

# Plan Bay Area 2050+ Final Blueprint: Housing Needs and Revenue Forecast

## Summary

The Final Blueprint housing needs and revenues forecast is updated from the Draft Blueprint to reflect substantive changes to several key housing production strategies. In particular, Strategy H4, *Build Adequate Affordable Housing to Ensure Homes for All*, has been revised to integrate measures to reduce the cost of delivering new affordable housing. While estimated revenues remain relatively unchanged from the Draft Blueprint, the estimated funding need for production strategies falls by \$77 billion, or roughly 25%, resulting in a reduction in total needs from \$565 billion in year of expenditure dollars (YOE) to \$487 billion YOE overall. This change reflects strategy updates that integrate cost-effective design, financing, and regulatory approaches that were identified in response to policymaker concern regarding the rapidly escalating costs of affordable housing production reported in the Draft Blueprint.

Needs and revenue assumptions are based upon available data and extensive consultation with housing developers, lenders, and policymakers. While these assumptions are grounded in rigorous analysis, forecasting housing needs and revenue is not subject to the same standard of fiscal constraint as the process for forecasting needs and revenue for the plan's Transportation Element. As such, financial assumptions for housing are less detailed than those for transportation and more comparable to the plan's Environment Element. The forecast can thus be viewed as an attempt to help answer the question of what it would take to financially support the plan's visionary Housing Element strategies. Funding sources for housing are interrelated and dynamic — the amount of money available to the region to produce or preserve affordable housing depends on how much funding the region can generate and the pace at which it is able to permit projects. For example, Low Income Housing Tax

Credits and commercial debt might make up the bulk of funding for an affordable housing project, but this funding is simply unavailable without an additional subsidy from a local source such as a housing bond.

The total estimated housing needs and revenues between the Plan Bay Area 2050+ Draft and Final Blueprint are compared in Table 1 below in billion YOE dollars. Due to the use of Year of Expenditure dollars and the three-decade reporting period, these estimates may appear dramatically higher than affordable housing funding needs or gap estimates expressed in current dollars.

Table 1: Estimated Needs: Plan Bay Area 2050+ Housing Element

Theme	Strategy	Draft Blueprint	Final Blueprint	Change (Amount in \$Billions, YOE <sup>1</sup> )
<b>Protect &amp; Preserve Affordable Housing</b>	Strategy H1: Strengthen Renter Protections	\$2B	<b>\$2B</b>	-
	Strategy H2: Preserve Existing Affordable Housing	\$250B	<b>\$250B</b>	-
	Strategy H3: Allow a Greater Mix of Housing Densities and Types in Growth Geographies	<\$1B	<b>&lt;\$1B</b>	-
<b>Spur Housing Production</b>	Strategy H4: Build Adequate Affordable Housing to Ensure Homes for All	\$302B	<b>\$225</b>	<b>-\$77B</b>
	Strategy H5: Integrate Affordable Housing into All Major Housing Projects	<\$1B	<b>&lt;\$1B</b>	-

	Strategy H6: Transform			
	Aging Malls and Office Parks	<\$1B	<\$1B	-
	into Neighborhoods			
<b>Create Inclusive Communities</b>	Strategy H7: Provide Targeted Mortgage, Rental, and Small Business Assistance to Equity Priority Communities	\$11B	\$11B	-
	Strategy H8: Accelerate Reuse of Public and Community-Owned Land for Mixed-Income Housing and Essential Services	<\$1B	<\$1B	-
	<b>Total Housing Element Need</b>	\$566B	\$489B	-\$77B

<sup>1</sup>Figures rounded and may not sum

## Housing Needs Forecast

Forecasted affordable housing funding needs are organized by the three themes and associated strategies of the Housing Element: Protect and Preserve Affordable Housing; Spur Housing Production at All Income Levels, and Inclusive Communities. Anticipated funding needs associated with each theme are further summarized below.

### Protect & Preserve Affordable Housing (Strategies H1 and H2)

In addition to curbing the rate of annual rent increases, Strategy H1, *Strengthen Renter Protections*, expands services such as legal assistance and increases resources devoted to enforcing legal protections for renters, including fair housing requirements. The funding need for this component of the strategy is estimated at \$13 billion over the course of the plan, which is an inflation-adjusted figure based upon the region’s most robust existing program in the City and County of San Francisco.

