



# El Dorado County Development Feasibility Study

November 9, 2010

**Economic & Planning Systems, Inc.**

*Public Finance • Real Estate Economics • Regional Economics • Land Use Policy*

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EPS



# Overview of Presentation

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- ▶ **Key findings**
- ▶ **Factors contributing to a slow recovery**
- ▶ **New home pricing**
- ▶ **Housing feasibility**
- ▶ **Next steps**

# Key Findings

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- ▶ **Magnitude of home price appreciation (2000-2005) was not sustainable in the long run. Future appreciation at the same scale is not likely to occur.**
- ▶ **Feasibility analysis should be based on historical relations between housing prices and income levels and traditional mortgage financing.**
- ▶ **For most entry-level and mid-range housing products, current infrastructure costs and fees exceed feasible ranges.**

# Key Findings

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- ▶ **In most areas in the County, current cost structure makes single-family products below \$425,000-\$450,000 infeasible.**
- ▶ **Multifamily products below \$250,000 infeasible given current cost structure.**
- ▶ **Current infrastructure burdens and site improvement costs contribute to the infeasibility of products for a large segment of homebuyers.**

# Factors Contributing to a Slow Recovery

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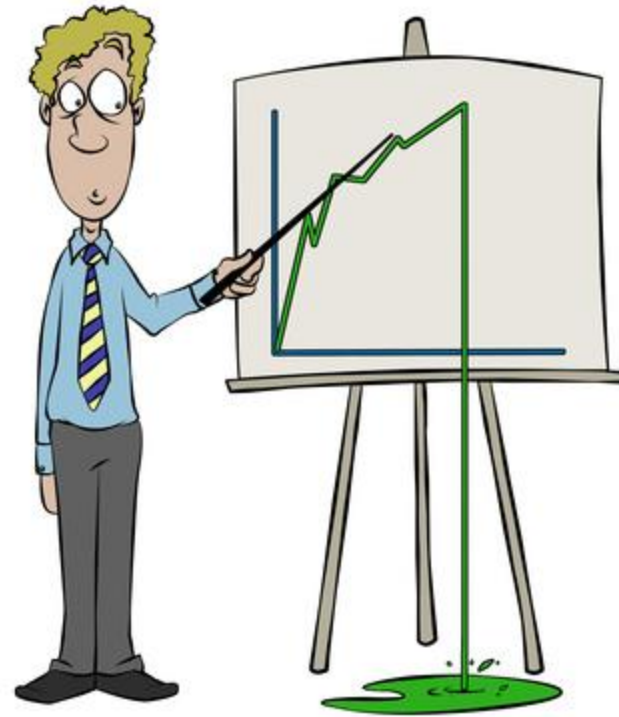
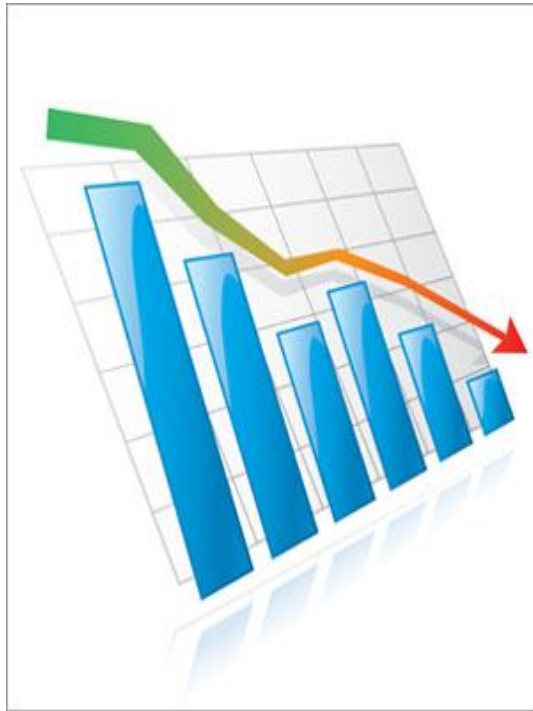
- ▶ **Overall economic issues:**
  - ▶ Fewer jobs.
  - ▶ Slower income growth.
- ▶ **State and local government budget shortfalls limiting regional economic and employment-related growth.**
- ▶ **Issues specific to the real estate industry:**
  - ▶ Restructuring of home financing industry.
  - ▶ Overly restrictive credit standards.

# Implications for Infrastructure Funding Capacity

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- ▶ **Developers will not be able to advance-fund infrastructure to the same extent as past years:**
  - ▶ **Slower absorption of residential units.**
  - ▶ **Increased regulation and lending requirements of the private debt and equity markets.**
  - ▶ **More highly regulated public debt market for land-secured financing.**

