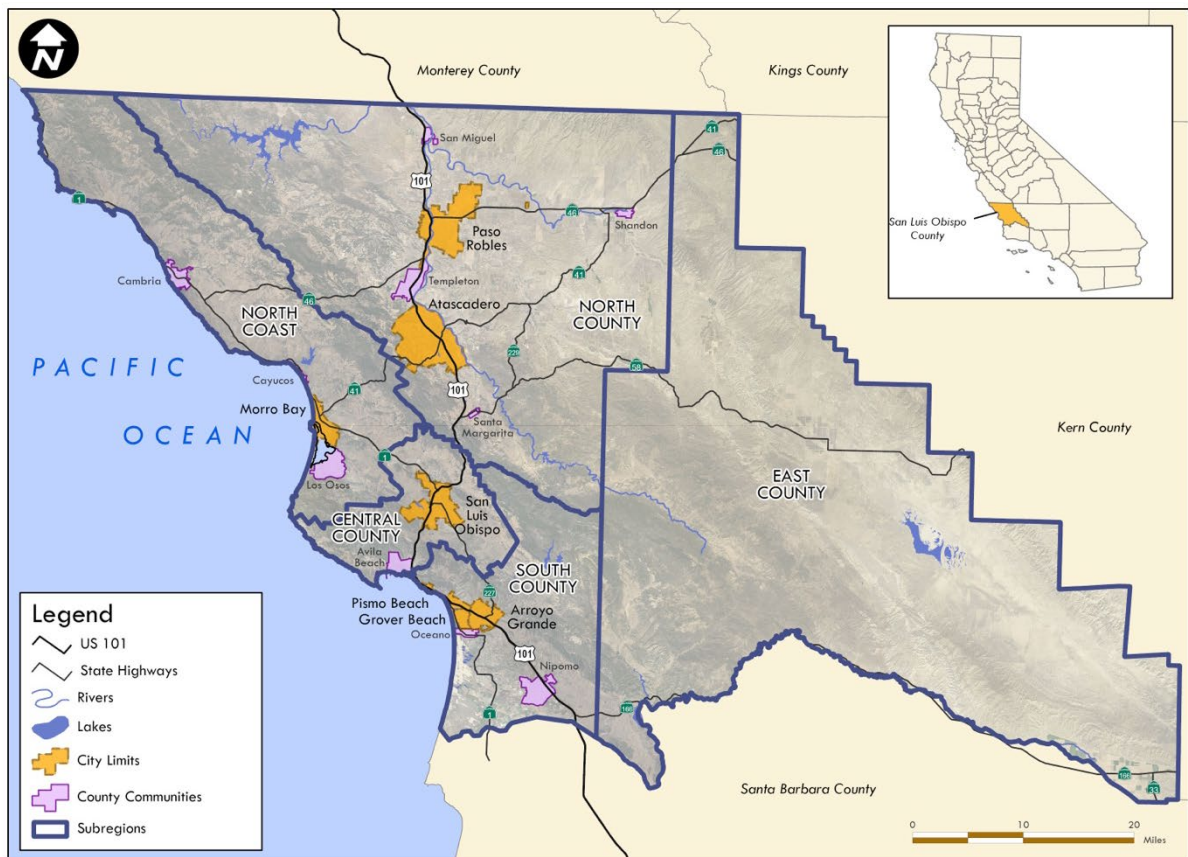
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As part of the Affordable-by-Design project, ECONorthwest is testing financial feasibility of various prototypical multifamily developments across four submarkets in San Luis Obispo (SLO) County. This memo outlines our assumptions regarding the physical characteristics of the prototypes, estimated development costs, and market rents.

## Key Market and Financial Assumptions

The four market areas are:

- North Coast
- North County
- South County
- Central County



We did not include East County in our analysis because there is little development or development opportunity in that area.

## Development Prototypes

Our analysis focuses on multifamily development that could potentially be affordable to moderate-income households. We used built examples from SLO County and elsewhere to inform the unit size, unit mix, and other physical characteristics of the developments. The prototypes tested are summarized in brief below:

- 3-story walk-up apartments—standard
  - Larger units (~880 sf average)
  - Typical density, parking ratio, and landscaping
- 3-story walk-up apartments—compact
  - Smaller units (~620 sf average)
  - Higher density, lower parking ratio, less landscaping
- 4-story micro-unit apartments
  - Very small units (~300 sf, shared kitchens, individual kitchenettes)
  - Very high density, no parking, no landscaping

The table below provides additional detail of the assumptions for each prototype.

Prototype #	A	B	C
Description	3-story walkup - standard	3-story walkup - compact	4-story micro units
Site Size (sf)	65,340	65,340	8,000
# of Units	51	91	71
Density (DU/Ac)	34.0	60.7	386.6
Parking location	surface	surface	none
Parking ratio	1.54	1.00	0.00
<b>Unit Mix (% of units)</b>			
Studio	5%	30%	100%
1-bed	40%	40%	0%
2-bed	45%	30%	0%
3-bed	10%	0%	0%
<b>Unit Size (net sf)</b>			
Studio	500	425	300
1-bed	675	575	
2-bed	1,000	875	
3-bed	1,350		
Average Unit Size	880	620	300
Hard cost per GSF	\$169	\$178	\$241

Note the estimated construction “hard cost” includes all vertical and horizontal development costs on-site, divided by the total gross square footage (GSF) of the building.

## Estimated Market Rents by Market Area

The estimated market rents for each prototype in each market were estimated based on comparable developments (in markets with comparable development) and adjusted to reflect differences between market rents in the different areas. The market rents for our analysis were estimated for 2023 dollars with an estimated 3% annual escalation prior to opening.

