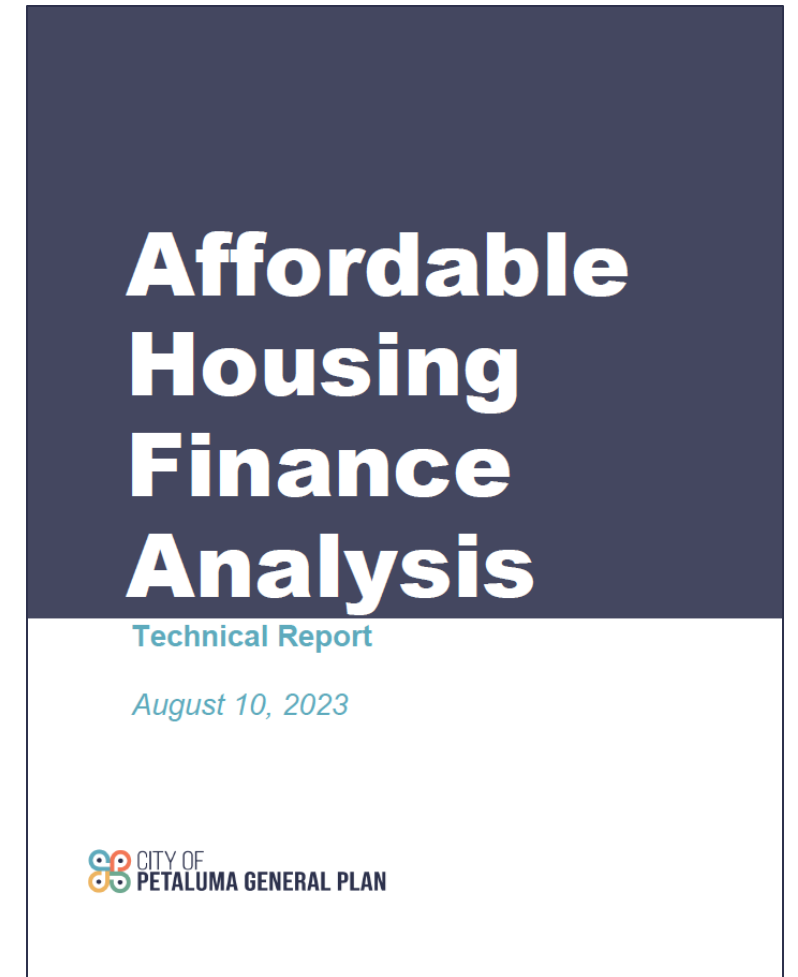
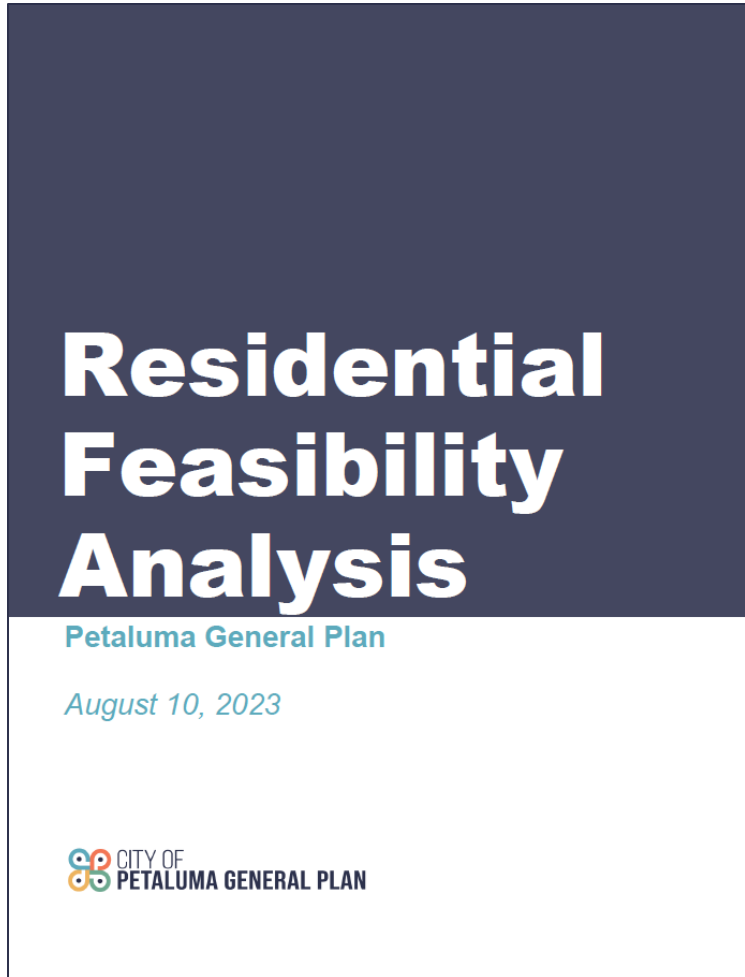


