

PRICED OUT

Persistence of the Workforce Housing Gap in the San Francisco Bay Area



Terwilliger Center for Workforce Housing



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About the Urban Land Institute

The Urban Land Institute is a 501(c)(3) nonprofit research and education organization supported by its members. Founded in 1936, the Institute now has more than 32,000 members worldwide representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service. As the preeminent, multidisciplinary real estate forum, ULI facilitates the open exchange of ideas, information, and experience among local, national, and international industry leaders and policy makers dedicated to creating better places.

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Members regard ULI as a trusted idea place where leaders come to grow professionally and personally through sharing, mentoring, and problem solving. With pride, ULI members commit to the best in land use policy and practice.

About the ULI Foundation

The ULI Foundation is the philanthropic partner of the Urban Land Institute, providing an assured source of funding for ULI's core research, education, and public service activities. Through its various giving and support programs, the Foundation helps strengthen ULI's ability to provide leadership in the responsible use of land in order to enhance the total environment.

The ULI Foundation is proud to support the ULI Terwilliger Center for Workforce Housing in its mission to expand housing opportunities for working families.

About the ULI Terwilliger Center for Workforce Housing

The ULI Terwilliger Center for Workforce Housing was established by J. Ronald Terwilliger, chairman and CEO of Trammell Crow Residential, to expand housing opportunities for working families. The mission of the center is to serve as a catalyst in increasing the availability of workforce housing in high-cost communities by harnessing the power of the private sector.

The center supports the development of mixed-income communities close to employment centers and transportation hubs. Through a multifaceted approach, the center facilitates research, advocates for public policy change, publishes best practices, convenes housing experts, and works to eliminate regulatory barriers to the production of workforce housing.

About RCLCO (Robert Charles Lesser & Co.)

This report was prepared by RCLCO (Robert Charles Lesser & Co.) for the ULI Terwilliger Center for Workforce Housing. RCLCO is a full-service real estate advisory and land use economics firm with offices throughout the United States. Contributors to this report include Adam Ducker, Charles Hewlett, Patrick Lynch, Lindsay Duerr, and Elisabeth Putney Mygatt.

Executive Summary

Housing in the San Francisco Bay Area¹ is persistently and pervasively unaffordable despite the recent economic and housing market downturn. As of the middle of 2009, every county in the Bay Area fell within the 15 percent least affordable in the country, and only New York City ranked less affordable.

The high cost of housing is particularly challenging for “workforce” households, which the ULI Terwilliger Center for Workforce Housing defines as those earning between 60 percent and 120 percent of the area median income (AMI). These residents, who work in important growth industries such as education, health care, and professional services, must contend with a housing stock in the Bay Area that is overwhelmingly, and in every county, oriented toward higher-income households.

Only 15 percent of the existing for-sale housing stock in the Bay Area is affordable to workforce households earning the median family income — this compares with between 50 percent and 60 percent in many of the Bay Area’s peer metropolitan regions. This low number is due in part to the fact that high housing prices extend across the region, and are not just concentrated in “closer-in” locations. In the Bay Area, moving “further out” does not necessarily lead to less expensive housing.

¹ For the purposes of this report, unless otherwise noted, the San Francisco Bay Area is defined as the nine counties including Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, San Francisco, Solano, and Sonoma counties. This represents the following Metropolitan Statistical Areas (MSAs): San Francisco-Oakland-Fremont, Santa Rosa-Petaluma, San Jose-Sunnyvale, Vallejo, and Napa.

As a consequence of the uniformly high housing costs, Bay Area households in the “workforce” income range are largely priced out of homeownership. Owner-occupied workforce households in the Bay Area spend more of their income on homeownership than do households almost anywhere else in the country.

Uniformly high housing costs are similarly pervasive in the rental housing market, which serves 42 percent of workforce households in the Bay Area. Workforce households have a much higher propensity to rent in the Bay Area, especially among families, than in peer metropolitan regions across the country. Furthermore, Bay Area rents are high and a disproportionately high percentage of workforce households also pay more than 30 percent of their incomes on rent, more than in peer metropolitan regions across the country.

Unless serious changes are made, future construction will not alleviate the problem. A scarcity of appropriately zoned and located land together with relatively high development costs makes it nearly impossible for builders and developers to deliver high-quality new rental communities at price points affordable to workforce families.

If current trends are any indication, housing production between 2009 and 2025 will leave unmet additional demand for at least 6,000 for-sale housing units appropriate for workforce households. Demand for new rental housing is projected to exceed supply by almost 23,000 units resulting in a total shortage of almost 29,000 workforce housing units.

Without creative new ways to help finance housing for workforce households, the Bay Area will face a **further shortage of 29,000 units by 2025**, leaving the region's teachers, firefighters, nurses, and other workers vital to the regional economy priced out.



Defining the Workforce

The U.S. Department of Housing and Urban Development (HUD) defines area median income (AMI) for each metropolitan area. This indicator often is used to determine relative housing affordability for different income ranges and household sizes. The Bay Area includes six different Metropolitan Statistical Areas (MSA) for which HUD defines an AMI.

The ULI Terwilliger Center for Workforce Housing defines workforce households as those with incomes between 60 and 120 percent of AMI, adjusted for household size. Approximately 30 percent, or 820,000, of the Bay Area's 2.7 million households fell in this income range in 2007, indicating that workforce housing is an issue relevant to a significant portion of the region's households.

Workforce Housing Income Ranges | 60% to 120% of AMI San Francisco Bay Area Average (varies by MSA)

	60% of AMI	120% of AMI
One-Person Household	\$39,200	\$78,500
Two-Person Household	\$44,800	\$89,700
Three-Person Household	\$50,400	\$100,900
Four-Person Household	\$56,000	\$112,000
Five-Person Household	\$60,500	\$121,000

Sources: HUD, RCLCO.

