

# Plan Bay Area 2050+ Draft Blueprint:

## Draft Housing Needs and Revenue Forecast

### Summary

Plan Bay Area 2050 was the region's first long-range plan with a stand-alone Housing Element. Similar to Plan Bay Area 2050, Draft Plan Bay Area 2050+ cost and revenue assumptions related to housing are based upon available data and extensive consultation with housing developers, lenders, and policymakers. While these assumptions are grounded in rigorous analysis, cost and revenue assumptions related to housing are not subject to the same standard of fiscal constraint as they do for the Transportation Element. As such, financial assumptions for housing are less detailed than those for transportation and more similar to the plan's Environment Element.

In addition, 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 is able to generate and the pace at which it is able to permit projects. For example, 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.

Plan Bay Area 2050+ anticipates limited revisions to Plan Bay Area 2050's housing strategies. However, the available and required funding to carry out these strategies has been updated as part of the Draft Housing Needs and Revenue Forecast to reflect changing conditions since the adoption of Plan Bay Area 2050 in 2021, as well as the Plan Bay Area 2050+ Draft Regional Growth Forecast. Overall, this results in an estimated increase of \$97 billion, or 20%, in affordable housing funding needs over the course of the plan, and a \$37 billion, or 30%,

increase in available revenues to meet these housing needs. This results in a net increase of \$60 billion, or 17%, in total required subsidy.

**Table 1: Comparison of Plan Bay Area 2050 and Plan Bay Area 2050+ Draft Housing Needs & Revenues**

| <b>Housing Themes and Strategies</b><br><i>(Strategies expected to require subsidies shown in italics)</i> | <b>Funding</b><br>(In billions of year-of-expenditure dollars) |               |        |
|--|--|---------------|--------|
|  | Plan Bay Area  | Plan Bay Area | Change |
|  | 2050   | 2050+         |        |
| <b>Protect and Preserve Affordable Housing</b><br><i>(Strategies H1 and H2)</i>                            | \$239  | \$252         | +13    |
| <b>Spur Housing Production at All Income Levels</b><br><i>(Strategy H4)</i>                                | \$219  | \$302         | +\$83  |
| <b>Create Inclusive Communities</b> <i>(Strategy H7)</i>   | \$10   | \$11          | +\$1   |
| <b>Total Housing Need</b>  | \$458  | \$552         | \$97   |
| <b>Total Housing Revenue</b>   | \$122  | \$159         | +\$37  |

## Draft Housing Needs Forecast

The approach to forecasting housing needs in Plan Bay Area 2050+ mirrors the approach taken in Plan Bay Area 2050, with several minor refinements noted below. The needs estimates are organized by the three themes and associated strategies: Protect and Preserve Affordable Housing; Protection and Preservation, Production, and Inclusive Communities.

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

In addition to limiting annual rent increases beyond what is required in state law, Strategy H1 provides expanded services such as legal assistance and strengthen enforcement of legal protections for renters, including fair housing requirements. The funding need for this component of the strategy is estimated at \$13 billion, which is an inflation adjusted figure of

the estimate in Plan Bay Area 2050—which itself was 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 is determined by calculating the number of rent-burdened<sup>1</sup> low-income<sup>2</sup> households in 2023 multiplied by a per-unit cost estimate to acquire and preserve these units as permanently deed-restricted. The typical per-unit cost estimates for these categories 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 total funding estimate, \$252 billion, is 5 percent higher than the total in Plan Bay Area 2050+. This increase is substantially less than the percentage increase for Strategy H4, which focuses on the production of new affordable housing, because these projects are less subject to fluctuations in construction costs (despite being impacted by rising interest rates), as well as the availability of more “data points” for innovative, relatively low-cost projects since Plan Bay Area 2050. Notably, however, the per-unit subsidy for a preservation project that falls on local sources (e.g. cities, counties, or the region) is often higher than a more expensive production project due to the limited availability of state and federal sources for preservation.