Housing Analyses Presentation

Two Housing Analyses

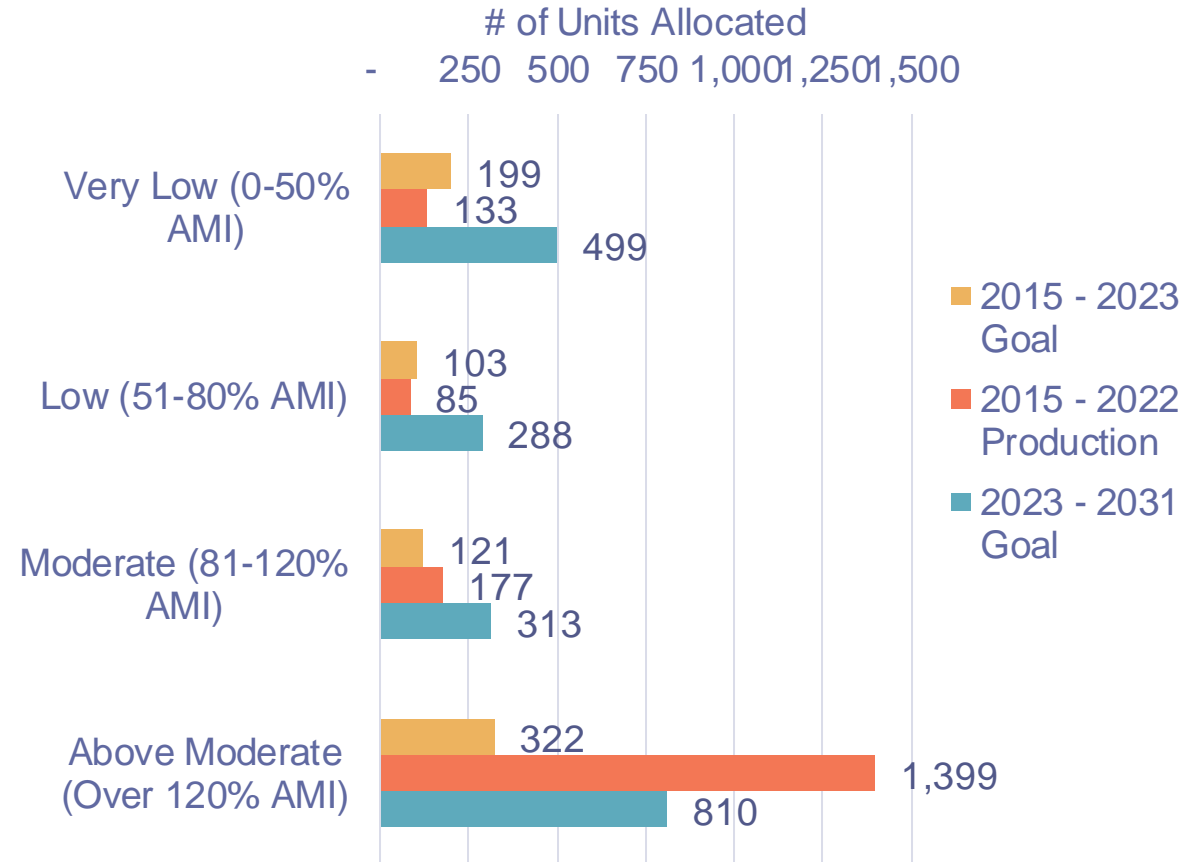
- Identified barriers and opportunities for production of:
 - Higher density market rate housing
 - Deed-restricted affordable housing
- Inform policy decisions about how Petaluma can accommodate its housing needs



Market-Rate and Affordable Housing Needed

- Petaluma historically fell short of housing production goals for lower income households.
- Regional Housing Needs Allocation goals are higher for 2023-2031.
- The Housing Element identified opportunity sites and policy adjustments.

Petaluma 2023 to 2031 RHNA Goals Compared to Prior Goals and Issued Permits



Source: ABAG, Final Regional Housing Needs Allocation, 2022; HCD, APR Table A2, 2023; Strategic Economics, 2023.

Market-Rate vs. Deed-Restricted Affordable Units

- Market-rate housing has no restrictions on prices/rents.
- “Affordable housing” = housing units with deed-restrictions limited to households earning certain incomes.
- Affordable housing units target households within select income categories, which are based on area median income (AMI) of a region.

Definition of Affordable Housing Income Categories by AMI Level

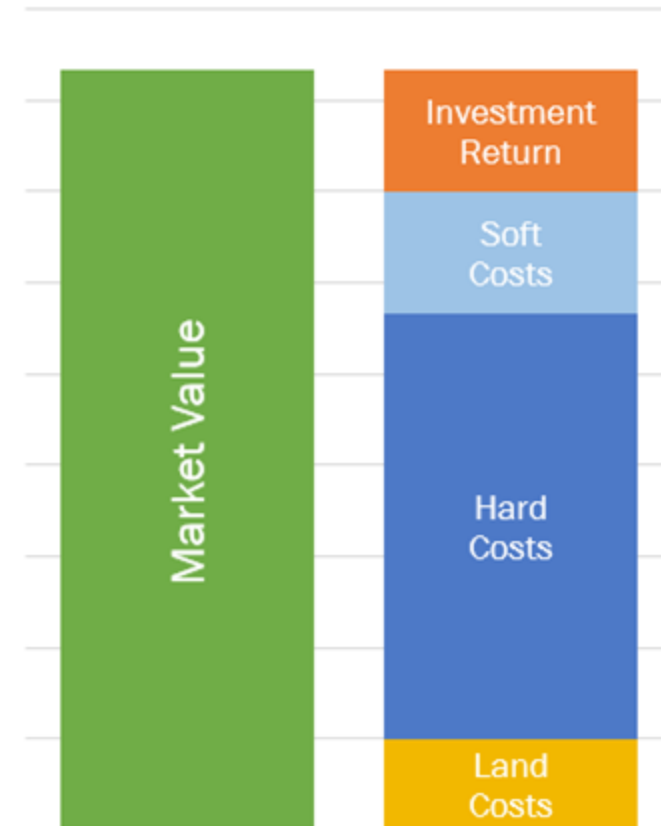
Income Category	AMI Level
Extremely Low-income	0% to 30%
Very Low-income	31% to 50%
Low-income	51% to 80%
Moderate-income	81% to 100%
Above Moderate-income	>100%

Source: California HCD, 2023; Strategic Economics, 2023.

Financial Feasibility Analysis Explored Barriers to Producing Market-Rate Housing

- Development projects are financially feasible when revenues exceed project costs and investment return.
- Developers only build when projects “pencil” (are financially feasible).
- Costs and revenues are dynamic.
 - Several factors are beyond control of a city.