Household Distribution San Francisco Bay Area

		Less than 60% AMI	60%–80% AMI	80%–100% AMI	100%–120% AMI	120%–150% AMI	More than 150% AMI	TOTAL
SAN FRANCISCO BAY REGION	Estimated Number of Households	825,390	306,341	276,401	237,341	299,273	793,464	1,912,820
	Distribution of Households	29%	11%	10%	9%	11%	31%	100%

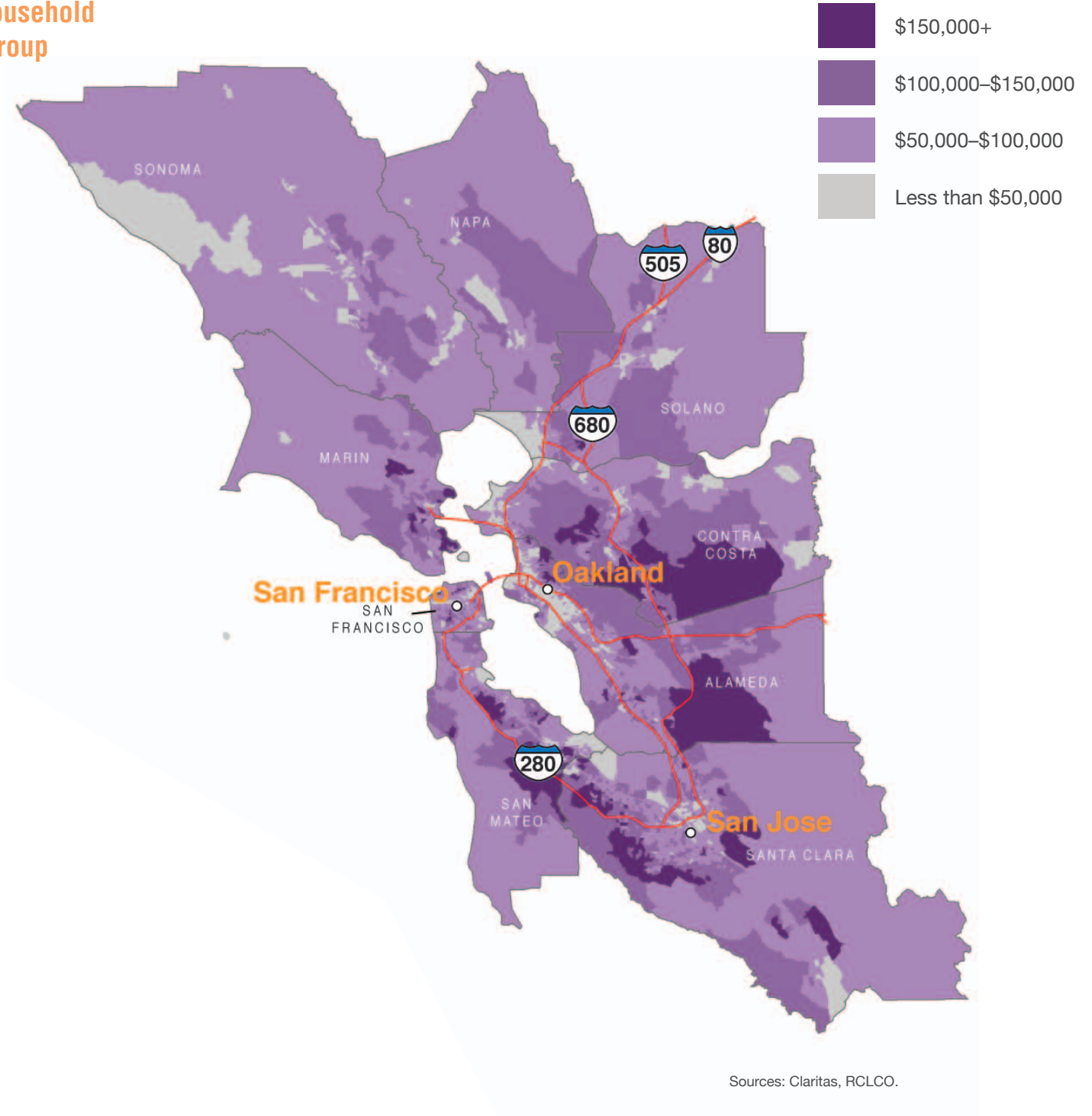
Sources: U.S. Census 2007 PUMA Data, RCLCO.



30%

or 820,083 of the households in the nine-county San Francisco Bay Region are in the 60% to 120% AMI income range.

2009 Estimated Median Household
Income by Census Block Group
San Francisco Bay Area



Workforce Household Profile



Entry Level Engineer and Daycare Educator in San Jose (Dual-Income Household)

Vital Statistics:

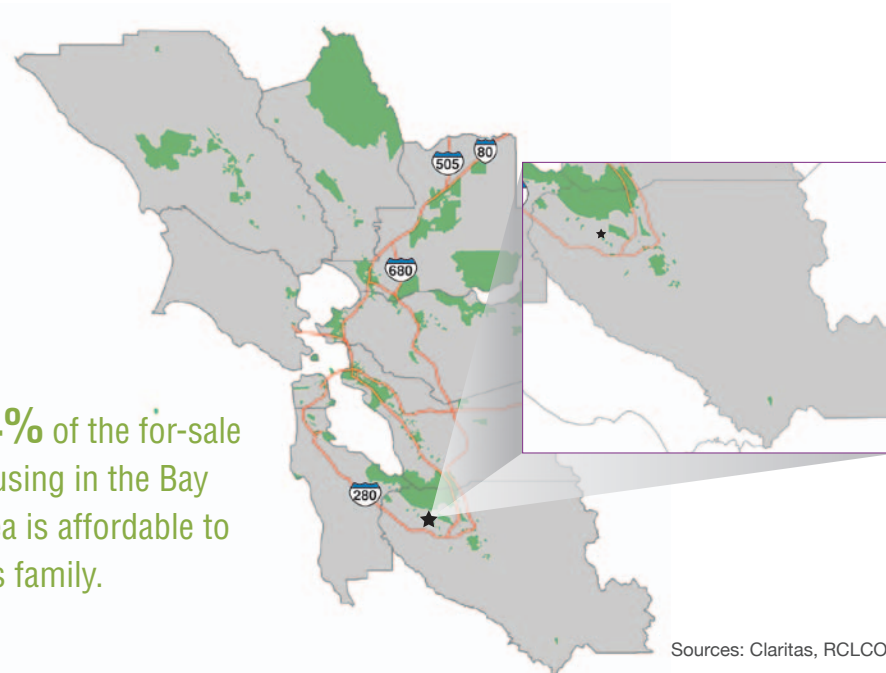
- Household Type: Working Parents, Two Children
- Profession: Engineer and Daycare Educator
- 2009 Annual Household Income: \$92,000
- 2009 Affordable Home Price Range: \$300,000–\$350,000
- Required Downpayment: \$30,000–\$35,000
- Percent of AMI for Four-Person Household: 90%



Locations with Affordable Median Home Values for Profiled Family 2009

-  Affordable
-  Priced Out
- ★ Place of Employment

14% of the for-sale housing in the Bay Area is affordable to this family.



