

Appendix G

EPS Memorandum 2019

MEMORANDUM

To: Placer County
From: Amy Lapin
Subject: Responses to Economic-Oriented Comments on the Sunset Area Plan Draft Environmental Impact Report (DEIR)
Date: July 18, 2019

As requested by Placer County staff, the following information comprises Economic & Planning Systems, Inc. (EPS)'s responses to economic-oriented comments to the December 2018 Sunset Area Plan Draft Environmental Impact Report (DEIR).

The Economics of Land Use



1. **Legal Services of Northern California (18-5):** DEIR does not analyze whether the salaries from the newly created jobs would be sufficient to allow the workers to afford the housing created in the project area.

The Sacramento Region's labor force is composed of employees with a range of skills and experience who receive compensation commensurate with their skills and experience and aligned with the region's labor force demands and cost of living.

The Sunset Area Plan (Project) is being planned to include a variety of nonresidential land uses, with future employers offering retail, office, and industrial employment opportunities requiring a range of skills and experience. At this time, specific employers and employment opportunities in the Project are unknown. However, future employers in the Project will compete with other employers in the region. Thus, it will be necessary for these employers to offer competitive wages to successfully attract employees from the region's labor force.

2. **Placer Community Foundation (20-1):** DEIR fails to provide a detailed jobs/housing balance analysis that evaluates whether the plan provides sufficient housing to accommodate the salaries of the new workforce in the plan area.

A given housing market comprises households with a range of incomes capable of affording a range of housing costs. Housing markets also contain a range of housing typologies (e.g., size, density, tenure, market-rate, subsidized) to meet different segments of demand. Similar to the Sacramento regional housing market,

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the Project is envisioned to contain housing options at various price points, thereby providing a range of housing options that could accommodate a range of salaries. These housing options include single-family homes of mixed densities, high-density multifamily homes, student housing, and subsidized affordable housing.

The Project is being planned to include a variety of nonresidential land uses, with future employers offering retail, office, and industrial employment opportunities requiring a range of skills and experience. At this time, specific employers and employment opportunities are unknown, but it will be necessary for these employers to offer competitive wages to successfully attract employees from the region's labor force.

3. **Cheryl Berkema (36-2):** Hourly workers will not be able to afford housing in the Sunset area.

The housing market is subject to the same forces of demand and supply as any other market. Demand for housing is determined by various factors, including housing prices, population (size of the market), household income, employment opportunities, transportation options and costs, interest rates, availability of credit, long-term economic outlook, and other factors. Housing supply is similarly impacted by several different factors, including housing cost, land value, landowner expectations and preferences, government regulations, availability of financing, and other factors.

Market demand for housing comprises households with a range of incomes capable of affording a range of housing costs. Housing markets also contain a range of housing typologies (e.g., size, density, tenure, market-rate, subsidized) to meet different segments of demand. The Project is envisioned to contain different housing options at various price points. These housing options include single-family homes of mixed densities, high-density multifamily homes, student housing, and subsidized affordable housing. This range of housing options is intended to accommodate a range of salary levels and meet market demand.

4. **Leslie Warren (71-13):** The SAP/PRSP has a 22:1 jobs-housing imbalance and service industry workers will constitute the majority of the 57,000 new jobs to be created in the SAP/PRSP. The DEIR fails to describe to what extent the housing needs of this population will be met.

Buildout of the Project is estimated to support development of 55,760 new jobs and 8,094 new dwelling units.¹ This translates into a jobs-housing ratio of about 7:1, rather than the jobs-housing ratio of 22:1 identified in this comment.

While the Placer County General Plan does not specify a preferred jobs-housing ratio, it does include the goal of working towards a balanced jobs-housing ratio. A market analysis prepared for the Project indicated a jobs-housing ratio of 1.5:1 may be ideal, although this ratio should serve as a guide or indicator only.²

¹ Sunset Area Plan/Placer Ranch Specific Plan (SAP/PRSP) DEIR, December 2018.

² Sunset Industrial Area Plan Update Market Analysis, prepared by EPS, August 2015.