# New Home Pricing Trends







# **New Home Pricing**

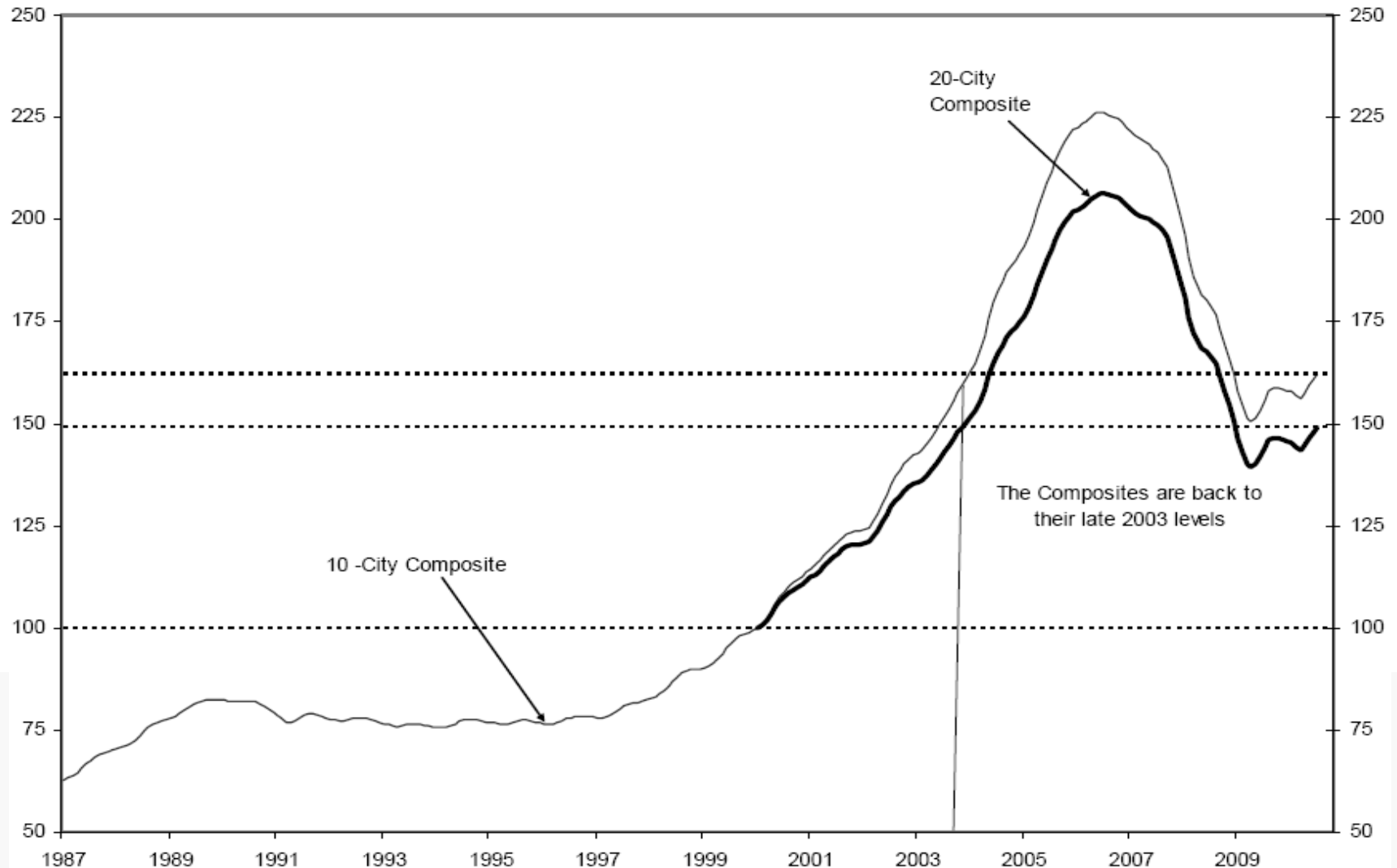
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- ▶ **Past trends in new home prices were unsustainable for the long run.**
- ▶ **Household incomes could not support high price levels.**
- ▶ **Recent price reductions and steady income levels have resulted in more affordable housing.**
- ▶ **Future El Dorado County demand will lead to a more balanced housing market with diversity of housing product types.**

