

FOR-SALE ATTACHED AND CONDOMINIUM HOUSING STUDY

Executive Summary

Prepared for: The San Joaquin Valley REAP Program



Presentation Organization

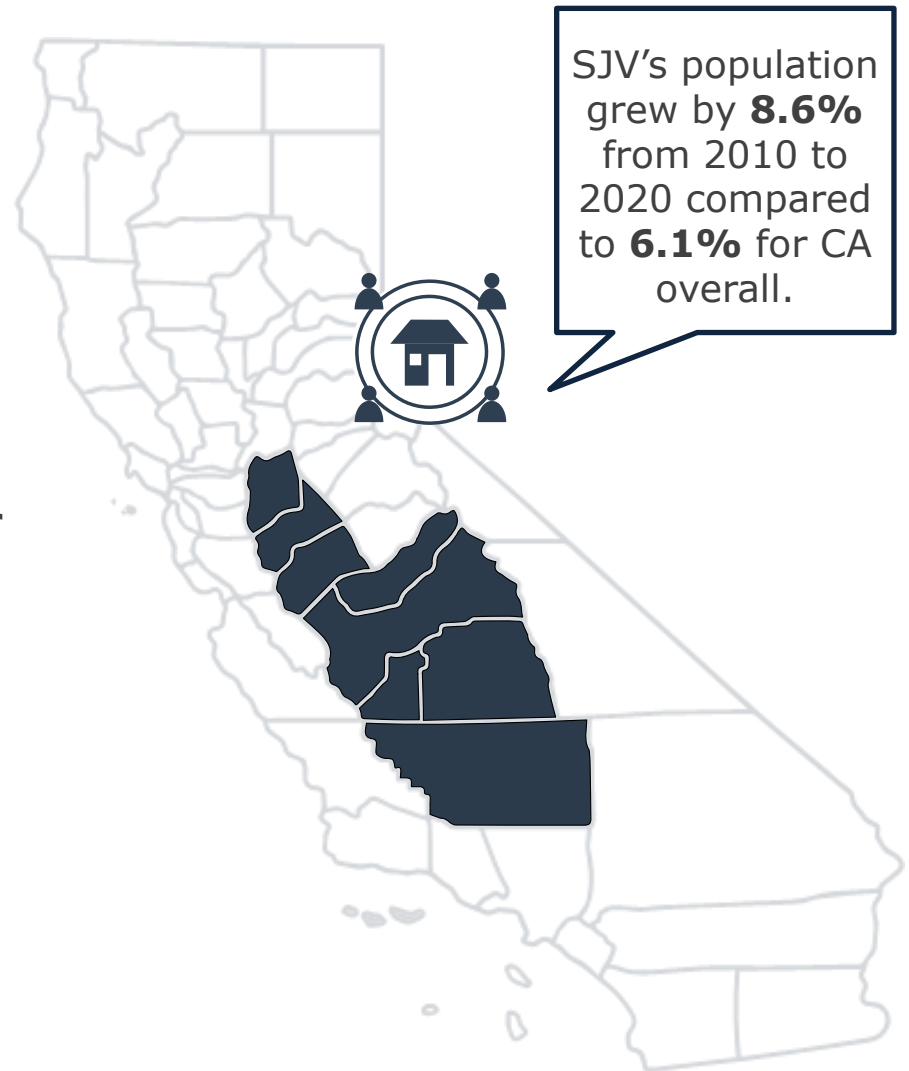
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1. Purpose of Study

1. **Confirm** that only a limited amount of for-sale attached and condominium (condo) development is occurring in the San Joaquin Valley (SJV)
2. **Identify** key reasons for the limited for-sale attached and condominium development
3. **Describe** what changes could facilitate more condominium development

2. PROJECT CONTEXT

- SJV is among the fastest-growing regions in CA.
- As in much of the state, the cost of living is rising.
- Over the next RHNA cycle, SJV counties are expected to plan for over 280,000 units.
- **Building more attached housing provides a range of benefits including implementing jurisdictions' housing goals.**



3. Housing Definitions

The term **For-sale Attached Development** is used to refer to developments that are:

- **For Sale.** Developers build and sell units and buyers then occupy the units themselves, though can also rent them.
- **Attached.** Homes and/or associated structures (e.g., garages) are attached. The attachment might occur horizontally (walls) or on ceilings or floors when homes are vertically stacked.