Strategy H2, *Preserve Existing Affordable Housing*, acquires homes currently affordable to, and/or occupied by, low-income residents for preservation as permanently deed-restricted housing. The funding need for this strategy, \$252 billion, is estimated by multiplying the number of rent-burdened<sup>1</sup> low-income<sup>2</sup> households in 2023 by a typical per-unit cost to acquire and preserve these units as permanently deed-restricted. The typical per-unit cost estimates were drawn from project-level information from affordable housing developers and local governments, as well as applications to the California Tax Credit Allocation Committee (CTCAC) by preservation projects.

The costs of preservation projects are less subject to the exogenous variables (e.g. materials costs) and local policies (e.g. limits on height and density) that heavily influence the cost of producing new affordable housing. Similarly, the cost of delivering expanded renter protection services and enforcement is relatively insulated from significant cost increases. The estimated cost of delivering Strategies H1 and H2 grew by a modest 5 percent between Plan Bay Area 2050 and the Draft Blueprint. As a result, these strategies were not identified as focus areas for Final Blueprint refinements, and the estimated cost remains unchanged between the Draft and Final Blueprint.

### **Spur Housing Production for Residents of All Income Levels (Strategies H4-H6)**

Three of the plan's four production strategies are policy interventions and incentives that are not anticipated to require additional public subsidy. Instead, they are designed to facilitate better use of the funding for new affordable housing generated through Strategy H4, *Build Adequate Affordable Housing to Ensure Homes for All*. These policy-based strategies include Strategy H3, *Allow a greater mix of housing densities and types in Growth Geographies*; Strategy H5, *Integrate affordable housing into all major housing projects*; and Strategy H6, *Transform aging malls and office parks into neighborhoods*.

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<sup>1</sup> Defined as paying more than one-third of gross household income on housing costs.

<sup>2</sup> Defined as households with incomes between zero and eighty percent of area median income.

Strategy H4, by contrast, builds enough new deed-restricted affordable homes to fill the existing gap in housing for the Bay Area’s unsheltered homeless residents<sup>3</sup> and provides an affordable home for each new low-income household over the course of the plan. The shortfall in existing housing for unsheltered residents is based upon the Point in Time count taken in each Bay Area County, while the future change in low-income households reflects the net increase in households in the first income quartile projected during the plan period by the Plan Bay Area 2050+ Regional Growth Forecast. The funding required to implement Strategy H4 is estimated by multiplying this total number of existing unhoused and future low-income households by a per-unit subsidy. This calculation is weighted by the distribution of low-income (i.e., “quantile 1”) households by household size and relative income level. This more nuanced approach reflects the relatively detailed available data for subsidized affordable housing production projects; it is intended to ensure that the estimated subsidy will meet the diverse needs of the region’s low-income households.

Key data sources for these figures were California Tax Credit Allocation Committee (CTCAC) applications over the past five years, proprietary and publicly available development cost data, and project-level pro formas provided by local governments and consultant BAE Economics. These data sources were calibrated to pro forma analyses conducted by BAE Economics to reflect variations in unit size, subregion, and relative household income amongst the future quantile 1 households. This approach enabled staff to characterize the cost of housing for future low-income residents in a relatively tailored manner, resulting in an estimated need of \$225 billion.

The total estimated need for Strategy H4 in the Final Blueprint is \$77 billion, or roughly 25%, less than the original \$302 billion estimate in the Draft Blueprint. This reduction reflects the estimated impact of integrating approaches to delivering more cost-effective new affordable housing developed between the Draft and Final Blueprint. This involved a comprehensive review of potential approaches to bring down the cost of affordable housing without compromising livability, ranging from project finance to regulatory incentives and greater use of construction technologies such as cross-laminated timber and

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<sup>3</sup> Based upon 2022 Point in Time Counts reported to the U.S. Department of Housing and Urban Development (HUD) in each Bay Area county.

volumetric modular. Each approach with potential for expanded application was evaluated by consultant BAE Economics and staff from the Bay Area Housing Finance Authority, and further refined through interviews with developers, designers, and real estate finance specialists active in the Bay Area, as well as project-level review of pro formas. To calculate potential cost reductions, each approach was applied to a set of prototypical affordable housing projects in different Bay Area housing markets. In addition to applying each approach individually, different combinations of cost saving approaches were applied to each prototype to test the cumulative impact. The initial results of this analysis were calibrated against detailed data from more than 100 LIHTC-funded projects in the San Francisco Bay Area, qualitative information provided by interviewees, and data on current projects available to BAE Economics and BAHFA.