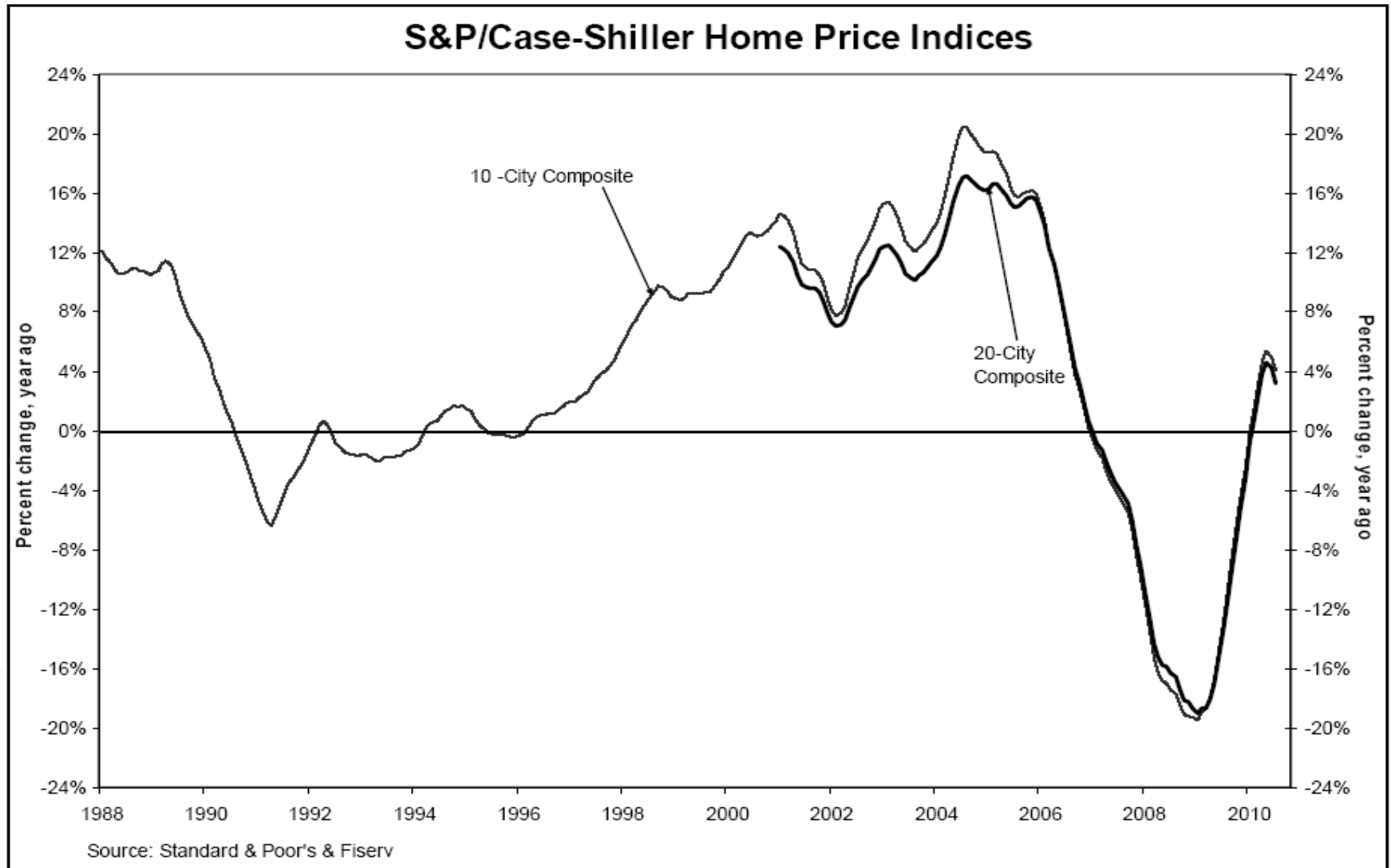




# Case-Shiller Housing Price Index (1987 to 2009)



# Case-Shiller Housing Price Index (1988 to 2010)



# Housing Price Appreciation Was Driven Primarily By Factors Other Than Income:

**“Housing prices have been driven by loose credit standards and misguided lender/borrower expectations that home prices would continue to rise”  
– Bank of America (January 2009)**

## **Aggressive Financing Practices:**

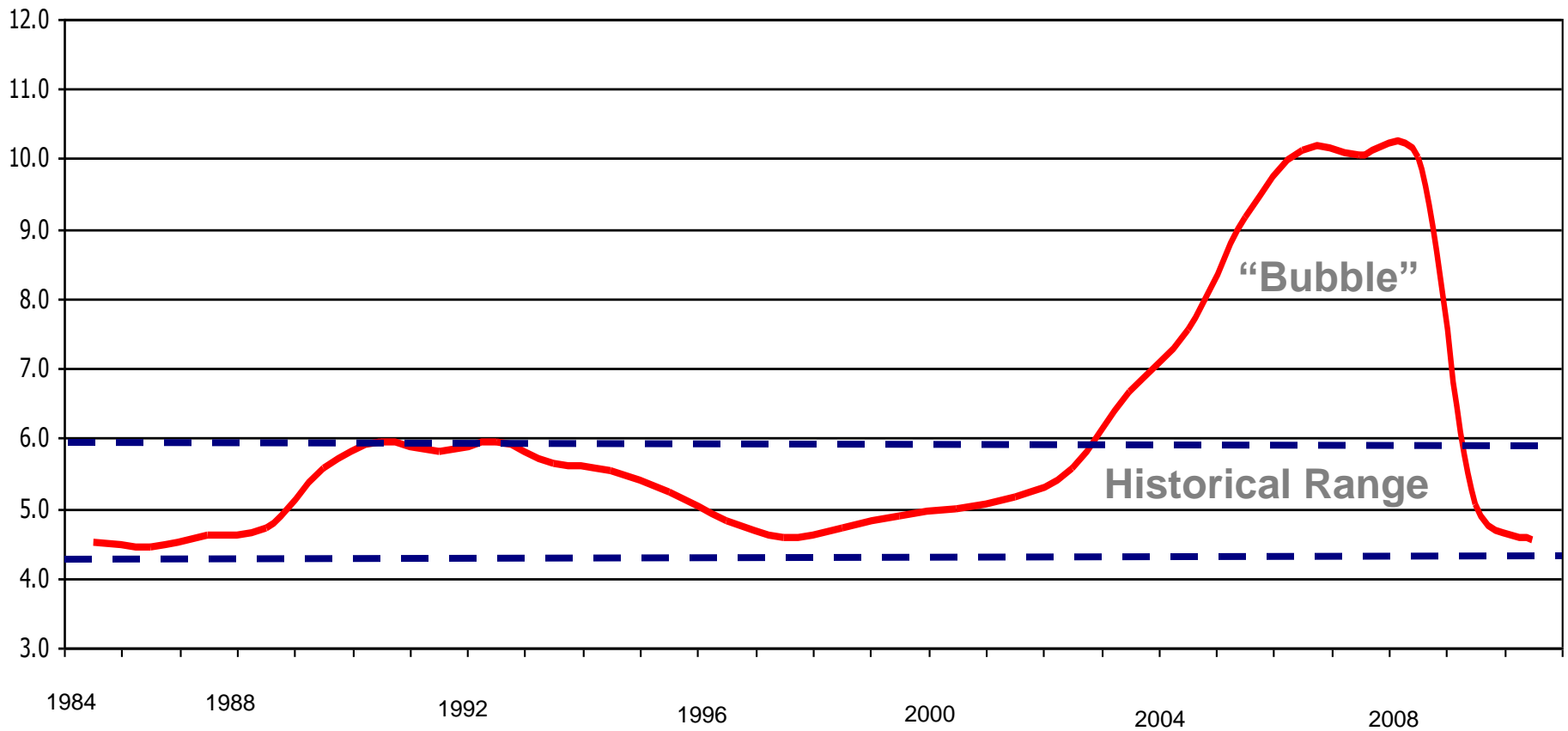
- Increased use of ARMs and Hybrid ARMs.
- Increased subprime lending.
- Lower underwriting standards.
- Zero down payment loans.