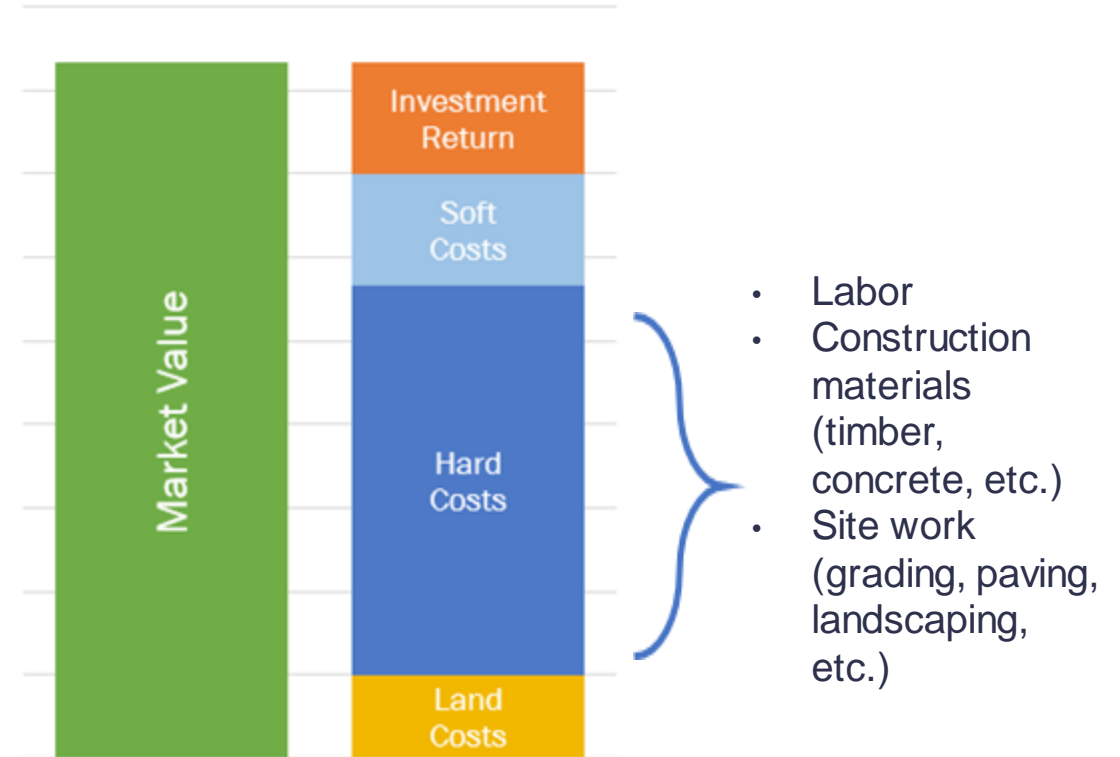
Evaluating Residential Feasibility



Source: Strategic Economics, 2023.

Project Costs: Hard Costs

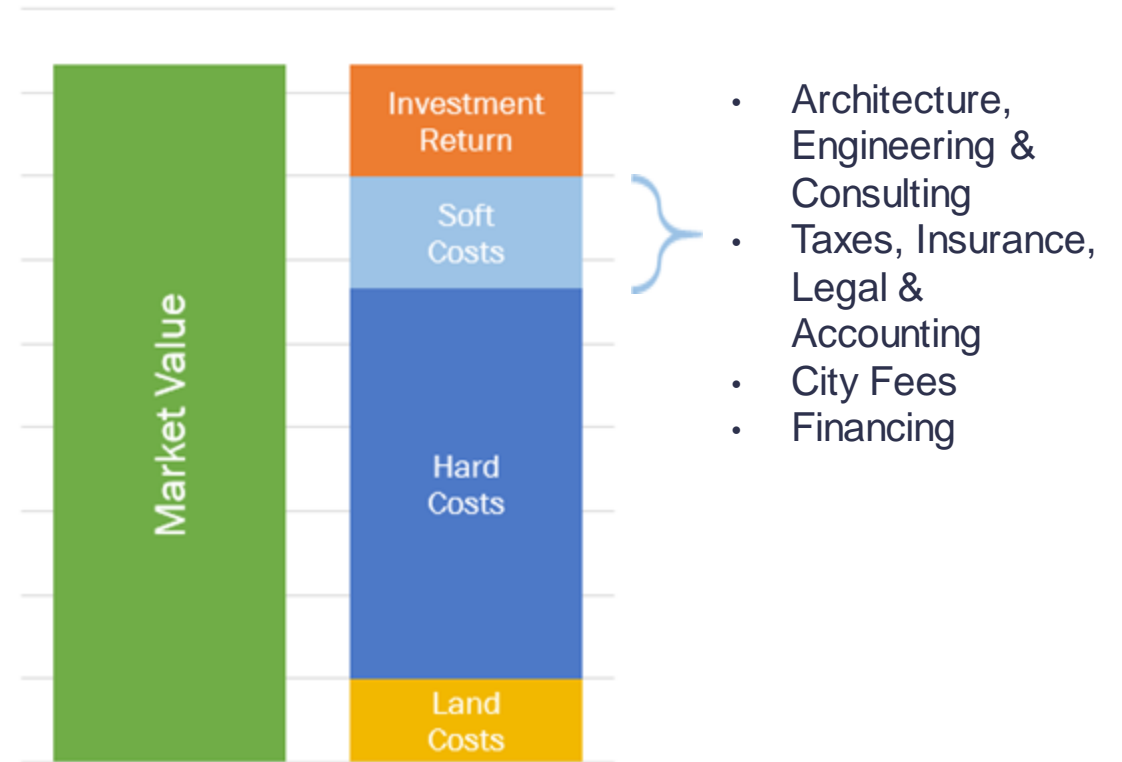
- Hard costs are the largest of project costs and are associated with physical construction.
- Includes construction of the building, parking, and other site improvements
- Construction material and labor costs have been increasing.
- Construction costs vary by building type.
- Construction costs are “regional.”



Source: Strategic Economics, 2023.