As of 2012, the jobs-housing ratio in the South Placer market area was about 1.3:1.^{3 4} It is worth noting, however, that approximately 70 percent of South Placer residents commuted to locales outside of the area.⁵ More recent data for the entire County indicate a jobs-housing ratio lower than the South Placer market, at about 1:1.⁶ Adding the Project's planned land uses to the countywide jobs-housing ratio of 1:1 will increase the ratio slightly to 1.3:1, with all other variables held constant.

The intent of the Project is to develop a regional center for high-quality employment, entertainment, and education. The Project presents an opportunity to achieve better balance between local jobs and the local workforce. The predominantly residential areas surrounding the Project house a highly skilled labor force that will find new opportunities for employment in the Project.⁷

The Project's planned housing options are intended to meet different segments of market demand. In addition, numerous Specific Plans and other infill projects are being planned in the Cities of Lincoln, Roseville, and Rocklin, and the unincorporated County, adding substantial new single-family and multifamily residential development typologies to the South Placer market adjacent to the Project.

5. **Comments Related to the Citizen Initiated Smart Growth (CISG) Plan.** (EPS's economic-oriented response.)

The CISG Plan envisions development of about 49,600 residential dwelling units, of which, 97 percent are identified to comprise multifamily development, with the remaining percentage comprising single-family attached townhomes (which is a multifamily product but distinguished in the CISG Plan from other multifamily units). According to the plan, dwelling units are shown to have average densities ranging from 24 units per acre to 77 units per acre, although the relative percentage of total units by housing typology or density category is not provided.

There is no evidence to suggest the quantity of high-density residential development proposed under the CISG Plan is supportable in the South Placer market location currently or over the next several decades. The amount and similarity of the high-density residential development proposed in the CISG Plan would have a protracted absorption schedule, based on existing and projected market conditions that indicate limited demand for multifamily development, described in detail below. Further, reserving land for high-density residential that is not supportable in the foreseeable future can have detrimental impacts on the local

³ The South Placer County market is defined as the "valley" portion of Placer County and includes the areas west of Auburn and the Cities of Lincoln, Roseville, and Rocklin.

⁴ Employment, housing units, and commuting patterns as of 2012 derived from the August 2015 Sunset Industrial Area Plan Update Market Analysis, prepared by EPS.

⁵ Ibid.

⁶ Employment (jobs) and housing units as of 2016 derived from the May 2018 Placer County Housing Strategy and Development Plan Existing Conditions and Land Supply Assessment, prepared by Bay Area Economics.

⁷ Sunset Area Plan, Public Review Draft, December 2018.

economy, tying up land that will not be used, and imprudently using resources to fund and construct infrastructure in support of vacant parcels.

There is current and long-term support for multifamily high-density development in the Project and throughout Placer County. The quantity, rate of absorption, location, and density of development will be dictated by the parameters of localized supply and demand variables, as described below. Higher density development likely will occur close to existing and emerging employment centers in the County and other areas where demand and land values are highest, including the proposed employment and entertainment centers envisioned in the Project. That said, landowners, upon weighing supply and demand variables and evaluating financial feasibility, will develop residential products at densities consistent with current and proposed average residential densities until land values, other cost and revenue variables, and consumer preferences support higher densities.

Housing markets reflect myriad conditions related to both demand and supply. Demand for housing is determined by various factors, including housing prices, population (size of the market), household income, employment opportunities, transportation options and costs, interest rates, availability of credit, a long-term economic outlook, and other factors. Housing supply is similarly impacted by several different factors, including housing cost, land value, landowner expectations and preferences, government regulations, availability of financing, and other factors.

Residential density reflects a balance between supply and demand for land in a specific location. High demand for a specific location *causes* higher land prices and the efficient consumption of land (higher density development), while low demand causes the converse. Density is an *indicator* of market constraints, primarily driven by household and business income, land supply, and transportation efficiencies and cost.⁸

Empirical data from a large sampling of cities worldwide, with differing cultures, histories, economies, climate, topographies, and employment center development (i.e., centralized versus dispersed), shows a predictable spatial pattern correlating land values and residential density. That is, land prices and densities are highest in the CBD (or geographical center) and decline commensurate with distance from the center.⁹ This pattern is observed nearly universally because land and housing prices and densities abide by the supply and demand model. Locations far from geographical centers and areas of high consumer demand have not been found to support high-density development.