Market Area	Bedroom Type	3-story walkup - standard	3-story walkup - compact	4-story micro units
Central County	Studio	\$ 4.50	\$ 4.90	\$ 4.90
	1-bed	\$ 3.60	\$ 3.75	\$ -
	2-bed	\$ 2.95	\$ 3.20	\$ -
	3-bed	\$ 2.50	\$ -	\$ -
North Coast	Studio	\$ 3.24	\$ 3.93	\$ 4.90
	1-bed	\$ 0.70	\$ 0.65	\$ 0.65
	2-bed	\$ 3.15	\$ 3.19	\$ 3.19
	3-bed	\$ 2.52	\$ 2.44	\$ -
North County	Studio	\$ 2.07	\$ 2.08	\$ -
	1-bed	\$ 1.75	\$ -	\$ -
	2-bed	\$ 2.27	\$ 2.55	\$ 3.19
	3-bed	\$ 0.89	\$ 0.84	\$ 0.80
South County	Studio	\$ 3.60	\$ 3.75	\$ 3.92
	1-bed	\$ 3.18	\$ 3.30	\$ -
	2-bed	\$ 2.65	\$ 2.80	\$ -
	3-bed	\$ 2.40	\$ -	\$ -

Region - Bedroom Size	3-story walkup - standard	3-story walkup - compact	4-story micro units	Moderate-Income Rent Limit
Central County	\$ 2,750	\$ 2,327	\$ 1,470	\$ -
Studio	\$ 2,250	\$ 2,083	\$ 1,470	\$ 2,047
1-bed	\$ 2,430	\$ 2,156	\$ -	\$ 2,329
2-bed	\$ 2,950	\$ 2,800	\$ -	\$ 2,597
3-bed	\$ 3,375	\$ -	\$ -	\$ 2,877
North Coast	\$ 1,925	\$ 1,513	\$ 956	\$ -
Studio	\$ 1,575	\$ 1,354	\$ 956	\$ 2,047
1-bed	\$ 1,701	\$ 1,402	\$ -	\$ 2,329
2-bed	\$ 2,065	\$ 1,820	\$ -	\$ 2,597
3-bed	\$ 2,363	\$ -	\$ -	\$ 2,877
North County	\$ 2,465	\$ 1,972	\$ 1,176	\$ -
Studio	\$ 1,800	\$ 1,594	\$ 1,176	\$ 2,047
1-bed	\$ 2,147	\$ 1,898	\$ -	\$ 2,329
2-bed	\$ 2,650	\$ 2,450	\$ -	\$ 2,597
3-bed	\$ 3,240	\$ -	\$ -	\$ 2,877
South County	\$ 2,289	\$ 1,747	\$ 956	\$ -
Studio	\$ 1,450	\$ 1,275	\$ 956	\$ 2,047
1-bed	\$ 1,856	\$ 1,639	\$ -	\$ 2,329
2-bed	\$ 2,600	\$ 2,363	\$ -	\$ 2,597
3-bed	\$ 3,038	\$ -	\$ -	\$ 2,877

### Other Development Costs and Return Expectations by Market Area

Impact and permit fees were developed by taking housing element development fee estimates for multifamily and aggregating them at the sub-regional level.

Land costs are estimated based on developer interviews as well as review of land value data for selected example developments and land sales transactions in SLO County. Land values are highly variable, but the assumptions are intended to reflect the rough market cost of unimproved residential land in each area.

<b>Impact &amp; Permit Fees</b>		
<b>Market Area</b>	<b>Per Unit</b>	<b>Per Project</b>
<b>Central County</b>	<b>\$ 39,518</b>	<b>\$ 20,000</b>
<b>North Coast</b>	<b>\$ 10,650</b>	<b>\$ 20,000</b>
<b>North County</b>	<b>\$ 28,825</b>	<b>\$ 20,000</b>
<b>South County</b>	<b>\$ 16,821</b>	<b>\$ 20,000</b>
<b>Land Cost</b>		
<b>Market Area</b>	<b>Per Acre</b>	<b>Per SF of Land</b>
<b>Central County</b>	<b>\$ 2,000,000</b>	<b>\$ 46</b>
<b>North Coast</b>	<b>\$ 800,000</b>	<b>\$ 18</b>
<b>North County</b>	<b>\$ 1,000,000</b>	<b>\$ 23</b>
<b>South County</b>	<b>\$ 900,000</b>	<b>\$ 21</b>

### Return Metrics by Market Area

The financial feasibility analysis uses a metric called “return on cost” (ROC), which reflects the income potential of the completed development<sup>1</sup> divided by the total cost of development. This ratio is often used as an initial indicator of development feasibility for rental developments, as it provides a preliminary indication of whether the completed property will provide competitive financial returns that could attract investors and meet loan underwriting requirements. Because both lenders and investors will expect higher returns for riskier investments, market areas that have stronger demand fundamentals will likely have a lower threshold for ROC to make development viable. The estimated return requirements (Target ROC) for each market area are summarized below.

<b>Market Area</b>	<b>Target ROC</b>
<b>Central County</b>	<b>6.00%</b>
<b>North Coast</b>	<b>7.00%</b>
<b>North County</b>	<b>6.50%</b>
<b>South County</b>	<b>7.00%</b>

<sup>1</sup> Net Operating Income (NOI), the revenue after accounting for vacancy and operating expenses.