Project Costs: Soft Costs

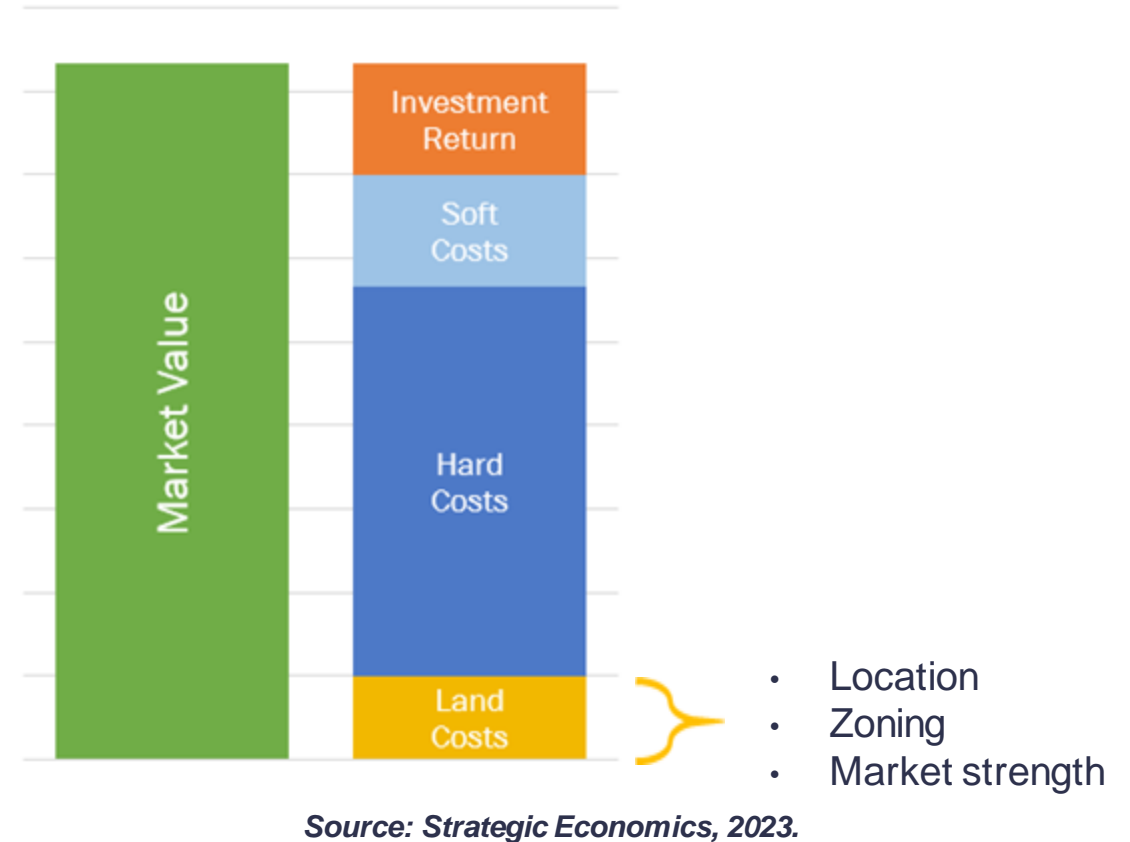
- Soft costs are typically the next largest project costs.
- Soft costs include costs associated with design, implementation, and fees.



Source: Strategic Economics, 2023.

Project Costs: Land Costs

- Land costs are much more variable than other development costs.
- Land costs vary depending on:
 - Location
 - Zoned capacity for development
 - Market strength
 - Infrastructure
 - Condition of the land (need for remediation, etc.).
- Land costs are “residual.”
- Value is based on what developers can afford to pay while delivering a feasible project within the site’s constraints and opportunities.
- Non-residential developers can potentially outbid housing developers.



Project Costs: Investment Return

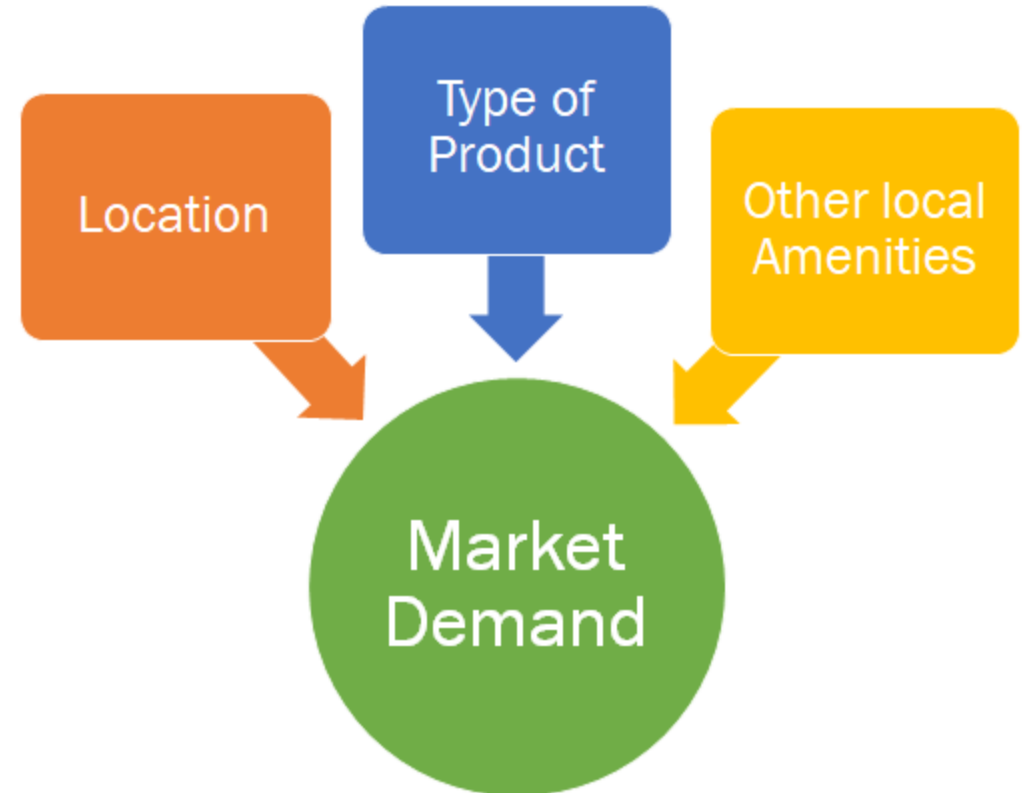
- Developers decide to build projects based on the investment return.
- Developers attract project funding only if investment return is competitive.
- Required investment return varies based on project risks.
- Greater certainty reduces risk.



Source: Strategic Economics, 2023.

Market Demand and Potential Revenue

- Market demand sets the “price” that buyers and renters are willing to pay.
- This price is very local.
- Demand is based on many factors including:
 - Location,
 - Type of product, and
 - Other amenities in the area.



Policies & Incentives Impact Financial Feasibility

- Policies and incentives can make projects more or less feasible while not impacting unit affordability.
- Example Policy Levers:
 - Parking ratios
 - Density controls (FAR, height, etc.)
- Example Incentives:
 - Reducing city fee requirements (reduces fee soft costs)
 - Density bonus (potentially increases value, but not always)
 - Streamlining of approvals (reduces financing/holding soft costs)

