

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF HOUSING POLICY DEVELOPMENT**

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February 24, 2011

Mr. Ezra Rapport
Executive Director
Association of Bay Area Governments
101 Eighth Street
Oakland, CA 94607

Dear Mr. Rapport:

RE: Regional Housing Need Determination for Housing Element Updates

This letter provides the Association of Bay Area Governments (ABAG) its regional housing need assessment (RHNA) determination for the projection period January 2014 through October 2022. The Department of Housing and Community Development (Department), is required to determine ABAG's existing and projected housing need pursuant to State housing law (Government Code Section 65584, et. seq.).

As you know, Senate Bill 375 (Chapter 728, Statutes of 2008) strengthened the existing coordination of housing and transportation planning by requiring Metropolitan Planning Organizations (MPO) to develop and incorporate a new sustainable community strategy (SCS) in the Regional Transportation Plan (RTP) to achieve greenhouse gas emission reductions and ensure the SCS accommodates the RHNA. SB 375 also amended the RHNA schedule and methodology among other things that strengthened rezoning requirements.

Since only partial demographic data is available from Census 2010, the Department's RHNA determination also utilized American Community Survey (ACS) data. In assessing ABAG's regional housing need, the Department considered the critical role housing plays in developing sustainable communities and supporting employment growth. The Department determined ABAG's regional housing need to be 187,990 units for the 8.8-year projection period from January 2014 through October 2022. The housing need was determined in consideration of the extraordinary uncertainty regarding national, State, local economies and housing markets. For this RHNA cycle only, the Department made an adjustment to account for abnormally high vacancies and unique market conditions due to prolonged recessionary conditions, high unemployment, and unprecedented foreclosures.

This RHNA also reflects the Department's consideration of ABAG's strong socio-economic base and potential for recent household formation trends to continue at a fast and more diverse pace, particularly among older age groups that will continue to generate higher housing demands.

In assessing ABAG's regional housing needs, the Department and representatives of ABAG completed the consultation process specified in statute through periodic meetings and conference calls from January 2011 through November 2011. ABAG participants included Mr. Paul Fassinger, Director of Research and Analysis; Ms. Miriam Chion, Principal Planner; Mr. Hing Wong, Senior Regional Planner; and Ms. Gillian Adams, Regional Planner. The Department also consulted with the State Department of Finance (DOF) Demographic Research Unit as specified in statute.

In finalizing ABAG's RHNA, the Department applied methodology and assumptions regarding the following factors (Government Code Section 65584.01(c)(1)):

- anticipated household growth associated with projected population increases;
- household size data and trends in household size;
- rate of household formation, or headship rates, based on age, gender, ethnicity, or other established demographic measures;
- vacancy rates in existing housing stock, and for healthy housing market functioning and regional mobility, as well as housing replacement needs;
- other characteristics of the composition of the projected population; and
- the relationship between jobs and housing, including any imbalance between jobs and housing.

Data, assumptions, and descriptive information provided by ABAG in regards to the above factors were considered. Although at the time of the preliminary RHNA consultation, particular relevance was ABAG's ongoing efforts to reassess the area's job-housing relationship as more than a quantitative indicator and develop a qualitative approach (the "job-housing fit" concept) to use in its transportation plan update. Assumptions made about the rate were also considered with which existing vacant "for sale" and "for rent" housing units may be absorbed for occupancy by the beginning of the projection period in 2014.

The Attachments to this letter describe details of the Department's methodology and RHNA income category distribution for ABAG to allocate 187,990 housing units among all its local governments. As you know, ABAG must provide each locality a RHNA share of very-low, low-, and moderate-income units that equals the total for each of these income categories shown in Attachment 1. The RHNA represents the *minimum* amount of residential development capacity a jurisdiction must plan to accommodate through zoning and appropriate development strategies. RHNA is not to be used within local general plans as a maximum amount or cap of residential development to plan for or approve.

ABAG's RHNA projection period (also described in the attachments) was determined pursuant to Government Code Section 65588(e)(6), to coordinate housing and transportation planning based on ABAG's *estimated* RTP adoption date of April 24, 2013. Please note that if the actual RTP adoption date differs from the estimated date, it could change the housing element due date, and implicitly the housing element planning period. However, such changes would not impact RHNA as there is no statutory provision to amend the housing need projection period and the Department's final RHNA Determination.