# REGIONAL HOUSING & INFRASTRUCTURE PLAN

## San Luis Obispo County Affordable-by-Design Study

May 2023

**ECONorthwest**

ECONOMICS • FINANCE • PLANNING

# Study Overview

# What do we mean by Affordable by Design?

For purposes of study:

- Market-rate housing, no public subsidy
- Market rents or sales prices affordable to Low or Moderate Income households
  - <120% of Median Family Income (MFI)
  - Market conditions vary within the County; affordability criteria do not

Persons in Household	Acutely Low	Extremely Low	Very Low Income	Low Income	Median Income	Moderate Income	Workforce
1	\$11,500	\$23,000	\$38,300	\$61,250	\$76,450	\$91,750	\$122,320
2	\$13,100	\$26,250	\$43,800	\$70,000	\$87,350	\$104,850	\$139,760
3	\$14,750	\$29,550	\$49,250	\$78,750	\$98,300	\$117,950	\$157,280
4	\$16,400	\$32,800	\$54,700	\$87,500	\$109,200	\$131,050	\$174,720
5	\$17,700	\$35,450	\$59,100	\$94,500	\$117,950	\$141,550	\$188,720
6	\$19,000	\$38,050	\$63,500	\$101,500	\$126,650	\$152,000	\$202,640
7	\$20,350	\$41,910	\$67,850	\$108,500	\$135,400	\$162,500	\$216,640
8	\$21,650	\$46,630	\$72,250	\$115,500	\$144,150	\$173,000	\$230,640

**Income limits: The state defines family income groups as follows:**  
**Acutely Low** is defined by Section 50063.5 as 30% times 15% of county median income adjusted for family size appropriate for the unit  
**Extremely Low** is defined by Section 50106 as 30% of county median income  
**Very Low Income** is defined by Section 50105 as 50% of county median income  
**Low Income** is defined by Section 50079.5 as 80% of county median income  
**Moderate Income** is defined by Section 50093 as 120% of county median income  
**Workforce** is defined by Title 22 of the County Code as 160% of county median income

# What do we mean by Affordable by Design?

## Maximum rents: (see footnotes)

Unit Size (Bedrooms)	Acutely Low	Extremely Low Income	Very Low Income	Low Income	Moderate Income	Workforce
Studio	\$287	\$573	\$956	\$1,147	\$2,102	\$2,867
1	\$328	\$655	\$1,092	\$1,310	\$2,402	\$3,276
2	\$369	\$737	\$1,229	\$1,475	\$2,703	\$3,686
3	\$410	\$819	\$1,365	\$1,638	\$3,003	\$4,095
4	\$442	\$885	\$1,474	\$1,769	\$3,244	\$4,423

Note 1: The maximum rent limits shown above do not include adjustments for utilities. Refer to the utility allowance bulletin posted on the website of the Housing Authority of the City of San Luis Obispo.

Note 2: Rent limits are updated when the State issues its annual update to median incomes, generally in April of each year.

## Sample maximum sales prices: (see footnotes)

Unit Size (Bedrooms)	Acutely Low	Extremely Low Income	Very Low Income	Low Income	Moderate Income	Workforce
Studio	17,000	\$54,000	\$100,000	\$151,000	\$292,000	\$406,000
1	23,000	\$64,000	\$120,000	\$175,000	\$337,000	\$466,000
2	28,000	\$75,000	\$137,000	\$199,000	\$381,000	\$527,000
3	33,000	\$85,000	\$154,000	\$224,000	\$426,000	\$587,000
4	37,000	\$93,000	\$168,000	\$243,000	\$461,000	\$636,000

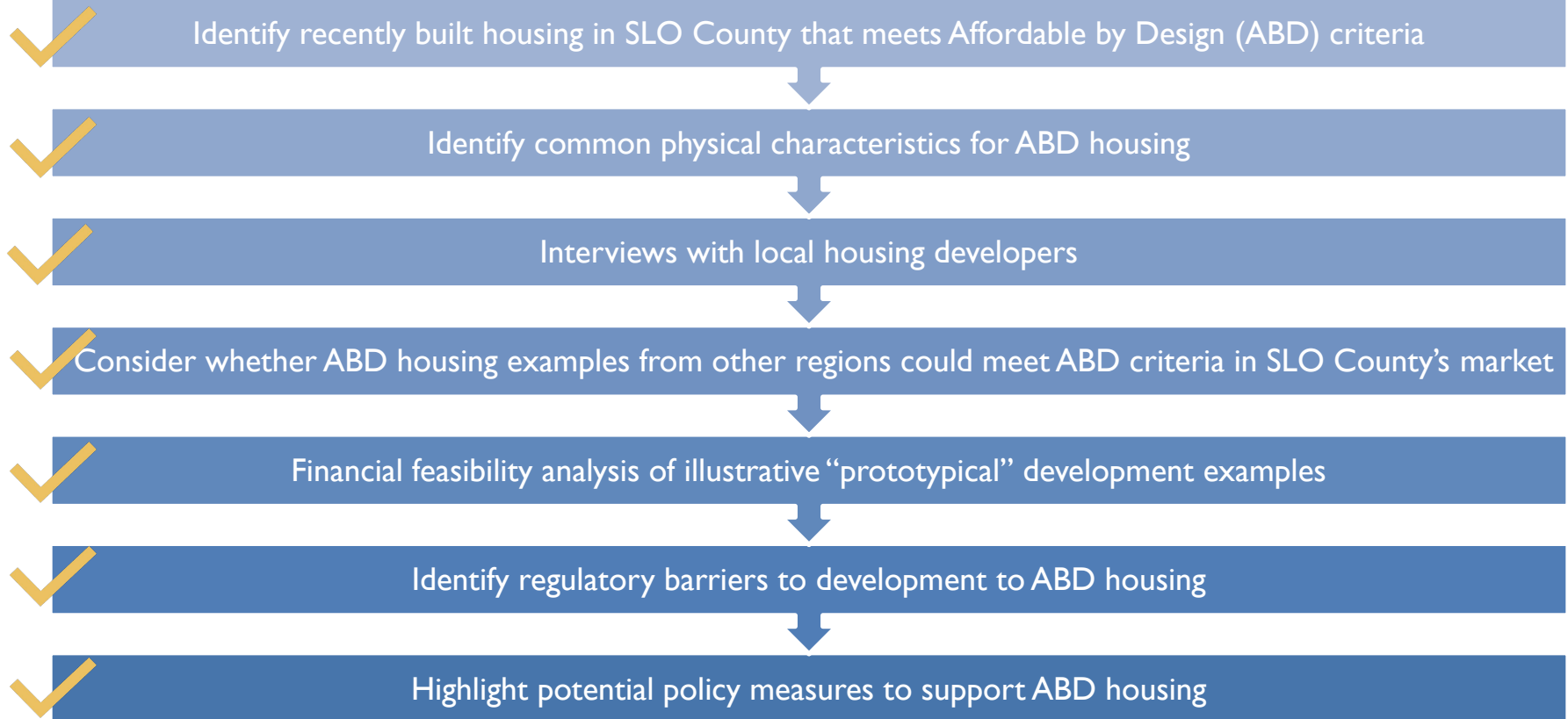
Note 1: Homeowner association due (HOA) assumption per month is 150.00

