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Sent: Tuesday, March 09, 2021 1:11 PM

To: Planning <Planning@a2gov.org>

Subject: Last week's CPC meeting

I am writing as a follow-up to the 3/2 CPC meeting. While this is not directly relevant to the topics on today's agenda, it illustrates certain issues with respect to your analysis and decision making process that are relevant. First, I was happy to hear a robust discussion of the STR issue, considering everything from the "stay in your lane" directive from city council to pushing for broader consideration of what the data being gathered might mean to eventual council decisions, and what those decisions might mean re affordable housing. I have two cautions, however. First, CM Disch, you encouraged certain callers concerned about STRS taking away affordable housing to advocate at council for a cap on STRs in mixed use areas. Why shouldn't they also advocate for the result they argued for at CPC - eliminating STRs in residential areas, for the same reason? Do you consider that issue "finally decided" in terms of council decisions, even though we don't even have the data back yet from the city's notice sent to property owners?

Second, I have yet to hear any staff, council member, STR owner, or CPC member express an accurate understanding of the legal framework surrounding the STR issue. Since you've sent that issue on to council, I will save a detailed explanation for that body. But it concerns me greatly to watch decisions being made on important issues without a proper understanding of the legal issues involved. Decision makers should be properly informed by the legal department and that apparently has not happened on this issue despite many discussions occurring over an extended period of time.

On ADUs, I believe that there is a failure to ensure intellectual honesty. First, let's consider whether ADUs will have any real impact on affordability. Let's start with costs. Builders will tell you that square foot costs are perhaps \$225 and up/ft., because material costs are up due to pandemic supply chain problems and labor costs are very high now. So a 700' ADU will cost at least \$157,500, plus architect fees, tree removal, landscaping, loan interest (about \$7500/yr.), building permit fees, etc. The cost was ballparked at \$200k by one of the public commenter proponents of the ADU ordinance, and that seems reasonably accurate given the above. Renting that unit for a 10% return requires net rental revenue of \$20k. Expenses typically include minor repairs (maybe \$1k or less in first few years), property management (typically 5% if not owner-occupied), property taxes of about \$5k (50 mills at \$100k TCV), and a vacancy rate of 5%. This means annual gross rent (not including utilities) would have to be about \$28k (\$2333/mo.). Water costs might be higher because combining with main house could result in higher tier. Let's estimate \$267/mo. for utilities. That's \$2600/mo. or \$31k/yr. Assume the usual 30% income share for housing, and this requires income of \$104k/yr. to afford. Based on the above, you just can't argue that ADUs will result in affordable rental units. These will be limited to those who can afford to build a "granny flat", those who can do a lot of the building themselves, or those owners or investors who want to rent out expensive units.

Let's move on to the other factors discussed re removing the owner occupancy requirement. I was surprised to hear Commissioner Hammerschmidt say that the feedback was "balanced" if one considered the feedback from the 2/9 public hearing, rather than just the 3/2 meeting. This is wrong. I reviewed the written feedback, as well as notes re all the public speakers at both those meetings. There were 20 people against removing the owner occupancy requirement and 8 in favor. /1 I might have missed one or two speakers at the 2/23 ORC meeting (no recording to review), but calling it "balanced" is simply not accurate (maybe wishful thinking?). Next, having not sent notice to the thousands of residents potentially affected, you really shouldn't assume that wider feedback would be substantially different. And this mischaracterizing public feedback is a recurring problem. As I have said to you before, during the 415 W. Washington process, staff and consultant represented multiple times that selling the parcel to generate funds for affordable housing was a "goal" identified in the public surveys, when in fact that "goal" finished dead last as a priority in both the city-wide and immediate neighborhood surveys. This type of mischaracterization of public feedback needs to stop. If you want to do something that doesn't comport with the public feedback you get, you have the right to do so, but let's be honest about it.

The initial argument made by proponents of getting rid of the owner occupancy requirement was that it hinders financing. There was no factual support offered for that argument. On the other hand, Tom Stulberg actually talked to a local banker, who said that requirement would not hinder financing. A colleague of Steve Ranzini, a well-known local banker, has also indicated on social media that this would not hinder financing. There are other challenges in that regard, but all the factual data gathered thus far clearly undermines the initial argument made that having an owner occupancy requirement hinders financing here in A2.

Tom Stulberg and others have also argued forcefully that allowing two houses on every lot city-wide would likely result in investors buying lower-price owner-occupied houses in order to build expensive rental ADUs. The phenomenon of investors buying up owner-occupied housing to turn into relatively expensive rental housing is occurring around the nation and world; this has been discussed in numerous articles. There is strong anecdotal evidence that this is already beginning to happen here; there have been several reports recently about first-time home buyers being outbid by cash-buyer investors.

On the other hand, Commissioner Sauve commented that preserving homes for the ownership market seemed “anti-renter”, noting that A2 has a relatively high percentage of home ownership. However, this argument seems to completely ignore the racial justice component of preserving lower-priced housing for minorities who might benefit from building wealth equity via home ownership. And wouldn't it make more sense to increase the percentage of rental units by building rental units rather than converting owner-occupied homes into rental units?

Several of you, along with staff, noted that cities like Portland and Seattle have increased the numbers of ADUs after eliminating the owner occupancy requirement. However, no data was offered as to what those units cost to rent, or any other affordability data. Commissioner Disch did offer some data indicating that a significant percentage of ADUs in Vancouver are occupied by lower income residents. This is worth following up on. However, I would note that, in a recent article, a prominent Vancouver urban planning professor, said, essentially that all the zoning changes made there have done very little if anything to help affordability there; Vancouver remains one of the least affordable cities re housing. /2

The bottom line is this: what is the goal re ADUs? It seems that several of you want more ADUs “just because”. Is this possibly a desire to just be one of the “cool cities” like Portland, Seattle and Vancouver? To hit the amorphous “sweet spot”? Provide new housing for more “urban hip” to move here?

I recognize that housing issues are complex and that maintaining intellectual honesty is difficult. I may be guilty of missing inconsistencies in my arguments too from time to time. But I think you need to think hard about the real pros and cons of the owner occupancy requirement rather than just saying “get rid of it and we'll get more”.

1/ Against removing owner occupancy requirement: J. Lederquist, J. Crockett, D. Hastings, L. Miller, B. Roney, G. Supernich, D. And H. Balderuse, L. Baldwin, V. Caruso, L. Jevens, B. Lott, R. McKee, T. Stulberg, K. Boris, L. Berauer, C. Crockett, C. Piehutkoski, J. Godfrey, I. Majer, K. Khan.

For: S. Trudeau, J. Henry, J. Leverich, E. Zachor, E. Keshet, N. Kheterpal, J. Spaulding, J. Lowenstein

2/ From the 3/1/2021 Mercury News: "Patrick Condon, a professor of urban planning at the University of British Columbia in Vancouver, has studied his city's embrace of a series of housing and zoning reforms in the last 15 years. Vancouver recently allowed property owners to divide lots and build multiplexes on properties once reserved for single-family homes.

Yet Vancouver remains one of the most expensive and unaffordable cities to buy a home. "Despite our best efforts," said Condon, "it hasn't worked."

Condon doesn't believe simply allowing more density in neighborhoods will bring down prices. It will also take innovation and involvement and oversight from local governments.

"There's no way," he said, "for the so-called free market to solve this problem."