ABAG is responsible for developing a RHNA distribution methodology and adopting a RHNA Plan for the period of January 1, 2014 through October 31, 2022. Housing element law (Government Code Section 65584, et. seq.) requires ABAG's methodology and RHNA Plan to be consistent with the following objectives:

- increasing the housing supply and mix of housing types, tenure, and affordability;
- promoting infill development and socio-economic equity, protecting environmental and agricultural resources, and encouraging efficient development patterns;
- promoting an improved intraregional relationship between jobs and housing; and
- balancing the distribution of households by income category.

Pursuant to Government Code Section 65584.05(h), ABAG is required to submit its RHNA Plan to the Department for approval within three days of adopting the RHNA Plan. Once the Department has approved the RHNA Plan, ABAG is to distribute to all its local government members their income category shares of new housing needs to be addressed in their housing element updates covering 2014 - 2022.

In updating their housing element, local governments may only take RHNA credit for units permitted since the January 1, 2014 start date of the RHNA projection period providing that the element adequately describes how units were credited to different income categories based on actual or projected sale price or rent level data. Also, any city planning to accommodate a portion of RHNA on sites within the City's Sphere of Influence (SOI) must include an annexation program in the housing element. The annexation program must demonstrate SOI sites can be annexed early enough in the planning period to make adequate sites available before triggering penalties pursuant to Government Code sections 65583(c)(1)(A), and 65583(f).

Regarding transfers of housing need among local governments, AB 242 (Chapter 11, Statutes of 2008) amended certain provisions of Government Code Section 65584.07. RHNA transfers agreed between local governments may occur until adoption of the RHNA Plan. Once ABAG has adopted its RHNA Plan and prior to the housing element due date, transfers meeting specified conditions may only occur from a county to cities within the county. Transfers after the due date of the housing element are restricted to annexations and incorporations and must be completed within specified timeframes. The number of units by income to be transferred is determined either based on a mutual agreement between affected local governments, or, if no agreement is reached, by the entity responsible for allocating housing need (ABAG, or subregion where applicable).

The Department must be notified of all transfers; jurisdictions affected by RHNA transfers must amend their housing element within a specified timeframe.

The Department applauds ABAG's efforts and leadership, in coordination with the region's Metropolitan Transportation Commission (MTC), to meet the objectives of SB 375, and also ABAG's role in enhancing the One Bay Area Grant programs to address integration of regional transportation planning and housing. Also, the Department congratulates the region for its recent \$4.9 million award from the U.S. Department of Housing and Urban Development to develop a San Francisco Bay Area Regional Prosperity Plan for the Nine County San Francisco Bay Area region. This initiative will further increase access to regional prosperity for workers, by creating middle-income jobs and developing and preserving affordable housing in transit-served communities. The Department appreciates the assistance provided by Mr. Hing Wong, ABAG Senior Planner.

We look forward to a continued partnership with ABAG and its member jurisdictions in planning efforts to accommodate the region's share of housing need. If you have any questions or need additional assistance, please contact me or Anda Draghici, Senior Housing Policy Specialist, at (916) 445-4728.

Sincerely,

A handwritten signature in black ink that reads "Glen A. Campora". The signature is written in a cursive, flowing style.

Glen A. Campora
Assistant Deputy Director

Enclosures

ATTACHMENT 1

HCD REGIONAL HOUSING NEED DETERMINATION: ABAG Projection Period: January 1, 2014 though October 31, 2022

<u>Income Category</u>	<u>Percent</u>	<u>Regional Housing Need (rounded) ⁽¹⁾</u>
Very-Low	24.8%	46,680
Low	15.4%	28,940
Moderate	17.8%	33,420
Above-Moderate	42.0%	78,950
Total	100.0% ⁽²⁾	187,990 ⁽³⁾

(1) The statutory objective regarding RHNA requires HCD, in consultation with Department of Finance (DOF) and councils of governments (COGs), to determine projected household growth and housing need based on DOF population projections and COG regional population forecasts and requires regional and local jurisdictions to plan to accommodate capacity for all of the projected RHNA. The Legislature recognizes that different assumptions and variances in methodologies can be used that can result in different population projections. Projection of housing need developed by DOF and HCD for RHNA purposes does not consider local government constraints.