The areas shown as affordable for this family contain **only 7%** of the for-sale housing stock in **Santa Clara County**.

Sources: Claritas, RCLCO.

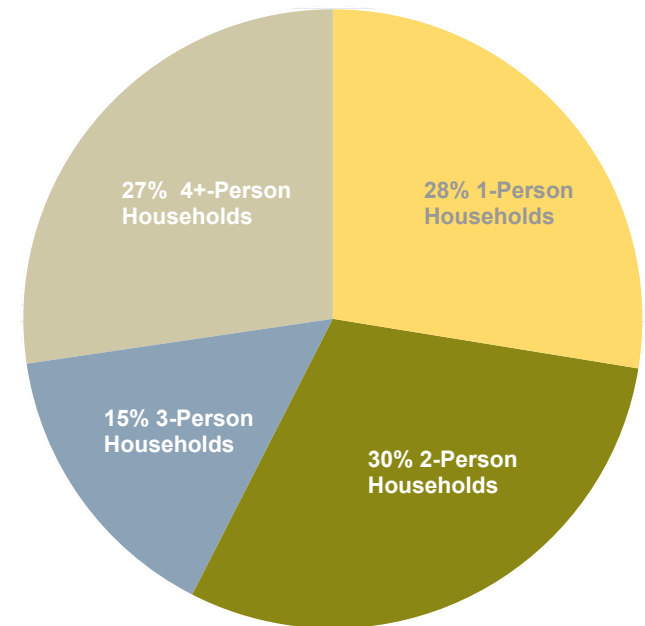
Metro Area Household Composition

A deeper analysis of the characteristics of workforce households in the Bay Area reveals more about this group's specific housing needs. An average of 40 percent of all households and specifically workforce households are made up of three or more people. This finding is significant, because larger households require homes and/or apartments with more bedrooms, which typically are more expensive.

Although recent demographic trends point toward an increasing number of smaller households as echo boomers enter their 20s, divorce rates remain high, and baby boomers age, this trend likely will

not significantly alter the overall distribution of household sizes in the near term. And while overall average household size is trending downward slightly, larger households will continue to make up a sizable portion of future growth, particularly among family workforce households. Households consisting of three or more individuals have highly varied composition, including single- and dual-parent households with children, multigenerational households such as a couple with an older parent or parents, unrelated adults (e.g., roommates), and others sharing a home for lifestyle preference or cost reasons, and a variety of other combinations.

Workforce Household Composition in the San Francisco Bay Area 60% to 120% of AMI



Sources: RCLCO, U.S. Census 2007 PUMA data.

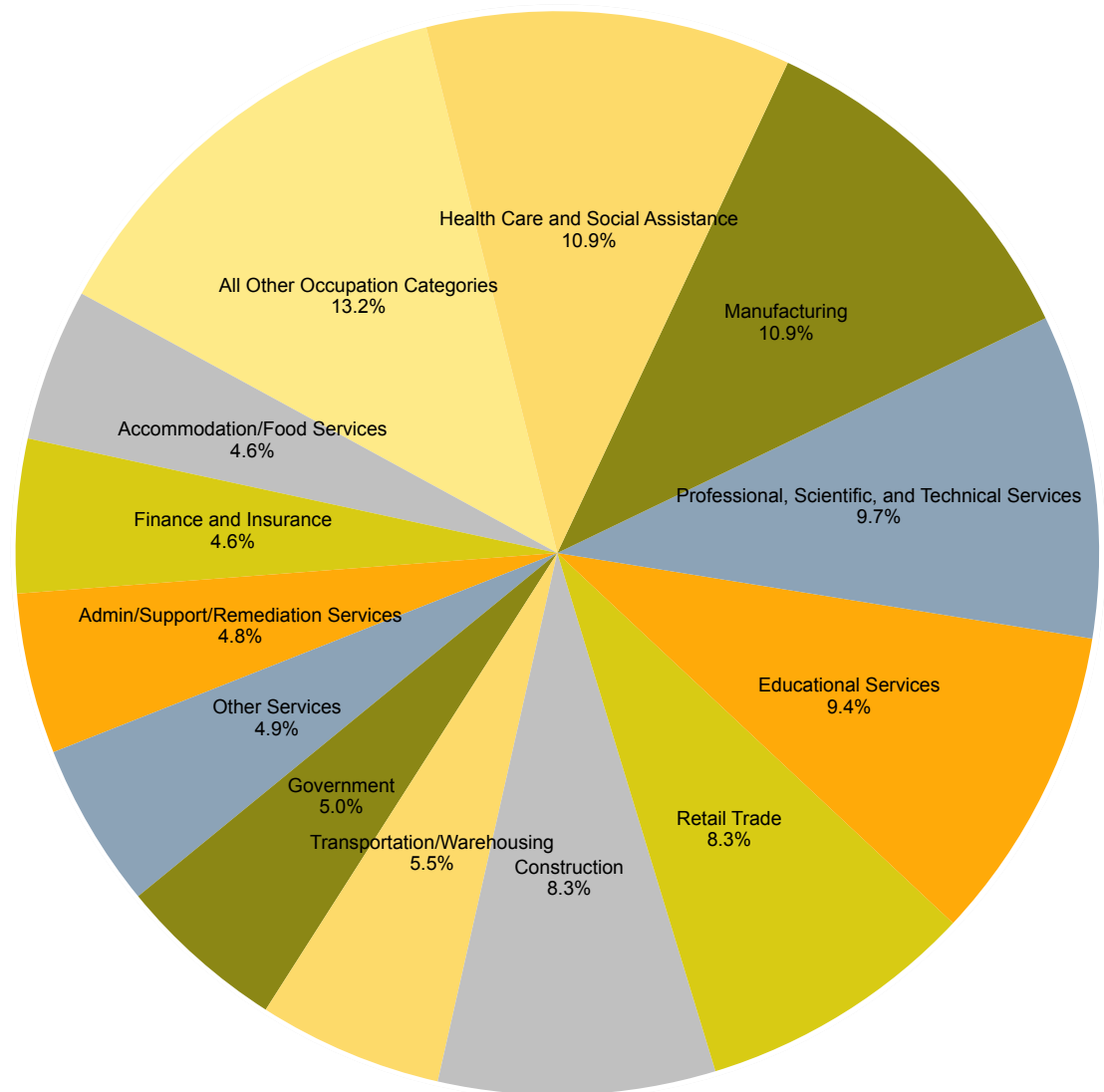
Employment Distribution

Nearly every profession includes employees who fall into the workforce housing income range. The top categories of regional employment in the workforce housing income range, as shown in the accompanying pie chart, include health care; manufacturing; professional, scientific, and technical services; and education.