Note 2: Mortgage financing assumed at a fixed rate for 30 years (HSH Associates) is 6.43%

Note 3: Prices shown are preliminary estimates and may be revised. Round to the nearest 1000th.



# Approach




# What's Next?

## This week's meetings:

- Feedback on our findings to date
- Feedback on potential policy measures of greatest interest



Deeper dive on selected policy measures



Recommendations to support ABD in SLO  
County

# **ABD Rental Housing**

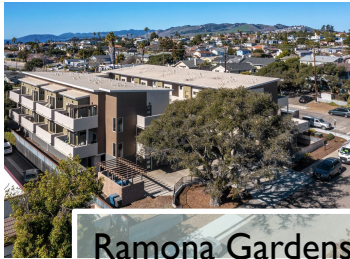
# Recently Built ABD Rental Housing in SLO



Connect SLO



La Plaza



Ramona Gardens



Laurel Lane

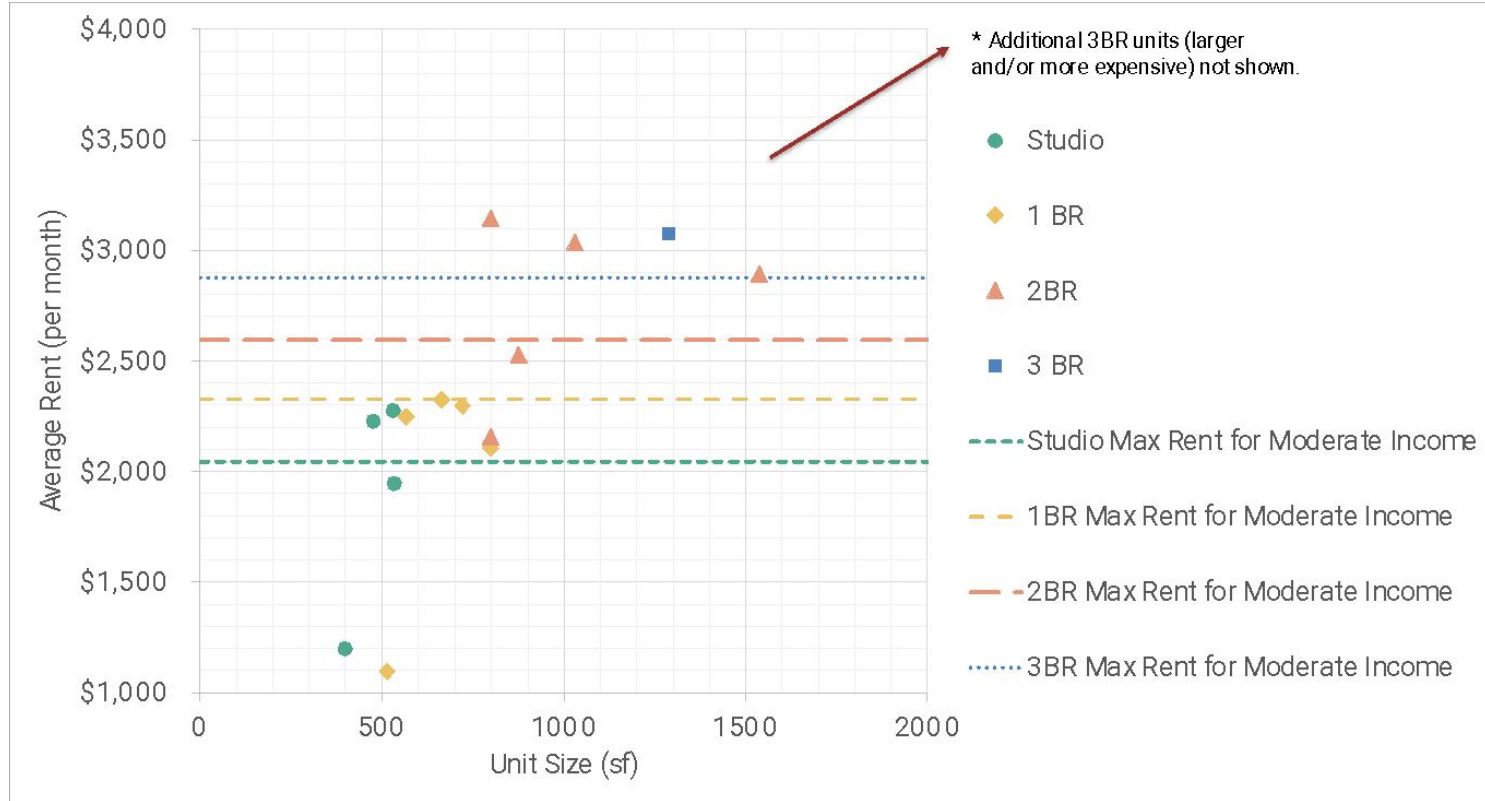


The Junction

\*CoStar does not isolate market rents in mixed-income buildings. Reported average rents may be artificially low due to some units being below market rate, particularly where inclusionary housing regulations apply.

	Connect SLO	La Plaza	Laurel Lane	Ramona Gardens	The Junction
Jurisdiction	San Luis Obispo	Atascadero	San Luis Obispo	Grover Beach	San Luis Obispo
Land Area (AC)	Not Available	1.83	Not Available	0.51	1.58
# Units	78	42	22	19	69
# Stories	3	3	3	3	3
Studio Affordability	Above Moderate	Moderate	N/A	Moderate	Above Moderate
Studio Unit Size	477 sf	534 sf	N/A	400 sf	531 sf