For this RHNA cycle only (due to unique conditions not expected to recur to impact future RHNA cycles), the housing need was adjusted downward to account for different absorption estimates for unprecedented high vacancies in existing stock due to extraordinary conditions including high foreclosures and economic uncertainties.

(2) The income category percentages reflect the minimum percentage to apply against the total RHNA decided by ABAG in determining housing need for very-low, low, and moderate income households. Each category is defined by Health and Safety Code (Section 50093, et seq.). Percentages are derived from the 2005-2009 American Community Survey's number of households by income, over 12 month periods, by County. Housing unit need under each income category is derived from multiplying the portion of households per income category against the total RHNA determination.

(3) The 187,990 allocation (see Attachment 2) reflects ABAG's projected minimum housing need (rounded), using 2005-2009 household formation rates from American Community Surveys (ACS) and an adjustment (-2,790) for existing excess vacant units in estimating 20% of vacant units will not be absorbed before 2014. This column represents the minimum housing need that ABAG's RHNA Plan must address in total and also for very-low, low, and moderate income categories.

**ATTACHMENT 2
HCD REGIONAL HOUSING NEED DETERMINATION: ABAG**

Projection Period: January 1, 2014-October 31, 2022 (8.8 years)				
1	Population: October 31, 2022			7,795,408
2	<i>less: Group Quarters Population</i>			-160,994
3	Household (HH) Population			7,634,414
	Household Formation Groups	HH Population	HH Formation or Headship Rate (ACS)	Households
	Age Groups (ACS)	7,634,414		2,860,005
	<15	1,379,971	-	-
	15-24	935,687	9.34%	87,380
	25-34	1,017,410	40.41%	411,116
	35-44	947,660	51.08%	484,060
	45-54	1,067,901	53.84%	574,976
	55-64	1,015,530	55.30%	561,594
	65-74	764,768	56.81%	434,458
	75-84	357,153	60.56%	216,290
	85+	148,333	60.76%	90,132
4	Projected Households			2,860,005
5	<i>less: Households at Beginning of Projection Period (January 1, 2014 interpolated)</i>			-2,675,765
6	Household Growth: 8.8 Year Projection Period			184,240
7	Vacancy Allowance	Owner	Renter	Total
	Tenure Percentage	56.19%	43.81%	184,240
	HH Growth (New Unit Need)	103,520	80,720	
	Vacancy Rate	1.50%	5.00%	
	Vacancy Allowance	1,550	4,040	5,590
8	Replacement Allowance (minimum)	0.50%		189,830
9	<i>less: Adjustment for Absorption of Existing Excess Vacant Units</i>			
	Estimate 80% Absorbed, 20% Not Absorbed by 2014	Effective Vacant Units	Healthy Market Units	Differential
	Derived (2010 Census, Vacancy Rates)	(94,900)	83,000	-11,900
	Total Existing (2011) Housing Stock	94,900		
	Existing Vacant Unit (Others) Adjustment	1.55%	1.48%	
	Total Adjusted Existing Vacant Units (Others)	(43,280)	41,210	-2,070
	Estimated Units (Others) Not Absorbed by 2014		20%	-13,970
				-
				-2,790
	FINAL REGIONAL HOUSING NEED DETERMINATION			187,990

- Population:** Pursuant to Government Code Section 65584.01(b), and in consultation with ABAG, the October 31, 2022 population projection was extrapolated based on Department of Finance (DOF) Interim Projections published in June 2011 for July 2020 and DOF's E5 estimate for January 2011.
- Group Quarter Population:** Figure is an estimate of persons residing either in a group home, institution, military, or dormitory using 2010 Census data for group quarters, and maintaining its proportion in the total population constant throughout the projection period. As this population doesn't constitute a "household" population generating demand for a housing unit, the group quarter population is excluded from the calculation of the household population, and is not included in the housing need.
- Household (HH) Population:** The portion of population projected to reside in housing units after subtracting the group quarter population from total projected population.
- Projected 2022 Households (HHs):** The October 2022 number of households is derived by applying (to 2022 HH population) the regional 2005-2009 American Community Survey (ACS) household formation rates as provided by DOF. HH formation or headship rates reflect the propensity of different population groups (age, racial and ethnic) to form households.