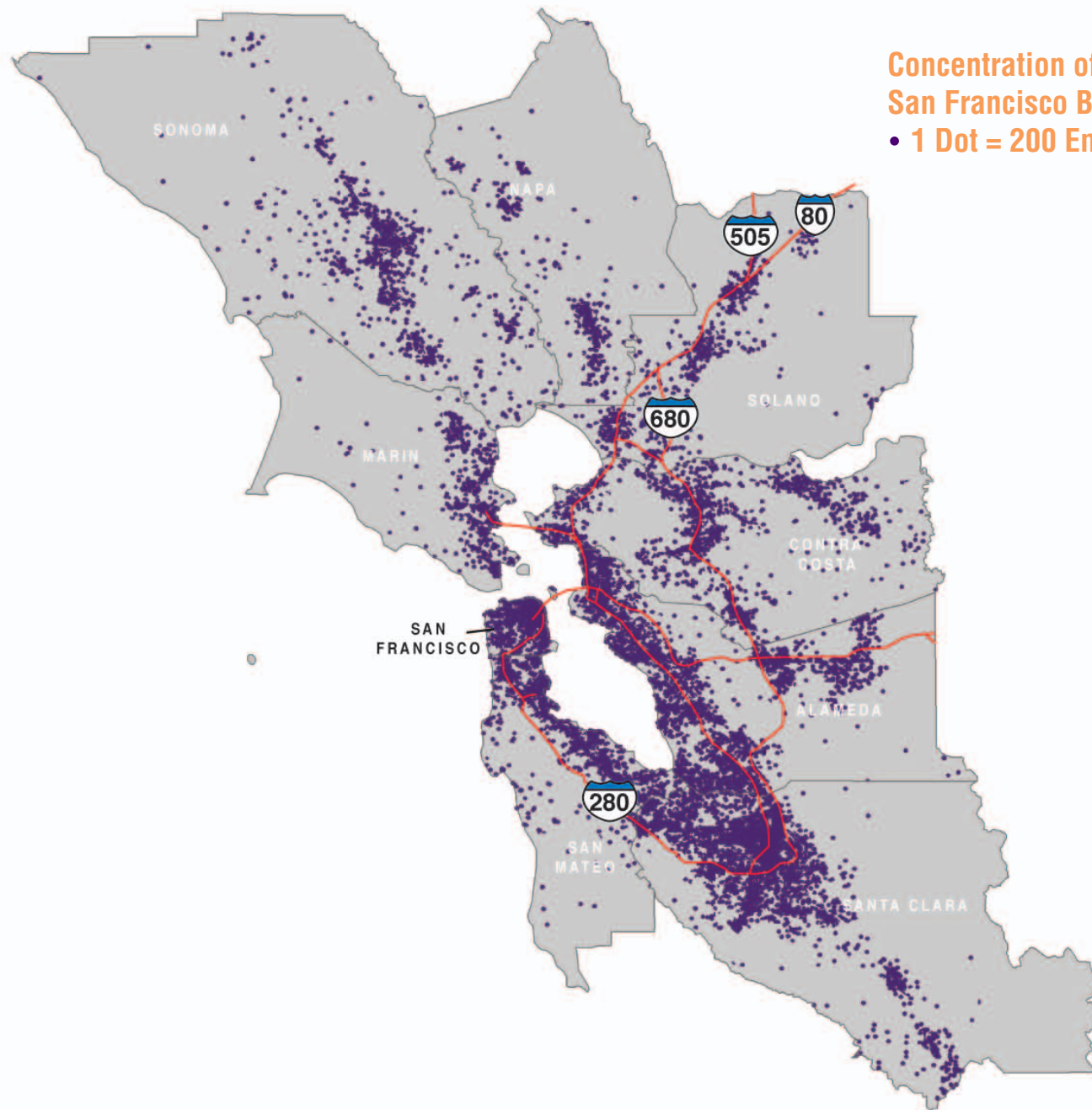
Many of these professions are significant growth industries within the region and reflect its overall distribution of employment by industry. As these industries continue to be engines of growth in the future, their employees will need to be accommodated with appropriate workforce housing options.

The ability to house key workforce housing employment sectors — teachers, health care workers, police officers, and firefighters, among others — is vital to the economic sustainability of the Bay Area.

Distribution of Employment by Sector for Workforce Households: San Francisco Bay Area



Sources: U.S. Census 2007 PUMA data, RCLCO.



Concentration of Employees in the San Francisco Bay Area

- 1 Dot = 200 Employees

Regional Supply Conditions

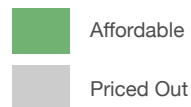
Most of the Bay Area's for-sale housing supply is unaffordable to workforce households. Pockets of affordability exist throughout the region, but they are scattered and represent less than 15 percent of the total housing stock. Unlike most metropolitan areas, the Bay Area's periphery is no more affordable to workforce households than its urban core.

A workforce household earning \$65,000 per year, or approximately 70 percent of the region's estimated median family income for the Bay Area, can afford to purchase only about 5 percent of the total housing stock in the entire region. Even with a higher income of \$102,000, or about 110

percent of the average median family income, it is estimated that only 20 percent of the housing stock becomes affordable.

These statistics are remarkable considering that they reflect the situation in 2009 after home prices, according to data published by Moody's Case-Schiller, have fallen by 40 percent or more from their 2006 peak. The workforce housing crisis here is more pronounced than in many of the Bay Area's peer metropolitan areas, including Washington, D.C., and Boston, which offer substantially more for-sale housing available to workforce households.