Overall, the highest impact approaches included establishing a single source of financing, providing low-cost access to sites, pursuing efficient project design & delivery methods, and broadening the use of streamlining provisions for 100% affordable housing projects. Combining these approaches into a regional ecosystem that offers a single, predictable source of financing to projects on public or discounted private land that commit to cost effective design and construction approaches, supported by local commitments to streamlining, were estimated to yield up to a 40% to 47% reduction in per unit development costs (see cost saving combinations Comprehensive A and B in Table 2 below).

The lower overall estimated reduction in the cost of Strategy H4—roughly 25%—reflects a conservative approach.<sup>4</sup> The full range of cost-effectiveness measures was applied to a certain subset of projects, including those on publicly owned sites (see “Comprehensive B” in Table 2); meanwhile, a smaller range of measures was applied to projects in locations with more limited transit service that are less likely to be eligible for some of the cost saving streamlining measures (see “Baseline” cost saving combination in Table 2). The estimated impact of applying each of these approaches, and the universe

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<sup>4</sup> Approximate total reduction based upon the proportion of deed-restricted affordable homes built in different locations (e.g. on public land, inside Growth Geographies, etc) in Draft Blueprint. The estimated reduction in Housing financial needs may change slightly depending upon the share of deed-restricted affordable homes built on different kinds of sites in the Final Blueprint.

of projects to which these approaches will be applied in the Final Blueprint, is shown in Table 2 below. In all cases, the lowest end of the range of estimated reductions shown was applied.

*Table 2. Plan Bay Area 2050+ Final Blueprint Affordable Housing Cost Saving Combinations*

Cost Saving Combination	Potential reduction in total development cost/unit <sup>1</sup>	Applicable Plan Bay Area 2050+ Blueprint Affordable Housing Projects <sup>2</sup>
<p><b>Baseline:</b></p> <ul style="list-style-type: none"> <li>✓ Innovative design and delivery (e.g. design replication and vertical integration of design and construction processes)</li> </ul>	<p>8%-11%</p>	<p>All affordable housing projects outside Growth Geographies (excludes those on development sites simulated through Strategy H5, H6 and H8)</p>
<p><b>Baseline Plus</b></p> <ul style="list-style-type: none"> <li>✓ Baseline cost saving combination</li> <li>✓ Regulatory relief (parking, impact fee waiver, streamlining, density bonus)</li> <li>✓ Modular construction (included only in high end estimate)</li> </ul>	<p>19%-28%</p>	<p>All affordable housing projects pm sites within Growth Geographies (excludes those on development sites simulated through Strategy H5, H6 and H8)</p>
<p><b>Comprehensive A:</b></p> <ul style="list-style-type: none"> <li>✓ Base Cost Saving Combination</li> <li>✓ Incentivize redevelopment of commercial buildings and land for affordable housing</li> <li>✓ Single source of financing</li> <li>✓ District infrastructure finance</li> </ul>	<p>26%-40%</p>	<p>Applicable to projects involving reuse of commercial land on development sites simulated through Strategy H6.</p>
<p><b>Comprehensive B:</b></p>	<p>30%-47%</p>	<p>Applicable to projects on development sites simulated through Strategy H8.</p>

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- ✓ Base Cost Saving Combination  
(assumes 50% of projects use new construction technology)
  - ✓ Leverage publicly-owned land
  - ✓ Single source of financing

1. Based upon analysis of more than 100 recent Bay Area Low Income Housing Tax Credit (LIHTC) projects, evaluation of emerging cost-reduction models, publicly available and proprietary development cost data, and calibration of potential cost reductions to case studies.

2. Figures reflect the estimated cost reductions from combining multiple approaches when compared to typical affordable housing unit, controlling for size and funding source, and eliminating duplicate reductions from included approaches; range reflects differences in magnitude of reduction based on geographic location and type of project.

