

The Economics of Land Use



Report

San Joaquin Valley Infill Development Viability Analysis

Prepared for:

Fresno Council of Governments

Prepared by:

Economic & Planning Systems, Inc.

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*Economic & Planning Systems, Inc.
One Kaiser Plaza, Suite 1410
Oakland, CA 94612-3604
510.841.9190 tel
510.740.2080 fax*

*Oakland
Sacramento
Denver
Los Angeles*

www.epsys.com

EPS #141022

Table of Contents

ACKNOWLEDGMENTS	1
1. INTRODUCTION AND OVERVIEW	2
Study Purpose and Policy Context	2
Economic Context and Report Scope	2
2. SUMMARY OF STUDY FINDINGS	5
Summary of Findings.....	5
3. RESIDENTIAL DEVELOPMENT OVERVIEW	8
Evolution of the Region’s Urban Form	8
Residential Development Trends	11
Role of Commute Patterns and Transportation System.....	16
4. FRESNO COUNTY HOUSING DEMAND	18
Population, Income, and Employment.....	18
Household Characteristics	20
Multi-Generational Housing	26
5. FRESNO COUNTY HOUSING SUPPLY	28
For-Sale Housing Market.....	28
Rental Housing Market.....	33
Recent Apartment Project Case Studies	37
6. HOUSING DEVELOPMENT FEASIBILITY	42
Methodology.....	42
Analysis of For-Sale Product Types	43
Analysis of Rental Product Types.....	47
Other Factors Affecting Development Feasibility.....	52
7. IMPLICATIONS FOR SCS POLICY AND IMPLEMENTATION	53
Regional Land Supply	53
Infill Development Constraints and Incentives	55
Align SCS Implementation with Economic Realities.....	56

List of Figures

Figure 1	Fresno County Population (1860-2010).....	8
Figure 2	Annual Rate of Urbanization in Fresno County.....	9
Figure 3	Population Density in California Cities.....	10
Figure 4	Population Density in Fresno County Cities.....	11
Figure 5	Residential Product Type Distribution (2013).....	12
Figure 6	Housing Growth (Units).....	12
Figure 7	Building Permit Trend in Fresno County.....	13
Figure 8	Rental Apartments in Fresno County.....	14
Figure 9	Affordable versus Market Rate Multifamily Housing (1980–2013).....	15
Figure 10	Housing Growth by Type in Fresno Jurisdictions (2000 – 13).....	15
Figure 11	Fresno County Residents' Place of Work (2011).....	16
Figure 12	Map of Fresno County Residents' Place of Work (excludes other Counties).....	17
Figure 13	Population, Households, and Household Income in Fresno County.....	18
Figure 14	Employment in Fresno County.....	19
Figure 15	Income Distribution.....	21
Figure 16	Average Household Size.....	22
Figure 17	Household Composition.....	22
Figure 18	Average Family Size.....	23
Figure 19	Households with Related Children.....	23
Figure 20	Age Distribution.....	24
Figure 21	Household Tenure (Rent vs. Own).....	25
Figure 22	Renter Households by Income (Percentage of Households).....	26
Figure 23	Hispanic or Latino as a Percentage of Total Population.....	27
Figure 24	Attached vs. Detached Sales Volumes (2002-12).....	28
Figure 25	Residential Sale Value Trend (in 2014\$).....	29
Figure 26	Fresno County Average Home Values (2013).....	30
Figure 27	Current Development Projects in Fresno County.....	31

List of Figures (continued)

Figure 28	New Home Sales vs. Re-Sale of Existing Homes in Fresno County	32
Figure 29	New Home Affordability	33
Figure 30	Residential Rental Rate Comparison	34
Figure 31	Residential Rental Rates.....	35
Figure 32	For-Sale Product Pro Forma Assumptions	44
Figure 33	Financial Feasibility of For-Sale Home Development	46
Figure 34	Rental Product Pro Forma Assumptions	48
Figure 35	Residual Land Value Estimates by Rental Rate	50
Figure 36	Residual Land Value Estimates by Development Cost.....	51

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1. INTRODUCTION AND OVERVIEW

Study Purpose and Policy Context

This Report evaluates the economic feasibility of infill residential development in Fresno County. It has been prepared by Economic & Planning Systems (EPS) for the Fresno Council of Governments (COG), which is working in cooperation with the eight San Joaquin Valley Metropolitan Planning Authorities (MPOs). The MPOs are in the process of implementing ambitious and achievable Sustainable Community Strategies (SCS) throughout the San Joaquin Valley (The Valley) with reference to the San Joaquin Valley Blueprint Planning Process. The Valley Blueprint process took place in the mid-2000s, with support from Caltrans, to engage residents in articulating a vision for the long-term future of their region. The final plan was adopted April 1, 2009. The SCS process has been initiated pursuant to the requirements of SB 375, legislation passed in 2008 as a part of the State's efforts to achieve greenhouse gas (GHG) emissions reductions. This study is designed to inform these current planning processes and related land use policy and planning initiatives.

A central component of the SCS plans being prepared around the State is promoting a shift in land use patterns toward infill development and a generally more compact urban form. It is widely acknowledged that achieving infill development in the San Joaquin Valley confers to a broad range of benefits. In addition to the potential for reductions in GHG emissions, compact infill development may increase the economic vitality of urban centers; decrease consumption of energy, water, and other natural resources; reduce conversion of farmland and natural habitat areas; and create new opportunities for more efficient infrastructure investment and delivery of municipal services—all ample justification for new investment and effort to achieve infill development.

At the same time, achieving a more compact urban form in the San Joaquin Valley will be complex given historical development patterns, the interplay of market demand and supply factors, financial feasibility constraints, and existing land use policies and regulations. In this context, a shift toward higher-density development has raised some concerns regarding economic viability and the potential for unintended consequences, potentially including constrained economic growth and housing development. In addition, if it turns out that compact development is not realized as anticipated by SCS efforts, the projected GHG reductions may not materialize. Recognizing and managing infill development constraints will be essential to formulating policies that can help overcome challenges and achieve desired results.

Economic Context and Report Scope

There are numerous constraints to infill development that are faced by developers and local governments in the Valley. For purposes of this study, development constraints have been grouped into the following interrelated categories:

1. **Market Constraints.** Market constraints occur when local real estate market conditions, presently or as expected in the future, do not support the type or intensity of development envisioned or allowed by local land use policy or regional growth projections. While market prospects for multifamily and mixed-use development (the development prototypes

commonly associated with infill development) have recently been and likely will remain strong in the State's coastal areas, conditions in the San Joaquin Valley, where rents and values have historically been lower relative to the coastal markets, are less certain. In some instances, public investment can alter market demand by addressing infrastructure or institutional shortcomings that affect the attractiveness of an area. Examples may include investments in streetscape upgrades or open space, or the removal of a nuisance activity or property.

2. **Financial Feasibility Constraints.** Financial feasibility constraints are related to market constraints but add the "hurdle" of infill development construction costs—feasibility constraints occur when potential new development does not create enough value (i.e., sales prices or rents) to offset development costs that includes site-related costs and the cost to construct this development. In combination, market and site constraints often render desired multifamily and mixed-use development infeasible from a private investment standpoint. Over time these financial feasibility constraints may diminish as market conditions improve, infrastructure constraints are resolved and as incremental public and private redevelopment efforts become successful.
3. **Site-related Constraints.** While there are some vacant sites within infill development areas much of the infill development capacity will come from redeveloping existing commercial, industrial, or lower density residential land uses with new multifamily or mixed-use development. In many instances, small parcels with problematic configurations will require private or public parcel assembly to create adequate sites for new development. In addition to land assembly and costs associated with dislocation/relocation of existing land uses, infill development areas also may have historical uses that deposited hazardous materials in buildings or grounds, such as previous gasoline stations or dry cleaners or industrial sites handling hazardous materials. The cost of remediating these sites is often well beyond the existing land value and may exceed the financial capacity of even more intensive infill development.
4. **Infrastructure Constraints.** Infrastructure constraints occur when desired infill development cannot be supported due to deficiencies in major infrastructure (transportation system, public parking, water and sewer utilities, transit services, etc.) serving the area. One of the factors supporting infill development is the opportunity to take advantage of existing infrastructure capacity. However, dilapidated or inadequate basic infrastructure requires substantial public investment to improve capacity and related development readiness. In some cases, infrastructure deficiencies exceed the development-based financing capacity of the area. In these cases, external sources of funding (citywide sources, regional and State funding, and federal funding) are necessary to provide infrastructure for infill areas. With the demise of redevelopment agencies and the encumbrance of land, cash assets, and bond proceeds by the successor agencies and State Department of Finance (DOF), local governments have limited authority and financing capacity to promote or pursue redevelopment projects through land assembly or subsidizing desired private development.
5. **Political and Legal Constraints.** A policy constraint occurs when the existing local land use policies (land uses, densities, development restrictions such as height limits, etc.) do not allow the development intensity necessary to incentivize redevelopment and/or accommodate the regional housing or jobs forecasts for the area. A key factor in infill

development planning and development regulations is achieving “regulatory certainty” – creating a transparent regulatory environment where the private sector investors understand what is required to gain entitlements and regulatory discretion is limited as a matter of policy (e.g., use by right zoning). In areas where land use policies are in place that limit infill development potential (density or height limits, etc.), a logical first step is to complete additional land use planning and revision of development regulations (e.g., preparation of specific plan) and related environmental review, consistent with desired infill development objectives. Where local political opinion opposes intensification, a common pattern in higher income suburban enclaves, such policy reforms will be difficult to achieve. In this context California Environmental Quality Act (CEQA) can add considerable risk to the entitlement process (although CEQA is also applicable to “greenfield” development).

This study focuses primarily on the first two constraints described above (Market Constraints, and Financial Feasibility Constraints) based on an analysis of trends and conditions in Fresno County. However, given the interrelated nature of these issues, many of the other constraints are referenced as relevant throughout the study as they bear on the fundamental issue of development feasibility. While this analysis is based primarily on data for Fresno County, many of the conclusions are likely to have broad applicability throughout San Joaquin Valley given the shared economic attributes within many of the communities in this region.¹

This Report offers a Summary of Findings followed by:

- Overview of Residential Development
- Housing Demand
- Housing Supply
- Housing Development Feasibility
- Implications for Blueprint and SCS integration

¹ Unless otherwise indicated, the data and information presented herein is representative of Fresno County as a whole. However, specific examples, case studies, data points, and other information for individual jurisdictions are referenced throughout.

2. SUMMARY OF STUDY FINDINGS

This study assesses the viability of infill residential real estate development in the San Joaquin Valley, with a focus on Fresno County. The report considers land use history and current patterns, demographics trends, current real estate market activity, and a private financial feasibility view of infill opportunities.

Summary of Findings

- 1. There are a variety of development constraints that hinder infill development, but the economic structure and performance of Valley communities are the most critical issues.***

While the Valley has seen employment growth in a variety of industries, agriculture remains the regional economic driver. While this industry is critical to the well-being of the State, the compensation levels of typical workers in this industry are well below statewide averages. Furthermore, support industries and ripple effects are limited by the relatively modest economic value generated regionally. The lack of high-income industries and their well-compensated workforce, coupled with an abundance of low-cost land, has made sprawling low-density development the Valley norm for decades.

- 2. Development of Fresno County in the second-half of the 20th century reflected the prominence of the automobile, federal policies, and the rapid population growth throughout California.***

The San Joaquin valley boomed with population and job growth after World War II at the same time the federal government was expanding the national highway system and promoting home ownership. Residents moving to the Valley during this growth period sought safe suburban communities, a house with a yard, and an easy drive to work, all of which could be found at a relatively low-cost in Fresno. This development period cemented a land use pattern that still exists today.

- 3. Historic land use patterns have ingrained a dispersed economic landscape.***

The Valley's suburban settlement pattern and agriculture-heavy employment base resulted in an economic geography which devalued historic urban cores, such as Fresno's downtown. Jobs are not clustered in the Valley's downtowns, but rather spread throughout the region broadly. Without major employment centers or an efficient hub-and-spoke mass transit system, the Valley's urban centers possess less economic potency as compared with urban employment centers elsewhere in the State.

- 4. Demographics drive demand for housing and Fresno's large households, often with multi-generational occupants, are less likely to demand compact development.***

There is population growth in Fresno and the Valley that has and will continue to support new housing development, but the demographics of the Valley suggest that more than California as a whole, residents favor traditional single-family homes. For example, in Fresno, where Hispanics make up roughly half of the population, the prevalence of multi-generational households limit demand for compact development, since these large families are likely to seek larger detached homes. Further, household income is relatively low, which makes higher-cost infill housing challenging for developers from a financial feasibility standpoint.

5. Fresno households are more likely to be renters than the statewide average and occupy single-family houses.

Largely due to income levels and personal finances (consumer credit), but also because of the transient nature of agricultural workers, among other factors, Fresno has a high proportion of households that rent. Unlike in many California cities, however, these renters are commonly occupying single-family detached housing. The availability of low-cost single-family rentals makes it difficult for high-priced infill development to compete with existing housing stock.

6. On the supply side, condominiums and townhomes represent an extraordinarily small share of for-sale housing transactions and have not yet recovered from the "Great Recession."

Condominium and townhome sales have made up about 5 percent of the Fresno County housing market in recent years (and many are not multifamily units, but houses or mobile homes with a condominium ownership structure), versus about 17 percent statewide. Moreover, market prices for condominiums and townhomes in 2012 were down more than 50 percent from highs seen in 2007, to an average of \$100,000 per unit.

7. New homes delivered in the Valley are priced starting at roughly \$150,000, though most homes sell for \$300,000, falling out of reach for most households.

While there is significant variation throughout Fresno County, the average price for a new home is affordable for about 30 percent of households, while 50 percent can afford to buy an average existing home, based on recent sales and income data. The healthy supply of new and existing single-family homes has kept market prices low and makes it challenging for higher-cost infill development to compete. However, infill development at highly desirable, amenitized, and well-located sites may be able to compete on quality factors rather than price alone, such as transit adjacency, walkability, access to recreational amenities, etc.

8. New homes make up about a fifth of the for-sale housing market, with prices that are on average 70 percent higher than existing homes.

With the economic recovery over the past few years, the for-sale housing market has improved and new homes are selling again. However, new communities generally offer relatively high-priced units, as compared to existing homes on the market. Meanwhile, new home sales account for about 20 percent of total transactions in a market, which appears atypical for such a large population center (by way of comparison, new sales account for about 8 percent of all total transactions in Sacramento County). These two trends suggest that the steady supply of new single-family housing may also be limiting price appreciation of the existing housing stock, leading many existing home owners to hold on to their property longer than the norm, either because they are "under-water," can't afford a new home (i.e., their existing home has not appreciated relative to new homes), do not have sufficient income growth to "trade up", or some combination of the above. Whatever the case, limited value appreciation of infill neighborhoods may serve as a disincentive to invest in these locations.

9. Small-lot homes are gaining market acceptance and now account for roughly 20 percent of the new home market sales volume in Fresno County.

Small-lot projects have accounted for about 20 percent of sales in recent months and may be appropriate for some infill areas. The small-lot projects offer detached homes at higher densities (e.g., ~14 du/net acre), creating a more compact land use outcome than traditional single-family development (e.g., ~8 du/net acre). Available market data indicate that the small-lot homes sell for less, but achieve higher values than traditional homes on a price-per-square-foot basis.

10. Valley rents are roughly in-line with regional income level, which is good for affordability but challenging for development feasibility of new apartment development.

Rents in Fresno and the Valley overall are low relative to urban center where multifamily development is more common. Infill development, for a variety of reasons, costs more to develop and therefore must achieve higher rents to be financially viable. Rents will need to be higher if compact infill development is to become more common around the Valley.

11. Current economics support lower density single-family development, but most higher-density housing requires subsidy.

With only a few exceptions, high-density development is not occurring in Fresno without some type of public assistance. The EPS pro forma analysis supports this, finding that traditional for-sale single-family is financially viable, small-lot single-family development is marginal, and for-sale multifamily development is infeasible, given current markets conditions and typical development product types evaluated in this analysis. A review of recently-completed apartment complexes in Fresno County reveals that many are subsidized, either with affordable housing sources or through Redevelopment Agencies (before dissolution). Some developers indicate that private development of apartments can be feasible if market conditions are above average such as desirable location (e.g., reputable school district or near a university), if costs are low (e.g., low land cost basis or economies of scale associated with large developments), or if developers take a long-term view and build and hold with modest expectations for their return.

12. There are a variety of approaches to promoting infill development, consistent with the Valley Blueprint.

The Valley's land use pattern, demographics, and housing market make it a challenging place for developers to pursue infill development. The scarcity of public funds to promote infill limits the options that local and regional governments have to subsidize this form of physical growth. However, the potential for infill development may be improved through economic development activities (attraction of new employers and job opportunities), public investments in community facilities and services that enhance quality of life, increase public support for affordable housing, and lowering barriers to development, such as entitlement streamlining, reduced fees, and other measures.