Comparison of For-Sale Affordability Across Three Peer Metro Areas



San Francisco Bay Area

70% AMI



90% AMI



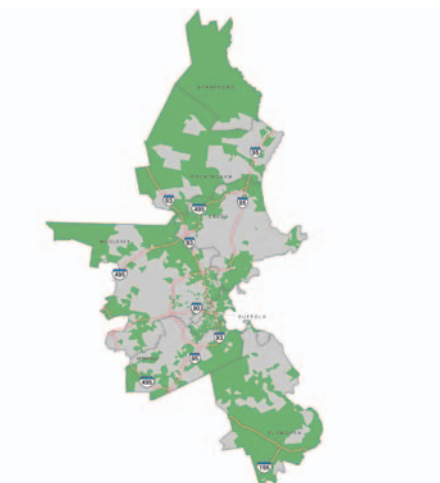
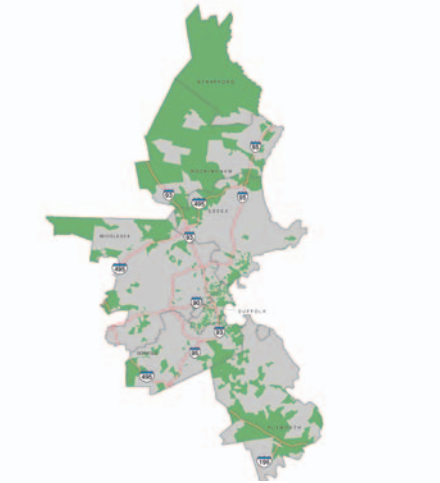
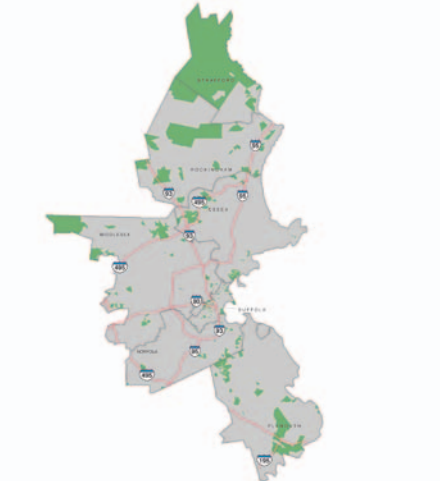
110% AMI



Washington, D.C., Metropolitan Area



Boston Metropolitan Area



As prices increased during the real estate boom, some Bay Area workers began moving to the Central Valley, including Stanislaus and San Joaquin counties, a commute of two hours or longer in many instances, and with significant transportation cost burden to the homeowner and environmental impact to the region.

Since the boom went bust, prices in this area have fallen dramatically and the rate of foreclosures has been among the highest in the nation. While housing alone in the Central Valley will likely remain more affordable for the foreseeable future, the depressed real estate conditions, the added cost of transit, and the extreme commute times make it an undesirable solution for Bay Area workforce households.

Workforce Household Profile



San Francisco State Associate Professor (Single-Income Household)

Vital Statistics:

- Household Type: Single-Parent, One Child
- Profession: University Professor
- 2009 Annual Household Income: \$101,000
- 2009 Affordable Home Price Range: \$350,000–\$380,000
- Required Downpayment: \$35,000–\$38,000
- Percent of AML for Two-Person Household: 119%



Locations with Affordable Median Home Values for Profiled Family 2009

-  Affordable
-  Priced Out
- ★ Place of Employment



19% of the for-sale housing in the Bay Area is affordable to this family.

The areas shown as affordable for this family contain **only 2%** of the for-sale housing stock in **San Francisco County**.

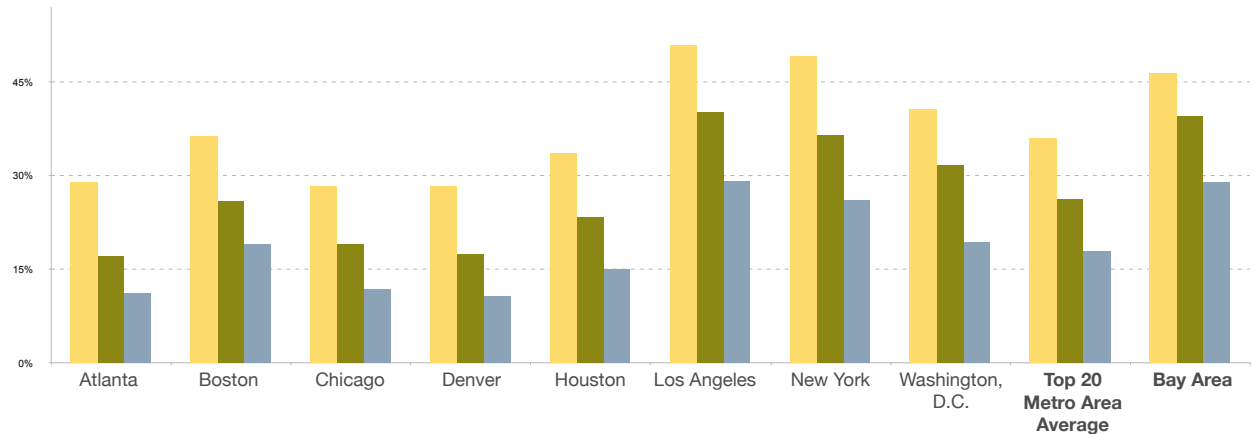
Sources: Claritas, RCLCO.

High Rental Burden

As a result of the high for-sale home prices and other factors, workforce households in the Bay Area remain in large measure in the rental market. Of the top 20 largest metro areas in the country, only New York and Los Angeles have higher percentages of rental households in the relevant workforce housing income groups. Census data from 2000 suggest that this high propensity to rent is even more pronounced among workforce families.