*(Source: MTC/ABAG, BAHFA, and BAE Economics)*

Conditions for success were identified using case studies and are reflected in the revised descriptions for Strategy H4. In addition, because some of the success factors are related to the use of other policy-based strategies (e.g. Strategies H6 and H8), these strategies were revised to reflect greater integration with H4.

### **Create Inclusive Communities (Strategies H7 and H8)**

Strategy H7, *Provide Targeted Mortgage, Rental and Small Business Assistance to Equity Priority Communities*, provides mortgage and rental assistance in Equity Priority Communities, prioritizing longtime previous or existing residents of communities of color that have experienced disinvestment or displacement resulting from policies such as redlining, predatory lending, and infrastructure siting. Similar to Strategies H3, H5 and H6, Strategy H8, *Accelerate the Resue of Public and Community-owned Land for Mixed-Income Housing and Essential Services*, is not anticipated to require additional public subsidy, but is expected to enable more efficient use of existing and potential future affordable housing subsidies.

The estimated cost of this strategy, \$11 billion, is unchanged between the Draft and Final Blueprint.



## Housing Revenue Forecast

The Housing Element’s revenue forecast is divided into three categories, or “scales”: federal, state, and local. In practice, these sources are interrelated, with every affordable housing project relying on a share of each for its financing, alongside traditional commercial debt and in some cases developer equity, philanthropy, or income streams from non-residential leases. In addition, many federal funding sources, such as Low-Income Housing Tax Credits, are allocated by the State of California, and in some cases by local authorities. Similarly, some state sources are administered locally. For the purpose of estimating revenues over the course of Plan Bay Area 2050+, funding is categorized by source, regardless of the agency responsible for administering the funds. Final Blueprint revenue estimates are shown using these categories in Table 3 below.

The revenue forecast assumes a continuation of recent funding levels from each source into the future. In reality, funding levels are highly susceptible to national, state, and local political and fiscal dynamics. Based on the history of national and state affordable housing policy, the possibility of a significant increase *or* reduction is not unlikely before 2050.

To help account for variability, revenues from each source are estimated using an inflation adjusted average of the past five years of available data. The resulting figures should be treated only as “snapshots” of a specific period that are carried forward into the future for analytical purposes.

### **Federal Affordable Housing Revenue Forecast**

Federal sources are estimated to account for roughly half of affordable housing revenues. Low Income Housing Tax Credits (LIHTC) are the primary federal funding source, with Community Development Block Grants, National Housing Trust Fund, and one-time sources providing smaller amounts of additional funding. Distributed by the California Tax Credit Allocation Committee, LIHTC is extremely competitive. Together, federal sources are estimated to yield \$74 billion over the course of the plan. Estimated state revenues remain relatively unchanged between the Draft and Final Blueprint, growing by two percent to reflect the most updated data, which resulted in an increase in the five-year average used to estimate revenues.

### **State Affordable Housing Revenue Forecast**

State funding levels are particularly susceptible to fluctuations based on annual budgets and the frequency and amount of voter-approved bonds dedicated to affordable housing. Among the state's current ongoing affordable housing programs are the multi-agency Affordable Housing and Sustainable Communities program and a set of programs operated by the California Department of Housing and Community Development (HCD) using sources including the proceeds of voter-approved bonds, such as the Multifamily Housing Program and Infill Infrastructure Grant. In addition, during times of budget surplus and/or intense competition for LIHTC, California often augments its federal share of tax credits with state-funded credits to make these dollars go further. As a result of this variation and the competitive nature of most sources, state housing revenues allocated to the Bay Area can change two- or threefold year to year.

Estimated state revenues changed modestly between the Draft and Final Blueprint, growing by nearly four percent to reflect the most updated data, which resulted in an increase in the five-year average used to estimate revenues.

### **Local Affordable Housing Revenue Forecast**

Local affordable housing revenues include both affordable housing revenue measures approved at the local jurisdiction and county level, as well as local government fees dedicated to affordable housing levied on development projects (e.g., Commercial Linkage fees, a per square foot charge on office and other commercial development). While federal and state affordable housing funding directed to each California metropolitan area is reported annually by the California Housing Partnership in a consistent data format, no such source exists for local funding sources. As a result, local funding levels are estimated based upon a review of the amount and expected duration of recent voter-approved affordable housing revenue measures, and analysis of data reported by local governments to meet state requirements documenting total fees collected annually. To the greatest extent possible, this data was collected over a three- to five-year period, similar to state and federal funding. However, due to greater data variation and limitations with available local data, in some cases sources were interpolated to include years for which data is unavailable. In addition, although the search was conducted regionwide, it is possible that fees collected by some local jurisdictions were not captured.