3. RESIDENTIAL DEVELOPMENT OVERVIEW

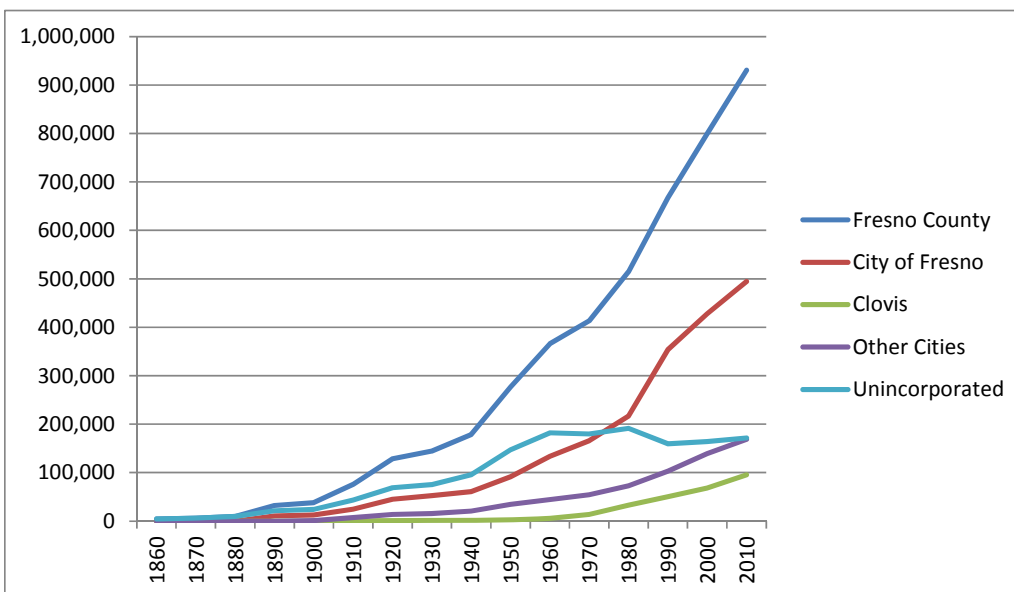
This chapter presents an overview of residential development trends in Fresno County over the last 30 plus years as a basis for documenting historical development patterns and the resulting existing built environment. As context, it also compares the type and amount of infill and/or higher-density housing in Fresno to other urban markets and California as a whole. Among other things, the analysis is intended to shed light on the degree to which SCS infill development goals represent a departure from “business as usual” or baseline trends in Fresno County.

Evolution of the Region’s Urban Form

The current residential land use patterns throughout Fresno County are the result of decades of development with origins in the mid-1800s when the City of Fresno formed around a Southern Pacific Railway Depot in the historic downtown. Urban development gradually emanated outwards from a town center that originally served as the focal point of commerce. The City of Fresno was formally established in 1885 and along with Selma (1893) remained the County’s only incorporated communities until the early 1900s. The first streetcars were introduced in 1892 and streetcar suburbs soon followed in now historic neighborhoods such as the Tower District. Residential development generally extended northward and eastward from downtown.

As illustrated in **Figure 1**, the County grew gradually, primarily in the City of Fresno until the early 1940s. By 1940 the total County population was only about 18 percent of its current level. However, following the patterns of many Valley communities, urban growth accelerated during the post-war era. Accordingly, development patterns in the region reflect the prevalence of the automobile and its integration into American life. Development began to spread broadly outside of the Fresno Downtown and its streetcar neighborhoods, resulting in rapid growth in many of the County’s other cities.

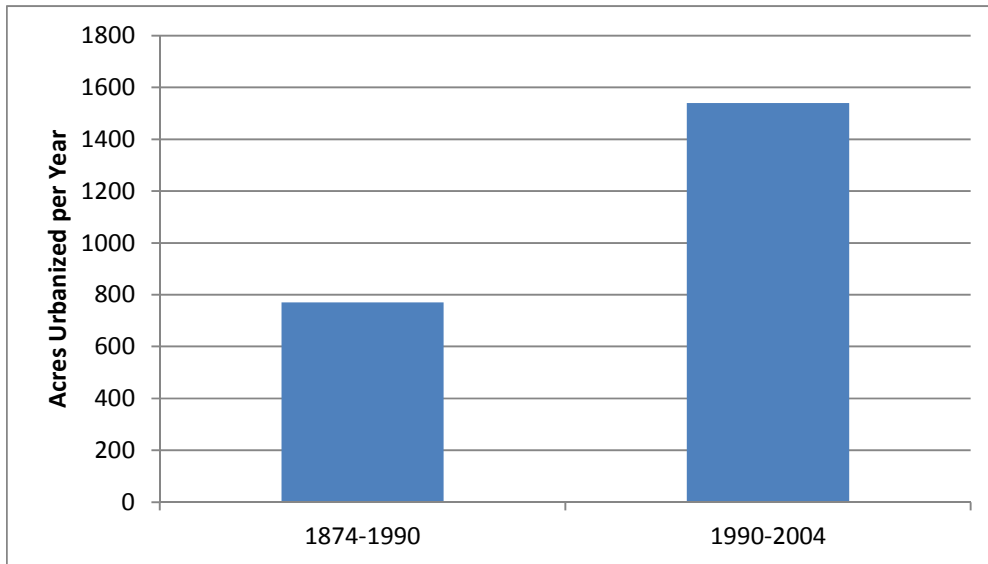
Figure 1 Fresno County Population (1860-2010)



Source: State of California Department of Finance

While the County has continued to experience rapid population growth since the 1940s, it wasn't until after the 1990s that development began to significantly impact agricultural lands, the mainstay of the regions' economy. According to data compiled by the American Farmland Trust, between 1990 and 2004 Fresno County lost 21,525 acres of agricultural land to urban development, as shown in **Figure 2**.² The annual loss during this period was 1,539 acres or 2.4 square miles. This is almost double the rate that occurred from 1874 to 1990 where an average of 770 agricultural acres was lost per year (89,345 acres over 116 years).

Figure 2 Annual Rate of Urbanization in Fresno County



Source: American Farmland Trust

The City of Fresno remains by far the largest municipality, accounting for 53 percent of County population, and has, for the most part, continued to account for the largest share of growth in absolute terms over time. With 112 square miles, it is also a relatively geographically expansive City with substantial remaining development capacity. By way of example, the analysis developed as part of the Fresno General Plan Update identifies vacant land capacity for almost 30,000 units within the existing incorporated areas, excluding redevelopment opportunities. If fully developed, this supply of vacant land would accommodate a 20 percent increase in the City's population.

While other municipalities in the County have less development capacity within their urban limits, they continue to accommodate new growth through annexation. By way of example, Reedley has reached approximately 93 percent of its residential development capacity within its existing City limits, suggesting it could accommodate about 500 to 600 more units without annexation. However, the recently adopted General Plan expands the City boundaries by over 20 percent and the Sphere of Influence by 30 percent, although specific thresholds must be achieved before

² Thompson, Ed, Jr. Paving Paradise: A New Perspective on California Farmland Conversion. American Farmland Trust, Nov. 2007.

annexation can occur (see **Chapter 7** for further discussion of Reedley's urban growth management policies).

In terms of statewide comparisons, the City of Fresno is currently the fifth largest municipality in California. However, the City's overall density, as measured by population or housing units per acre (population divided by total acres in within the City), is relatively low. Compared against California's top 10 largest cities (based on population), the City of Fresno has the 8th lowest density measured in terms of population per square mile, as illustrated in **Figure 3**.

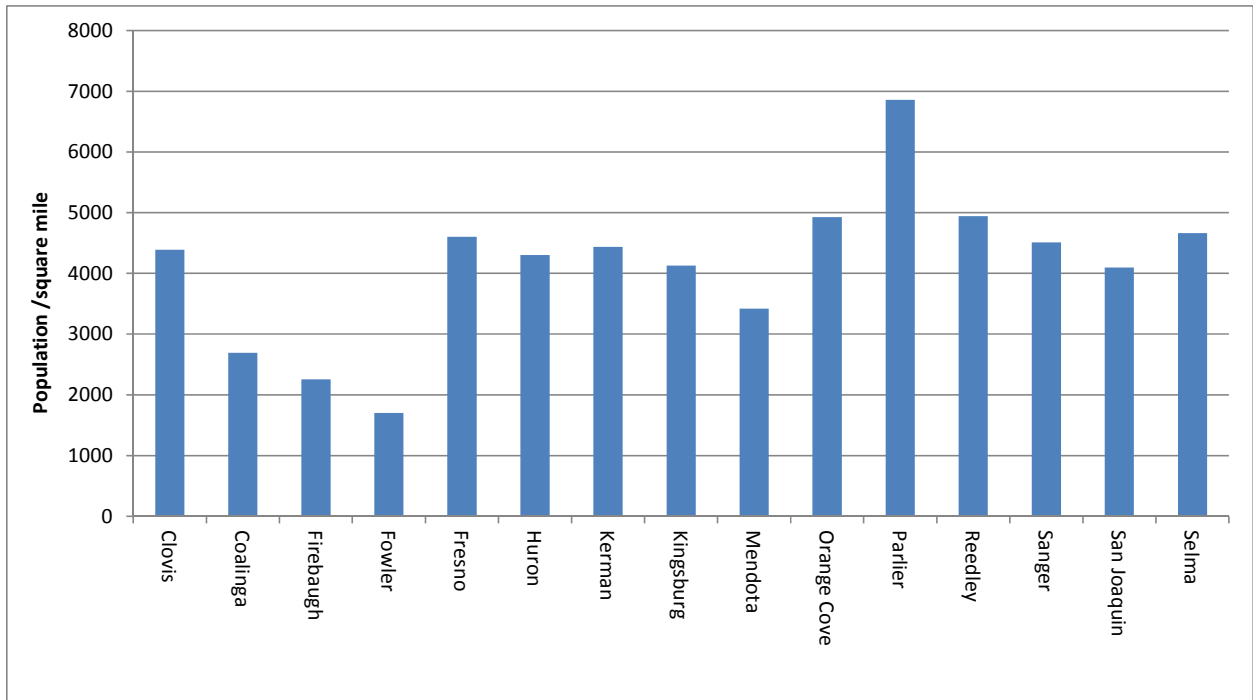
Comparing individual jurisdictions within the County, Parlier, Reedley and Orange Grove have the highest population per acre (see **Figure 4**). In other words, these cities appear to have a more clustered development pattern than others in the County. Of course, other factors such as the amount of park and open space acres in a particular city can influence this ratio.

Figure 3 Population Density in California Cities

City	Population Rank	Population	Square Miles	Population / Square Mile	Density Rank
Los Angeles	1	3,884,307	469	8,092	3
San Diego	2	1,355,896	325	4,020	9
San jose	3	998,537	177	5,359	6
San Francisco	4	837,442	47	17,179	1
Fresno	5	509,924	112	4,418	8
Sacramento	6	479,686	98	4,764	7
Long Beach	7	469,428	50	9,191	2
Oakland	8	406,253	56	7,004	4
Bakersfield	9	363,630	142	2,444	10
Anaheim	10	345,012	50	6,748	5

Source: United States Census Bureau; Economic & Planning Systems, Inc.

Figure 4 Population Density in Fresno County Cities

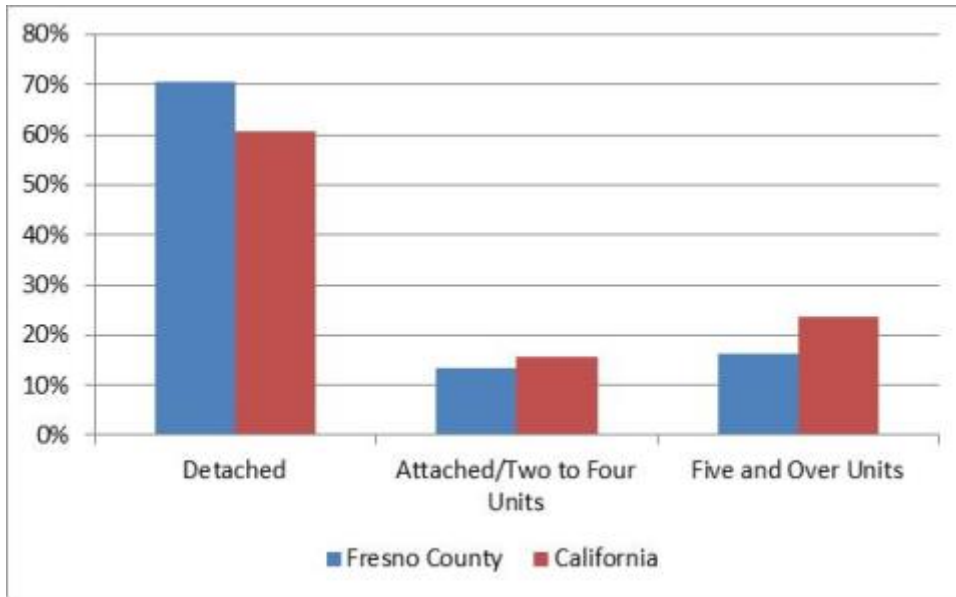


Residential Development Trends

Residential development in Fresno County occurs across a spectrum of density and product types. The presence of “multifamily” development (i.e., building structures with two or more units) is commonly used as a measure of density, and infill development. Multifamily units are often apartments and condominiums, more common to city neighborhoods than outlying suburban areas. However, not all multifamily development is situated in infill locations and not all infill takes the form of higher-density multifamily units. For example, small-lot detached single-family units may be found in infill locations while multifamily garden apartments or condominium units may be found in outlying communities.

With these caveats in mind, Fresno County’s housing type breakdown reinforces its profile as a relatively low-density residential market. Currently about 70 percent of the residential units in Fresno County are characterized as single-family detached homes, compared to about 60 percent in California as a whole, as illustrated in **Figure 5**. In other words, due to both market demand and supply considerations, the single-family residential format is substantially more predominant in Fresno County than in the state as a whole.

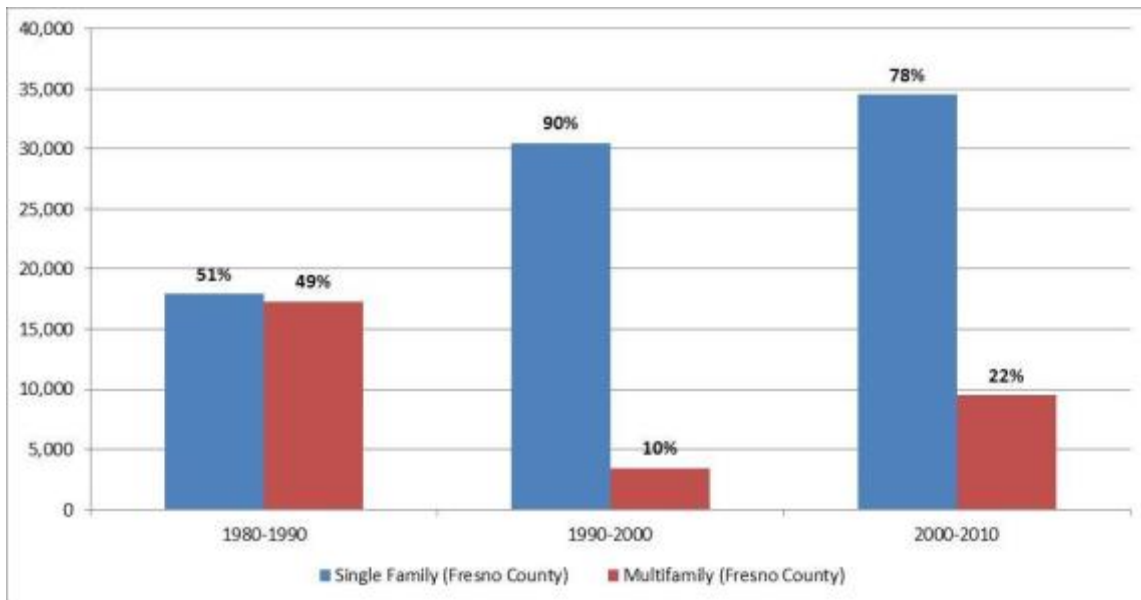
Figure 5 Residential Product Type Distribution (2013)



Source: California Department of Finance

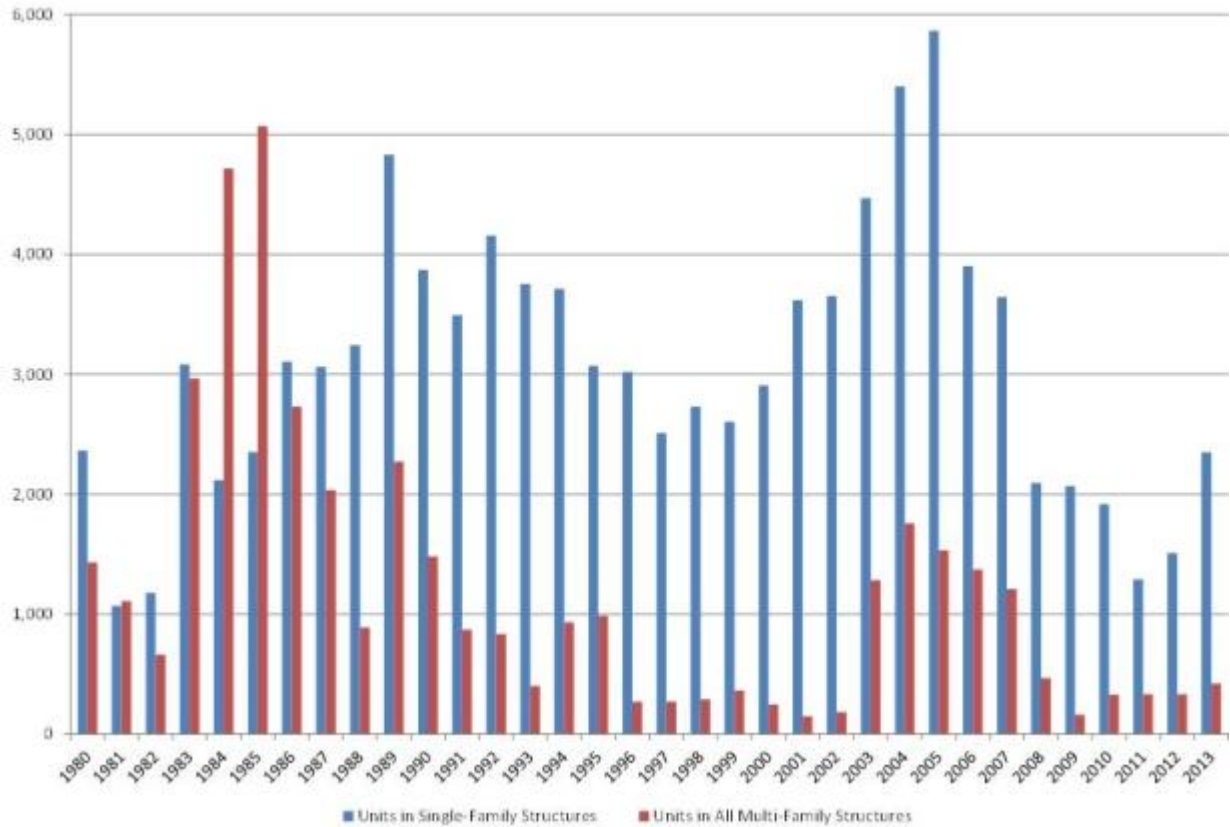
Looking back 20-plus years, the market preference for single-family development in Fresno has been even more pronounced. For example, during the 1990s about 90 percent of all new homes built were single-family units (see **Figure 6** and **Figure 7**). Multifamily home production increased slightly, to 22 percent of total units from 2000 to 2010, but this is still below the historic average for the County.