## **Increased Availability of Capital:**

- Securitization of mortgages.
- Institutional real estate investment.
- Foreign real estate investment.
- Private investment movement from stock to real estate capital markets.

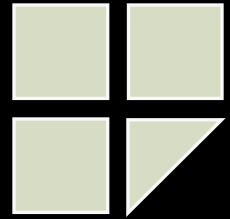
**These factors are not likely to reappear in the near future.**

# Ratio of Average New Home Price to Median Income: California

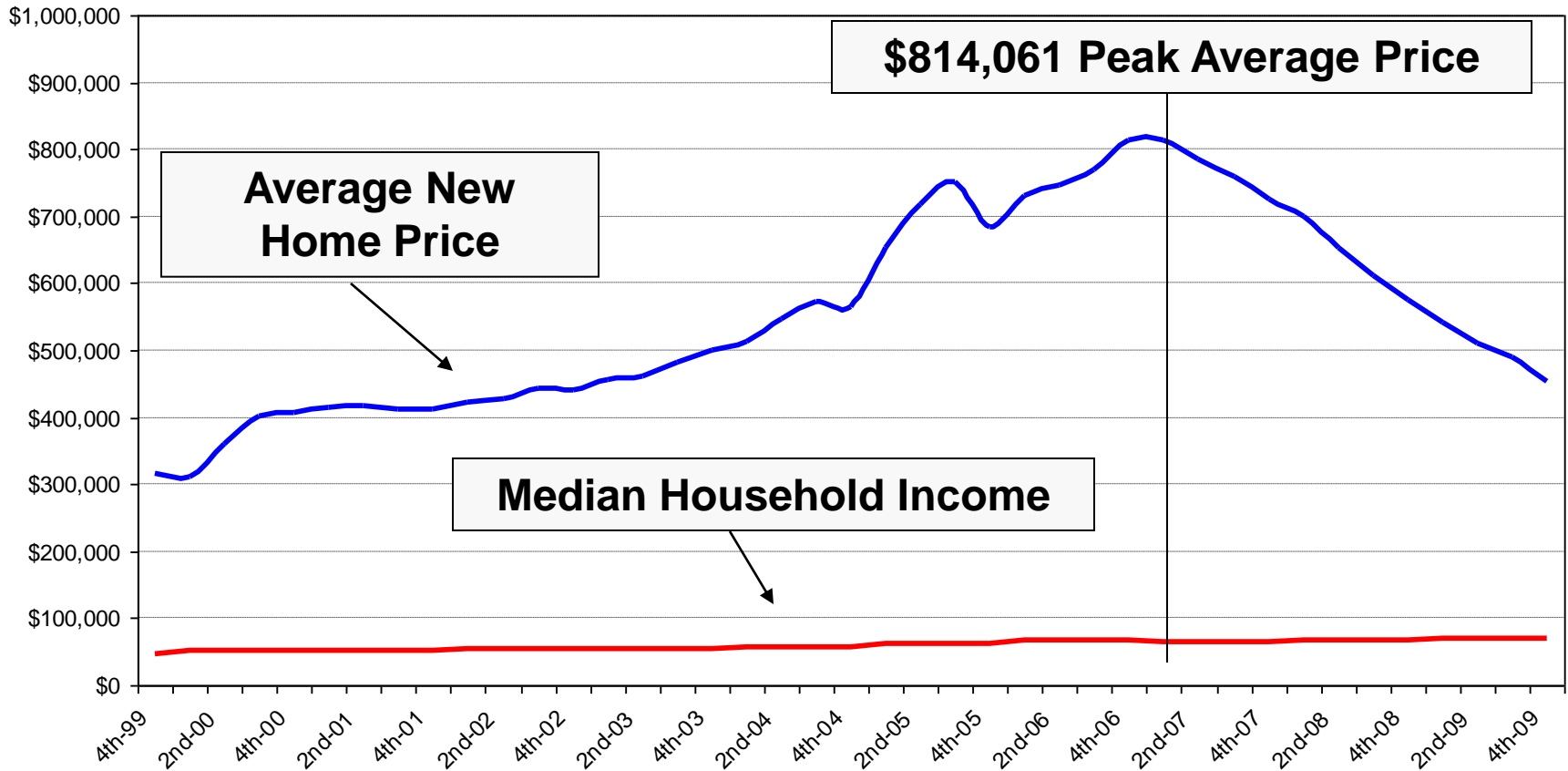


Source: The Gregory Group, EPS, US Census, Census 2000, American Community Survey, Estimates by The Gregory Group (Income 1999, 2001 and 2008).

# Relationship Between Estimated Average New Home Price and Median Household Income: El Dorado County

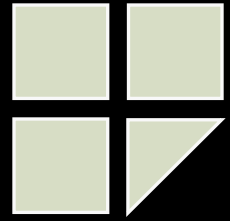


Note: Pricing after 4<sup>th</sup> Quarter 2007 reflects price estimated for projects to average 1.00 sales per week.