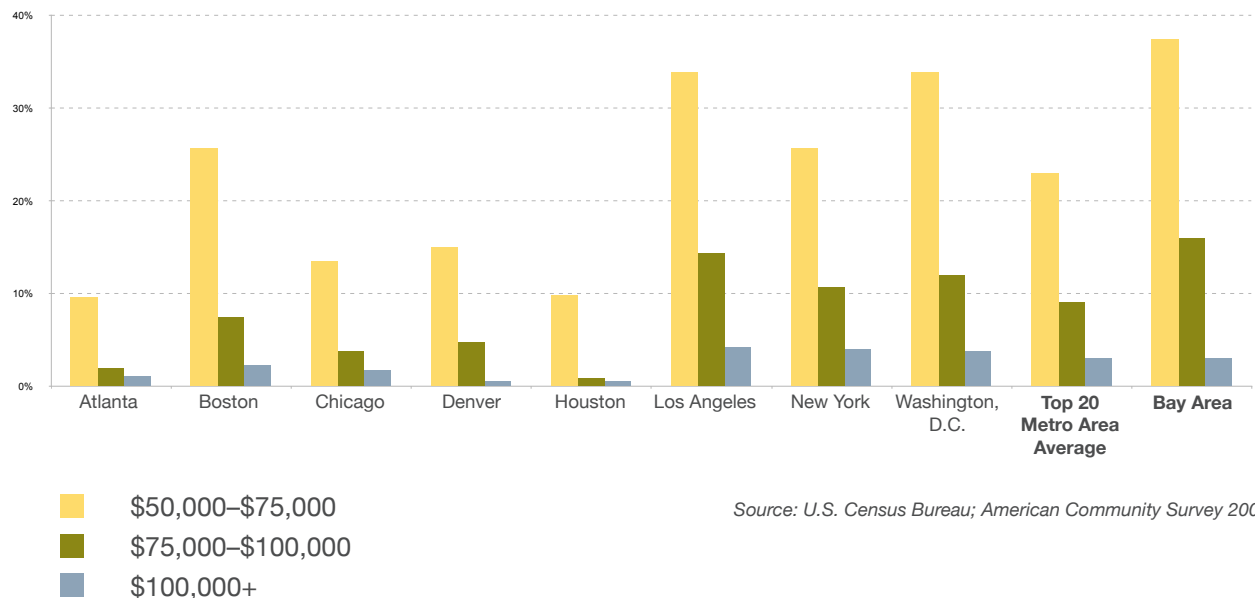
Choosing to rent may be a logical response to a tight for-sale housing market; however, rents in the Bay Area are among the highest in the country — and rents are not only high in downtown San Francisco; even Napa, the MSA with the lowest rents in the Bay Area, has a higher median rent than the Boston, New York, and Los Angeles metropolitan areas. This means that many workforce households, especially families and those earning between 60 percent and 80 percent of AMI, still struggle to afford rental housing. More than 30 percent of rental households in the Bay Area that earn between \$50,000 and \$75,000 (roughly 60 percent to 80 percent of AMI) spend more than 30 percent of their income on rent.

Percentage of Households that Rent by Income



Source: U.S. Census Bureau; American Community Survey 2008.

Percentage of Renter Households Spending 30% or More of Household Income on Rent



Source: U.S. Census Bureau; American Community Survey 2008.

Workforce Household Profile



Graphic Designer and Yoga Instructor in Alameda County (Dual-Income Household)

Vital Statistics:

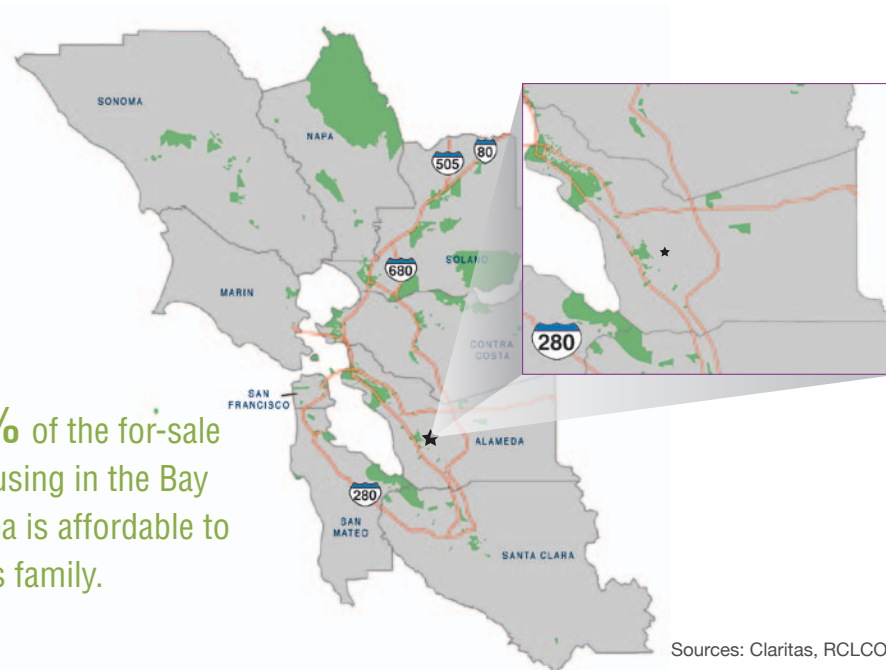
- Household Type: Married Couple, Three Children
- Professions: Graphic Designer and Yoga Instructor
- 2009 Annual Household Income: \$78,540
- 2009 Affordable Home Price Range: \$260,000–\$300,000
- Required Downpayment: \$26,000–\$30,000
- Percent of AML for Five-Person Household: 81%



Locations with Affordable Median Home Values for Profiled Family 2009

-  Affordable
-  Priced Out
- ★ Place of Employment

9% of the for-sale housing in the Bay Area is affordable to this family.



The areas shown as affordable for this family contain **only 9%** of the for-sale housing stock in **Alameda County**.

Sources: Claritas, RCLCO.

New Rental Product Too Expensive

Additional high-quality rental housing could provide improved living opportunities for the Bay Area workforce and help fulfill the unmet demand.

To meet the needs of workforce families, rental apartment communities need to offer housing with more bedrooms for all income categories, as the family housing need is the most dire.

However, developing new rental products for this price range, particularly for households with three

or more persons, is challenging, if not impossible, without creative public financing solutions and other subsidy mechanisms that do not exist today.

In the Bay Area, where construction costs are among the highest in the nation, the challenge becomes even more severe. The rent that workforce households can afford to pay is limited by their income (they are already spending more than their peers in other cities), and new building without subsidies such as those that

exist for the affordable segment of the marketplace (below 60 percent of AMI) is simply not feasible given the price of land and the cost of construction.

Creatively exploring new financing techniques, public policy solutions, approaches to lowering the cost of construction, or other innovative development strategies will be necessary to address this critical issue and to provide adequate rental housing options for workforce households.