1 BR Affordability	Moderate*	Moderate	Low/Moderate*	Moderate	Moderate*
1 BR Unit Size	664 sf	721 sf	514 sf	800 sf	568 sf
2 BR Affordability	Above Moderate	Above Moderate	Moderate*	Moderate	Above Moderate
2 BR Unit Size	1,032 sf	1,537 sf	877 sf	800 sf	799 sf
3 BR Affordability	N/A	Above Moderate	Above Moderate	N/A	N/A

# Unit Size vs. Rent and Affordability for Newer Apartments



# Findings from SLO County Recent Development (Rental)

Some new apartments affordable at Moderate Income

- May include some mixed-income buildings
- 1BR units most likely to be affordable
- No 3BR units affordable

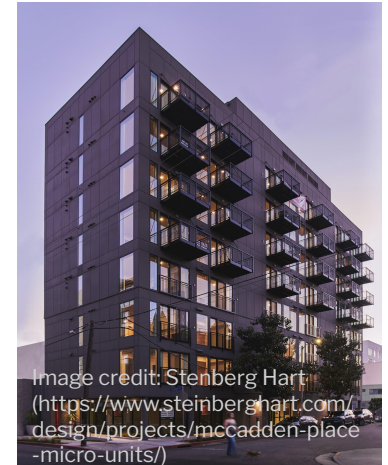
Design helps, but does not guarantee affordability

- Mostly 3 story buildings
- Mostly smaller average unit sizes
- Not all small units are affordable to Moderate Income households

# Examples from Other Housing Markets

## Micro Units

- ~150-350 sf
- Individual kitchenettes, shared kitchens
- No parking, bike storage
- Generally 4+ stories, high density, minimal setbacks/landscaping
- Highly walkable and desirable locations
- Typically affordable to Moderate Income households in respective region



# Financial Feasibility Analysis

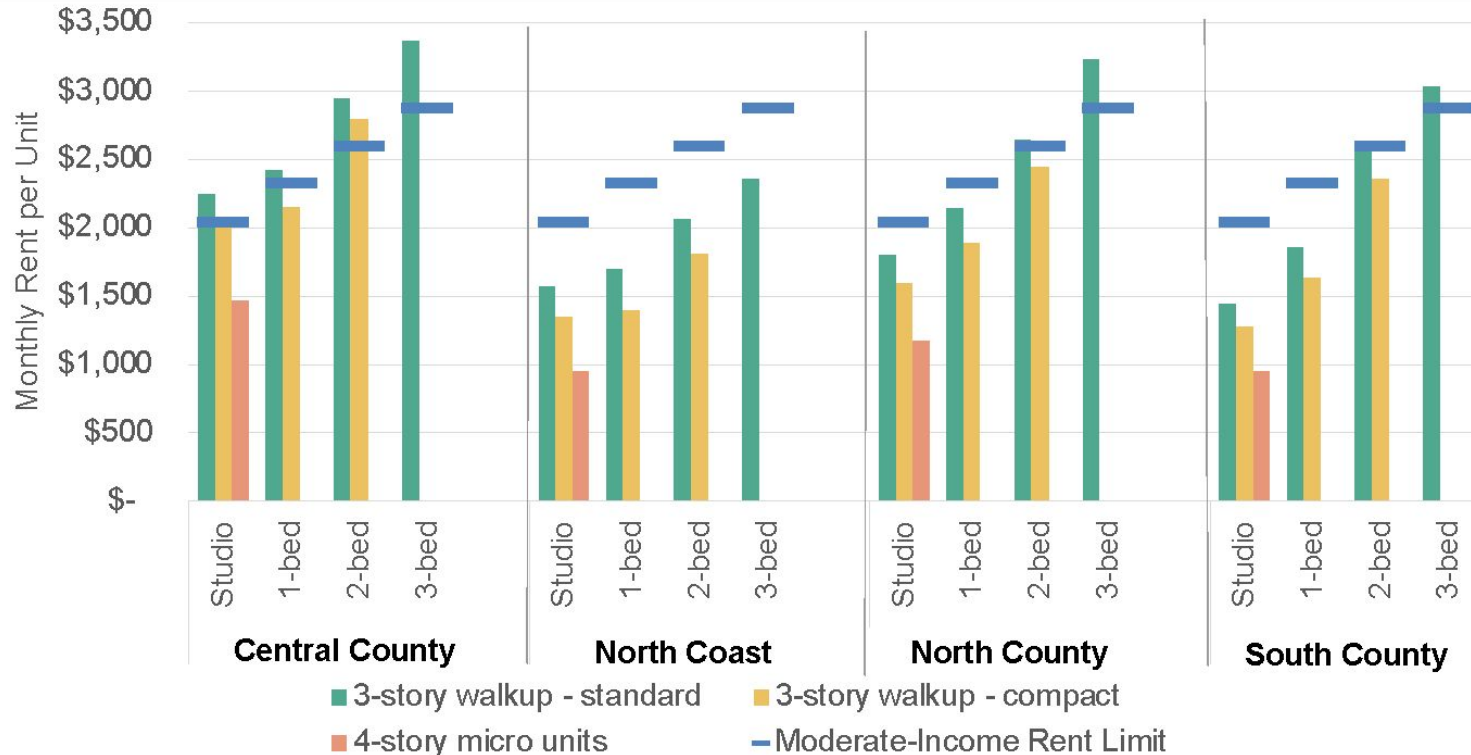
## Development “Prototypes”