Notably, the figures reflect a full review of the annual financial reports of the region’s twenty largest cities.

Estimated local revenues remain unchanged between the Draft and Final Blueprint. Although several local housing bond measures will be placed on the November 2024 ballot, these sources are of a smaller or similar scale to the bonds—some of which are fully expended—reflected in the historic average used to estimate future revenues. In addition, the Draft Blueprint did not specifically assume a regional housing bond measure; that assumption is carried forward in the Final Blueprint. This forecast assumption could be updated in the next cycle of Plan Bay Area – Plan Bay Area 2060 – in 2026 or beyond.

Table 3: Estimated Revenues: Plan Bay Area 2050+ Housing Element

Scale	Major Funding Categories	Amount <sup>1</sup> (\$Billions, YOY)
Federal	Federal LIHTC	\$61
Federal	Federal Housing Programs (HUD, NHTC)	\$13
<b>Federal</b>	<b>Subtotal</b>	<b>\$74</b>
State	State LIHTC	\$4
State	State Housing Bonds & Programs	\$31
<b>State</b>	<b>Subtotal</b>	<b>\$35</b>
Local	County & city affordable housing bonds	\$41
Local	City development fees allocated to affordable housing	\$10
<b>Local</b>	<b>Subtotal</b>	<b>\$51</b>
<b>All</b>	<b>Total</b>	<b>\$161</b>

<sup>1</sup>Figures rounded and may not sum

## Funding Gap

Subtracting forecasted needs from forecasted revenues, the Plan Bay Area 2050+ Housing Needs and Revenues Forecast estimates a funding gap of \$328 billion in year-of-expenditure dollars over the course of the plan period. The gap is summarized in Figure 1 below.

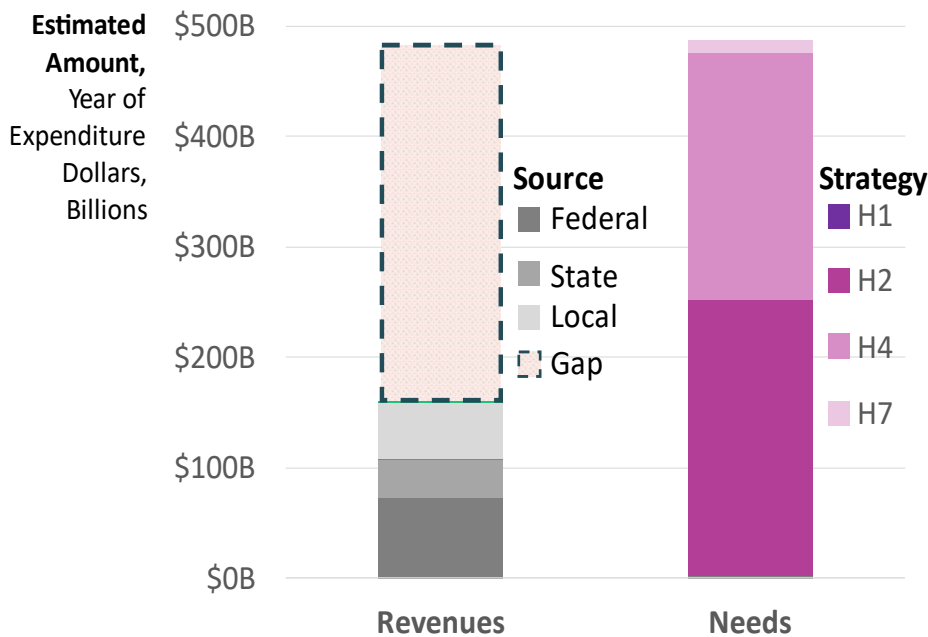


Figure 1. Estimated Housing Revenues, Needs, and Gap, Plan Bay Area 2050+ Final Blueprint

The funding gap in the Final Blueprint falls by \$79 billion from the \$407 billion estimated gap in the Draft Blueprint to \$328 billion, primarily reflecting the impact of strategy revisions to bring down the cost of producing affordable housing in the Final Blueprint.