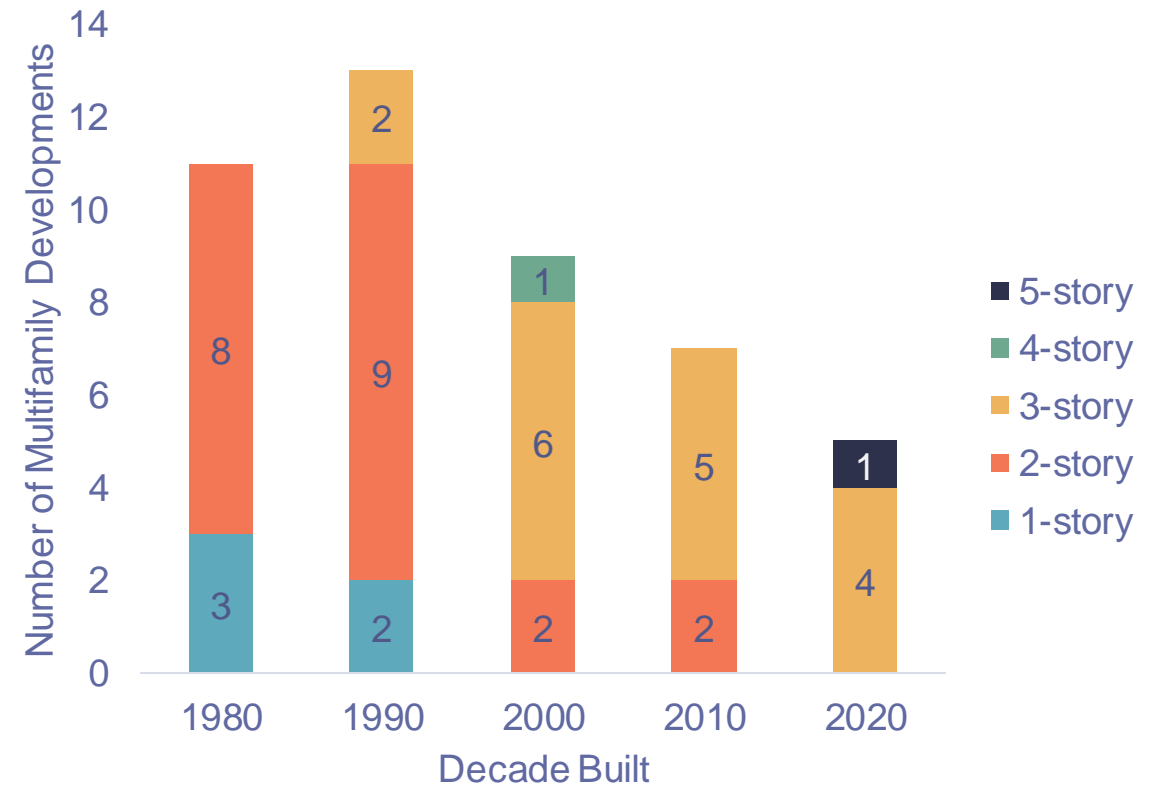


Source: Strategic Economics, 2023.

Analysis Examined Financial Feasibility Barriers for Higher-Density Market-Rate Housing

- Higher-density housing is rarely built in Petaluma.
- Analyzed four housing development “prototypes.”
- Examined:
 - 1) Whether these types of development products are currently feasible in Petaluma
 - 2) Drivers of costs and revenues for each prototype
 - 3) How City policies can enhance the feasibility of the prototypes

Multifamily Rental Projects in Petaluma, by Decade Built / Proposed and Number of Stories, 1980 to Present—as Tracked by CoStar



Sources: CoStar, 2022. Strategic Economics, 2023. Note: 2020 decade includes some projects that have not yet been completed.

Prototypes: 3-, 5-, and 8-Story Rentals

- Reflects infill products that accommodate growth within the UGB, enhance pedestrian/transit trips, reduce GHG emissions

3-Story Multifamily With “Tuck-under” Parking



Sources: Jerry Kler Architects, 2023.

8-Story Podium Product:

- A. With a Parking Ratio Of 1.5 Spaces per Unit
- B. With a Parking Ratio Of 1.25 per Unit



Sources: KTG, 2023.

5-Story “Wrap” Product



Sources: Humphreys & Partners Architects, 2017.

All Prototypes Are Currently Infeasible in Petaluma

- Construction costs do not vary substantially throughout the Bay Area.
- Construction costs have rapidly increased throughout Bay Area.
 - Worsening project financing challenges
- Rents and sales prices in Petaluma are lower than other locations.
- Additional measures are needed to address costs/revenues.
- The five-story and eight-story prototypes are especially unlikely to become financially feasible in the immediate future.
- Some real-world developments may still proceed due to unique factors.

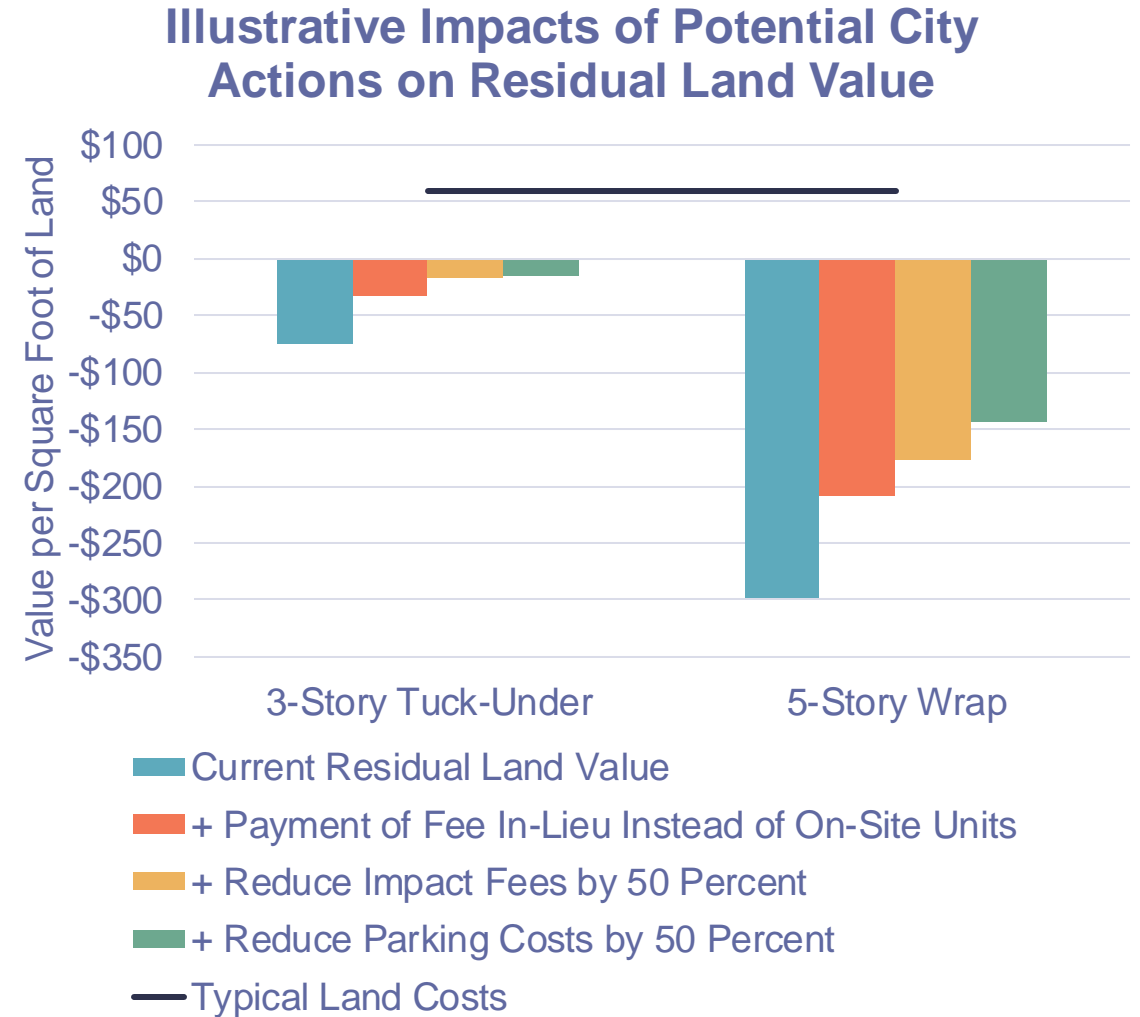
Project Value, Cost, and RLV per Square Foot of Land vs. Typical Land Costs