- A. 3-story walk-up apartments—standard
  - Larger units (~880 sf average)
  - Typical density, parking ratio, and landscaping
- B. 3-story walk-up apartments—compact
  - Smaller units (~620 sf average)
  - Higher density, lower parking ratio, less landscaping
- C. 4-story micro-unit apartments
  - Very small units (~300 sf, shared kitchens, individual kitchenettes)
  - Very high density, no parking, no landscaping



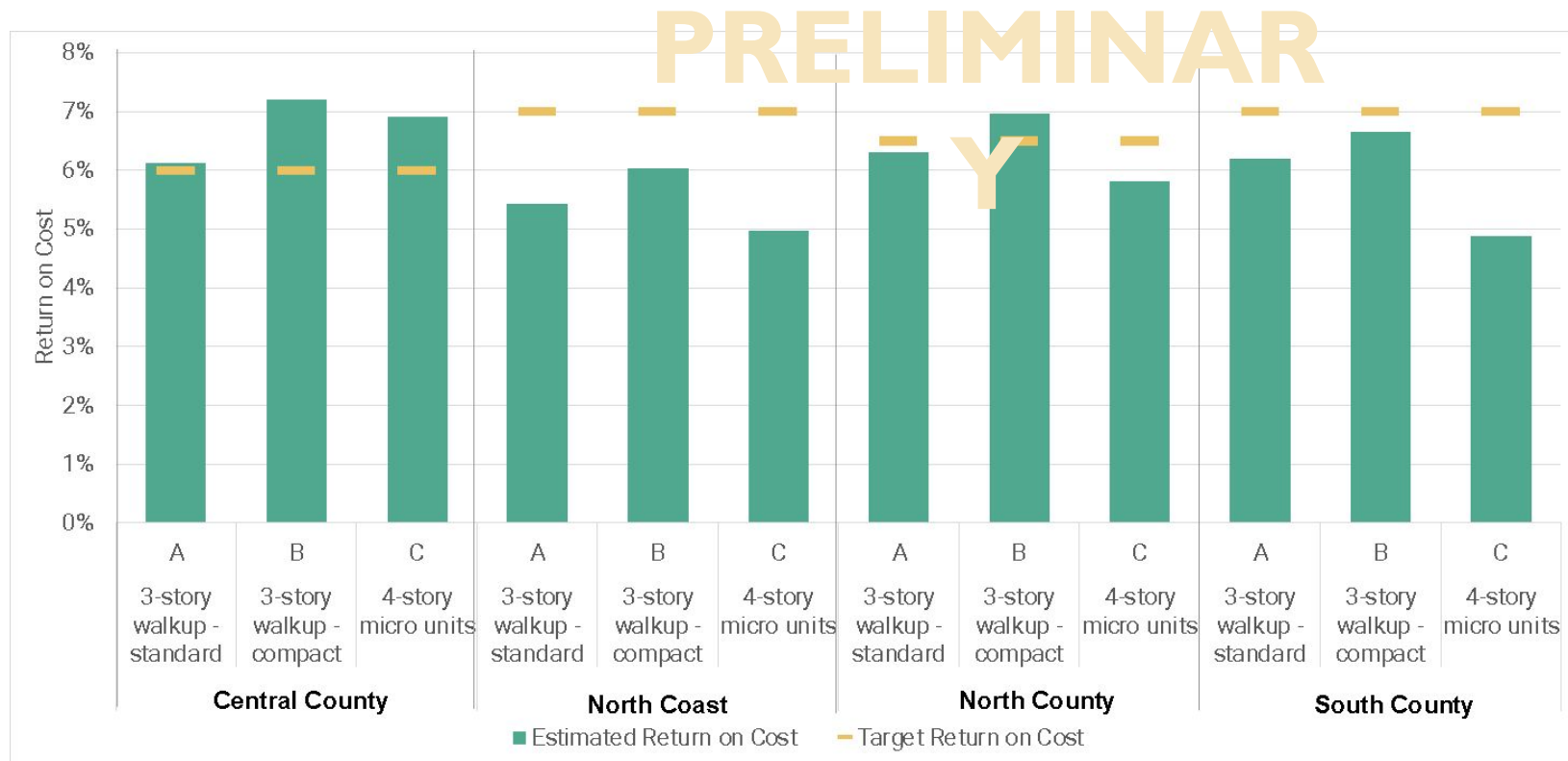
# Financial Feasibility Analysis

## Market Rent Affordability by Market Area



# Financial Feasibility Analysis






## Results










# Financial Feasibility Analysis







## Summary of Results by Market Area







Key:

