

Housing Feasibility Analysis



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For more information, please visit www.epsys.com.

Key Findings

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

Key Findings

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



Housing price appreciation was driven primarily by factors other than income including:

Aggressive Financing Practices:

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

Increased Availability of Capital:

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

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



Factors contributing to a slow recovery include:

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



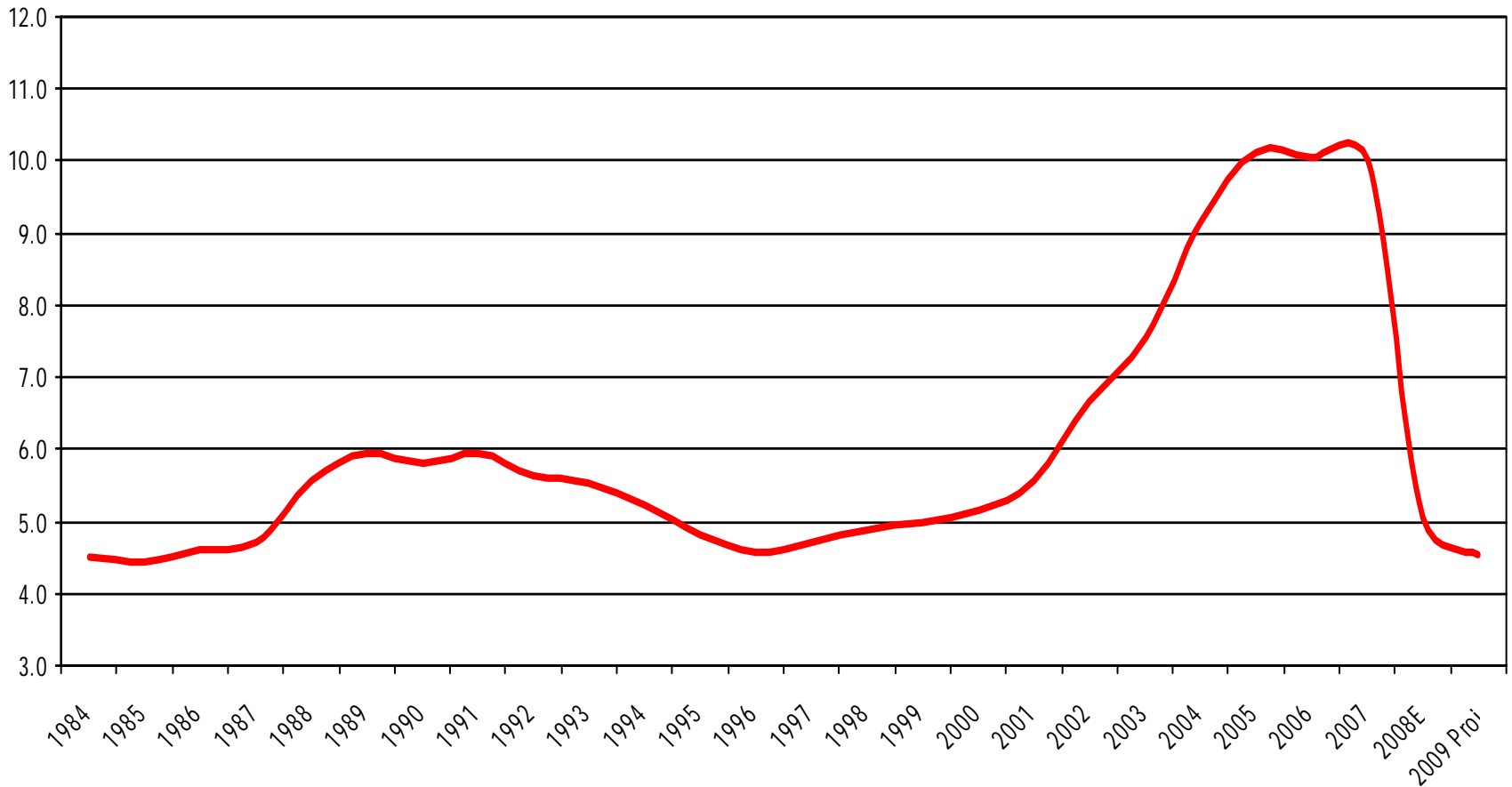
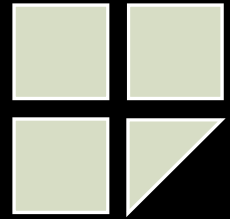
New Home Pricing

- Past trends in new home prices were unsustainable for the long run.
- Household incomes could not support high price levels.
- Recent price reductions and steady income levels have resulted in more affordable housing.