Sources: Strategic Economics, 2022; Developer Interviews, 2022; CoStar, 2022.

City Actions Could Halve the Feasibility Gap

- Total development costs must be reduced 30 to 43 percent at current rents.
- We analyzed:
 - Reducing municipal fees
 - Reducing inclusionary housing requirements and in-lieu fees / providing flexibility
 - Reducing parking requirements
- Changes to City policies that affect housing feasibility must also consider other critical policy goals and priorities.

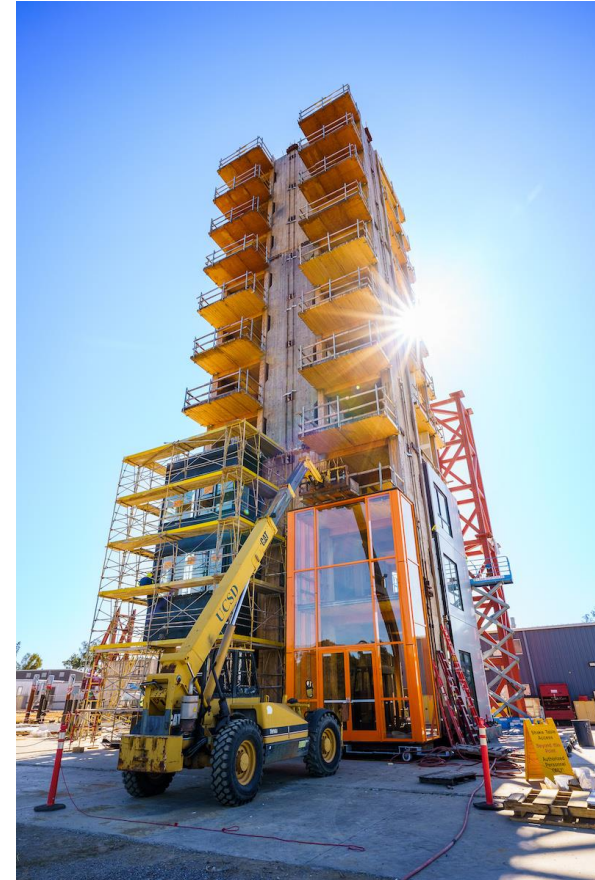


Sources: Strategic Economics, 2022; Developer Interviews, 2022; CoStar, 2022.

Additional Policy Options to Enhance Feasibility

- Accommodating new and emerging construction techniques such as mass timber and modular construction
- Removing ground floor retail requirements where appropriate
- Providing greater certainty and speed for approving development projects
- Investing in district amenities and desirability to enhance achievable rents and sales prices