Development-Supportable Rents for Workforce Households in the Bay Area

High-Rise Rental Development		Supportable Rent per Square Foot for Workforce Households						
Persons per Household	Unit Type	60%	70%	80%	90%	100%	110%	120%
1	Studio	PRICED OUT				\$3.63	\$4.00	\$4.36
2	1B							\$3.20
3	2B							
4	3B							
5	3B							
6	4B							

Mid-Rise Rental Development		Supportable Rent per Square Foot for Workforce Households						
Persons per Household	Unit Type	60%	70%	80%	90%	100%	110%	120%
1	Studio	PRICED OUT		\$2.91	\$3.27	\$3.63	\$4.00	\$4.36
2	1B						\$2.94	\$3.20
3	2B							\$2.80
4	3B							
5	3B							
6	4B							

High-rise development dictated by land prices near employment centers and transit.



Mid-rise development located in an urban area just outside of employment center.



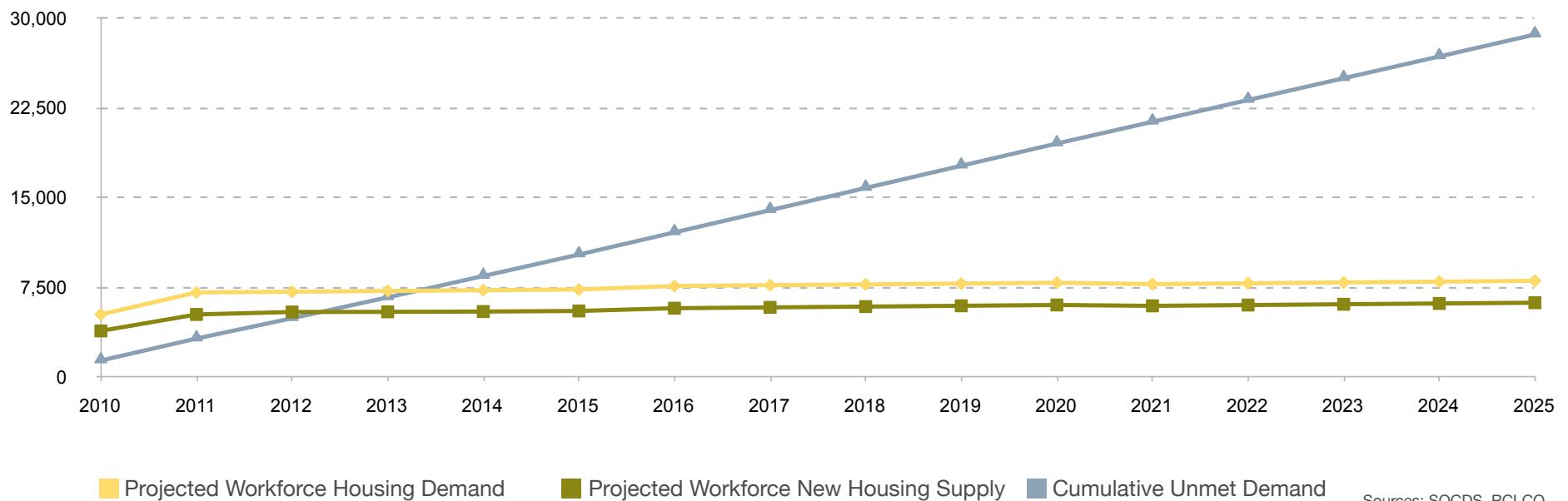
Future Supply Constraints

Despite a temporary correction in the housing market, the demand for additional housing in the Bay Area over the next 20 years will be immense. Between 2010 and 2030, the Association of Bay Area Governments (ABAG) projects that the Bay Area will add over 500,000 households. Meeting the demand for workforce housing will be particularly challenging as most new housing construction in recent years has been out of the reach of the vast majority of workforce family households.

A projection of future demand and supply suggests that there will be a shortage of over 6,000 new for-sale housing units affordable to workforce households by 2025. This estimate, moreover, is likely conservative because it assumes that prices do not rebound from their current lows. In reality, the shortage could be substantially higher.

Workforce demand for new rental housing, especially among those earning between 60 and 100 percent of AMI, is projected to exceed supply by almost 23,000 units, resulting in a total shortage of more than 29,000 workforce housing units in 2025.

Future Supply and Demand for Workforce Housing in the Bay Area





Conclusions

San Francisco suffers from a workforce housing shortage that is among the most acute and widespread in the nation. Despite the recent housing market downturn, the high cost of housing remains a critical challenge to the long-term economic health of the Bay Area.

Most major metropolitan regions exhibit a pattern in which workforce households cannot find affordable for-sale housing in neighborhoods convenient to major employment concentrations. What distinguishes the Bay Area is that workforce households are priced out of the for-sale housing market almost entirely. There are no real “fringe” locations in the nine-county Bay Area where workforce households can escape the high cost of housing, even if they are willing to accept long and expensive commutes.

The for-rent market also provides profound and pervasive affordability challenges to workforce households, with Bay Area families allocating more of their income to rent than their peers in other major metropolitan regions. Rents are so high in the

Bay Area that they represent a significant strain on the finances of workforce families.

Further, new rental housing appropriate to this group, particularly for families, is needed but not economically feasible to build in the Bay Area as the rents needed to support new development are well beyond the levels that are affordable to the workforce. New and innovative public policies that incentivize the development of new properties with rents affordable to the workforce will alleviate the growing shortage of workforce housing.

If current trends continue, new construction will fail to meet the significant projected demand for workforce housing. This will force even more workforce households to stretch themselves financially to live in the Bay Area, or move to other parts of the country where housing is affordable.

Left unchanged, the pervasive and persistent housing burden of workforce households in the Bay Area will imperil the region’s economic vitality.

Rents in the Bay Area are so high that they represent a significant strain on the finances of workforce families — and new rental housing appropriate to this group is not economically feasible to build.



APPENDIX

Methodology

Affordable Home Price

RCLCO used a 3.5 income-to-home price multiplier to determine the affordable home price for each income bracket and household size. This multiplier was determined using the following assumptions: a 10 percent downpayment, a 5.5 percent interest rate, a 30-year fixed mortgage, PMI of 0.5 percent of the mortgage amount, and an estimated 1 percent of assessed value in annual property taxes.