Condominium refers to a **legal form of ownership, not type of development.**

- Under condominium ownership, a homeowner typically owns only their space/air rights, not land, exterior walls, or the roof.
- Typically, land, exterior walls, and the roof are owned by HOAs.

Condominium ownership most commonly are found in two types of for-sale attached developments:

- **Townhomes/rowhouses** where the developer offers condominium ownership rather than fee simple ownership.
- **Stacked flats** (multifamily buildings with units stacked vertically)

Distinguishing feature of condominium ownership is that it does not typically offer fee simple ownership where homeowners own land, roof, and building individually

HOUSING DEFINITIONS: VISUALIZED



Condominium Stacked Flats

Land, building, and other common areas owned by **HOA**



Condominium Townhomes

Land, building, and other common areas owned by **HOA**

Fee Simple Attached Townhomes
(Planned Development)



Land and portion of building owned by individual **homeowners**
Roads and other common areas owned by **HOA**

4. Benefits of For-Sale Attached Development

The development of more for-sale attached and condominium development alongside single-family detached development in California and the Valley could provide numerous benefits:

- Offering homeownership and wealth-building opportunities to households with a broader spectrum of incomes
- Increasing average housing production per acre of developable land
- Generally increasing the housing supply and moderating upward housing cost pressure associated with California's lack of housing supply.
- Potentially decreasing average vehicle miles traveled and greenhouse gas emissions per capita
- Potentially helping to create more walkable places

Pricing differences between new detached and new attached development suggest that attached development could provide new home ownership for an additional 10 percent of Valley households - about **130,000** households.

EQUITY/ ABILITY TO BUY: CITY OF FRESNO

Product Type	Existing Single-Family		New Single-Family	
	Detached	Attached	Detached	Attached
Median Sale Price	\$338,500	\$220,000	\$458,900	\$342,490
HH Income Needed to Afford Purchase (10% Down Scenario)*	\$83,775	\$57,948	\$110,016	\$84,645
Relative to Median HH Income	146%	101%	192%	148%
% Of HH's That Can Afford Purchase	34%	50%	23%	33%
HH Income Needed to Afford Purchase (20% Down Scenario)**	\$65,416	\$46,016	\$85,127	\$66,069
Relative to Median HH Income	114%	80%	149%	115%
% Of HH's That Can Afford Purchase	45%	59%	33%	45%

*Based on a 30-year 6% mortgage with a 10% down payment

**Based on a 30-year 4.6% mortgage with a 20% down payment

5. DEVELOPMENT CONTEXT

To date, there's been limited development of for-sale attached housing and condominiums in San Joaquin Valley

Statewide

- Only about 10% of California's housing stock offers attached ownership opportunities (7% single-family attached and 3% multifamily).
- On a Statewide basis, single-family detached development remains the majority housing type and ownership opportunity:
 - 57% of all housing units
- About 70 percent of attached homes are owner-occupied.

San Joaquin Valley

- Only about 4% of Valley housing stock offers attached ownership opportunities (3% single-family attached and 1% multifamily).
- In the San Joaquin Valley, single-family detached development is the predominant housing type and ownership opportunity:
 - 72% of all housing units
- About 50% of attached homes in the Valley are owner-occupied.

FOR-SALE ATTACHED UNITS IN THE SJV (2020)

County/ Place	For-Sale Attached Units			Total Housing Stock	
	Single-Family	Multifamily	Total	Units	% For-Sale Attached
California	1,002,826	422,641	1,425,467	14,392,140	10%
SJV	45,207	7,130	52,337	1,408,337	4%
San Joaquin	13,211	1,641	14,852	251,453	6%
Kings	2,183	108	2,291	46,287	5%
Stanislaus	7,484	1,101	8,585	183,140	5%
Merced	2,740	215	2,955	87,783	3%
Kern	7,390	1,578	8,968	301,009	3%
Tulare	3,947	503	4,450	150,652	3%
Fresno	7,604	1,902	9,506	338,441	3%
Madera	648	82	730	49,572	1%