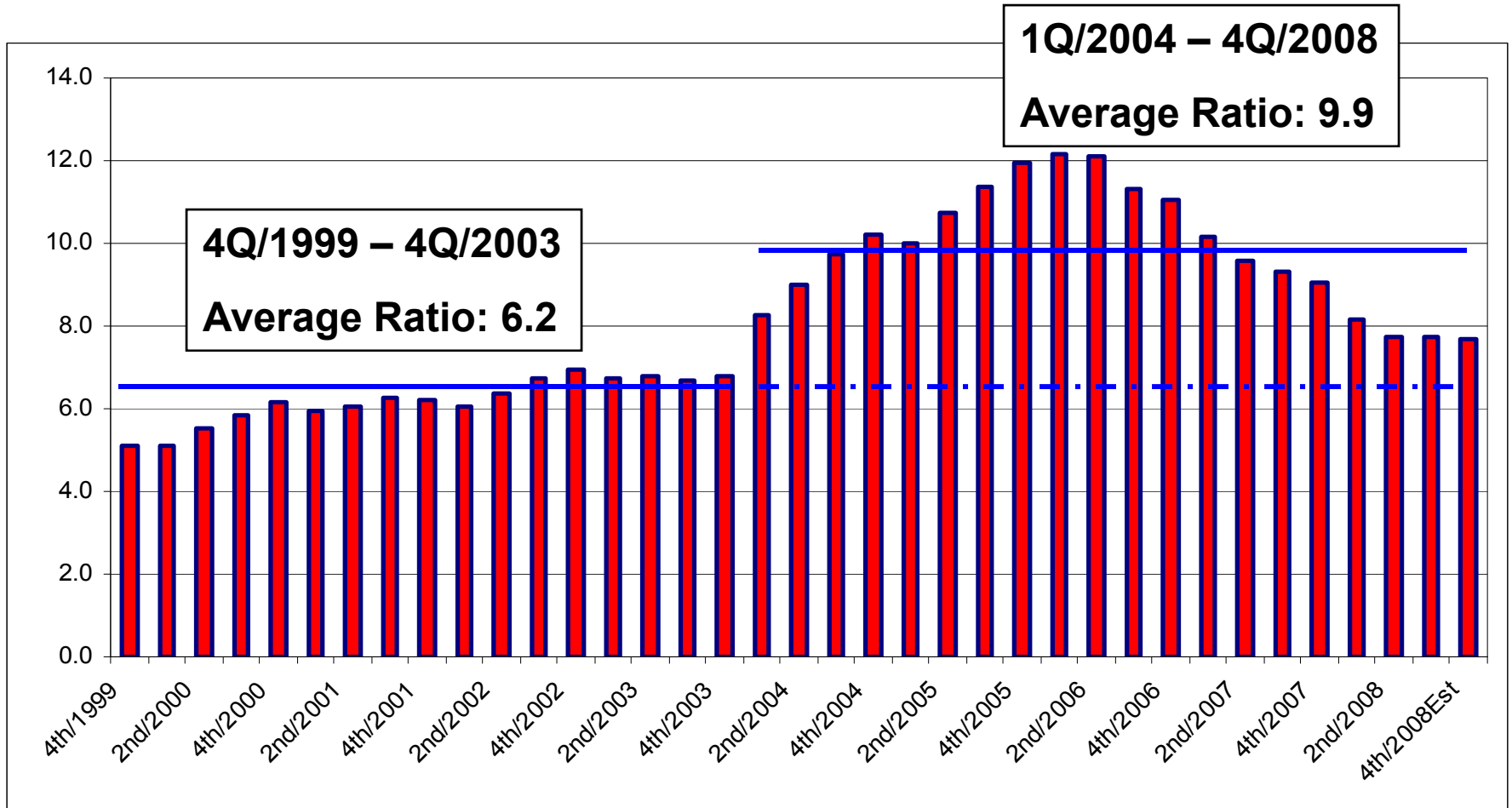
Housing Price to Income Ratio

- In Solano County, the average ratio of new home pricing to median income was 6.2 from the 4th Qtr/1999 through the 4th Qtr/2003.
- Between the 1st Qtr/2004 through the 4th Qtr/2008, the ratio averaged 9.9 (with a high of over 12.0 during the 1st Qtr/2006).