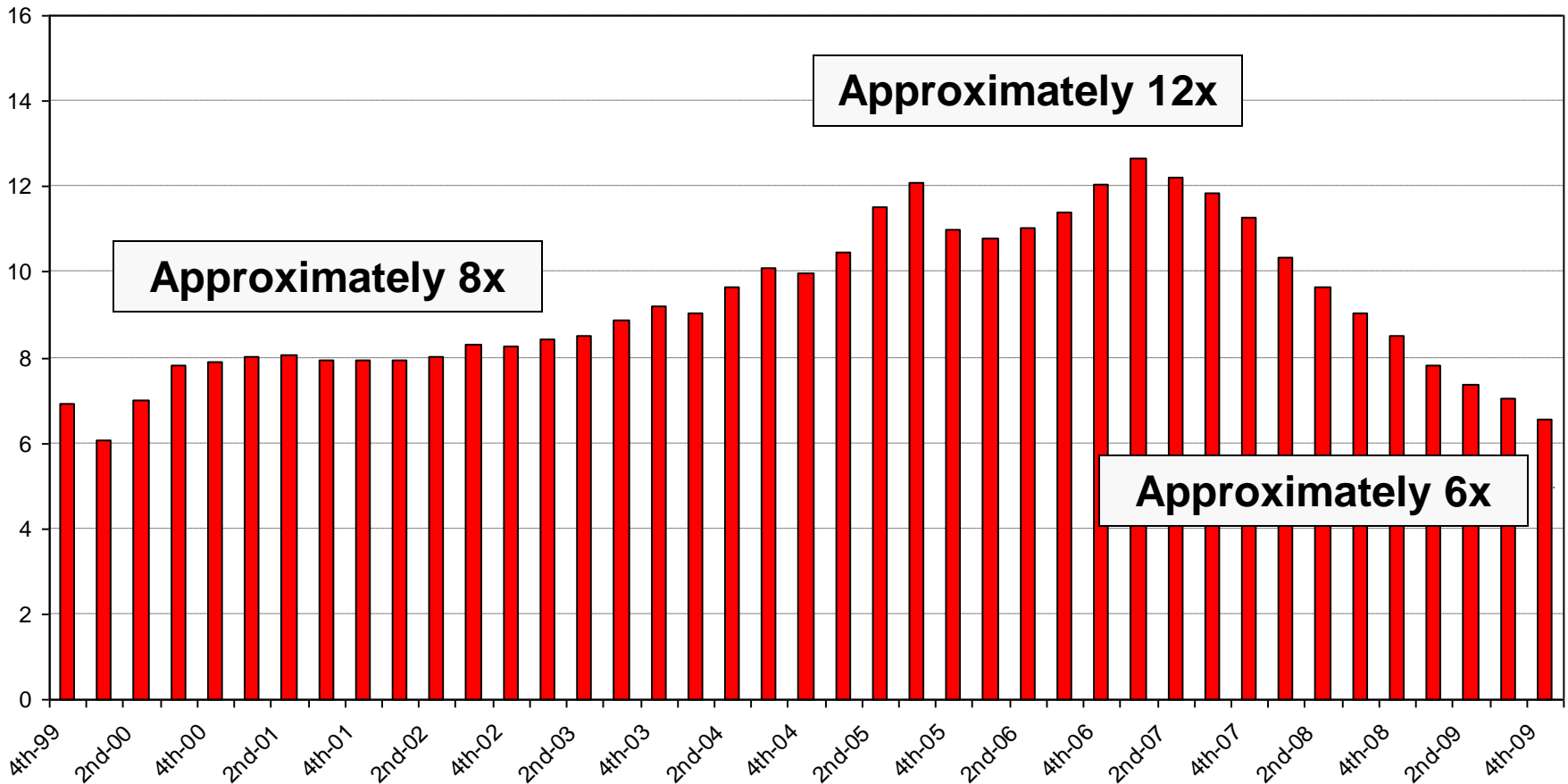


Source: The Gregory Group (Estimates 1999 and 2009), US Census, Census 2000, California Employment Development Department (2001 – 2007), American Community Survey (2008)

# Ratio of New Home Price to Median Income (El Dorado County)



Note: Pricing (and ratio) after 4<sup>th</sup> Quarter 2007 reflects price estimated for projects to average 1.00 sales per week.



Approximately 8x

Approximately 12x

Approximately 6x

Source: The Gregory Group (Estimates 1999 and 2009), US Census, Census 2000, California Employment Development Department (2001–2007), American Community Survey (2008)

# A New Paradigm – Back to Fundamentals

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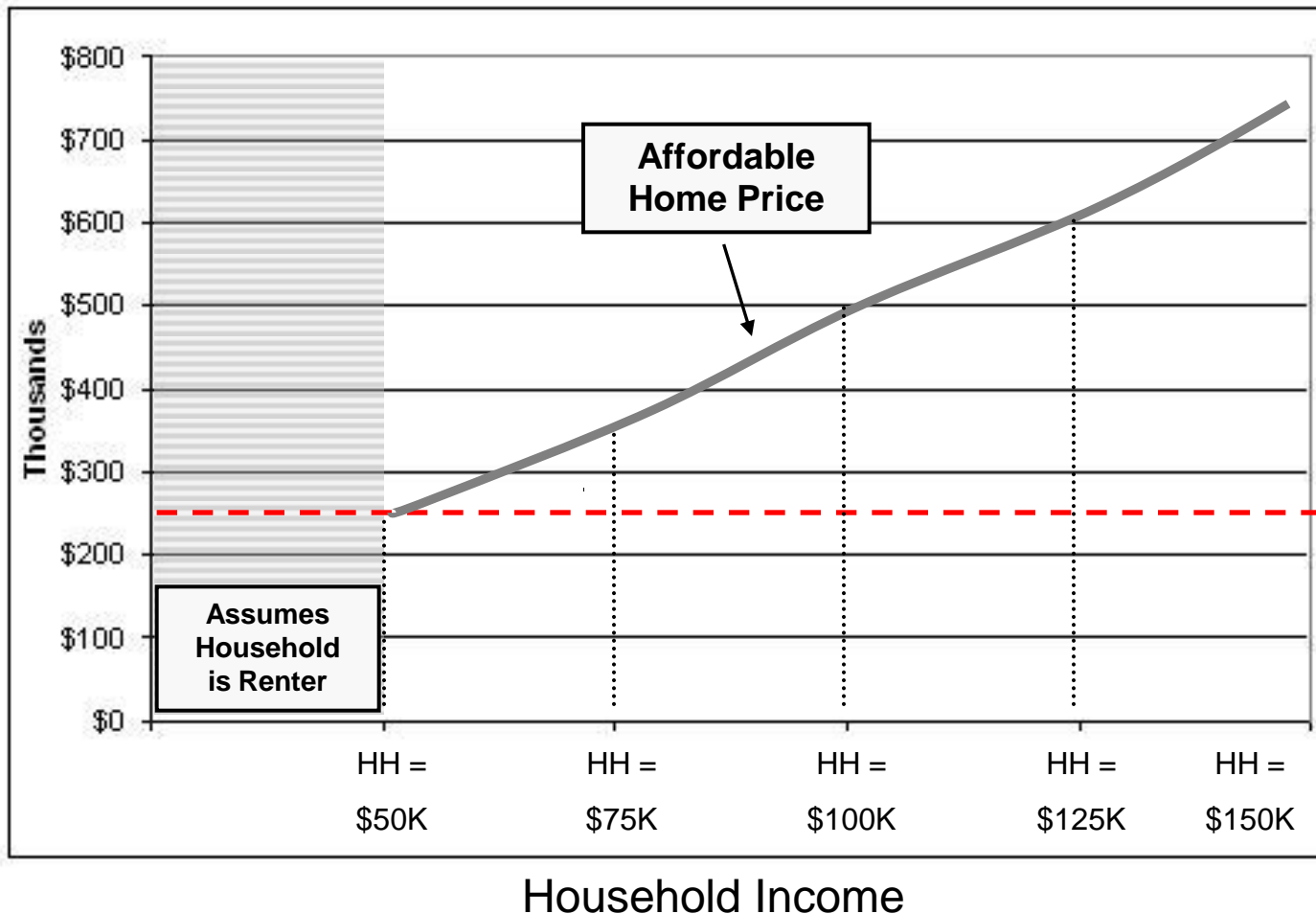