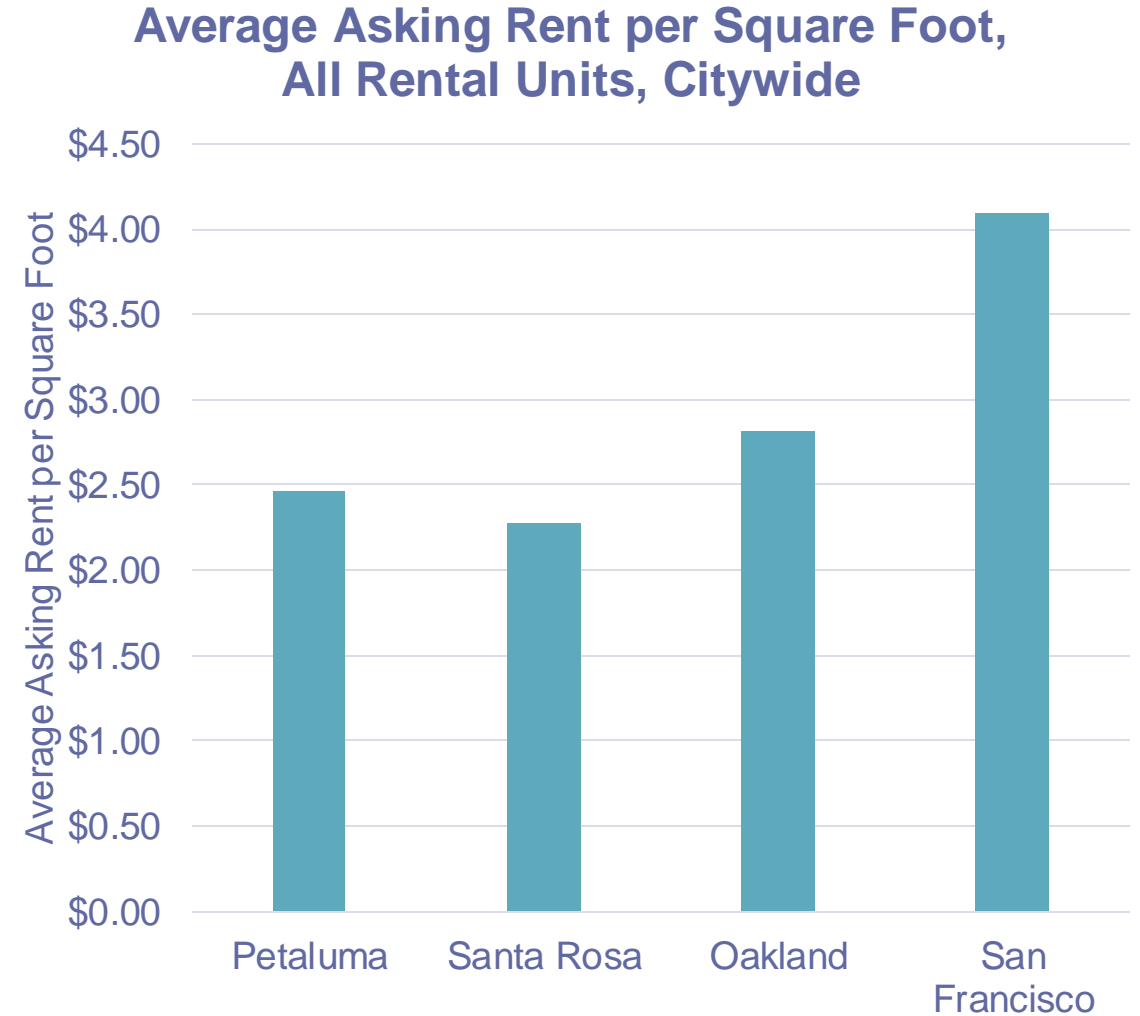
UC San Diego Mass Timber Test Building



Source: David Baillet/UC San Diego Jacobs School of Engineering, 2023.

Broader Shifts in Conditions Are Required to Enable Higher-Density Development in Petaluma

- Declines in regional development costs
- Increases in local achievable rents and sales prices

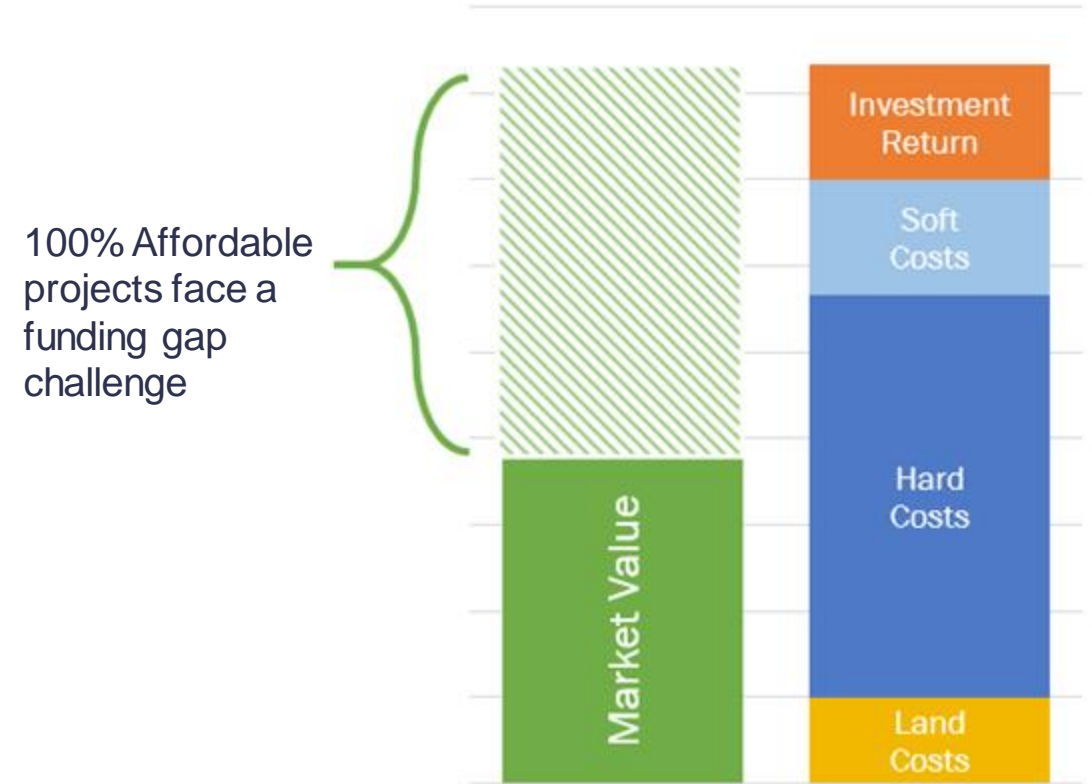


Sources: CoStar, 2023; Strategic Economics, 2023

100% Affordable Housing Developments Require Subsidy

- Rents and sales prices are typically regulated to below-market rates (BMR) so that households pay no more than 30% of their income.
- Deed-restricted tax credit projects typically include 100% affordable units.
- These projects often target extremely low, very low, and low-income households.
 - Deeper affordability = a larger funding gap
- Benefits
 - Projects can leverage many funding sources
- Challenges
 - Limited/competitive resources for filling funding gap
 - Does not provide housing options for moderate income households

Affordable Housing Funding Gap



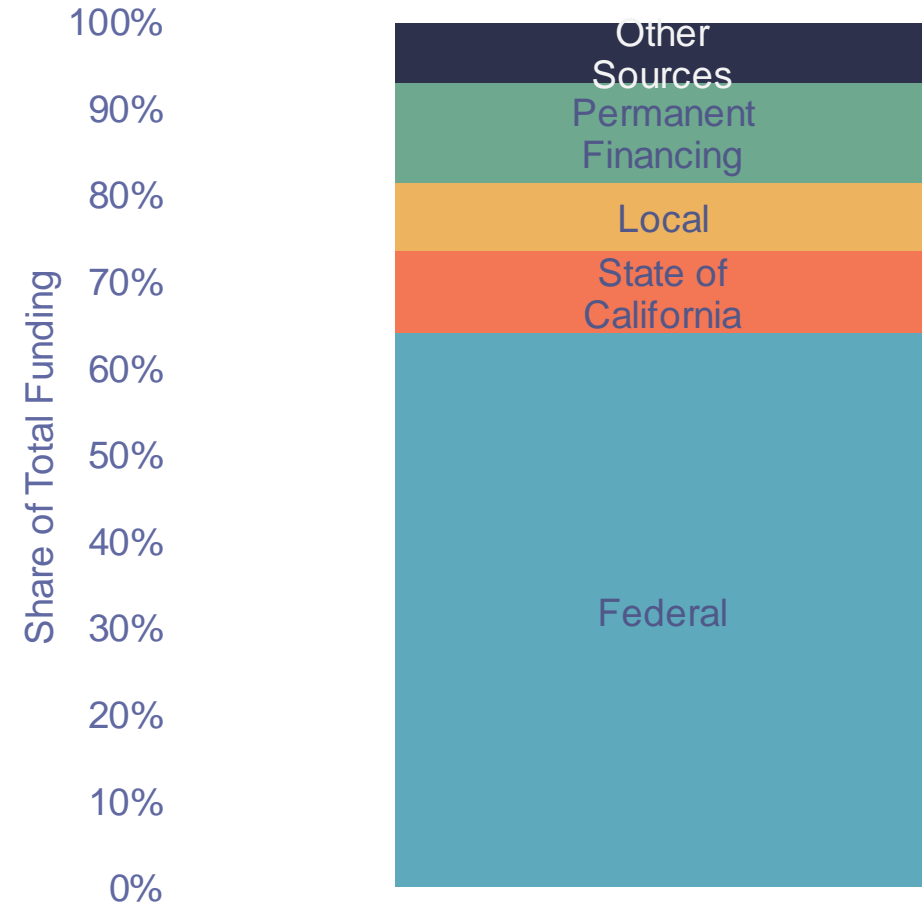
100% Affordable projects face a funding gap challenge