Home Pricing vs. Income Ratio--California



Ratio of Average New Home Price to Median Income: Solano County



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

Prepared by The Gregory Group

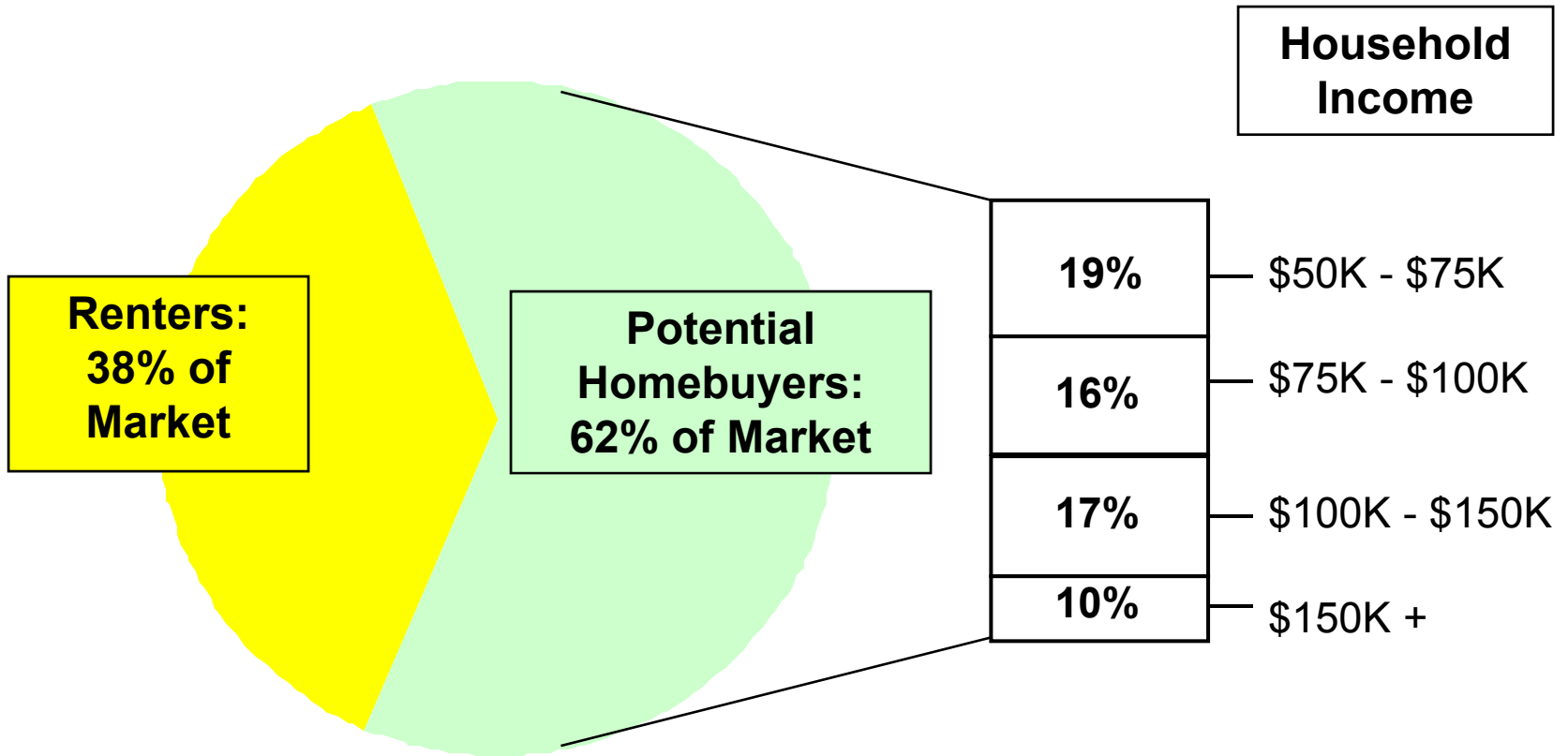


Relationship of Housing Prices Relative to Income

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



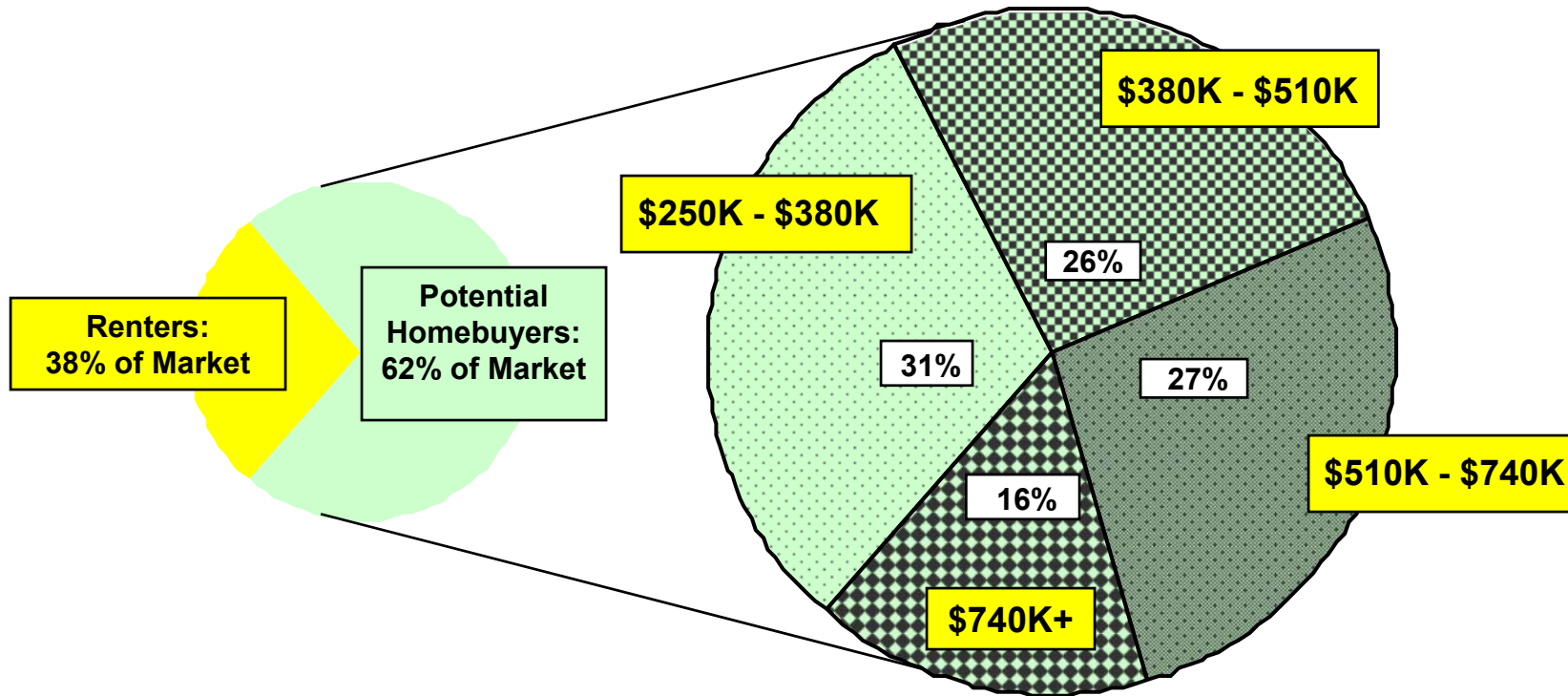
Potential Solano County Homebuyers Based on Median Household Income





Estimated Housing Prices and Affordability based on County Incomes

By calculating the estimated mortgage payment of County residents, a range of home prices by income can be determined.



NOTE: Assumes a traditional 30-year mortgage with 20% down payment and 5.5% interest rate. Calculation also assumes 33 percent of total household income is allocated to housing, Insurance, and taxes.