From an individual landowner perspective, landowners are incentivized to construct the highest and best use on their land. Generally, the highest and best use is the use that is reasonably probable, physically possible, supported by the market, and returns the highest value to the land.¹⁰ Landowners prepare pro forma analyses, evaluating the cost of land and vertical construction, sale or leasing revenues, and profit margins to determine the type and

⁸ Bertraud, Alain. "The Spatial Distribution of Land Prices and Densities: The Models Developed by Economists." Marron Institute of Urban Management, New York University. February 19, 2015.

⁹ Ibid.

¹⁰ Schwenker, Joseph. "Land Valuation in the Raw." CCIM Institute Web site, accessed June 2019.

quantity of appropriate development types. Landowners must balance these inputs with market demand, supply variables, and preferences for risk and timing to determine their willingness to construct different types of development.

The prevailing highest and best use for residential-zoned land in Placer County is single-family detached housing. Approximately 80 percent of housing units countywide *and* in the South Placer market are single-family detached, while remaining units comprise multifamily and other housing units (e.g., mobile homes).¹¹ For context, relative to the amount of high-density housing proposed in the CISG Plan (nearly 50,000 multifamily units), the County contains approximately 13,000 multifamily units.¹² And the current inventory of multifamily housing in the County has an average density of about 20 units per acre.¹³

Recent historical absorption of residential development in the County has a consistent allocation of housing typology as the overall housing inventory. Between 2009 and 2017, the County added just under 2,000 units annually, primarily concentrated in South Placer County. Of these units, about 1,500 units (about 75 percent) were single-family, while about 450 units (almost 25 percent) were multifamily.¹⁴

Based on multiple population and housing projection data sources, the County (inclusive of all incorporated cities and the unincorporated County) is anticipated to add between 10,400 and 23,900 new units between 2018 and 2040 (about 500 to 1,100 units, annually). The South Placer market is anticipated to accommodate most of this growth, adding 7,300 to 16,700 new units between 2018 and 2040 (about 330 to 800 new units, annually). Of new residential units planned in the South Placer market, there is overwhelming support for new single-family detached development over other residential types. Market demand preferences support nearly 90 percent single-family detached housing development, with the remainder comprising multifamily development.¹⁵ ¹⁶ Applying the projected annual units estimated to be supported by market demand, the CISG Plan could take upwards of 150 years to absorb (if all units projected to absorb in the South Placer market occurred in the Sunset Area, which is unlikely, given other planned development and the homogeneity of residential uses proposed under the CISG Plan).

There are numerous specific plans being planned in the South Placer market in addition to the Project. The land use programs for each project are developed through a detailed process of weighing supply and demand variables with an assessment of the landowners' highest and best uses. In aggregate, residential land uses for proposed specific plans comprise approximately 80 percent single-family detached housing and 20 percent higher density

¹¹ U.S. Census, 2013–2017 American Community Survey 5-Year Estimate.

¹² Placer County Housing Strategy and Development Plan Existing Conditions and Land Supply Assessment Administrative Working Draft, prepared by Bay Area Economics. July 2018.

¹³ CoStar, Placer County multifamily housing inventory, accessed June 2019.

¹⁴ U.S. Census, 2005–2009 and 2013–2017 American Community Survey 5-Year Estimates.

¹⁵ "South Placer County Workforce Housing Needs Assessment," Beacon Economics, February 2018.

¹⁶ "Comprehensive Housing Market Analysis: Sacramento-Roseville-Arden Arcade, California." Housing and Urban Development Regional Office, San Francisco. November 1, 2017.

multifamily housing.¹⁷ The average density of proposed multifamily housing units is about 21 units per acre.¹⁸

In summary, there will be demand for multifamily housing in Placer County and, specifically, in the Project. However, existing and projected economic conditions do not support the amount and densities of proposed residential development in the CISG Plan in the short term or over the next several decades.

¹⁷ The breakdown of housing units by tenure derived from the July 2018 Placer County Housing Strategy and Development Plan Existing Conditions and Land Supply Assessment Administrative Working Draft, prepared by Bay Area Economics. Projects included those in the South Placer market area only: Placer Ranch, Bickford Ranch, Riolo Vineyards, Regional University, Amoruso, and Lincoln Village 5.

¹⁸ Ibid.