

*National Capital Area Chapter
of the American Planning Association*

Annual Chapter Conference

November 15 – 17, 2021

Current Session

Monday November 15, 2021

12:00pm – 1:00pm

**After Single-Family Zoning Ends, the Economics
Remain: Lessons from Montgomery County's
Attainable Housing Strategies**

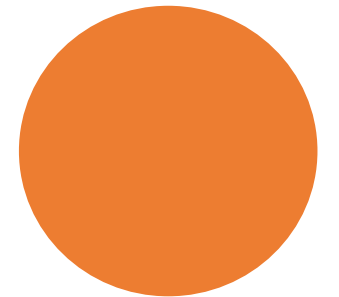
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Planning Team

- Lisa Govoni Countywide Planning and Policy
- Todd Fawley-King Research and Strategic Projects
- Jason Sartori Countywide Planning and Policy



Single Family Zoning Reform is Spreading Rapidly

Minneapolis, Tackling Housing Crisis and Inequity, Votes to End Single-Family Zoning

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Janne Flisrand at her home in the Lowry Hill neighborhood in Minneapolis on Wednesday. She is part of the group Neighbors for More Neighbors, which is pushing for greater housing density in the city. Jenn Ackerman for The New York Times

Oregon Legislature Votes To Essentially Ban Single-Family Zoning

July 1, 2019 - 7:03 PM ET

LAUREL WAMSLEY



Oregon's Legislature passed a bill that would allow duplexes, like this one in Portland, in areas zoned for single-family housing in cities with more than 10,000 people.

Build, baby, build

California ends single-family zoning

The move marks progress in the state's urgent quest for more housing



Mel Melcon/Los Angeles Times/Polaris/Eyevine



Initial Impacts to the Housing Supply is Lackluster

- “Zoning Reforms Underwhelm in Minneapolis” (3 triplex permits in 2020) – Planetizen, 9/2/2021
- “On most urban lots [in Portland], legalizing smallplexes would mean nothing at all for many years” – Sightline Institute, 8/1/2021
- “[California’s] SB 9 is unlikely to lead to significant demolition of the existing stock” – UC Berkeley Turner Center for Housing Innovation, 7/2021



Our Approach

- Zoning reform is a necessary first step to creating options.
 - Ensure simple regulatory process
 - Consider catalyst policies
- Multiprong, three scale approach to achieve our different goals.



About Attainable Housing Strategies

- The Attainable Housing Strategies initiative aims to **identify viable options for existing and new residents to find homes at the right sizes, locations, and price points for their needs** and expand homeownership opportunities for the county's diverse populations.
- It also helps Montgomery County grow its housing supply even where space is a concern—a critical consideration as we anticipate population growth in the coming decades.



Increase the diversity of housing options in more parts of the county.

GOAL 1: Increase opportunities to meet the county's diverse housing supply needs and obligations, as well as the county's economic development objectives.

GOAL 2: Unravel the exclusionary aspects of our single-family zones to diversify our communities by diversifying our housing stock.

GOAL 3: Create more opportunities for homeownership for more households in more parts of the county.

What is Attainable Housing?

Missing Middle Housing

- A term coined by Opticos Design to describe a range of house-scale multi-unit structures that are compatible in scale with detached single-family homes.

Attainable Housing

- Attainable housing offers more diverse types of housing beyond house-scale Missing Middle housing types.
- Attainable housing incorporates building types described as Missing Middle but also adds a focus on households of various incomes being able to obtain housing that is suitable for their needs.