-  Very Likely to Meet Criteria
-  Likely to Meet Criteria
-  May Meet Criteria
-  Unlikely to Meet Criteria
-  Very Unlikely to Meet Criteria

<u>Central County</u>	<u>Affordability</u>	<u>Feasibility</u>
3-story walkup - standard		
3-story walkup - compact		
4-story micro units		

<u>North Coast</u>	<u>Affordability</u>	<u>Feasibility</u>
3-story walkup - standard		
3-story walkup - compact		
4-story micro units		

<u>North County</u>	<u>Affordability</u>	<u>Feasibility</u>
3-story walkup - standard		
3-story walkup - compact		
4-story micro units		

<u>South County</u>	<u>Affordability</u>	<u>Feasibility</u>
3-story walkup - standard		
3-story walkup - compact		
4-story micro units		

# Financial Feasibility Analysis

## Key Takeaways

### Central County

- Smaller units help achieve affordability
- Market likely to support feasibility

### North Coast

- Market rents provide affordability
- Feasibility is difficult

### North County

- Market rents likely affordable except for largest units
- Market likely to support, except for the smallest units

### South County

- Market rents likely affordable except for largest units
- Market support is borderline

# **ABD For-Sale Housing**

# Recently Built ABD For-Sale Housing in SLO County



Only manufactured housing in manufactured home parks met target price points for new for-sale housing using County calculations

# Recently Built ABD For-Sale Housing in SLO County

A few small detached homes came close, and potentially could meet City of SLO affordability standards.



# Examples from Other Housing Markets

## Small detached units

- ~350-800 sf units
- Shared yards
- Clustered parking
- Smallest units may be affordable at close to 120% of AMI in that market
- Comparable units in SLO region exceed target price

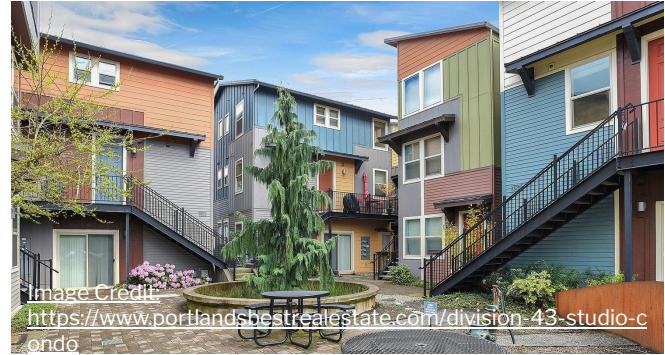




# Examples from Other Housing Markets

## Small condo units

- ~325-600 sf
- Little or no on-site parking
- Can be affordable to Moderate Income households in portions of some high-cost regions
- May not be viable in SLO region's market



# Examples from Other Housing Markets

## Simple condo development

- ~600-1000 sf
- Little or no on-site parking
- Few shared amenities
- Can be affordable to Moderate Income households in portions of some high-cost regions
- May not be viable in SLO region's market



# Examples from Other Housing Markets

## Smaller townhouse units

- ~1,000-1,600 sf
- Can be affordable to Moderate Income households in portions of some high-cost regions
- Comparable units in SLO region exceed target price



SAMPLE IMAGE



# Examples from Other Housing Markets

## Smaller single-detached homes

- 3BR, ~1200-1500 sf
- Can be affordable to moderate-income households in moderate-cost areas (e.g., Central Valley)
- Comparable units in SLO region exceed target price