Figure 6 Housing Growth (Units)



Source: California Department of Finance

Figure 7 Building Permit Trend in Fresno County



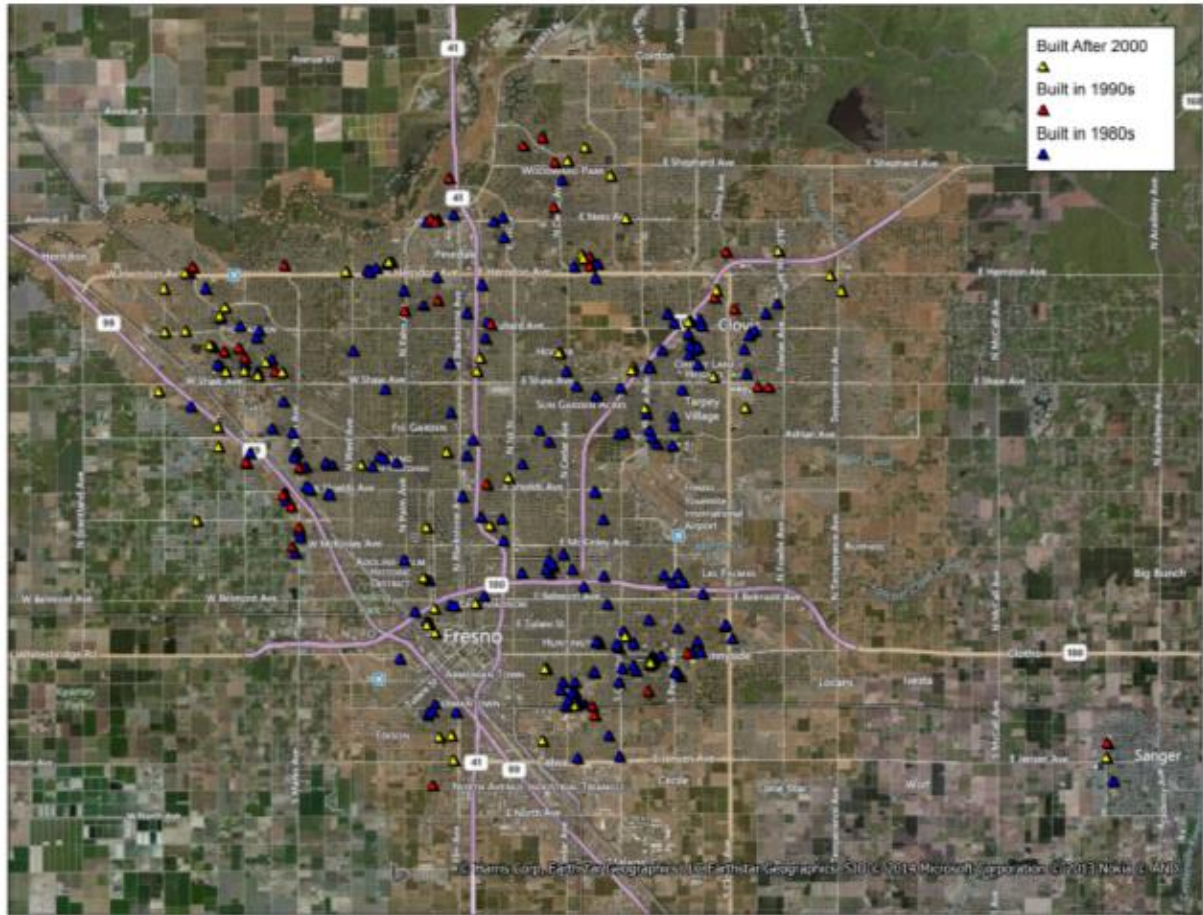
Source: U.S. Housing and Urban Development (HUD) State of the Cities Data Systems (SOCDS) database

Despite the dominance of single-family detached housing development, Fresno County experienced a surge of multifamily development in the early to mid-1980s. According to data from the State of California Department of Finance (DOF), almost half of the total housing units built in Fresno County during the 1980s were multifamily units. Most of this multifamily development activity appears to have occurred in the early part of that decade.

This surge was followed by steep decline in multifamily development that partially can be attributed to changes in federal tax law that occurred in the second half of the 1980s that made rental housing a less attractive investment.³ The tax advantages that existed in the early 1980s combined with rapid population during the same period created a boom of apartment development that has not been replicated since. Since then, however, federal tax and lending regulations, combined with higher developer return on single-family residential development (as discussed in **Chapter 6**), has affected the overall market and housing stock in favor of single-family, for-sale products.

³ Among other things, federal tax reform in 1986 eliminated the ability of apartment investors to deduct “passive income losses” (e.g., when mortgage interest and operating costs exceed rental income) from regular income.

Figure 8 Rental Apartments in Fresno County



Source: CoStar Group; MapInfo; EPS

It also should be noted that a large proportion of the multifamily development that has occurred after the boom of the 1980s was subsidized through a variety of public housing and tax credit programs targeted to low income residents (i.e., non-market rate affordable housing). As summarized in **Figure 9**, about 87 percent of the units developed during the 1980s were strictly market rate, compared to an estimated 69 percent in the 1990s and 65 percent between 2000 and 2013. When subsidized affordable units are excluded, the production of multifamily units after the mid-1980s has been even more limited.

Figure 9 Affordable versus Market Rate Multifamily Housing (1980–2013)

Period	Market Rate	Affordable	Mixed
1980s	87%	7%	6%
1990s	69%	22%	9%
2000-2013	65%	23%	13%

Source: CoStar Group and EPS

Looking more closely at differences among Fresno jurisdictions reveals a number of interesting trends, as shown in **Figure 10**. First, Fresno and Clovis alone accounted for 73 percent of all multi-family development in the County from 2000 to 2013 (58 percent and 14 percent, respectively). However, in a number of other County jurisdictions multi-family units have accounted for a higher proportion of total development within their boundaries. Notable examples include Parlier, Orange Grove, Mendota, and the unincorporated County. While limited in absolute terms, these communities appear to be accommodating an increasing proportion of a higher density development compared to historic norms and the County as a whole.

Figure 10 Housing Growth by Type in Fresno Jurisdictions (2000 – 13)

Item	Total Units in 2000		Total Units in 2013			Unit Growth (2000 - 2013)				% of Total County MF Growth	MF as % of Total City Growth
	Single Family	Multi-Family	Single Family	Multi-Family	Multi-Family % of total	Single Family	Single Family % Δ	Multi Family	Multi Family % Δ		
Clovis	16,886	7,463	26,603	9,026	25%	9,717	58%	1,563	21%	14%	14%
Coalinga	2,567	829	2,883	959	25%	316	12%	130	16%	1%	29%
Firebaugh ¹	1,581	1,165	1,491	574	28%	-90	-6%	-591	-51%	-5%	na
Fowler	938	320	1,395	384	22%	457	49%	64	20%	1%	12%
Fresno	92,620	52,482	111,175	58,822	35%	18,555	20%	6,340	12%	58%	25%
Huron ¹	674	673	599	893	60%	-75	-11%	220	33%	2%	na
Kerman	1,759	586	2,994	892	23%	1,235	70%	306	52%	3%	20%
Kingsburg	2,552	661	3,051	858	22%	499	20%	197	30%	2%	28%
Mendota	1,263	543	1,658	858	34%	395	31%	315	58%	3%	44%
Orange Cove	1,278	463	1,513	765	34%	235	18%	302	65%	3%	56%
Parlier	2,042	588	2,490	1,010	29%	448	22%	422	72%	4%	49%
Reedley	4,352	1,429	5,100	1,652	24%	748	17%	223	16%	2%	23%
Sanger	4,006	1,251	5,519	1,548	22%	1,513	38%	297	24%	3%	16%
Selma	4,395	998	5,488	1,044	16%	1,093	25%	46	5%	0%	4%
Unincorporated	<u>48,520</u>	<u>2,541</u>	<u>51,049</u>	<u>3,545</u>	<u>6%</u>	<u>2,529</u>	<u>5%</u>	<u>1,004</u>	<u>40%</u>	<u>9%</u>	<u>28%</u>
Total	185,433	71,992	223,008	82,830	27%	37,575	20%	10,838	15%	100%	22%

[1] While it is possible that some single family units were demolished, changes in Firebaugh and Huron appears to be due to DOF data adjustments.

Sources: DOF and EPS.

Role of Commute Patterns and Transportation System

A common reason that households are attracted to infill development is convenience, including reduced commute times associated with living near transit or proximate to work. However, Fresno’s historical land use pattern and economic makeup has resulted in dispersed employment, rather than a pronounced job hub at the region’s core (i.e., hub-and-spoke pattern). The decentralized pattern of employment, due in part to an agricultural based economy, makes it more difficult for planners to locate housing near jobs and to develop an efficient regional mass transit system with transit-oriented development (TOD) opportunities. Without a robust urban core, the potential value of the region’s urban environments is somewhat diluted, and therefore compact urban infill development does not achieve the pricing premium that is observed in some of the state’s more concentrated urban centers and cities.

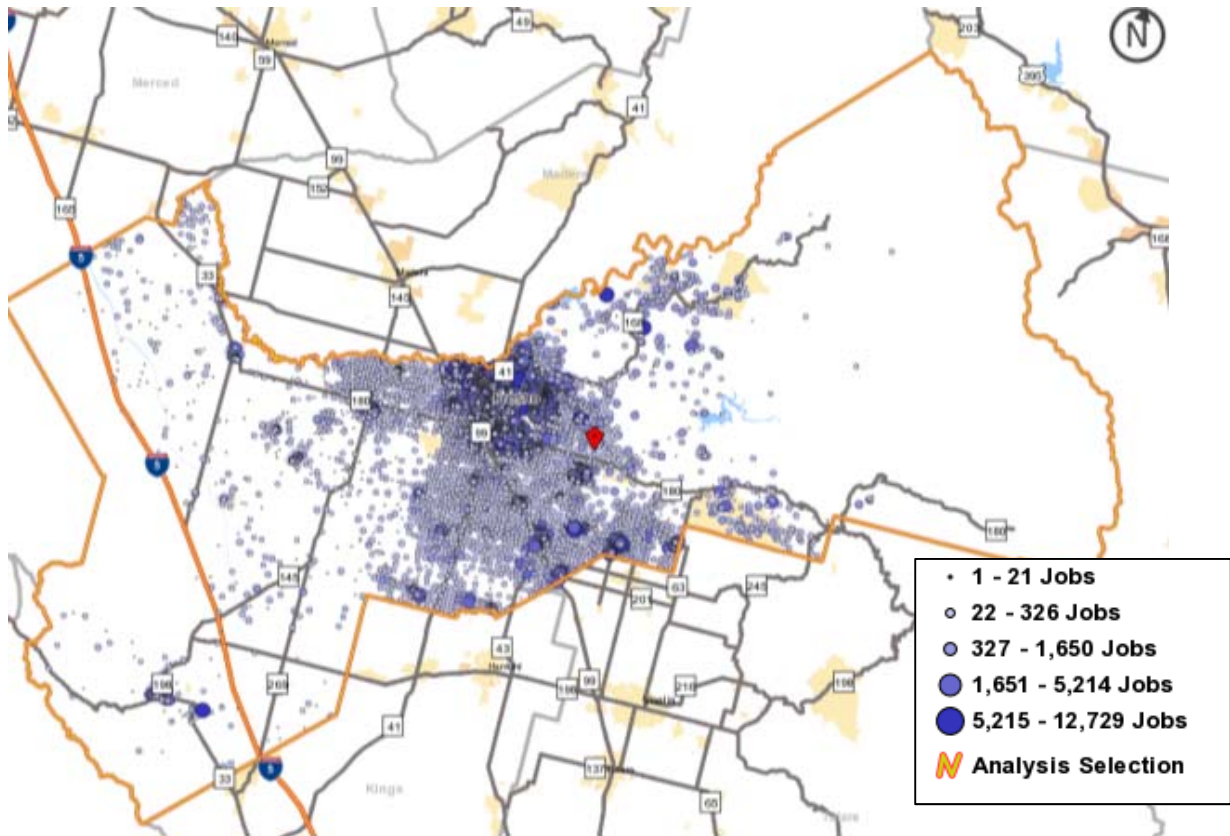
The commute patterns of Fresno County residents are illustrated in **Figure 11** and **Figure 12**. Overall about 45 percent of the County’s employed residents work in the City of Fresno, 6 percent in Clovis, and 20 percent elsewhere in the County. The remaining 28 percent work outside the County. This suggests a relatively dispersed employment pattern.

Figure 11 Fresno County Residents’ Place of Work (2011)

Location	Place of Work	
	#	%
City of Fresno	149,207	45%
City of Clovis	21,200	6%
Fresno County	55,393	17%
Reedley	5,005	2%
Sanger	4,317	1%
Other Counties	93,436	28%
	-----	-----
	328,558	100%

Source: U.S. Census

Figure 12 Map of Fresno County Residents' Place of Work (excludes other Counties)



Source: US Census Bureau, On the Map

4. FRESNO COUNTY HOUSING DEMAND

This chapter evaluates the residential housing demand in Fresno County based on a variety of demographic and economic considerations. While net population growth is the primary determinant of housing demand, the type and location sought depends on a variety of factors including income, household size, and preferences.

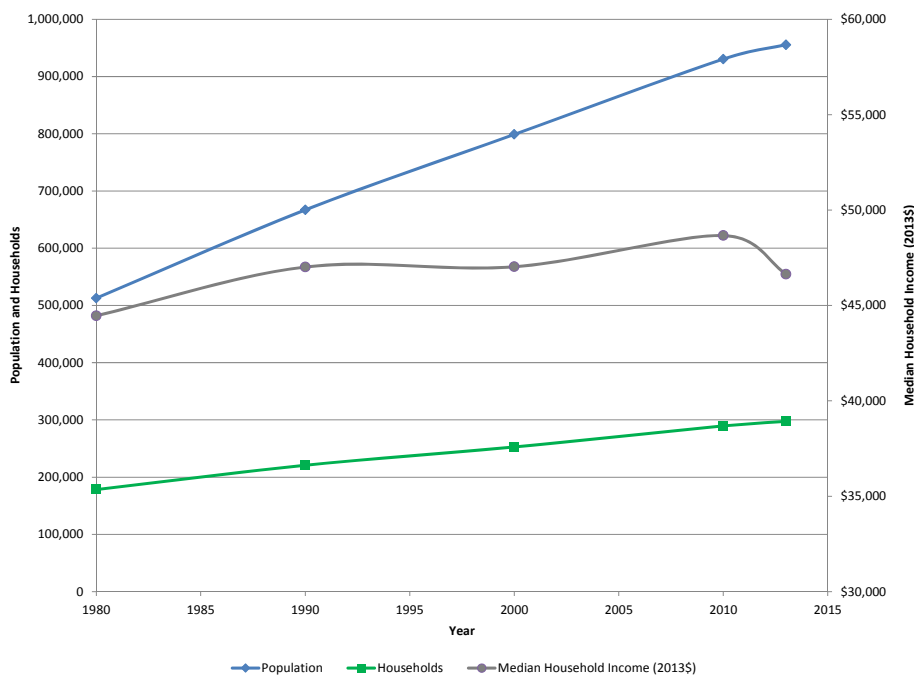
Population, Income, and Employment

As referenced in the previous chapter, Fresno County has exhibited steady growth over the past 30 years, with population increasing from roughly half a million people in 1980 to approximately 930,000 people in 2010. The County added about 150,000 people during the 1980s, and about 130,000 people in each of the successive decades.

While still robust, the rate of population growth has slowed from about 3 percent per year in the 1980s to about 1.5 percent per year from 2000 to 2010 (a common pattern as urban areas become larger since, among other things, constant absolute growth will generate lower percentage growth). However, it is worth noting that both absolute and percentage growth dipped slightly starting around 2010 reflecting the impact of the “Great Recession.”

Another noteworthy trend illustrated in **Figure 13** is the slower household growth relative to population as well as the minimal growth in real average household income from 1980 to 2013. This suggests that while households are getting larger, their average incomes have not kept pace. Household incomes and size have important implications for housing demand, as described further below.