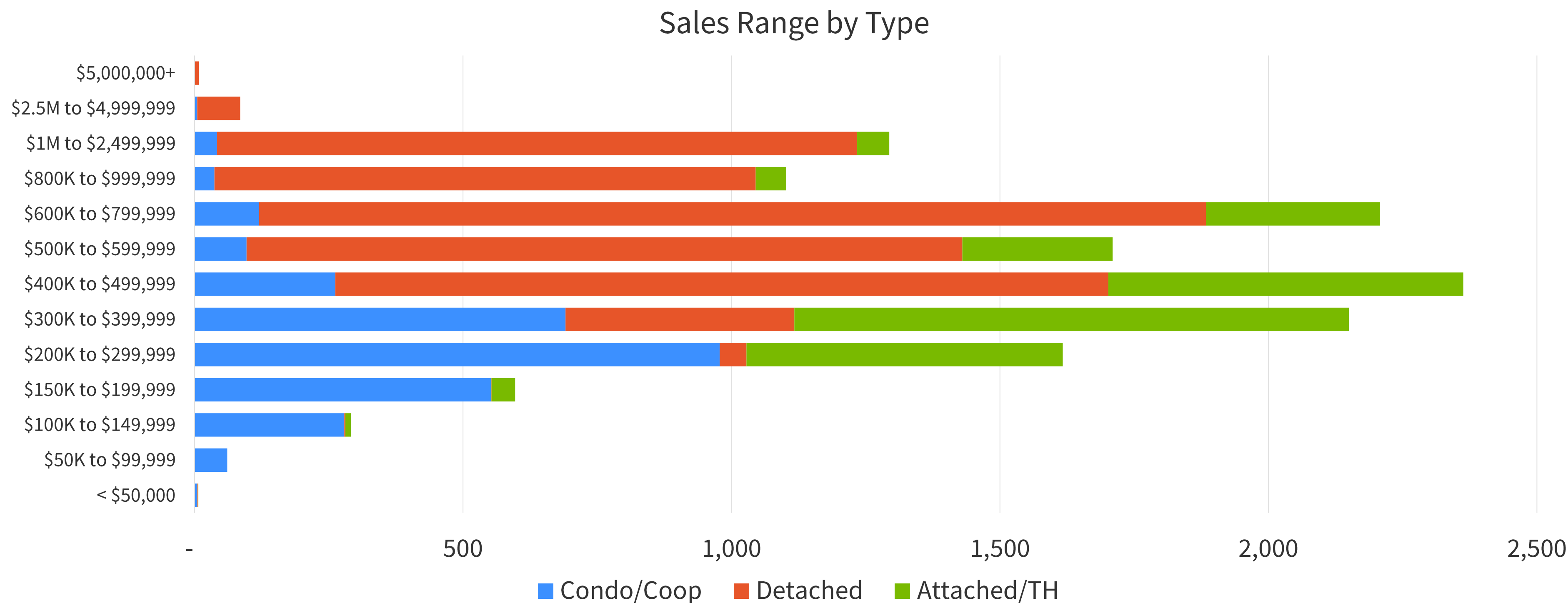


3 Scales Recommended Tools Geographic Targets

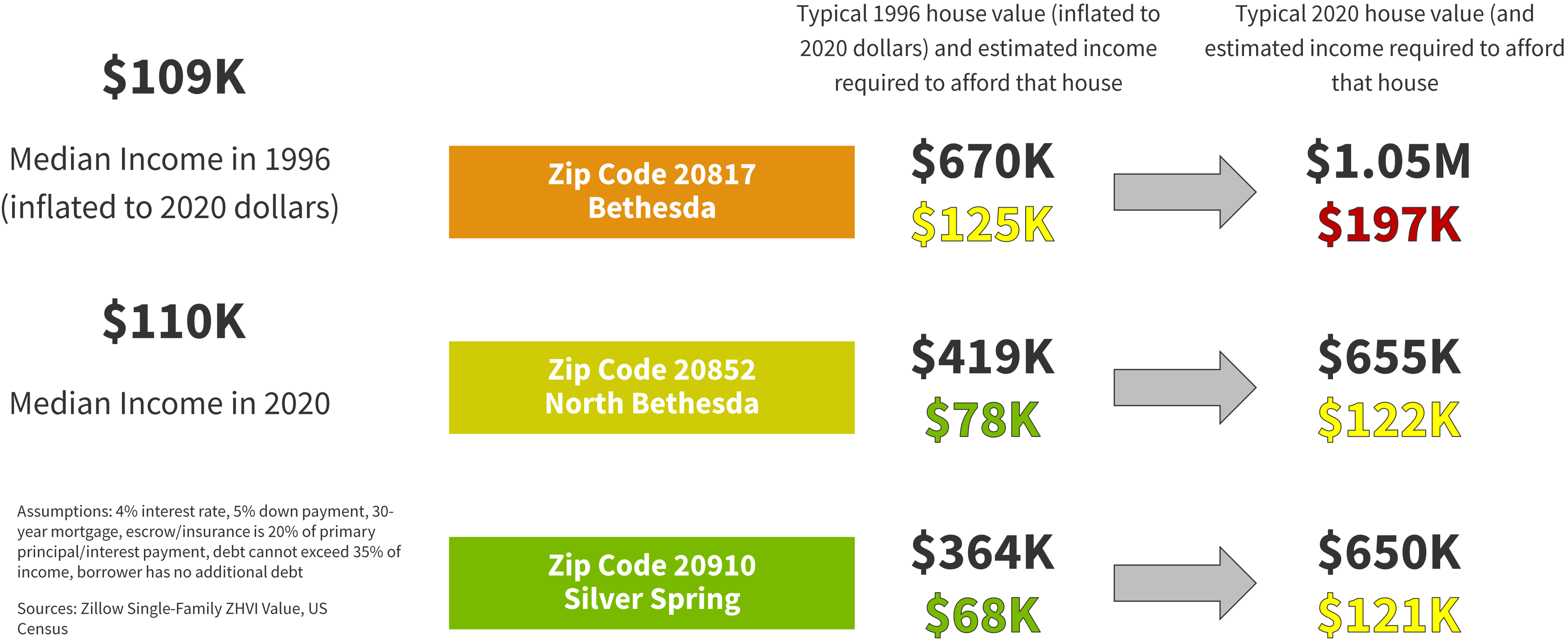
SMALL SCALE	MEDIUM SCALE	LARGE SCALE
Duplexes, triplexes, fourplexes, accessory dwelling units 2-2.5 stories	Stacked flats, small apartment buildings (three stories), townhouses 3-4 stories	Mixed-use Live/work buildings, stacked flats, small apartment buildings (four stories) 4-5 stories



In 2020, the average detached home in Montgomery County was sold for \$775,000 compared to \$370,000 for attached structures



Our neighborhoods have become less attainable and more exclusive



Assumptions: 4% interest rate, 5% down payment, 30-year mortgage, escrow/insurance is 20% of primary principal/interest payment, debt cannot exceed 35% of income, borrower has no additional debt

Sources: Zillow Single-Family ZHVI Value, US Census



At the root of this effort is a desire to make housing in Montgomery County more equitable and more inclusive.

- Revisiting our land use and zoning are integral to implementing the County's 2019 Racial Equity and Social Justice Law and the resulting Montgomery Planning's [Equity Agenda for Planning](#)
 - Montgomery Planning recognizes and acknowledges the role that our plans and policies have played in creating and perpetuating racial inequity in Montgomery County.
 - We have a long history of land use decisions that created exclusionary neighborhoods and formed barriers to resources and opportunities for people of color and other disadvantaged persons.





