Legislative Slowdowns Hurt Affordable Development

Developers like Essex struggle to get support from cities and employers to create developments with a good return.

Multifamily Executive, by Jennifer Castenson, January 11, 2018

Despite today's high level of multifamily housing demand, developers more and more are finding the need to justify their return on investment. The slow pace of development is adding costs while holding up the housing production the country so desperately needs.

Here, John Eudy, executive vice president and chief investment officer at Essex Property Trust, speaks to such challenges facing his company in California and shares the tactics his firm has in place to make sure it's making sound investments.

Eudy points to some short-term solutions, but there's no denying that, long term, what's needed is cooperation between employers, cities, and developers to create the right housing solutions. Eudy notes that Essex has been mired in the preapplication stage in one zoned site for the past three years and is still without a planning-commission date. This pressure on the project's time line has dramatically affected the company's return and, in turn, its ability to focus on new projects.

The issue is snowballing for other California developers as well, as Angela Hart recently wrote in The Sacramento Bee:

> *"California communities are vested with significant authority over land-use decisions, about how much can be built, and when and where. They have used that authority to create significant barriers for the construction of new housing," said [Brian Uhler, who leads housing research for the nonpartisan state Legislative Analyst's Office, which tracks housing trends and identifies possible solutions for the Legislature]. "Shrinking Rust Belt cities are the only kinds of places that are building as little housing as our coastal areas did in recent decades."*
>
> *To meet current demand, from market-rate to low-income housing, California needs roughly double the housing it currently has, Uhler said. In the Bay Area, that's more like triple.*

In her article, Hart also looked into the rising costs for developers in California:

> *Permit and development impact fees, helping local governments offset costs of public services like schools, police and fire, and safe water, have also increased as cities have seen their populations rise. ... Costs vary widely depending on size of the housing project and where it's built, but on average it costs $300,000 to $400,000 to build an affordable apartment in California, ...*

Eudy says such costs are one of the major reasons Essex's development has slowed down in the past couple of years. It's hard to pencil out. And when a project does pencil out, it still faces a compromised time line and added costs, just as Hart points out.

Although many industry players acknowledge the issue, there's still much progress to be made before the problem is solved. Eudy and his team encourage discussion and innovation so that Essex can be part of creating more affordable housing to meet today's demand.