Figure 13 Population, Households, and Household Income in Fresno County

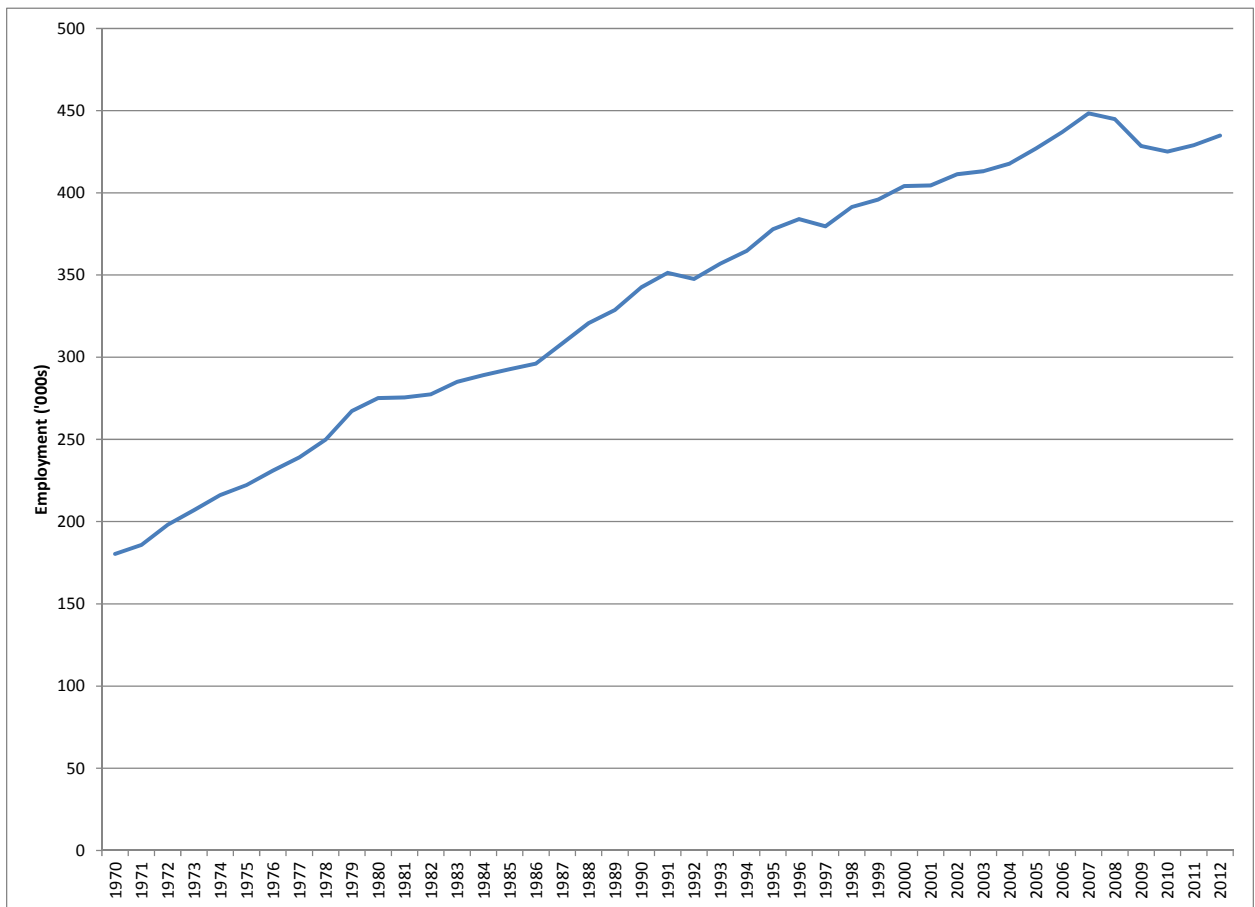


Source: American Community Survey (ACS) and EPS

Fresno County has enjoyed fairly steady employment growth since 1980, though the overall annual rate of growth between 1980 and 2010 was only about 1.5 percent (less than population growth of about 2 percent annually). Woods and Poole Economics, a well-regarded source of regional economic data, estimates that total employment in Fresno County was about 435,000 jobs in 2012. County employment peaked in 2007 and then declined for about three years, hitting a cyclical low of about 425,000 jobs in 2010. In 2011, employment climbed to about 429,000 jobs and projections suggest that economic recovery will continue.

Population growth rates that exceed job growth suggest an increasing number of individuals who are not in the labor force, (e.g., retired and/or not looking for work) or in the labor force but unable to find work (i.e., unemployed). While some of these people may have non-wage income or receive financial support from others, many do not have substantial housing budgets. Consequently, regions where population growth exceeds job growth generally do not have robust demand for new, market-rate housing.

Figure 14 Employment in Fresno County



Source: Woods & Poole Economics (note 2012 is a projection)

Household Characteristics

Demographics and household characteristics commonly correlate with housing format choices. This section explores the characteristics of households in Fresno County, with an emphasis on factors that may reveal preferences for single-family versus multifamily housing types.

Target Markets for Infill Development

In general, compact residential development attracts young professionals and singles, young families looking to purchase their first home, empty nesters and new starts (e.g., divorcees), seniors, and low-income households. These market segments are determined by a variety of factors, with income, household size, and age serving as key indicators. A brief description of each of these segments follows:

- **Young professionals, students, and singles:** Young professionals, living alone or with housemates, as well as young couples, commonly occupy compact residential products. Given the typically higher pricing associated with compact development, these young persons are often professionals with above-average incomes for their age group. The appeal of compact infill housing is often the urban amenities (e.g., eating, drinking, and entertainment options), and shorter commute time associated with the proximity to work or school. Although generally lower income, students are also included in this group because they tend to seek group housing, often to gain access to locations and/amenities that might otherwise be outside their means.
- **Young first-time home buyers:** Young families looking to purchase their first home often gravitate towards smaller and/or more compact residential development, primarily because of its affordability (relative to larger suburban homes). Young families are often looking to purchase a smaller home as a way to get into the market. Many intend to trade up to a larger home as their family grows.
- **Empty nesters/new starters:** Empty nesters (older parents whose children have left home) who no longer need a family house, want extra space, or are seeking to limit house maintenance activities commonly move to higher-density infill products that offer easy access to cultural, entertainment, and retail amenities. New starters refer to individuals undergoing a major change in lifestyle because of a significant event such as a divorce or career change. They often seek high-density housing because of both affordability and lifestyle factors.
- **Seniors and low-income households:** Seniors often seek safe and walkable neighborhoods and may prefer to live among similar age groups. Access to public transit also benefits these households. Some senior projects provide special services, such as a 24-hour doorman, additional on-site staff to assist with daily needs, and even health care professionals. Affordable compact housing developments also attract households in lower income groups. Low rental rates are generally the most important determinant in attracting less-affluent households.

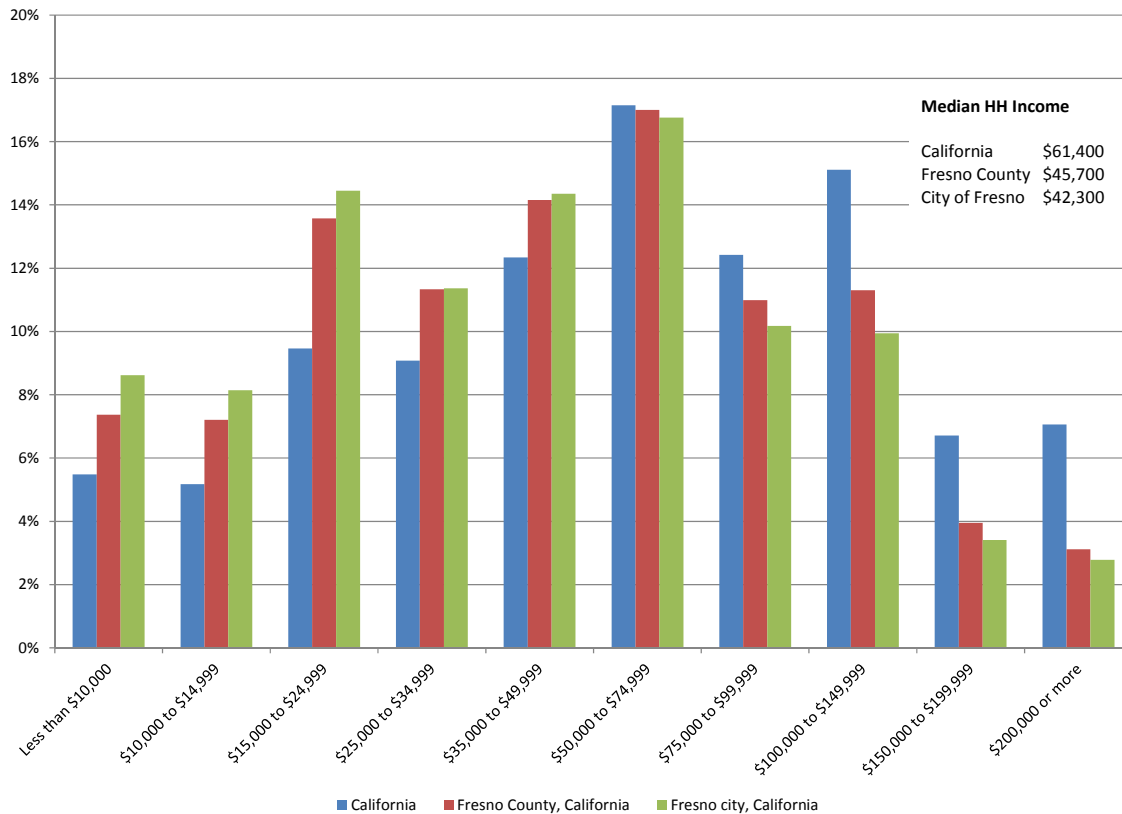
Fresno’s Income, Household Size, and Age Characteristics

A fundamental barrier to infill development in Fresno appears to be the demographics of the region, which are not well aligned with the typical target markets for compact residential real estate formats. The population and household data exhibit relatively low incomes and large household size. While there are young adults in the region, few are affluent young professionals. Further, empty nesters make up less of the population than in California overall as documented further below.

Household Income

Household income in Fresno County, and particularly the City of Fresno, is relatively low compared with the State overall. The median income in the County is about \$46,000, compared to more than \$61,000 statewide. While about the same share of Fresno County households are in middle-income brackets (e.g., \$50,000 to \$75,000) as in California overall, there is a significantly greater share of low-income households and lesser share of higher-income (e.g., \$75,000 to \$150,000) and even fewer affluent households (i.e., \$150,000 and up) in Fresno. In general, the lack of high-income households is a constraint for development of high-value residential infill projects.

Figure 15 Income Distribution

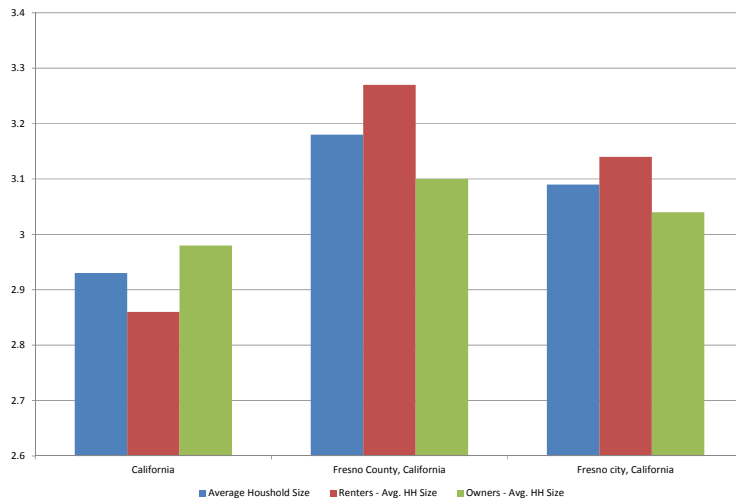


Source: US Census Bureau, ACS

Household Size

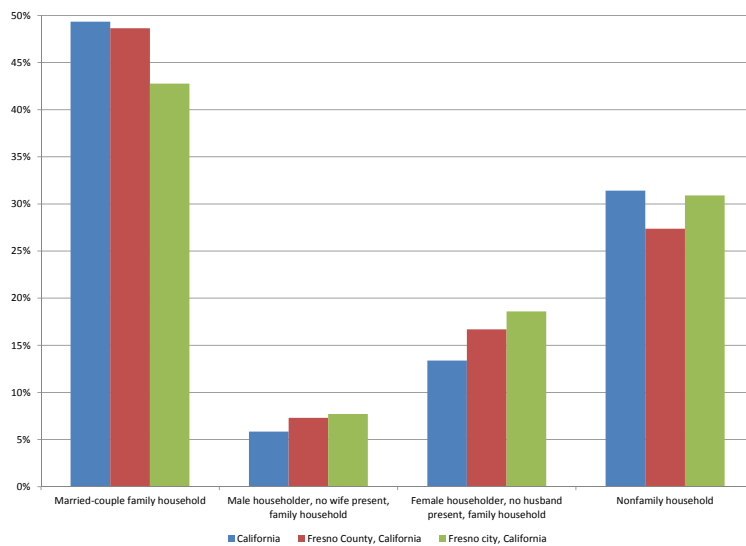
Data from the Census Bureau’s American Community Survey (ACS) shows that households in Fresno County (and the City of Fresno) are large, more likely to be families, and those families are relatively large and commonly include children. Average household size in Fresno County is almost 3.2, versus about 2.9 in California. Families, particularly single-parent households, are more common in Fresno County than in California. These Fresno families average 3.8 persons, as compared with about 3.5 statewide, largely due to the presence of children. Large households with children are generally attracted to larger housing units, typically single-family detached homes if affordable. Also, proximity to good schools is important to families with children, again if affordable.