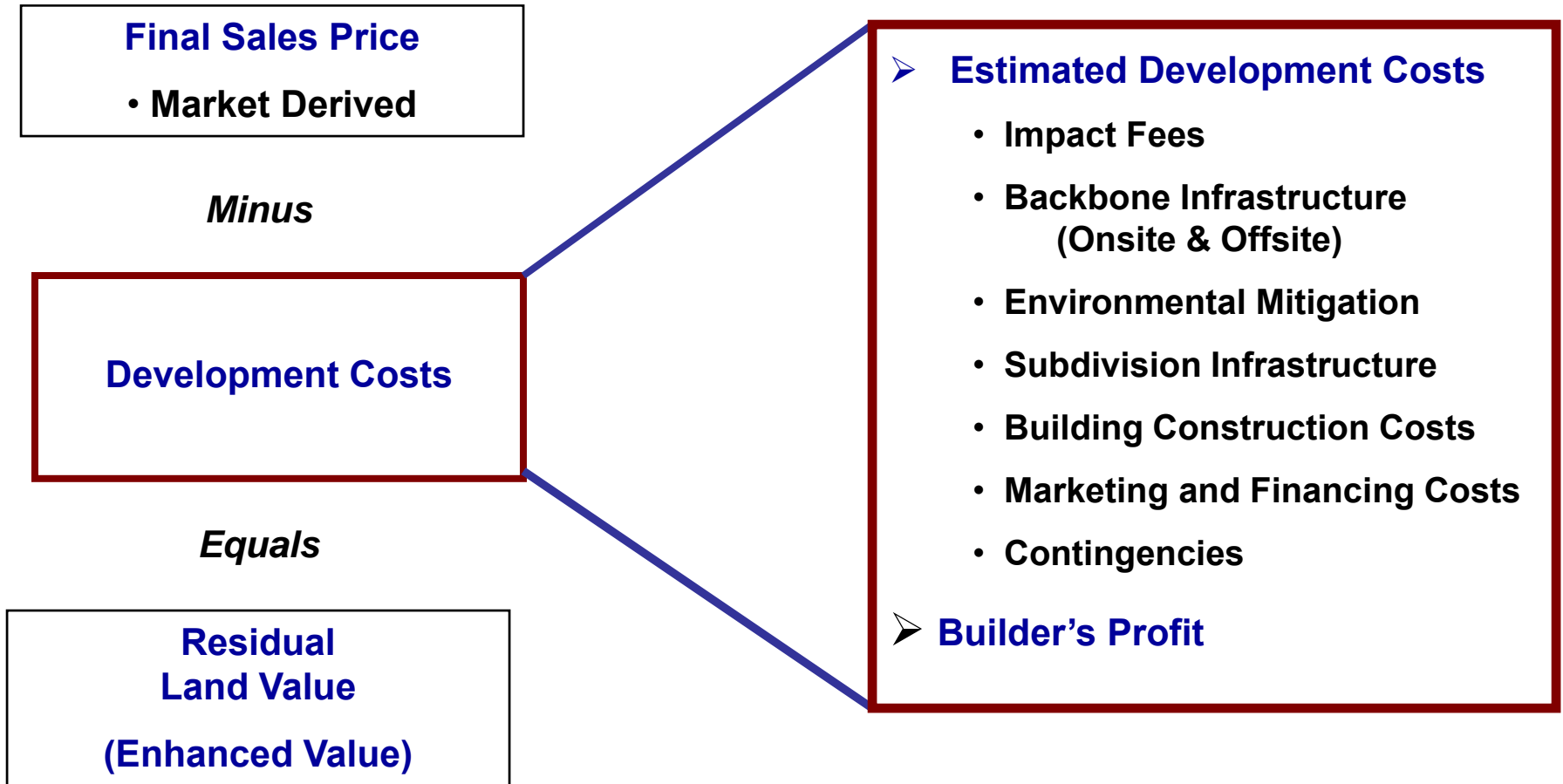
Source: Census 2007, EPS.

Housing Feasibility

- Current cost structure for housing makes products below \$500,000 infeasible.
- Current infrastructure burdens and site improvement costs contribute to the infeasibility of products for a large segment of potential homebuyers.



Residual Land Value



Land Development Cost



**Residual Land Value
(Enhanced Value)**



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

Impact on Funding Infrastructure

- Industry standard assumptions: Infrastructure cost burden feasibility range typically between 15%-20% of home price.
- Resulting feasible infrastructure burdens, when applied to peak & current market price points:

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

The Public/Private Partnership

A new paradigm for public finance is required.

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

Questions and Comments