ATTACHMENT 2
HCD REGIONAL HOUSING NEED DETERMINATION: ABAG

5. **Households at Beginning of Projection Period:** For the first time since inception of RHNA, the baseline number of households at the beginning of the projection period (January 2014) must be projected, as a direct effect of amendment to Section 65588(e)(6) specifying the new projection period to start on either June 30 or December 31 whichever date most closely precedes the end of the current housing element period (June 30, 2014 for ABAG). As such, the 2014 household number was calculated as an interpolation between DOF's E5 2011 estimate of households and the 2022 projected number of households.
6. **Household (HH) Growth:** This figure reflects projected HH growth and need for new units.
7. **Vacancy Allowance:** An allowance (unit increase) is made to facilitate availability and mobility among owner and renter units. Owner/Renter % is based on Census 2010 data. A smaller rate is applied to owner units due to less frequent mobility than for renter households. Information from a variety of authoritative sources supports an acceptable range of 1 to 4% for owner units and 4 to 8% for renter units depending on market conditions.
8. **Replacement Allowance:** Rate (0.5%) reflects the housing losses that localities annually reported to DOF each January for years 2001-2010, or 0.5%, whichever is higher.
9. **Adjustment for Absorption of Existing Excess Vacant Units:** For this RHNA cycle only (due to extraordinary uncertainty regarding conditions impacting the economy and housing market not expected to similarly impact future RHNA cycles), a new one-time adjustment was made to account for unprecedented high vacancies in existing stock due to unusual conditions including high foreclosures and economic uncertainties. An absorption rate of 80% of existing excess vacant units is assumed to occur in shrinking current excess vacant units before the start of the 2014 RHNA projection period resulting in applying a 20% adjustment to account for units not absorbed that decreases new housing need by -2,790 units. Existing housing stock consists of two components: (1) housing units for sale and rent in existing housing stock that are above the housing units required to maintain the healthy market condition, calculated as the number of units in housing stock (for sale+for rent+sold, not occupied+rented, not occupied + occupied units), (2) housing units in the "vacant units others" category of existing housing stock above the simple average of 1.48% calculated based on Census data from 1990 to 2010. The Department used 2010 Census Demographic profile data (DP-1) and desirable "normal" vacancy rates by tenure, in conjunction with the region's household growth and proposed household formation rates. The vacancy adjustment is limited to not exceed the differential between the 2010 Census vacant units and the healthy market vacant units rate associated with the region's annual household growth. As the adjustment was below the differential, the adjustment was applied in calculating the RHNA determination.

RHNA Projection Period January 1, 2014 to October 31, 2022: Pursuant to SB 375, the start of the *projection* period (in effect January 1, 2014) was determined pursuant to GC 65588(e)(6), which requires the new projection period to start on June 30 or December 31 that most closely precedes the end of the current housing element period, which for ABAG region is June 30, 2014. The end of the projection period was determined pursuant to GC 65588(e)(5) to be the end of the housing element planning period. *Note: For projection purposes the end of the projection period is rounded to the nearest start/end of the month.*

Housing Element Planning Period October 31, 2014 to October 31, 2022: Pursuant to SB 375, the start of the *planning* period was determined pursuant to GC 65588(e)(5), 18 months from the estimated adoption date of the MTC's Regional Transportation Plan per ABAG, with the date rounded to the nearest start/end of month for projection purposes. The end of the planning period was calculated pursuant to GC 65588(e)(3)(A), 18 months after the adoption of the second RTP, provided that it is not later than eight years from the adoption of the previous housing element. If the actual RTP adoption date differs from the estimated date, the RHNA determination and the projection period will not change, however the housing element due date, and implicitly, the housing element planning period would change.