Figure 16 Average Household Size



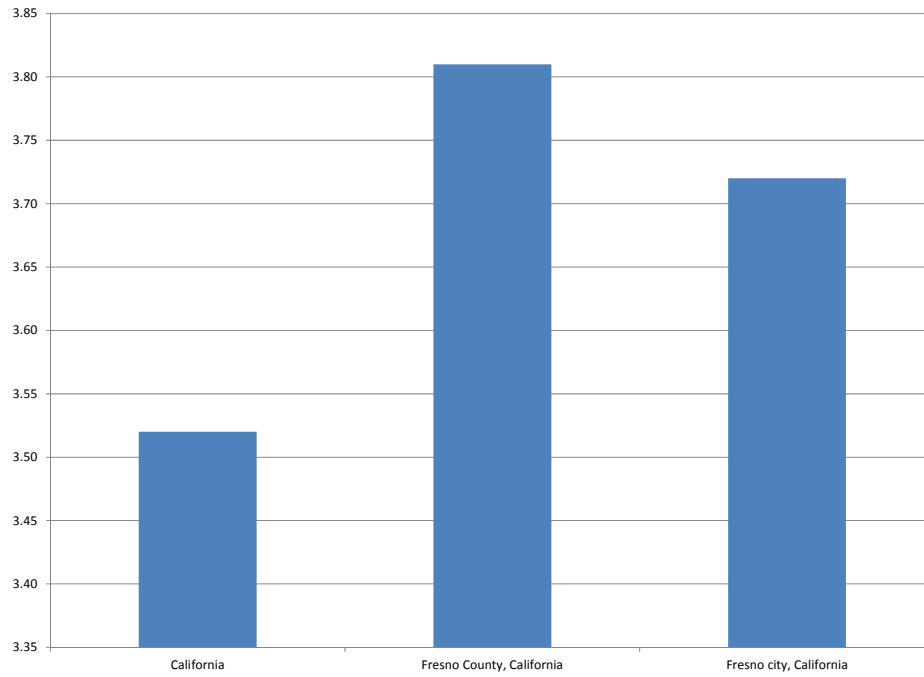
Source: US Census Bureau, ACS

Figure 17 Household Composition



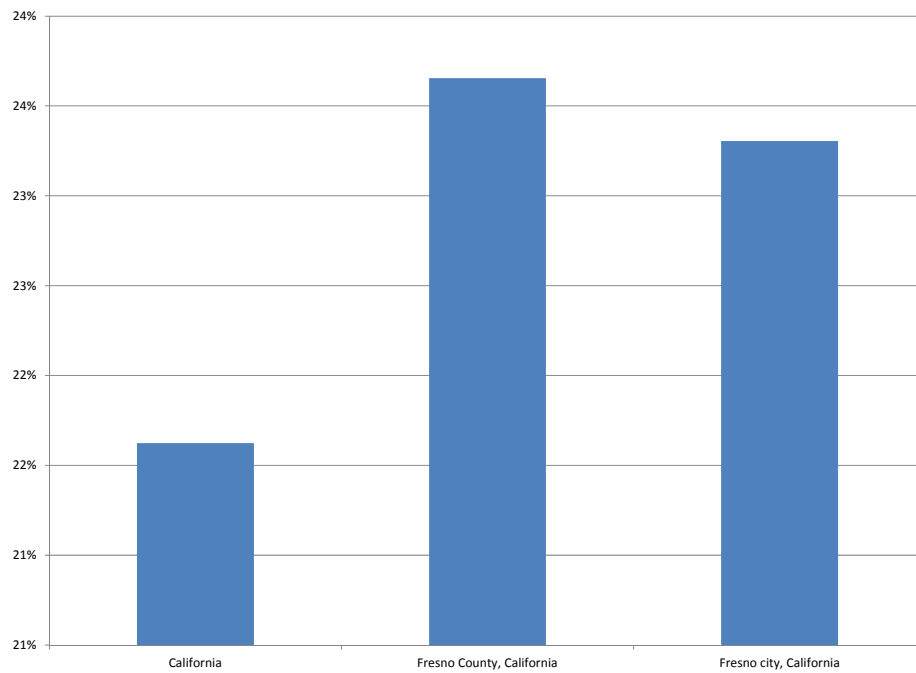
Source: US Census Bureau, ACS

Figure 18 Average Family Size



Source: US Census Bureau, ACS

Figure 19 Households with Related Children

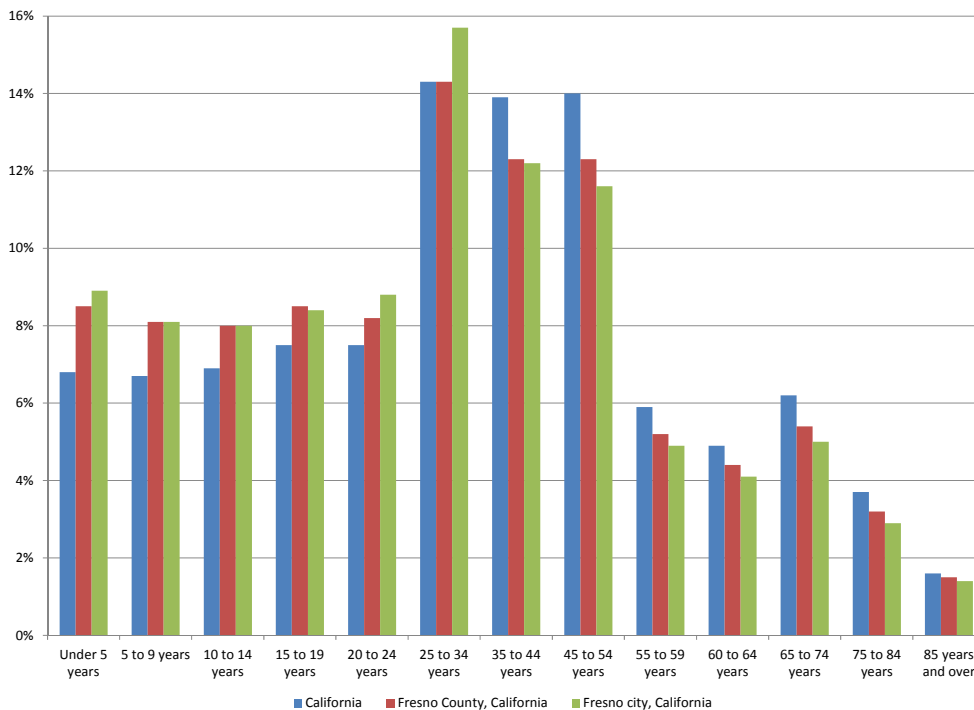


Source: US Census Bureau, ACS

Age Distribution of the Population

Data on population age reveals the relatively high proportions of youth in Fresno, including children and young adults. A lesser share of the population is aged 35 and older, including retirees (age 65 and up). While the population age 20 to 34, which is a larger share of Fresno's population than the state overall, would typically be considered a target market for infill development, anecdotal evidence (e.g., interviews with developers and apartment managers) suggests that the "young professional" market is shallow, with young adults in the Fresno region struggling to form new households due to economic constraints. For example, many of them may still live with their parents or in group homes (e.g., with multiple young adults).

Figure 20 Age Distribution

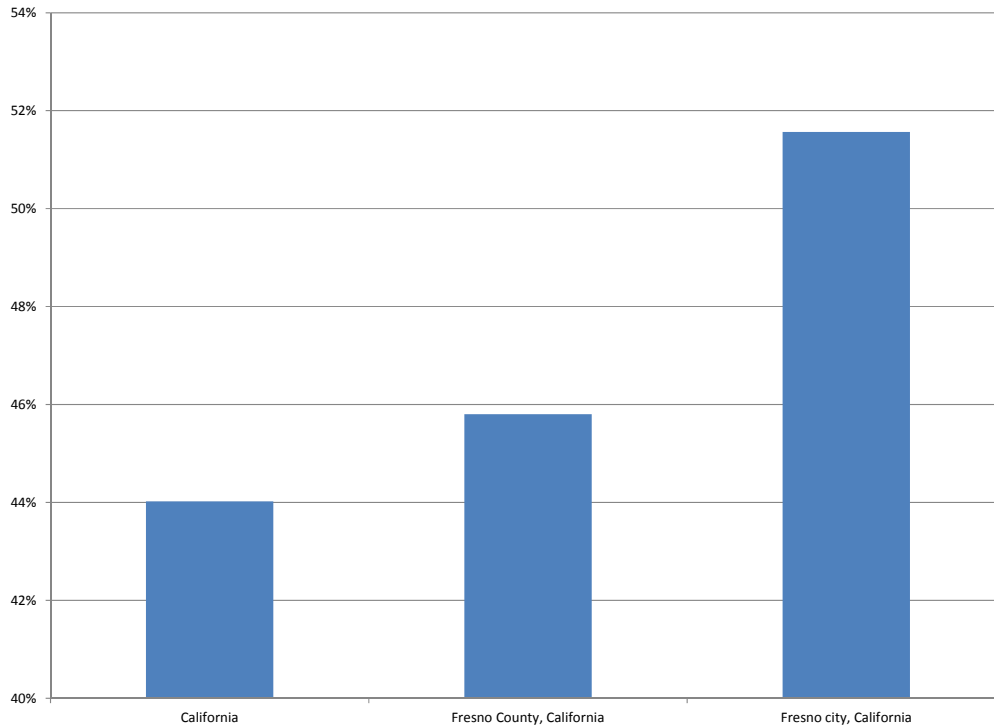


Source: US Census Bureau, ACS

Renters in Fresno

Largely due to income constraints, about 46 percent of Fresno County households are renters, more than California overall but less than in the City of Fresno. As shown in **Figure 21** more than half of the City of Fresno's households are in rental units. The rental units include apartments and houses.

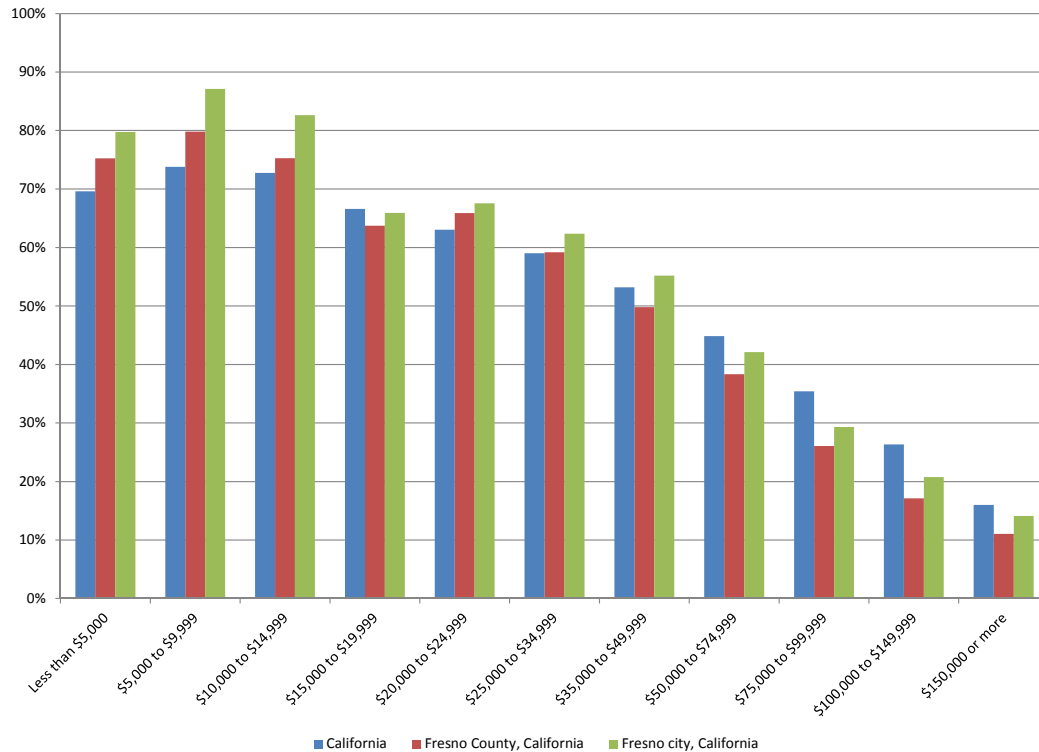
Figure 21 Household Tenure (Rent vs. Own)



Source: US Census Bureau; American Community Survey (ACS)

Despite a relatively high proportion of renters in Fresno County, the affordability of for-sale housing makes middle-income households (\$35,000+) more likely to be owners than in California overall. However, lower-income residents are more likely to be renters than elsewhere in California, primarily due to the greater proportion of households populated by the working poor (rather than retirees, for example) who do not have sufficient equity, income, or credit to afford a house. About 85 percent of Fresno County households earning less than \$10,000 are associated with a working-age householder (younger than age 65) versus 80 percent statewide.

Figure 22 Renter Households by Income (Percentage of Households)



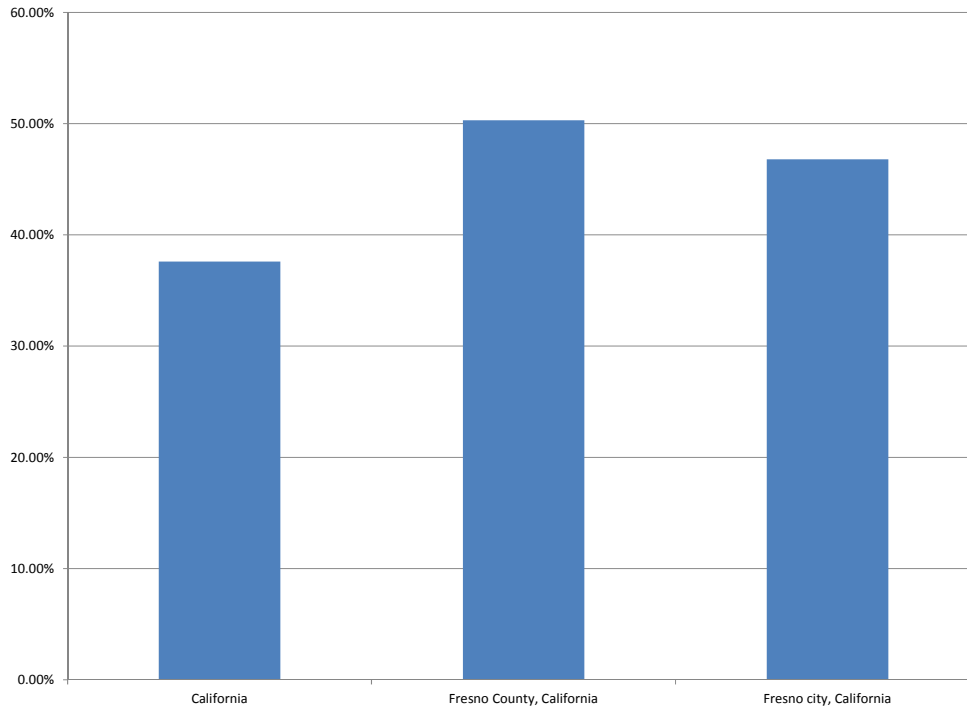
Source: US Census Bureau, ACS

Multi-Generational Housing

Nationally, multi-generational American family households are increasingly common. In the wake of the recent recession, in part due to job losses and home foreclosures but also demographics, adult Americans are living with their parents. Further, immigrants to the United States are far more likely than native-born Americans to live in a multi-generational family household. Of particular significance in Fresno, Hispanics who make up half of the population, are all much more likely (than non-Hispanic whites) to live in a multi-generational family household. Nationally, among Latinos, 48 percent are in a three-generation household.⁴

⁴ The Return of the Multi-Generational Family Household, Pew Research and Trends (2010).

Figure 23 Hispanic or Latino as a Percentage of Total Population



Source: US Census Bureau, ACS

Anecdotal evidence suggests that multi-generational housing is often used as a strategy to enter the for-sale housing market, especially among recent immigrant households. By combining the incomes and other financial resources of multiple adults, they can afford mortgages that would otherwise be out of reach for a more conventional household. By way of example, several housing developers active in the Fresno market report a focus on new housing products designed to accommodate these types of households, including numerous bedrooms, separate entrances, and large family rooms, among other features (see Acknowledgements section for partial list of individuals interviewed for this study).

5. FRESNO COUNTY HOUSING SUPPLY

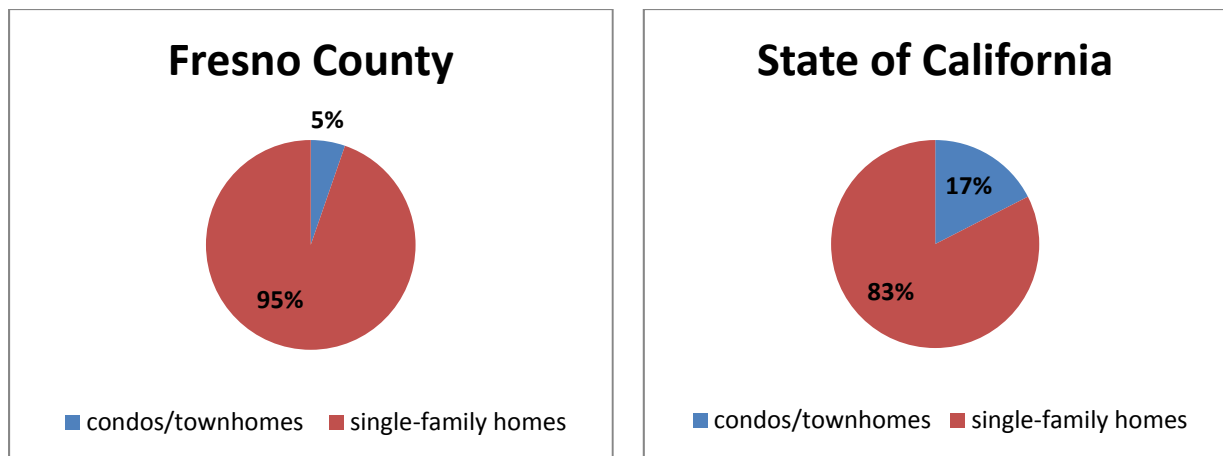
This chapter evaluates the supply of housing in Fresno County with a particular focus on new production. It is designed to inform the type of housing currently being provided in the market and its implications for (re-)development at infill locations. As described in previous chapters, the market has historically focused on the single-family, for-sale market, which currently constitutes 70 percent of the stock, although many of these units ultimately become rentals (as indicated by the fact that 45 percent of households are renters). Nevertheless, there are significant differences in the market economics for these two housing options with implications for the feasibility of infill development, as describe in this Chapter.

For-Sale Housing Market

All Home Sales

Single-family residences dominate the for-sale housing market in Fresno County, accounting for roughly 95 percent of residential transactions. This data indicates that condominiums have and are not currently being supplied in the Fresno market. Additionally, of the few condos on the market, some are actually detached single-family structures, including manufactured homes and single-family homes with a condominium ownership format, rather than traditional high density multifamily structures. By comparison, statewide, condominium and townhome sales comprise nearly one-fifth of the for-sale residential market.

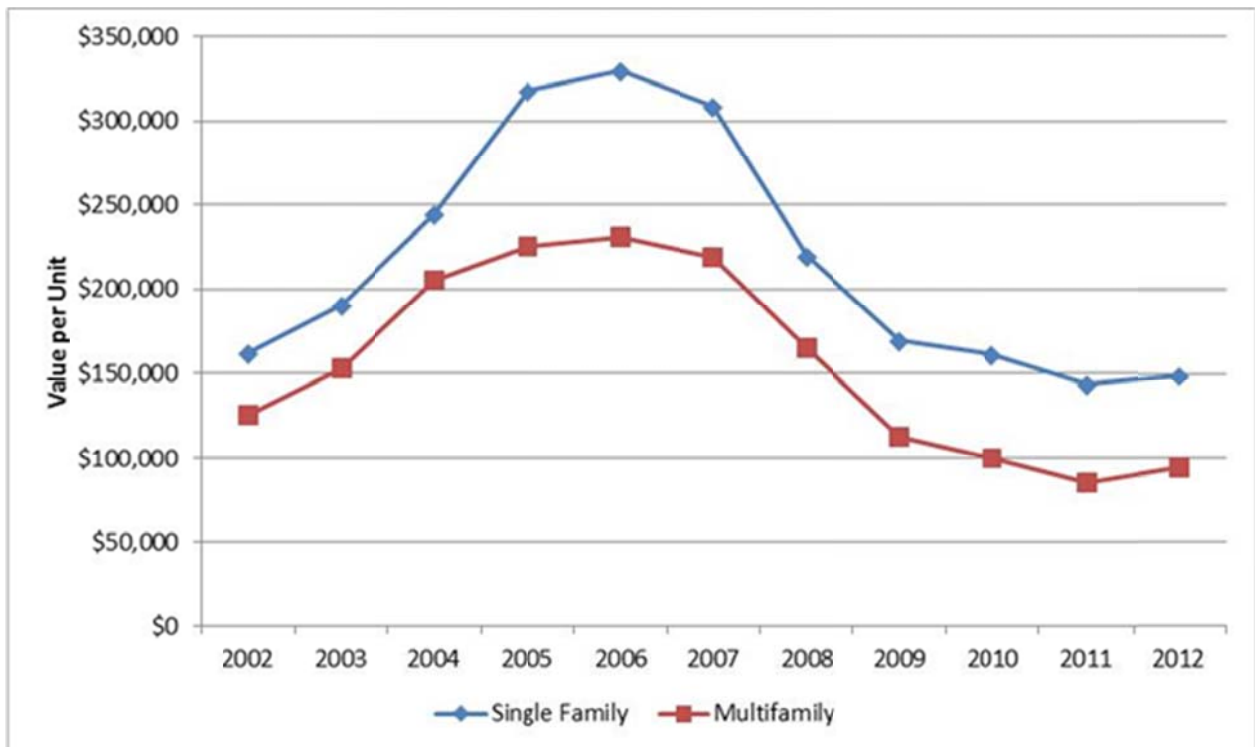
Figure 24 Attached vs. Detached Sales Volumes (2002-12)



Source: RAND California Statistics (note data for 2013 not available during the preparation of this Report)

Housing values in Fresno County were hard hit by the 2008-09 recession. The average single-family home value peaked in 2006 at about \$325,000 and bottomed out at less than \$150,000 in 2011. Similarly, the average condominium/townhome value (a negligible part of the market) peaked at about \$230,000 in 2006, and then sank to about \$90,000 in 2011. However, the for-sale market did rebound in 2012 and more recent data suggests that this trend will continue, indicating that the market has weathered a cyclical low point.