Sources: U.S. Census Bureau; CA Dept. of Finance; Analysis by EPS

6. WHAT'S PREVENTED ATTACHED DEVELOPMENT?

There are several interconnected reasons for the limited for-sale attached housing and condominium development in the Valley:

- The majority of Valley households prefer single-family detached homes.
- The large existing supply of single-family detached homes in the Valley compete directly with newly-constructed attached homes.
- Relatively low land prices in much of the Valley keep single-family development costs competitive.
- The viability of denser attached products (e.g., condominium stacked flats) is hampered by higher per square foot construction costs.
- Valley developers avoid developing condominiums in particular, due to construction defect liability-related concerns (i.e., insurance costs, project tracking and documentation needs, lawsuit risks).
- When building for-sale attached products, Valley developers seek to avoid condominium ownership by offering fee simple ownership.

RECENT EXAMPLES

- Despite barriers, Valley developers have seen some opportunities for attached developments in highly desirable, higher-income locations of the Valley, such as western San Joaquin County and Clovis/Northeast Fresno, in recent years.
- During the late 2010s, detached prices and multifamily rents appreciated significantly, creating a market for attached products as a cheaper alternative for first-time homebuyers while becoming profitable for developers.
- Like other homebuyers, buyers of attached for-sale housing benefited greatly from the favorable lending conditions before and in the middle of the COVID-19 pandemic.

RECENT EXAMPLES, CONT'D

- Major builders, such as Lennar and Shea Homes, have developed attached products in the Valley.
- Some attached projects have been stand-alone, while others have been integrated into developments also offering single-family detached development.
- The focus of this development has been on duets (2 attached units) or rows of 4 to 5 attached units, not on denser stacked flat developments.
- When building for-sale attached products, Valley developers seek to avoid condominium ownership; to do so, they offer fee simple ownership and avoid vertical stacking.

NEW ATTACHED PROJECTS IN THE VALLEY



Amethyst at Tracy Hills; Source: Lennar



Langston II at Mountain House; Source: Shea Homes



Lennar at the Brambles; Source: Lennar



Lennar at Veneto Park; Source: Lennar

NEW ATTACHED PROJECTS IN THE SJV (Q3-2022)

County/Place	Veneto Park – Starling Townhomes Clovis, Fresno	Starling Fresno, Fresno County	Langston II Mountain House, San Joaquin County	Amethyst Tracy, San Joaquin County
Product Type	Townhomes	Townhomes	Duplex; "Duet-Style"	Duplex; "Paired"
Developer	Lennar Homes	Lennar Homes	Shea Homes	Lennar Homes
Master Plan	None	The Brambles	Cordes Village	Tracy Hills
Avg Home Size	1,383	1,383	1,914	2,087
Avg Price	\$397,457	\$356,790	\$853,326	\$714,547
Per Sq.Ft.	\$273	\$255	\$446	\$343
Total Units Planned	160	150	302	132
Total Sold	40	77	187	45

Source: The Gregory Group; Analysis by EPS

7. Findings

- Attached development in the Valley could play a critical role in expanding Valley housing stock, home ownership, and wealth creation opportunities.
- A limited amount of for-sale attached housing exists in the Valley, mainly due to market dynamics and consumer preference for traditional single-family detached.
- Construction defect liability issues pose risks even when market dynamics and consumer preference for attached housing are favorable.
- There are actions the State and local jurisdictions could consider to support future attached development.

8. Policy Actions – State

There are several actions state government (legislature and HCD) could take:

- Hold hearing to further discuss how to increase more ownership housing for moderate income families
- Incentivize attached ownership through State financing programs by providing:
 - Mortgage assistance specifically for attached products
 - Development financing specifically for attached products
- Adjust State laws to reduce liability insurance risk (whether by addressing duration and/or extent of exposure)
- Provide liability insurance to builders

8. Policy Actions – Local

There are several actions local jurisdictions could take:

- Encourage, through land use policy, the inclusion of attached for sale products in master planned communities that typically only have single-family detached development
- Remove regulatory impediments (density, height, zoning) to building attached developments
- Offer development incentives/fee reductions and waivers for for-sale attached products
- Streamline the entitlement process for attached products where possible
- Support new bills that state lawmakers introduce to limit the time period for or extent of construction liability