Bay Area Conditions & Balance/Imbalance

Household size and income distribution of each employment core residential feeder area were then compared to those of the region to estimate the distribution of households that would exist if each major employment core residential feeder area were in relative balance (plus or minus 1,000 households). These PUMA-based household distributions were applied to Claritas household

data for the 20-minute drive-time area from each employment core to derive the relative over- or undersupply of workforce households for each household size.

Interestingly, this analysis indicated that unlike other metropolitan regions that have been studied to date, there does not appear to be a consistent imbalance between employment concentrations and workforce housing. In peer metropolitan regions, workforce households have generally been pushed to the periphery of the marketplace, creating a significant imbalance between the location of jobs and the amount of workforce housing. In contrast, the Bay Area has a pervasive housing unaffordability crisis, where workforce households generally do not even have the choice to trade off the convenience of close-to-work housing for the affordability of housing on the fringe

of the metro areas. Instead, workforce households that own or rent pay a disproportionately high percentage of income on housing compared with their workforce counterparts in other major peer metropolitan regions.

Future Supply Constraints

ABAG projections were used to determine regional household growth from 2010 to 2030. We used PUMA data to determine the percentage of total households with incomes between 60 and 120 percent of AMI that are homeowners. This percentage was applied to the overall household growth figures to determine the projected average annual household growth for workforce households that seek for-sale housing options.

The overall volume of new home sales was estimated using anticipated new household growth

data from ABAG and future permit projections from Moody's Economy.com. Moody's Economy.com data were used to calculate the proportion of for-sale versus rental residential permits likely to be issued and RCLCO applied this factor to ABAG household growth forecasts in order to determine the annual projected for-sale housing and rental supply. For the purposes of this analysis, we assume that future permitting, or supply, will more or less correlate with future household growth or demand for housing.

The distribution of new home sales by price point was identified for the Bay Area MSAs for homes built in 2005 to 2007 using PUMA data. This distribution, less a 30 percent price reduction to account for market decline since 2007, was applied to the projected future for-sale residential permits to determine the number of homes projected to be

built each year, priced affordably for households with incomes 60 to 120 percent of AMI. Future new home sales projections were compared to the projected average annual new household growth to determine the shortage in housing supply.

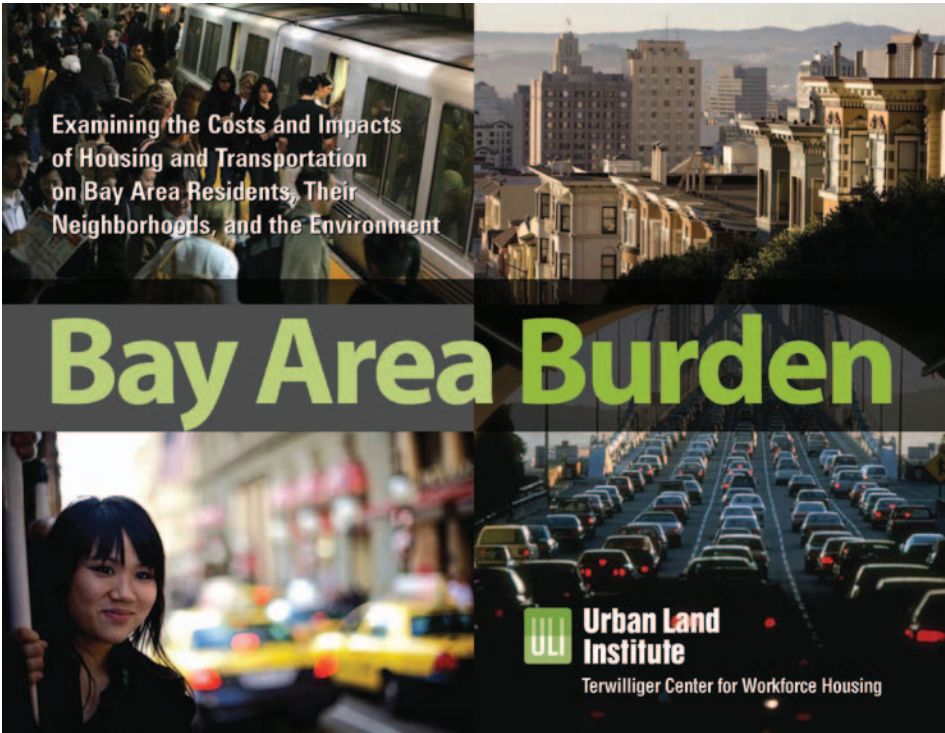
Similarly, the distribution of new apartments built between 2005 and 2007 by rent and number of bedrooms based on 2007 PUMA data was applied to the forecasted rental permit issuance in each year, as described above, to determine supply. Where the PUMA data indicated rents that were clearly not feasible for new market-rate construction, it was ignored. This supply was compared to the demand for each unit type based on ABAG household growth projections and 2007 income, tenure, and household size distributions to determine the shortage in rental housing supply. Home renovations that will take some homes out of

the range of affordability for workforce households were not factored into this analysis. This will only increase the need for more new homes to replace those no longer affordable to this group.

Data Sources

RCLCO relied primarily on PUMA data from the 2007 American Community Survey for demographic information, including household size, tenure, employment sector, and household income after adjustment to 2009 dollars. Except for the new supply analysis described above, which required an assessment of the value of new homes only, RCLCO used 2009 Claritas estimates to determine median home values by block group.

A Related Report from the Terwilliger Center



The Terwilliger Center recently published a detailed report that exposes the complexity of the interaction of housing and transportation choices as well as expenditures, and the unintended consequences on the natural environment when they work at cross purposes. The report also highlights the importance of “location efficiency”—the proximity of housing to transportation hubs, employment, and retail centers—as a driver of both affordability and environmental sustainability.

Calculator

What do housing and transportation in the Bay Area cost YOU?

Find out with the Housing and Transportation Cost Calculator.

The ULI Terwilliger Center for Workforce Housing is pleased to announce its Housing + Transportation Cost Calculator to the Bay Area to provide consumers with up-to-date cost data to make informed housing decisions based on housing and transportation costs.

To access the calculator, go to www.bayareaburden.org.

Housing Plus Transportation Costs in the Bay Area

Average Annual Housing Costs

\$28,045

**% of Income
39%**

Average Annual Transportation Costs

\$13,375

**% of Income
20%**

Average Annual Housing + Transportation Costs

\$41,420

**% of Income
59%**