Figure 25 Residential Sale Value Trend (in 2014\$)



Sources: RAND, DOF, and EPS, (note, data for 2013 not available during the preparation of this Report)

For-sale home values range widely between jurisdictions in Fresno County, as shown in **Figure 26**. School quality, crime rates (and perceptions), location and access, other quality of life issues (e.g., recreation and commercial amenities), and public policy all play important roles in the home values of each community. By way of example, two County communities, Clovis and Fowler, have average home values that well exceed \$200,000 while four others are at or below \$100,000 (Firebaugh, San Joaquin, Huron, and Orange Grove). As discussed in **Chapter 6**, differences in average home values have an significant implications on the development feasibility of various residential product types.

New For-Sale Housing

The market for a new home is distinct from the re-sale market in Fresno County, with a notable difference in pricing. A review of the major new home projects in the County suggests that the average sale price of a new single-family detached home is about \$300,000, though prices vary widely by unit size, location, community amenities, and other factors. During the first quarter of 2014, there were 14 major homebuilders actively selling at 36 new single-family residential

development projects in Fresno County. Lennar Communities alone was selling homes at 9 distinct projects. Most of these projects are in Clovis and Fresno.

Figure 26 Fresno County Average Home Values (2013)

City	Average Home Value (1)	Population
Clovis	\$255,000	99,983
Fowler	\$216,000	5,801
Kingsburg	\$190,000	11,590
Fresno	\$172,000	508,453
Sanger	\$165,000	24,703
Kerman	\$152,500	14,225
Reedley	\$150,000	24,965
Selma	\$147,000	23,799
Parlier	\$121,250	14,873
Coalinga	\$110,000	16,729
Mendota	\$103,000	11,178
Firebaugh	\$100,000	7,777
San Joaquin	\$100,000	4,029
Huron	\$89,500	6,790
Orange Cove	<u>\$69,500</u>	9,353
Fresno County Average	\$184,250	

(1) Includes single family and multi-family homes; includes new sales and resales.

Source: DQ News, DOF, EPS.

However, available data suggests that there are currently no active new market rate condo projects anywhere in the Fresno market, and this was the case even before the market downturn precipitated by the foreclosure crisis beginning in 2008. This is a contrast to most other large urban markets in California where the condominium development was building momentum before the foreclosure crisis and has rebounded similarly to the for-sale market during the recovery. For example, there are several active condominium projects in the Sacramento region and a numerous projects in San Jose, San Francisco, Los Angeles, and San Diego counties.

Historical data suggest that about 1,800 condos have been delivered in Fresno since 1980. This represents about 6 percent of the total number of multifamily units developed during this period and well below one percent of total housing units.

In terms of single-family production housing, there are a variety of new home communities with a range of product types available throughout the County. Homes range in size from 1,360 square feet to 3,490 square feet. Lots vary from 1,800 square feet 16,000 square feet. Home prices start at about \$185,000 and goes to \$630,000, with per-square-foot prices that range from \$110 to \$200.⁵ Small-lot projects accounted for about 20 percent of sales during the first

⁵ Note that the size and pricing data reflects project/community-wide averages and thus actual highs/lows may differ.

quarter of 2014. By comparison, about 60 percent of sales were in communities with more typical lot sizes, ranging from about 4,500 square feet to 7,500 square feet. Available data indicate that the small-lot products sell for less overall but achieve higher prices on a per-square-foot basis than homes on typical lots.

Figure 27 Current Development Projects in Fresno County

Builder	Number of Projects
Benchmark Communities	4
Bonadelle	2
Cambrian Group	2
Centex Homes	1
D.R. Horton	2
Image Homes	1
Lennar Homes	9
McCaffery Homes	3
McMillin Homes	1
RJ Hill Homes	1
Spalding Wathen	2
Wathen Castanos	2
Wilson Homes	3
Woodside Homes	3

Location	Number of Projects
Clovis	18
Fowler	1
Fresno	15
Sanger	2

Lot Size	Q1 Sales	Distribution
Avg. Small Lot ($\leq 4,500$ SF)	68	21%
Typical (4,501 SF – 7,500 SF)	202	61%
Large Lot (7,501 SF+)	60	18%

Lot Type	Lot Size	Home Size	Price	Price PSF
Avg. Small Lot	3,500	1,700	\$260,000	\$150
Typical	6,100	2,200	\$290,000	\$130
Large Lot	9,400	2,500	\$370,000	\$150

Source: Gregory Group

An extrapolation of the 2012 single-family market (see **Figure 25**) based on recent market data indicates that new single-family homes are selling for about 70 percent more than existing single-family homes. While it is not uncommon for new homes to receive some level of price

premium, in most markets location is generally a more important determinant of unit price. A price differential between new and existing housing of this magnitude suggests that the value of homes in existing neighborhoods is not keeping pace with homes in newly developed communities.

Data on transaction volumes suggests that new homes account for about 1 in 5 single-family home transactions, or 20 percent of total sales. The fact that new homes sales account for such a large share of total transactions in a market as large as Fresno (the 5th largest City in the State) appears atypical. By way of comparison, new sales account for about 8 percent of all total transactions in Sacramento County.

Figure 28 New Home Sales vs. Re-Sale of Existing Homes in Fresno County

	Sales Volume	Average Price
All Single-Family Sales (Q1 2014 est.)	1,650	\$170,000
New Single-Family Sales (Q1 2014 est.)	330	\$290,000
New Single-Family Sales / All Single Family Sales	20%	170%

Source: Gregory Group; Rand California Statistics; Trulia.com; and EPS

Due to the price premium associated with new for-sale housing, new homes are out of reach for many Fresno County residents. A high-level estimate of affordability shown in **Figure 29** and completed by EPS based on typical home value and household expenditure assumptions, indicates that only about 30 percent of households would be income-qualified to buy a new home at the average new-home price of \$300,000. At \$185,000 on average, an existing home is more affordable with nearly 50 percent of households as income-qualified to buy an average existing re-sale home in Fresno County.

The relatively high sales volume for new homes and low price point for re-sale homes in Fresno has important implications for the regional housing market. Specifically, the steady supply of new single-family housing clearly appears to be limiting price appreciation of the existing housing stock. At the same time, many existing home owners appear to be holding on to their property longer than the norm, especially in growing markets, either because they are “under-water,” can’t afford a new home (i.e., their existing home has not appreciated relative to new homes), do not have sufficient income growth to “trade up”, or some combination of the above. Whatever the case, limited value appreciation of infill neighborhoods is likely to be a disincentive to invest in these locations.

Figure 29 New Home Affordability

	Entry Level	Typical Home
Home Price	\$ 185,000	\$ 300,000
Down payment (20%)	\$ 37,000	\$ 60,000
Loan Amount (80%)	\$ 148,000	\$ 240,000
Annual Mortgage (30 yr. @5%)	\$ (9,534)	\$ (15,460)
Taxes, Maintenance, & Insurance	\$ (4,625)	\$ (7,500)
Total Annual Home Cost	\$ (14,159)	\$ (22,960)
Required Annual Income	\$ 47,197	\$ 76,535
Income-Qualified Share of Fresno County Households	~46%	~30%

Source: EPS

Rental Housing Market

About 45 percent of Fresno households consist of renters occupying both single-family and apartment units. In fact, nearly half of renter households, about 45 percent, live in a single-family home compared to 37 percent statewide and about 34 percent nationally.⁶ Given that very few developers build single-family units for rent, many single-family units originally built as for-sale product have been converted to rental property over time. This suggests that Fresno has a relatively large investor market where individuals (or partnerships) buy single-family homes (or hold rather than sell when they move) for income property. In any case, these units compete directly with apartment development.

Meanwhile, the median rent in Fresno County is well below the State average especially when compared to urban areas where new rental products (e.g., multi-family apartments) are being developed. For example, based on data from Zillow.com, which has collected data on asking

⁶ A number of national studies have shown that the “Great Recession” has increased the supply of single family rental units through small investors buying distressed properties, (as opposed to new development). For a discussion on national trends in the supply of single family rental units, see <http://www.fanniemae.com/resources/file/research/datanotes/pdf/data-note-0312.pdf> and http://www.nytimes.com/2014/07/20/realestate/single-family-homes-as-rentals.html?action=click&pgtype=Homepage&version=HpSectionSumSmallMedia&module=real-estate-left-region®ion=real-estate-left-region&WT.nav=real-estate-left-region&_r=0

rents for most counties in the State for over four years, rents in Fresno are about 70 percent of the State average and have remained relatively constant in real terms since 2010 (**Figure 30**)⁷. Meanwhile, Fresno rents are about half those in Los Angeles County, and area that has experienced significant growth in apartment development.

Figure 30 Residential Rental Rate Comparison

Jurisdiction	Year					Growth (2010 - 14)	
	2010	2011	2012	2013	2014	\$#	%Δ
Fresno							
Avg. Median	\$1,154	\$1,166	\$1,178	\$1,187	\$1,200	\$46	4%
Avg. / Sq. Ft.	\$0.76	\$0.78	\$0.76	\$0.77	\$0.78	\$0	3%
California							
Avg. Median	\$1,559	\$1,540	\$1,604	\$1,633	\$1,650	\$91	6%
Avg. / Sq. Ft.	\$1.07	\$1.05	\$1.07	\$1.08	\$1.10	\$0	4%
Fresno as % of CA							
Avg. Median	74%	76%	73%	73%	73%	(\$0)	-2%
Avg. / Sq. Ft.	71%	74%	71%	71%	71%	(\$0)	0%
Los Angeles							
Avg. Median	\$2,115	\$2,121	\$2,139	\$2,211	\$2,239	\$125	6%
Avg. / Sq. Ft.	\$1.49	\$1.49	\$1.51	\$1.55	\$1.58	\$0	6%
Fresno as % of LA							
Avg. Median	55%	55%	55%	54%	54%	(\$0)	-2%
Avg. / Sq. Ft.	51%	52%	51%	49%	49%	(\$0)	-3%

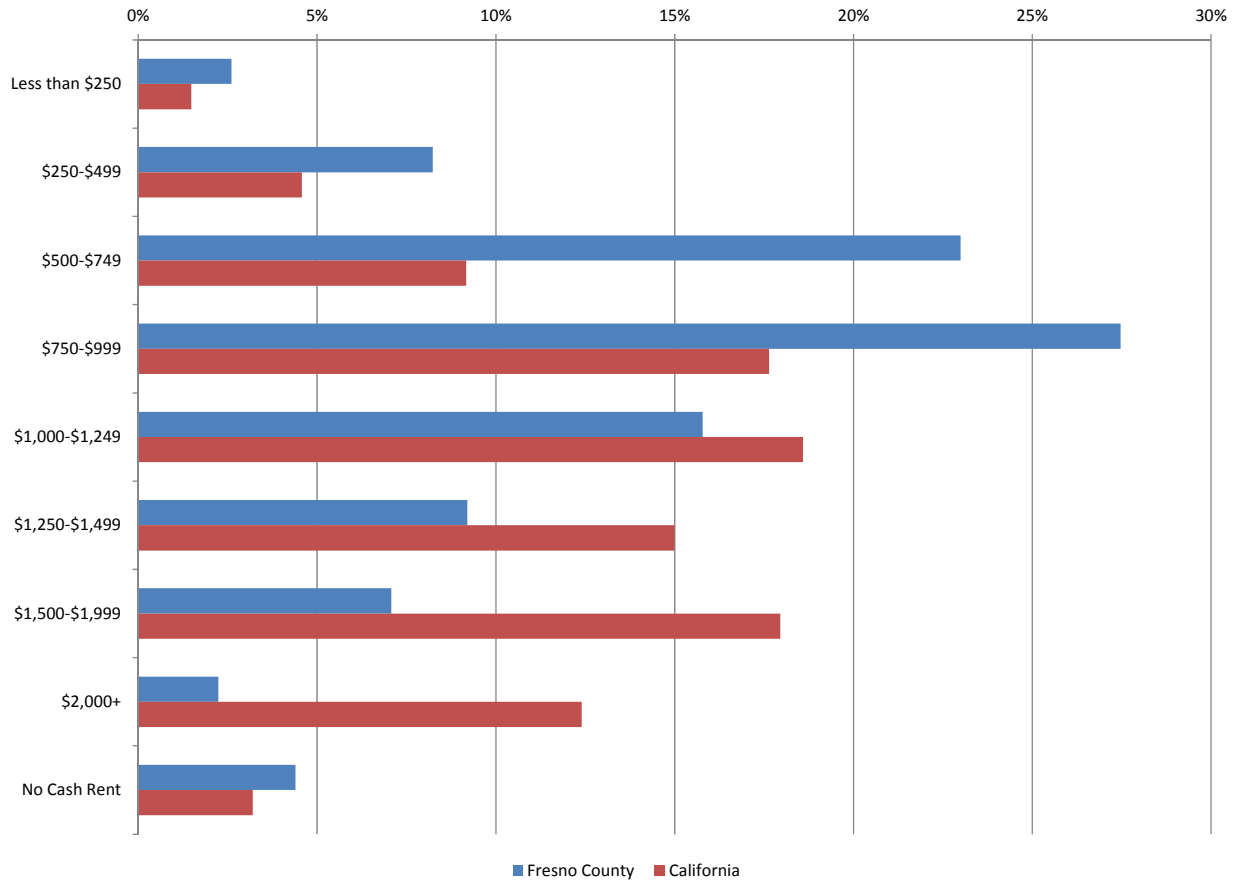
Source: Zillow.com; EPS

Fresno's relatively low rents correspond to medium incomes in the County. Specifically, the median rent is affordable to households with annual income of about \$35,000 or below (about 60 percent of households). In other words, the median rent is more or less affordable to the medium income household, suggesting that the rental market is responding relatively effectively to the financial circumstances of local residents. By comparison, household income of about \$50,000 (also about 60 percent of households) is required to afford the median rent statewide (see **Figure 31**).⁸

⁷ Zillow is considered one of the more reliable and objective sources for cross-jurisdictional rent comparisons. While individual cities often collect this information, it is difficult to compare it across multiple jurisdictions due to variation in data collection practices.

⁸ These calculations are based on medium rents of about \$865 in Fresno County compared to \$1,200 in California, based on data from the U.S. Census. These numbers are lower than estimates from Zillow.com because they represent actual rents rather than asking rents.

Figure 31 Residential Rental Rates



Source: US Census Bureau, ACS 2008-12

While Fresno’s relatively affordable rents are consistent with lower household incomes, they have also dampened the supply of new market rate apartment development (development feasibility is further evaluated in the subsequent chapter). By way of example, between 2000 and 2013, there were an estimated 6,300 multifamily apartments built in Fresno, which represents about 24 percent of total housing supply during this period. Moreover, as noted in **Chapter 3**, a large portion of these, more than 26 percent since 2000, have been provided as subsidized units restricted to qualifying low-income residents (typically households earning less than 60 percent of Area Median Income).

The few market-rate projects that have been built in Fresno County (predominately in Fresno or Clovis) appear to target niche markets or premium locations, such as student housing for Fresno State, highly amenitized complexes oriented towards seniors, and/or located in the Clovis Unified School District. It is also worth noting that institutional developers (e.g., REITS and other publicly traded development companies) do not appear to be active in the Fresno multifamily market (although they are in a single-family development market).

Interviews with apartment developers of more recent projects (i.e., built after 2010 or currently under constructions) reinforce the trends described above (see case studies below). For example, virtually all of the recently built projects in Downtown Fresno required subsidies from

the former Redevelopment Agency equal to roughly 30 percent of total project costs (the State has eliminated RDAs and tax increment financing, making similar projects more difficult to develop unless alternatives sources are identified). The largest market rate apartment built since 2010, the Villa Sa Vini, is a highly amenitized gated community located in a relatively desirable north Fresno neighborhood. The builder is a local family-owned business with a long-term investment perspective.

Recent Apartment Project Case Studies⁹

Granville Fulton Village

Fulton Village is a contemporary mixed-use project located in the Mural District of downtown Fresno.

Developer: Granville Urban (private)

80% market rate and 20% affordable

Delivered 2012

46 units 4 buildings, 3-story structures

Density 39 du/ac

Rent \$1.00 PSF



Source: Granville Homes

Average apartment size 800 SF, including single-level Units at 460 and 700 SF and multi-level townhomes at over 1,300 SF

Note: developer indicates land assemblage and infrastructure subsidies were received from the City of Fresno Redevelopment Agency.

EAH Arbor Court, City of Fresno

Arbor Court is an affordable housing development in the City of Fresno. Units are available exclusively for persons with physical disabilities and very-low to extremely low household income.