# Relationship of Housing Prices Relative to Income

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- ▶ **In a sustainable and stable market, home prices must be linked to household income levels.**

# Estimated Housing Prices and Affordability Based on Income



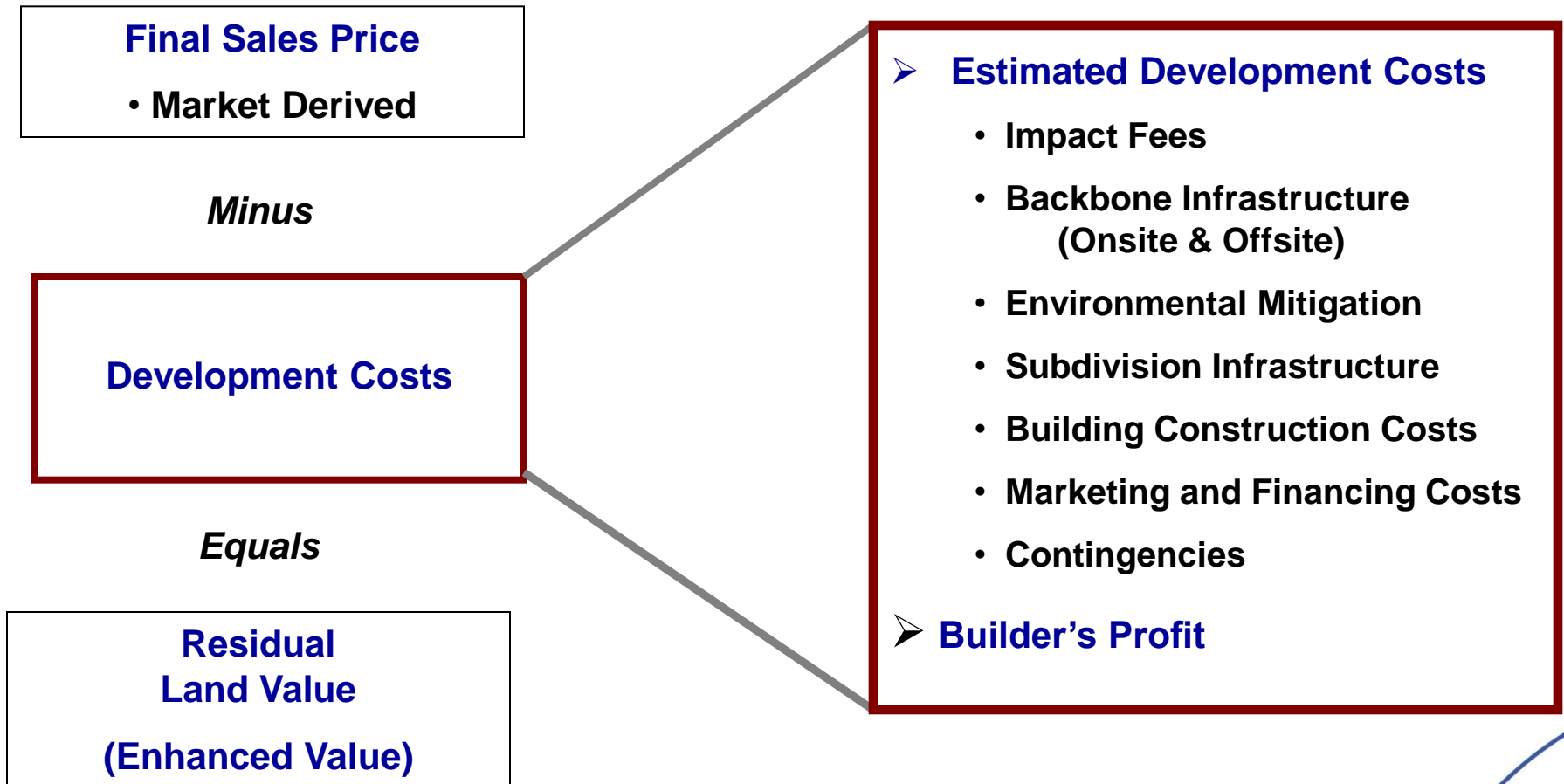
Median CA Home Sales  
= \$260 K  
(6/10)