Sources: *Strategic Economics, 2023*

Sources of Subsidies for Development Financing

- Affordable housing developers assemble a “capital stack” of federal, state, and local sources.
- Largest funding source is Federal Low Income Housing Tax credits
 - Very competitive
- City contributions help projects compete for development interest and outside funding.

Typical Funding Sources for Affordable Projects in Petaluma, 2020-2021

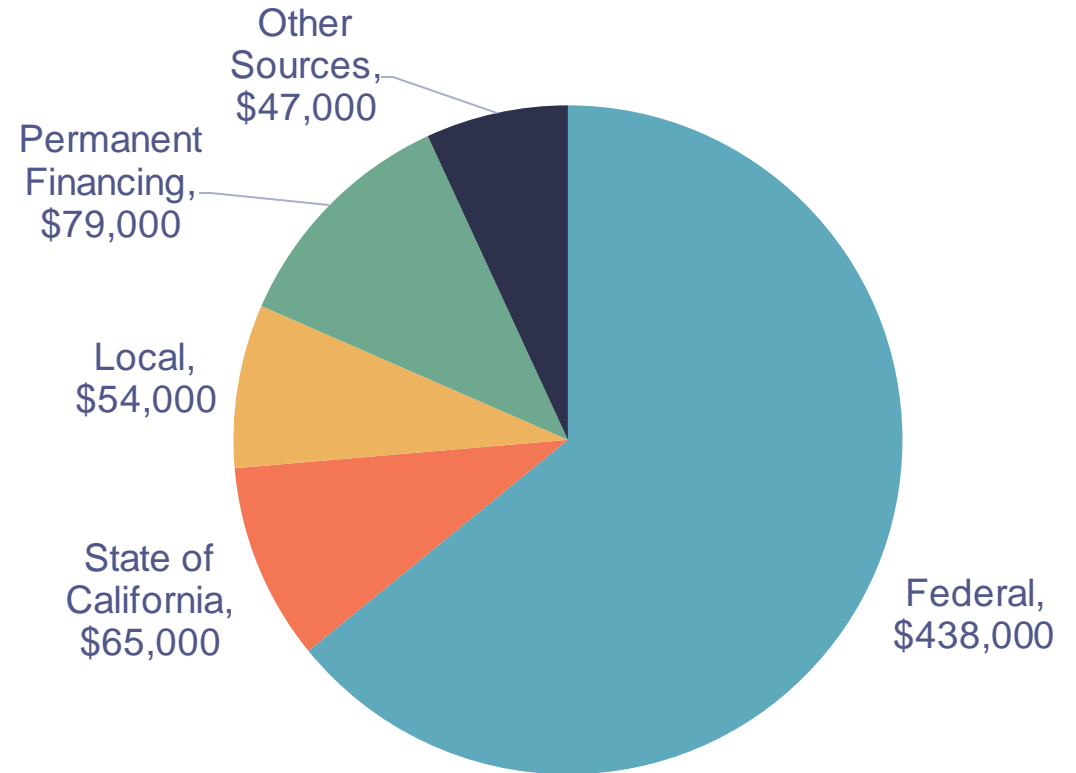


Sources: TCAC, 2021; Strategic Economics, 2023

Local Funding Sources are Relatively Limited

- Examples of City sources:
 - Commercial linkage fee
 - Housing in-lieu fees
 - Impact fee waivers (new!)
- Typical project costs = \$500,000 to \$700,000 per unit.
- Petaluma and Sonoma County contributed 8% of project costs in recent developments.*
 - *Pre-dates the City's fee waiver policy
- Well-resourced counties like San Francisco and Santa Clara contributed 30% to 37% of costs.

Average Funding per Unit for Affordable Projects in Petaluma, 2020-2021



Sources: TCAC, 2021; Strategic Economics, 2023

Recommended City Actions to Expand Funding

- Reallocation of General Fund
- Voter-approved tax measures
- Flexibility for market rate developers to pay in-lieu fees
- Incentivize market-rate housing developers to provide greater in-lieu fees
- Target funding to more competitive projects for outside funding, such as in High Resource areas

Other Options to Reduce Barriers for Affordable Housing Unit Development

- Reduce cost barriers:
 - Revisit ground floor retail requirements
 - Waive impact fees for inclusionary units
- Enhance certainty and timeliness of approvals processes:
 - Area plans (including and beyond Corona Station and North Petaluma Station)
 - Objective design standards
 - Internal process improvements
 - Expand staff capacity

Enhancing ADU Production

- Accessory Dwelling Units are often an “affordable by design” product, but without price/rent restrictions.
- The City can support production through its ongoing partnerships and programs with the Napa Sonoma ADU Center.

Recent City Actions

- Adopted and implemented impact fee waivers for 100% affordable projects
- Corona Station Specific Plan
- North Petaluma Station Specific Plan
- New Community Development Department reorganization and creation of departmental Strategic Plan
- Added two staff positions in the Housing Department

Clarifying Questions from GPAC Members

Public Comments

Discussion

Discussion Prompts

- Reactions: Anything surprising?
- How should the findings inform the General Plan Update?