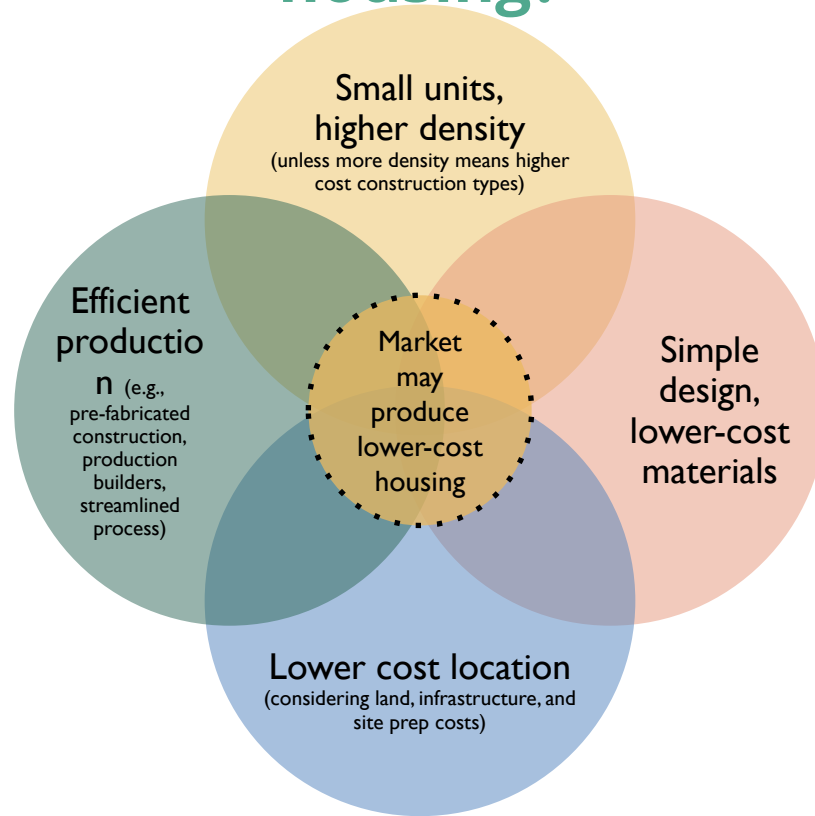


# Key Takeaways

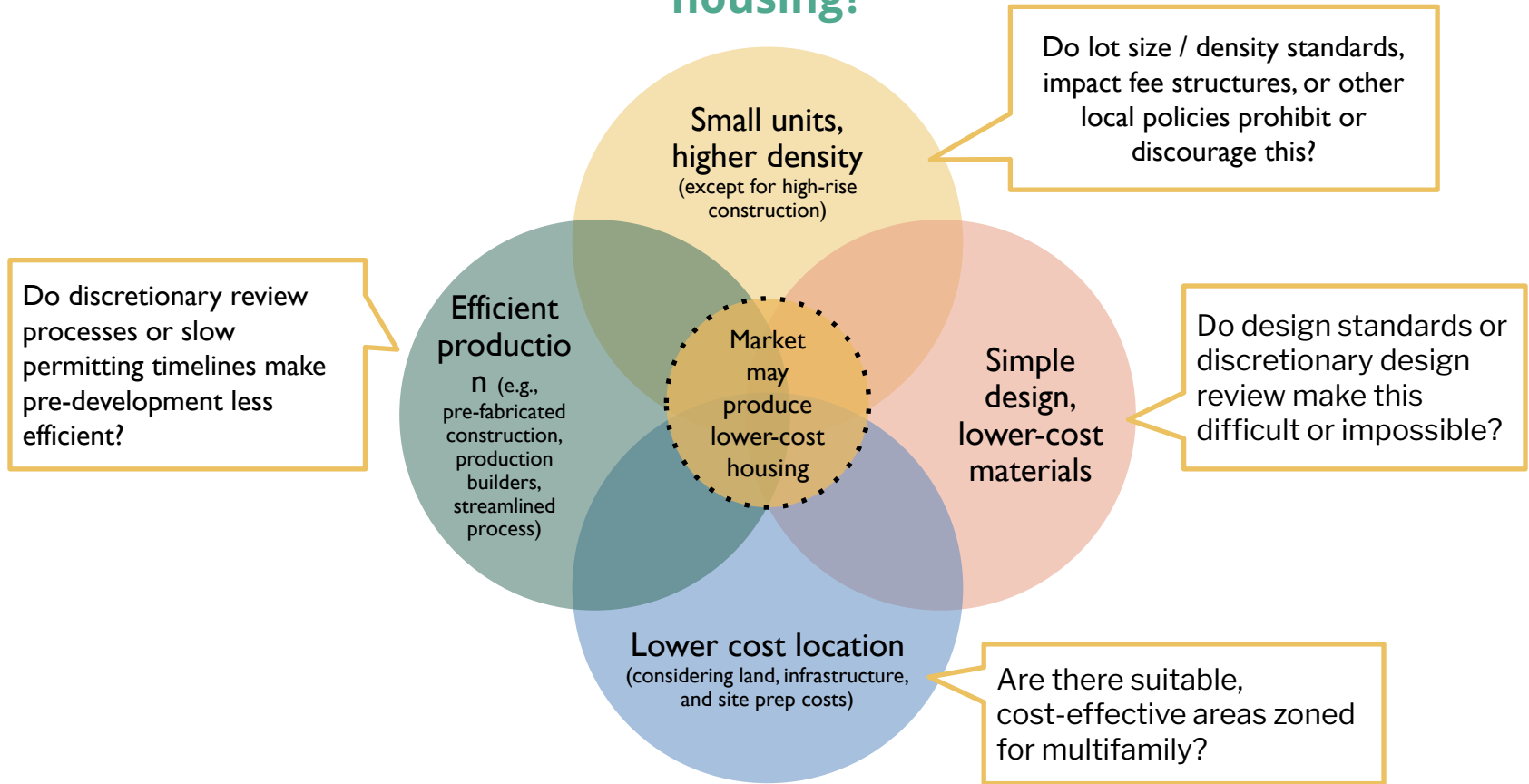
- SLO County market conditions do not support new for-sale housing at prices affordable to moderate-income households, with the possible exception of manufactured housing in parks
- A few developments have attempted to produce ABD for-sale housing, but even with very small homes, prices are still too high for the moderate-income target price range.
- Factors that make for-sale housing more affordable in other areas may not translate to the SLO County market (lower land cost, no parking, few amenities, micro units)

# **Barriers and Policy Recommendations**

# What allows the market to produce lower-cost housing?



# How does the public sector impact market production of lower-cost housing?





# Market Barriers to ABD Development in SLO County



Land Cost



Demand for high-end housing



Construction costs



Demand for parking

# Regulatory Barriers to ABD Development in SLO County



Discretionary review



Density caps



Minimum unit sizes



Parking requirements that exceed market demand



Impact fees,  
inclusionary zoning



Required infrastructure  
improvements

# Conclusions



**Rental:** Market is close, regulatory change could help

- ABD = smaller units in cost-effective development



**For-Sale:** Market not close, longer-term approach needed

- Increasing housing production overall can help bring supply and demand into balance, make ABD achievable over the longer term