Developer: EAH Housing (Non-Profit)

100% affordable project

Delivered 2011

20 units in 6 buildings, 1 story structures

Density 16 du/ac

Rent \$1.05 PSF

Average apartment size 650 SF



Source: EAH Housing

⁹ The information contained in this section is primarily based on information from CoStar Group, a national commercial real estate information and market data provider. The CoStar data is based on information provided by brokerage firms as well as in-house research staff. CoStar maintains the most comprehensive commercial real estate data in the United States, including detailed information of specific multifamily rental products.

Note: Financing participants include the US Department of Housing and Urban Development (Section 811 Program Funds) and City Housing and Community Development Division HOME Program

Villa Sa Vini, City of Fresno

Villa Sa Vini is a large-scale high amenitized gated community, including clubhouse, fitness centers, swimming pools and barbecue areas, and coffee bar with free Wi-Fi.

Developer: Spencer Enterprises (private)

Market Rate

Delivered 2011

228 units in 30 buildings, 2 stories built in two phases.

Density 34 du/ac

Rent \$0.96 PSF

Average apartment size 1,060 SF

Note: no known public subsidy to this project, but the developer indicated that project feasibility required a build-and-hold strategy with low return-on-investment expectations.



Source: villasavini.com

Cordova Apartments, City of Selma

Cordova Apartments is a garden apartment community offering a community clubhouse and on-site social services.

Developer: AMCAL Multi-Housing Inc.

Affordable (30%-60% of AMI)

Delivered 2011

81 units in 12 buildings, 2 stories

Density 14 du/ac

Rent \$0.79 PSF



Source: Google+ /Cordova Apartments

Average apartment size 1,080 SF

Note: Public subsidy included HOME Grant funds loan (requiring that 10 units shall be HOME-assisted and will satisfy HOME occupancy requirements, Federal and State Low-Income Housing Tax Credits, Deferred Fees, and a City of Selma Redevelopment Agency Grant.

Lozano Vista Apartments, City of Mendota

Lozano Vista Apartments is an affordable community delivered in 2006. The 81 unit complex consists of 10 garden apartment buildings.

Developer: Western Community Housing Inc.

Affordable

Delivered 2006

81 units in 10 buildings, 2 stories

Density 14 du/ac

Rent \$0.64 PSF

Average apartment size 1,264 SF

Note: The project utilized Low Income Housing Tax Credits.



Source: CoStar Group

Alicante Apartments, City of Huron

Alicante is an 81-unit multifamily community consisting of two-, three-, and four-bedroom apartments. The complex contains a heated pool, fitness and computer centers and a clubhouse for residents.

Developer: The Pacific Companies

Affordable (30%-60% of AMI)

Delivered 2011

81 units in 8 buildings, 3 stories

Density 16 du/ac

Rent \$0.60 PSF

Average apartment size 1,297 SF

Note: The project utilized federal Low Income Housing Tax Credits. Alicante is Huron's first three-story structure.



Source: The Pacific Companies

Echo Canyon Villas, Coalinga (unincorporated)

Echo Canyon Villas is a market rate community delivered in 2009. The project includes 133 units in 23 single-family residences, 8 duplexes, 4 triplexes, 18 fourplexes, and 2 fiveplexes on approximately 9.86 acres.

Owner: The Bratton Group, Inc.

Market Rate

Delivered 2009

133 units in 55 buildings, 2 stories

Density 13.5 du/ac

Rent \$0.85 PSF

Average apartment size 1,100 SF

Note: The project is for sale and has been on the market for about three years. The owner is seeking \$16 million, which equates to approximately \$120,000 per unit or \$110 per square foot.



Source: CoStar Group

Huron Apartments, City of Huron

Huron Apartments is an 20-unit multifamily garden apartment community consisting of 5 2-story buildings.

Owner: Tarlton

Market Rate

Delivered 2008

20 units in 5 buildings, 2 stories

Density 50 du/ac

Rent N/A

Average apartment size 656 SF

Note: Huron Apartments became Bank Real Estate Owned (REO) due to credit default and eventually sold in 2011. Available data indicate the sale price was \$1.2 million, which equates to \$60,000 per unit or \$105 per square foot.



Source: CoStar Group

6. HOUSING DEVELOPMENT FEASIBILITY

This chapter evaluates the financial feasibility of various high-density residential real estate product types from the perspective of a private-sector real estate developer. The analysis is derived based on data for Fresno County as a whole rather than a particular jurisdiction. Given the wide variation in market rents and home values within the County, the actual development economics within a particular jurisdiction or location will depend on specific circumstances.

Generally, development feasibility is determined by both market demand and supply trends (as evaluated in previous chapters) as well as other factors (e.g., development costs, land use regulations, availability of investment capital, required financial return thresholds). The main objective of this analysis is to identify key economic and financial parameters that are critical to compact development feasibility in the Fresno County housing market. The analysis is intended to guide policies that might improve attraction of private capital and stimulation of investment in infill locations.

Methodology

EPS has developed pro forma financial models that simulate the economic performance of various residential development prototypes, to illustrate the potential range of housing options and densities that are financially feasible in the Fresno market. These financial cash-flow models provide a “static” snapshot view based on today’s real estate development values and construction costs. Specifically, the analysis estimates “residual land value” for each housing prototype and identifies the “feasibility gap” where values are insufficient to support costs.¹⁰

The financial assumptions utilized in the EPS models are based on available market data as well as interviews with developers active in the Fresno market. In addition, EPS cross-checked data provided by local developers with information reported by RSMeans, a national publication that provides information on construction costs for various building types throughout the United States. Standardized data on local development costs is difficult to obtain as costs can vary significantly from project to project and developers are not required to disclose this information. Development costs include direct vertical construction, indirect costs (i.e., architecture and engineering, project administration, professional fees, marketing, financing), contingency, and developer and builder return. The revenues are based on observable sale prices and capitalized rents, as confirmed by local builders and property managers.

It is important to note that the financial feasibility analysis presented herein is designed to reflect prototypical cases and may not necessarily reflect the performance of any particular project. Indeed, this analysis has found that there is substantial variation in the current Fresno market based on unique builder, site, and neighborhood dynamics. For example, market rents in one location, such as Clovis, may justify certain types of development that may not be financial feasible elsewhere, such as downtown Fresno, assuming other variables remain fixed.

¹⁰ The pro formas solve for the difference between project revenues and development costs, which results in an estimate of residual land value. If the land value does not achieve a reasonable range, development is likely to be infeasible as values do not support land costs.

The results of this analysis are summarized below for for-sale and rental housing respectively. These two product types are evaluated separately because of the unique circumstances associated with each, as described.

Analysis of For-Sale Product Types

For the purpose of this analysis, EPS evaluated and compared the following four for-sale product types based on the recent development trends and market activity:

- Traditional single-family
- Small lot single-family
- Townhomes
- Condominiums

Assumptions

The key financial assumptions by product type are summarized in **Figure 32**. As shown, development densities are assumed to increase as average unit size decreases along the identified product type spectrum (for example, traditional single-family homes have the lowest density and the largest unit size). The traditional single-family residential unit is assumed to command the highest sale price per unit, with prices decreasing as units get smaller. This trend also reflects the market preference for lower density development, as considered in the prior chapters. Sale prices are based on current sale trends in Fresno County.

Figure 32 For-Sale Product Pro Forma Assumptions

Item	Traditional Single Family	Small Lot Single Family	Townhomes	Condominiums
DEVELOPMENT PROGRAM				
Units per acre	5	10	15	25
Average Unit Size	2,200	1,900	1,800	1,000
Typical Building Height	1-2	2	2-3	2-3
REVENUE ASSUMPTIONS				
Sale Price Range	\$360,000-\$400,000	\$280,000-\$320,000	\$230,000-\$270,000	\$160,000-\$200,000
Cost of Sale/Marketing	5%	5%	5%	5%
DEVELOPMENT COSTS				
Direct Costs				
Building Construction Cost (per sq.ft.)	\$65	\$75	\$80	\$85
Landscaping/Intracts (per land sq.ft.)	\$5	\$5	\$5	\$5
Parking Construction Cost (per space)	\$0	\$0	\$0	\$3,000
Indirect Costs				
Development Impact Fees (% of direct costs)	17%	17%	17%	17%
Development Impact Fees (per unit)	\$31,715	\$27,928	\$26,948	\$19,501
Builder Cost (% of direct costs)	5%	5%	5%	5%
Builder Cost (per unit)	\$9,328	\$8,214	\$7,926	\$5,736
Financing (% of direct costs)	3%	3%	4%	5%
Financing (per unit)	\$5,597	\$4,928	\$6,341	\$5,736
Contingency (% of direct costs)	5%	5%	5%	5%
Contingency (per unit)	\$13,106	\$11,541	\$11,295	\$8,173
Developer Return (% of direct costs)	11%	12%	12%	12%
Developer Return (per unit)	\$30,274	\$29,082	\$28,462	\$20,597
Total Cost	\$305,497	\$271,437	\$265,648	\$192,234

Sources: developer interviews, RSMean, and EPS in-house resources.

On the cost side, direct construction costs are estimated to range between \$650 per square foot for traditional single-family homes and \$85 per square foot for condominiums. Lower construction cost for lower-density product is reflective of economies of scale per square foot relative to smaller and denser units.

Indirect costs are assumed to remain fairly fixed across all for-sale product types as a percentage of costs, estimated at 17 percent of direct costs for City and other agency fees, 5 percent of direct costs for builder fee, and 5 percent of total costs for contingency. The financing cost is assumed at 3 percent for traditional single-family homes, relative to 4 percent for townhomes and 5 percent for condominiums, reflective of the general ability to obtain financing for established low density single-family product relative to other less established product types.

The developer return on cost is assumed to range between 11 and 12 percent across evaluated for-sale product types, with traditional single-family within the lower end of this range due to a market perception for lower risk relative to higher density product types (as supported by developer interviews). While return requirements vary by financial position of a developer, location of the project, specific product mix, perception of risk, and broader economic and capital market trends, the range of returns assumed in this analysis for for-sale product is fairly narrow.

This is because all product types built to sell result in a business formula of construction loan being paid down with sold unit proceeds upon development completion. As discussed below, the business formula for rental units is more complex.

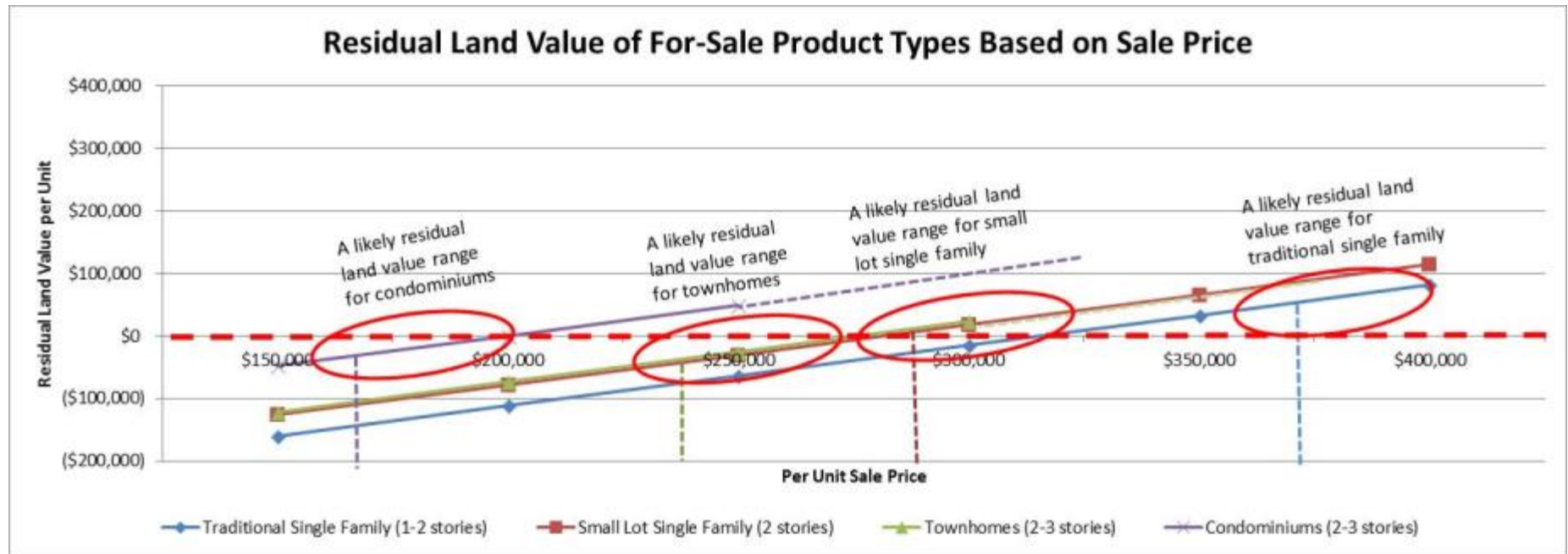
Results and Implications

Financial feasibility summary of tested for-sale product types is shown in **Figure 32**. The range of sale prices for each product type is reflective of the geographic differences and associated value variances within the Fresno County jurisdictions as indicated in early sections. As shown, this analysis indicates that under current conditions, only traditional single-family units generate substantial land value (\$50,000 per unit or roughly \$260,000 per acre) to justify substantial private sector investment. This is consistent with the prevailing market trend in Fresno County, as the majority of current construction and recently-delivered units are traditional single-family detached homes.

Based on the market inputs reported by local developers, small lot single-family also results in a positive land value of \$7,000 per unit, about \$70,000 per acre. However, given the prevailing land prices in Fresno, the land value generated by the small lot single-family units falls below the feasibility threshold under the current set of assumptions. Despite this, small-lot single-family can become feasible with a slight increase in home values relative to the County average used in these calculations. Indeed, sufficient values already exist in several County submarket (e.g., Clovis).

Townhomes and condominiums generate negative residual land values under the baseline assumptions. These values suggest that a substantial market improvement and associated sales price increases would be necessary to justify new development of townhomes and condominium product types. However, even under substantial market improvement, higher density development will need to compete with traditional single-family development, which has historically driven land prices due to the stronger economics of this product type and market

Figure 33 Financial Feasibility of For-Sale Home Development



Sources: developer interviews, RSMeans, and EPS in-house resources.

preference for low density residential. In other words, even if market prices increase sufficiently to justify the higher development and land costs for higher density products, market depth will continue to be an issue so long as a significant supply of new traditional single-family units continue to enter the market.

Analysis of Rental Product Types

For the purpose of this analysis, EPS evaluated and compared the following two rental product types based on the likely density range that can be achieved in the Fresno market in the foreseeable future:

- Garden apartments (surface parking)
- Podium parking mid-rise apartments

While the podium parking mid-rise apartment product type has not been prevalent in the Fresno market, it is tested in this analysis to identify the magnitude of change needed in key financial parameters, (e.g., rents, development costs, financing) in order to induce private sector investment.

Assumptions

The key financial assumptions and rental product types are summarized in **Figure 34**. As shown, garden apartments have lower density relative to podium parking mid-rise, while unit sizes are assumed to remain the same. Rents are assumed at \$1.20 per square foot per month for garden apartments and \$1.30 per square foot per month for podium parking mid-rise, with the difference attributed to potential view premiums and additional amenities likely to be achieved in the higher density rental product. It is worth noting that rents vary significantly in the County based on location (e.g., school district), neighborhood and project-specific amenities.

On the cost side, direct construction costs are estimated to range between \$80 per square foot for garden apartments and \$85 per square foot for podium parking mid-rise apartments. However, after accounting for the cost of providing podium parking, assumed at \$20,000 per parking space, this product type is significantly more expensive.¹¹

Results and Implications

As summarized in **Figure 34**, only garden apartments generate positive residual land values assuming relatively aggressive rental rates. Residual land value for podium mid-rise product type suggests that substantial market improvement and significant rent increases are necessary to justify new development under the current market conditions and regional renter preferences.

¹¹ The higher-density format of infill development commonly requires structured parking onsite (within individual buildings). Structured parking is expensive and adds substantially to construction costs. It is common for structured parking requirements to represent 10 to 15 percent of the construction cost of mixed-use and higher density multifamily housing as compared to 1 to 2 percent of cost in projects where surface parking is possible.

The findings are consistent with the prevailing market trend in Fresno County which currently lacks large scale delivery of the rental product. While limited apartment development activity exists in Fresno County, it is usually accommodating niche markets, achieves higher than average rents, or generates lower than average returns. Given these conditions, it is not surprising that Fresno has not been historically perceived as a strong rental investment market by institutional investors.