# Measures of Development Feasibility

- ▶ **Residual Land Value.**
- ▶ **Infrastructure Cost Burden as a Percentage of Finished Home Sales Price.**



# Residual Land Value



# Land Development Cost



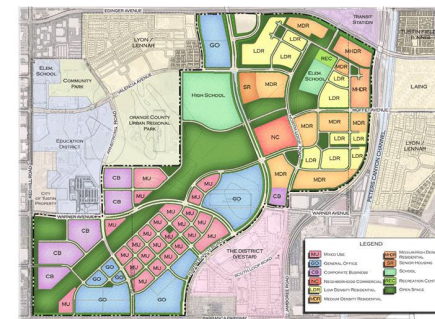
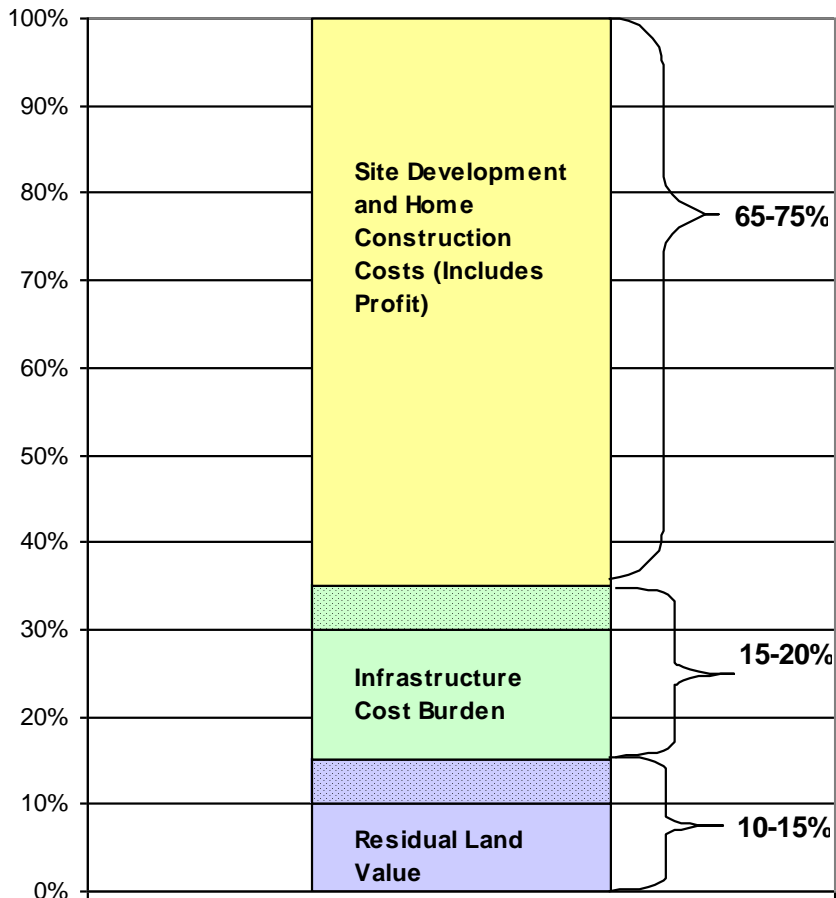
**Residual Land Value  
(Enhanced Value)**



- Land Acquisition
- Entitlement Costs
- Environmental Impact Report
- Planning Documents
- Infrastructure Master Plan
- Environmental Mitigation
- Developer Overhead
- Land Developer Profit

# Typical Components of New Single-Family Home Construction

Components of New Single Family Home Construction



# Residual Land Value Calculation – Single-Family Development

Item	Target %	Actual % of Selling Price - Single Family			
		El Dorado Hills	Cameron Hills	Oak Highlands	Placerville Estates
Home Price		\$400,000	\$340,000	\$300,000	\$354,000
Infrastructure Burden	No more than 15-20%	26%	29%	27%	19%
Unit Development		69%	80%	70%	93%
Total Cost of Unit		95%	109%	97%	112%
Residual Land Value	No less than 10-15%	5%	-9%	3%	-12%
Feasibility Test		<b>FAILS</b>	<b>FAILS</b>	<b>FAILS</b>	<b>FAILS</b>



# Residual Land Value Calculation – Single-Family Pro Forma Examples

Item	Feasibility Targets	Feasibility Range	Residual Land Value			
			El Dorado Hills		Placerville Estates	
			Total	% of Selling Price	Total	% of Selling Price
<b>Assumed Home Price</b>			\$400,000	100%	\$354,000	100%
<b>Infrastructure Burden</b>						
City/County, Plan Area, & School Fees			\$86,000	22%	\$68,000	19%
Other Backbone Infrastructure Costs			\$17,347	4%	-	0%
<b>Subtotal Infrastructure Burden</b>		<b>15-20%</b>	<b>\$103,347</b>	<b>26%</b>	<b>\$68,000</b>	<b>19%</b>
<b>Unit Development</b>						
Cost of Unit Construction			\$136,875	34%	\$143,000	40%
In-tract Subdivision Infrastructure			\$60,412	15%	\$101,534	29%
Soft Cost (20% of In-tract + Unit Const. Cost)			\$39,457	10%	\$48,907	14%
Builder Profit (10% of Sale Price)			\$40,000	10%	\$35,400	10%
<b>Subtotal Unit Development Cost</b>			<b>\$276,744</b>	<b>69%</b>	<b>\$328,840</b>	<b>93%</b>
<b>TOTAL COST OF UNIT</b>			<b>\$380,091</b>	<b>95%</b>	<b>\$396,840</b>	<b>112%</b>
<b>Residual Land Value (Paper Lot) [5]</b>		<b>10-15%</b>	<b>\$19,909</b>	<b>5%</b>	<b>(\$42,840)</b>	<b>-12%</b>
<b>Feasibility Tests</b>						
Infrastructure Burden				<b>FAIL</b>		<b>Marginal</b>
Residual Land Value				<b>FAIL</b>		<b>FAIL</b>