### **Spur Housing Production for Residents of All Income Levels**

Three of the plan’s four production strategies are policy interventions and incentives that are not anticipated to require additional public subsidy but 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 include Strategy H3, Allow a greater mix of housing densities and types in Growth Geographies; Strategy H5, Integrate affordable housing

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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.

into all major housing projects; and Strategy H6, Transform aging malls and office parks into neighborhoods.

Strategy H4 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 to provide 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 increase in low-income households reflects the net increase in households in the first income quartile projected during the plan period in the Draft Regional Growth Forecast. The total funding need is calculated by multiplying this total overall need by a per-unit subsidy, weighted by the distribution of low-income (i.e., "quantile 1") households by household size and relative income level. This reflects a more nuanced approach than Plan Bay Area 2050, which used a single per-unit figure based upon observed affordable housing production costs alone; 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 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 quartile one households. This approach enabled staff to characterize the cost of housing for future low-income residents in a more tailored manner. The total estimated need for Strategy H4, \$302 billion, represents an increase of \$83 billion from Plan Bay Area 2050. This is the result of several factors: a net increase in the share of low-income households in the region's forecasted growth; continued escalation in construction costs and interest rates; and a more nuanced, comprehensive approach to estimating per-unit costs described above.

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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.

## **Create Inclusive Communities**

*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. The estimated cost of this strategy, \$11 billion, a \$1 billion increase over the \$10 billion estimated cost in Plan Bay Area 2050, reflects cost increases due to inflation.

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.

## **Draft Housing Revenue Forecast**

Similar to the Draft Housing Needs Forecast, the Plan Bay Area 2050+ Housing Revenue Forecast mirrors the approach taken in Plan Bay Area 2050, with minor refinements intended to better utilize available data and reflect changes since the adoption of Plan Bay Area 2050 in 2021. The revenue forecast is divided into two categories: federal/state and local.

### **Federal and State Affordable Housing Revenue Forecast**

Federal and state revenues are combined because the primary source of affordable housing subsidy (Low Income Housing Tax Credits, or LIHTC) are allocated to states, which then allocate these credits to projects, often through a competitive process. During times of budget surplus and/or intense competition for LIHTC, California and a handful of other states will augment their federal share of tax credits with state-funded credits to make these dollars go further. In addition to LIHTC, smaller federal sources include the Community Development Block Grants and the National Housing Trust Fund. The primary state affordable housing funding sources are the state infusions of LIHTC funding, 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.

### **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). To better reflect the scope of local affordable housing subsidies, Plan Bay Area 2050+ went beyond Plan Bay Area 2050 by more comprehensively cataloging the annual expected revenues from revenue measures regionwide, and by collecting 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 five-year period, similar to state and federal funding.

Similar to the Housing Cost estimate, the estimate for Housing Revenues takes a “snapshot” by using an inflation adjusted average of the past 5 years of available subsidies. Similar to the per-unit estimate for production, a number of factors during this period have resulted in an increase in forecasted subsidies. This results in an estimated increase of \$37 billion, or 30%, across the plan period.

## **Funding Gap**

Subtracting forecasted needs from forecasted revenues, the Plan Bay Area 2050+ Draft Housing Needs and Revenues Forecast estimates a funding gap of \$393 billion in year-of-expenditure dollars over the course of the plan period. This is a 17% increase over the \$336 billion gap in Plan Bay Area 2050.

## Next Steps

The Plan Bay Area 2050+ housing strategies are intended to further reduce the funding gap highlighted above. Minor refinements to the plan's strategies, such as measures to reduce construction costs and to cross-subsidize deeply affordable homes through mixed-income development, will aim to further reduce expected required subsidies. In addition to these cost-reducing strategies, the plan will identify potential federal, state, regional, and local sources capable of filling the remaining funding gap. Notably, filling this gap will likely require not only additional regional and local funding, but also additional federal and state funding. Regional and local funding creates opportunities to leverage such monies, along with traditional commercial debt, to make more affordable housing projects financially feasible.

The Draft Housing Needs and Revenue Forecast will be further refined during the Final Blueprint phase in 2024 in alignment with the Final Plan strategies. Ultimately, this content will be integrated into a supplemental report for Plan Bay Area 2050+ documenting the underlying financial assumptions that flow into the long-range plan.