Figure 34 Rental Product Pro Forma Assumptions

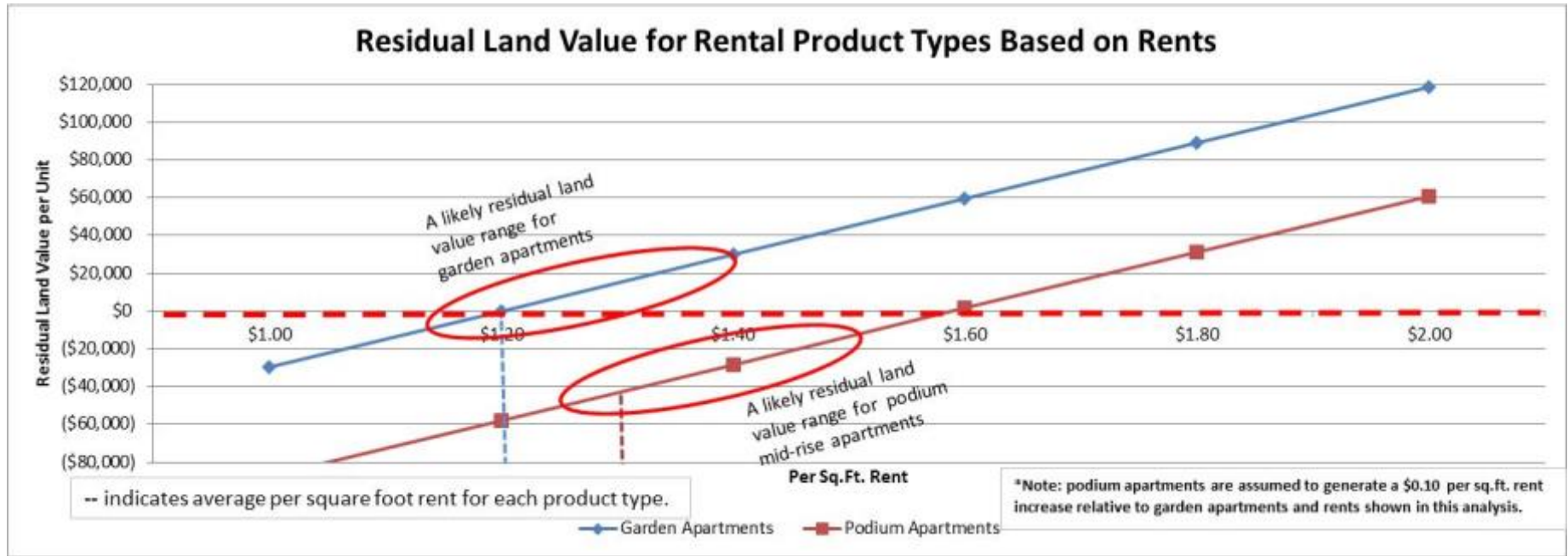
Item	Garden Apartments	Podium Apartments
DEVELOPMENT PROGRAM		
Units per acre	25	50
Average Unit Size	1,000	1,000
Typical Building Height	2-3	3-4
REVENUE ASSUMPTIONS		
Annual Rent Range	\$14.00-\$17.00	\$15.00-\$18.00
Cap Rate	5%	5%
Marketing Cost	5%	5%
DEVELOPMENT COSTS		
Direct Costs		
Building Construction Cost (per sq.ft.)	\$85	\$90
Landscaping/Intracts (per land sq.ft.)	\$5	\$5
Parking Construction Cost (per space)	\$3,000	\$20,000
Indirect Costs		
Development Impact Fees (% of direct costs)	7%	7%
Development Impact Fees (per unit)	\$8,030	\$10,517
Developer Fee (% of direct costs)	5%	5%
Developer Fee (per unit)	\$5,736	\$7,512
Financing (% of direct costs)	5%	5%
Financing (per unit)	\$5,736	\$7,512
Contingency (% of direct costs)	5%	5%
Contingency (per unit)	\$7,915	\$10,366
Developer Return (% of direct costs)	8%	8%
Developer Return (per unit)	\$13,297	\$17,416
Total Cost	\$179,515	\$235,111

Sources: developer interviews, RSMMeans, and EPS in-house resources.

Most of the active apartment developers are smaller, local builders, who often bring superior local market intelligence, operate on tighter margins, and may have longer-time horizons (e.g., because of a commitment to the community or family legacy). For example, local developer builders can reduce their development cost equation by accepting lower returns and/or operating as their own General Contractor. **Figure 35** shows how total unit costs (including profit) can tip the scales for development feasibility, especially for garden apartments.

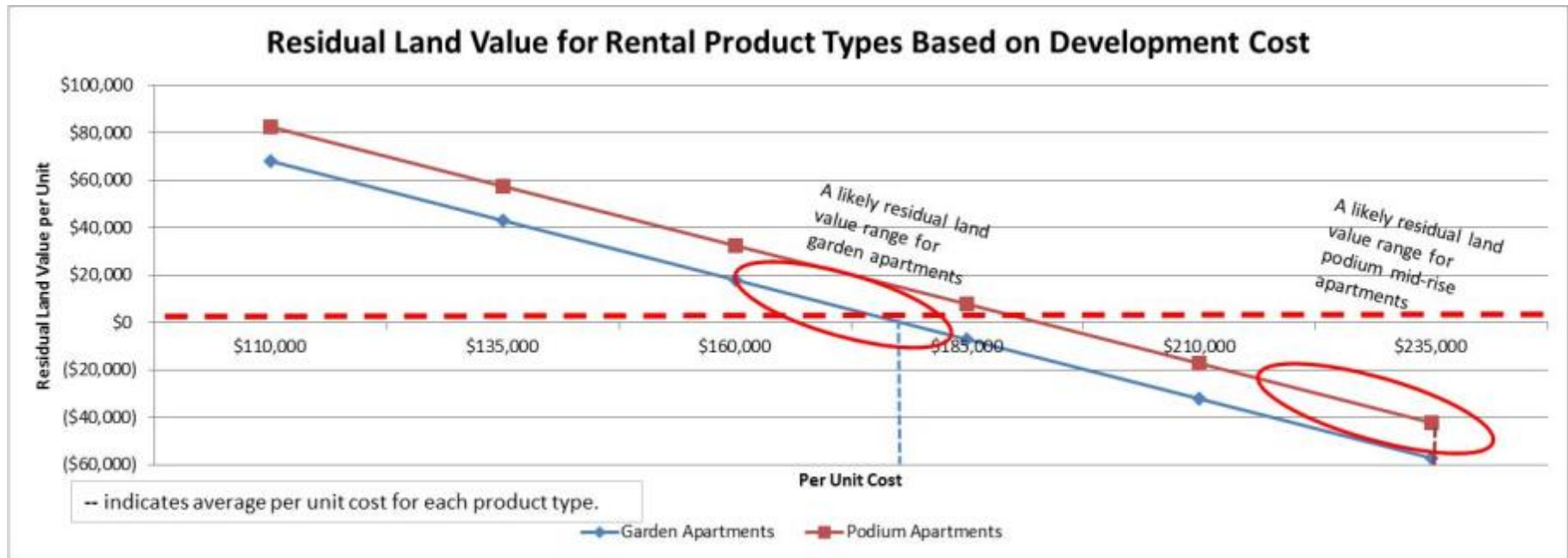
Going forward, the primary determinant of further apartment development appears to be rent appreciation. Significant movement on the development costs side of the equation is unlikely since Fresno is already a very low cost market (and loss of RDAs will limit public subsidies). However, apartments do have a number of inherent advantages that may provide an impetus for demand growth over time. For one, the sheer size of Fresno's rental market (close to 50 percent of the population), suggests that builders will ultimately need to more aggressively cater to this segment. Moreover, rental property is generally an attractive option in markets with marginal property appreciation (which has been the case in Fresno) because it offers minimal occupant risk, reduced utility and property maintenance costs, and generally a higher level of flexibility and mobility for consumers relative to ownership.

Figure 35 Residual Land Value Estimates by Rental Rate



Sources: Developer interviews, RSMeans, and EPS in-house resources.

Figure 36 Residual Land Value Estimates by Development Cost



Sources: Developer interviews, RSMMeans, and EPS in-house resources.

Other Factors Affecting Development Feasibility

As noted at the outset, in addition to the real estate market conditions, developers active in the Fresno market have identified a number of other key factors affecting the project feasibility of infill relative to more traditional “greenfield” sites. Chief among these include:

- **Land Availability and Price:** To be successful, infill developers need to be able to purchase land at a price at or below the “residual land value” that is achievable from the infill uses being considered. However, in many of Fresno’s infill locations, while development generally generates a lower residual land value per acre than it does in newer communities built in “greenfield” locations, actual land prices are often higher. By way of example, land prices in Downtown Fresno range \$500,000 to \$1 million per acre, more than twice as high as the County average. This is often because sites are smaller and/or occupied by existing uses that generate revenue to property owners. Moreover, site assembly often includes the added time and costs of negotiating with multiple property owners, buying-out existing tenants, and in some cases demolition and site preparation costs.
- **Economies of Scale:** Related to land availability, developers have noted that small infill projects can be less efficient, and thus less profitable, because a number of significant project wide costs are invariably spread across fewer units. These project-wide costs, such as entitlement, project management, marketing, and construction site security, generally remain relatively fixed regardless of project size. Thus, for a small infill project (e.g., 10 to 20 units), they consume a larger portion of project value.
- **Neighborhood Quality and Consumer Perceptions.** By definition, infill development sites are located in the context of existing urban neighborhoods. According to developers, consumer concerns related to the quality of many infill neighborhoods, whether real or perceived, represents an important impediment to development feasibility. The biggest issues generally revolve around crime and school quality, although the availability of commercial amenities is also an important factor.
- **Fees and Entitlement Costs:** While developers have generally noted that land entitlement process is not a significant obstacle in most Fresno markets (especially relative to Coastal communities), development impact fees and permits have been cited as an impediment. Development impact fees generally range between \$30,000 and \$35,000 per unit in Fresno County with fees in some jurisdictions reaching above \$50,000 per unit (e.g., Clovis). While a detailed fee comparison against other jurisdictions is beyond the scope of this study, EPS work across the State suggests that these fee levels are in-line with other communities in absolute terms. However, when compared relative to average home prices, these fee levels may be slightly above the norm.

7. IMPLICATIONS FOR SCS POLICY AND IMPLEMENTATION

This Report is intended to inform the eight *San Joaquin Valley Sustainable Community Strategies*, all which have been prepared following the San Joaquin Valley Blueprint Planning Process. Specifically, this technical work may advance SCS policies and implementation measures by focusing attention upon market trends, comparative development economics, and land use patterns utilizing the Fresno Region as an example in the valley. The fundamental issue involved is the density and location of future development in a Region—achieving a more compact, higher density pattern of development is a central goal of the SCS process as part of its overall strategy to reduce Greenhouse Gas emissions.

While more compact development may contribute to GHG reductions, it is important to note that achieving infill development as envisioned in the Blueprint and SCSs will confer a broader range of benefits. These benefits include increased economic vitality of the Region's urban centers; decreased consumption of energy, water, and other natural resources; reduced conversion of farmland and natural habitat areas; and the opportunity for more efficient infrastructure investment and delivery of municipal services—all ample justification for new investment and effort to pursue infill development

The foregoing technical analysis and findings suggest that a range of policy intervention and a concerted implementation effort will be needed to achieve the SCS goals in Fresno and throughout the Valley. Market conditions and trends, the existing local government land use planning regime, and the various development constraints existing within infill areas will all need to be addressed in one manner or another. These issues are faced by the SCS's throughout the State, including those in the more urbanized coastal areas. However, it is recognized that the San Joaquin Valley has different land use and economic patterns that suggest strategies different from those that might be appropriate in the more urbanized coastal regions.

Essentially, there are three broad categories of policy and related implementation efforts needed:

- Policies that alter regional residential land supply dynamics (e.g., zoning, annexations, infrastructure financing)
- Policies that strengthen the economic vitality of existing urban centers
- Policies that better align SCS implementation with emerging economic trends and opportunities

Each of these policy options is discussed in broad terms below as a basis for informing more detailed and specific refinements or modifications to on-going SCS efforts. Note that this study has not taken the next step to assess how the regional SCS efforts align with the broad economic and market findings described herein.

Regional Land Supply

Unlike more urbanized areas of the State the Fresno Region has long exhibited a pattern of outward concentric growth—"greenfield" development driven by a range of market factors, local land use policies favoring lower density suburban and rural development, and investments in

supporting infrastructure. Indeed, it appears that this consumption of land is a driver of the local economy involving new construction and turnover of residential property not entirely linked to economic growth. Given the lack of substantial natural boundaries there is no natural or economic limit to such low density expansion and relocation from existing closer-in neighborhoods. Accordingly, land use, infrastructure investment, and cost constraints will be necessary to affect the redirection of growth to a more inward pattern. There are a range of methods to achieve this objective all general falling under the category of "growth management".

Positive Open Space Policies

Preserving natural features (e.g., river corridors), public open spaces (e.g., parks and recreation areas), and managed resources (e.g., agricultural lands) can all serve as a container or limit upon urban expansion. Policies and programs that preserve open space, especially on the periphery of existing urban areas, can establish a positive boundary.

Redirecting Infrastructure Investments

Urban expansion is facilitated by investments in major infrastructure needed to support expansion. Major public investments such as the federal Interstate Highways have had a profound impact upon land use over the last generation enabling longer commutes and the related regional (and inter-regional) integration. Regional and local investments can have similar effect by shifting the emphasis of public investment from expansion to investing in existing urban areas and improving existing infrastructure systems.

Internalizing Full Cost of Outward Growth

Maintaining an ever-expanding system of urban infrastructure and continual expansion of territory requiring municipal services likely increases the average cost of delivering municipal services and maintaining infrastructure systems. At the same time related underinvestment or reductions in services throughout the jurisdiction have a range of economic and social consequences. Financing policies that more accurately reflect such cost differentials, thus "internalizing" any higher costs involved could offset the incentive to entitle less expensive outlying land.

Urban Boundary Limits

Local jurisdictions in locations where there are no natural or built barriers to urban expansion and where positive open space policies do not suffice have adopted, by initiative or local ordinance, fixed boundaries on urban expansion. Experience has shown that these policies have indeed stemmed the tide of expansion and refocused development activity within the designated urban limits. These policies are linked to the Sphere of Influence and Municipal Service Reviews administered by the Local Agency Formation Commissions.

By way of example, the City of Reedley recently adopted General Plan limits new annexations until at least 80 percent of residential development capacity with the existing City limits has been absorbed. The new General Plan incorporates a variety of other "Urban Growth Management" and "Smart Growth / Sustainability" goals and policies including a right-to-farm ordinance, required fiscal impact analysis for new sub-divisions, and revised street standards to support "Complete Streets" (e.g., sidewalks, narrower widths, fewer cul-de-sacs).

Infill Development Constraints and Incentives

As noted earlier in this Report, a range of constraints exist within designated infill areas in the Region. These constraints include market conditions (weak demand for infill development uses), site and physical conditions (difficulty with land assembly, inadequate infrastructure), and, finally, regulatory constraints (non-conducive land use policies, cost burdens, regulatory time delays, etc.). Such constraints are common in infill areas throughout the State but become all the more significant when combined with weak market demand. Relieving these constraints and incentivizing development in various ways will be a key component of SCS implementation, including the following actions.

Public investment in infill area infrastructure

Public investments in infrastructure beyond the capacity of the standard development-based funding strategies (development impact fees, special taxes, etc.) will be necessary in many cases. Such funding will need to be derived from city-wide sources, State sources and federal sources. Despite the loss of local redevelopment powers, it is encouraging that the State is apparently willing to direct substantial resources from the Cap and Trade program and other new state sources (future infrastructure bonds, etc.) toward infill areas throughout the State, as long as such areas include the demographics of the Valley, allowing for this funding to be accessed and utilized. Additional efforts should be made at the regional level, including focusing of the local sales tax measures toward infill development and transit service rather than continued expansion of highways and the regional arterial roadway network.

Streamlining Entitlement Procedures and Providing Other Development Incentives

Local land use policy, development regulations, and environmental review directly affect the time, costs, and risks involved with obtaining entitlements and can affect the financial feasibility of infill development. Providing state-of-the art planning and regulation, reducing regulatory barriers and uncertainties, and reducing the related financial risks in the Region's infill development areas can substantially improve real estate project feasibility and attract investment capital.

Entitlement procedures include adopting a supporting specific plan and related use-by-right zoning standards (minimizing additional discretionary review), CEQA streamlining strategies (completing program EIRs, comprehensive mitigation strategies, etc.), definitive and appropriate infrastructure financing programs, and fast-track permitting procedures can all help minimize these entitlement costs and the time required to obtain entitlement, and reduce uncertainties, without weakening policy attainment or regulatory standards. Development incentives include density bonuses, preferential access to infrastructure financing and funding, tax credits and abatements, and assistance with land assembly.

Strategies to Improve Regional Economic Competitiveness

As noted throughout, employment opportunities and income growth play an important role in housing demand, especially for improving the development economics for market rate apartments and condos. The Fresno Region, as part of the broader San Joaquin Valley, has long experienced economic issues associated with a regional economy dominated by agricultural production and related processing and logistics sectors (e.g., warehouse and distribution). In order for growth forecasts to be realized, regardless of the urban form, it will be necessary to

diversify the regional economy by attracting new industries and taking advantage of existing strengths and capacities to expand job opportunities for existing new Valley residents. While generally outside the purview of SCS implementation, economic development strategies should be considered and referenced in this context.

Align SCS Implementation with Economic Realities

As noted throughout this study, simply showing (assuming) a transformed regional land use pattern will not result in the desired outcome—action is needed, as the San Joaquin Valley Blueprint Planning Process and the individual SCSs have recognized. A key component of effective implementation is to ensure planning and policy goals are well aligned with emerging economic trends and opportunities. While regional SCS efforts are currently in various stages of implementation, it is recommended that MPOs conduct periodic “reality checks” to assess how regional markets are responding to the policies, goals, and incentives included therein.

This current study effort is designed to provide a broad level assessment of economic opportunities and constraints associated with infill development in the Valley, with data on Fresno County provided as a case study. The findings suggest that traditional single-family development maintains a number of significant economic advantages over higher density infill housing products and will likely remain the predominant development prototype if current trends and land use policies remain in place.

However, this study has also notated a number of emerging market opportunities that should be further leveraged and supported in order to foster higher density development. For example, small lot single-family product types appear to be gaining increasing market acceptance and may represent the most viable short-term option for supporting infill revitalization. In addition, the provision of market-rate garden apartments represents a medium-term opportunity, especially if well amenitized and/or developed in highly regarded neighborhoods. In both cases, individual market rate projects could pave the way for more wide spread and higher density development by providing developers, lenders, consumers, and other market participants with viable models of success.