"sfr\_lvr"

# Residual Land Value Calculation – Multifamily Development

Item	Target %	Attached Multifamily - For-Sale		Multifamily - For-Rent
		Cameron Park	Oak Highlands	El Dorado Hills
Home Price		\$240,000	\$210,000	\$151,000
<b>Infrastructure Burden</b>	<b>No more than 15-20%</b>	<b>30%</b>	<b>28%</b>	<b>45%</b>
Unit Development		69%	76%	106%
Total Cost of Unit		99%	104%	151%
<b>Residual Land Value</b>	<b>No less than 10-15%</b>	<b>1%</b>	<b>-4%</b>	<b>-51%</b>
<b>Feasibility Test</b>		<b>FAILS</b>	<b>FAILS</b>	<b>FAILS</b>

# Impact on Funding Infrastructure

- ▶ Industry standard assumptions:  $\leq$  15%-20% of home price.
- ▶ Example Peak and Current Market Conditions:

	<u>Assumptions</u>	<u>Peak</u>	<u>Current</u>
Average Home Price		\$600,000	\$400,000
Feasibility Range	15%	\$90,000	\$60,000
For Backbone	to	to	to
Infrastructure	20%	\$120,000	\$80,000
and Public Facilities			

*Decrease of approximately \$30,000-\$40,000 per unit.*

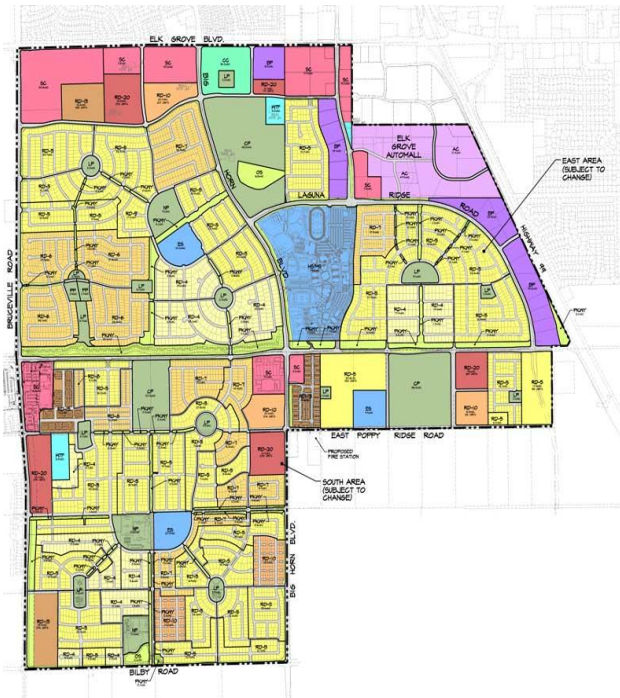
# Impact on Mello-Roos Financing

- ▶ Target:  $\leq 0.4\%$  of home price.
- ▶ Peak & current market price points:

	<u>Assumptions</u>	<u>Peak</u>	<u>Current</u>
Average Home Price		\$600,000	\$400,000
Tax Rate for Infrastructure	0.4% of Home Price	\$2,400	\$1,600
Total Bonds		\$26,400	\$17,600
Estimated Construction Proceeds	75% of Bonds	\$19,800	\$13,200

***Decrease of approximately \$6,600 per unit.***

# Potential Solutions





# The Public/Private Partnership

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**A new paradigm for public finance is required.**

- ▶ **Builders and public agencies need to work together to reset expectations and responsibilities.**
- ▶ **Builders and public agencies need to recognize that home prices have fallen to a range that matches available income.**
- ▶ **Builders will need to adjust products and land plans.**
- ▶ **Public agencies will need to adjust expectations as to how much new housing can contribute to infrastructure.**



# Potential Solutions

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- ▶ **Immediate actions**
- ▶ **Short- to mid-term actions**
- ▶ **Long-term actions**





# Immediate Actions

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- ▶ **Fee deferrals**
- ▶ **Fee financing**
- ▶ **Phased implementation**
- ▶ **Interim reductions**
- ▶ **Fee waivers**

# Short- to Mid-Term Actions

- ▶ Review facility master plans.
- ▶ Review cost estimates.
- ▶ Review land use and cost allocation assumptions.
- ▶ Establish alternative development-based financing methods to fund obligations.
- ▶ Apply available federal or State funding to high priority projects.
- ▶ Participate in development impact fee financing programs (e.g., California Statewide Community Infrastructure Program).
- ▶ Fees scaled to unit size.
- ▶ Total fees based on percentage of valuation.
- ▶ Land secured financing options.



# Long-Term Actions

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- ▶ **Revise General Plan or specific plan service standards and facility requirements.**
- ▶ **Amend existing ordinances that impose costs on development.**
- ▶ **Develop broad-based funding sources for infrastructure priorities (e.g., local sales tax measure or real estate transfer tax).**
- ▶ **Identify economic development opportunities that strengthen the economic base and viability of local economy.**



# **El Dorado County Development Feasibility Study**

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## **Questions and Comments**