Exclusionary Zoning: Its Effect on Racial Discrimination in the Housing Market

JUNE 17, 2021 • ARTICLES

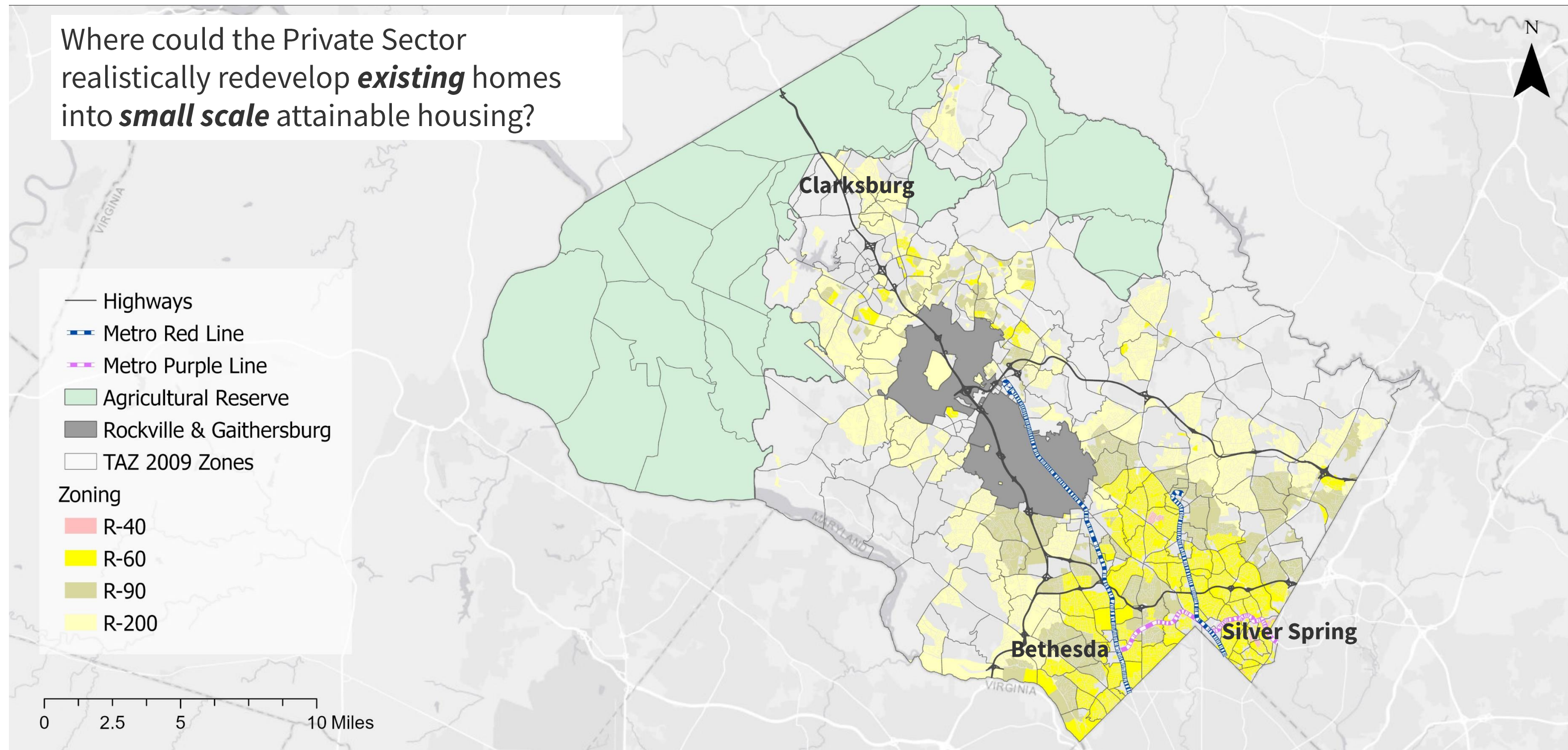
“Exclusionary zoning laws enact barriers to entry that constrain housing supply, which, all else equal, translate into an equilibrium with more expensive housing and fewer homes being built.”

“Research has connected exclusionary zoning to racial segregation, creating greater disparities in measurable outcomes.”

<https://www.whitehouse.gov/cea/blog/2021/06/17/exclusionary-zoning-its-effect-on-racial-discrimination-in-the-housing-market/>



Modeling Impact - Objective



The Residual Value Model

If the ***value of a new building*** minus the ***cost of creating that building*** (construction, soft costs/financing, fees, developer fee) greatly exceeds the ***cost of acquiring land*** (where such development is legal), then attempts at development are likely.

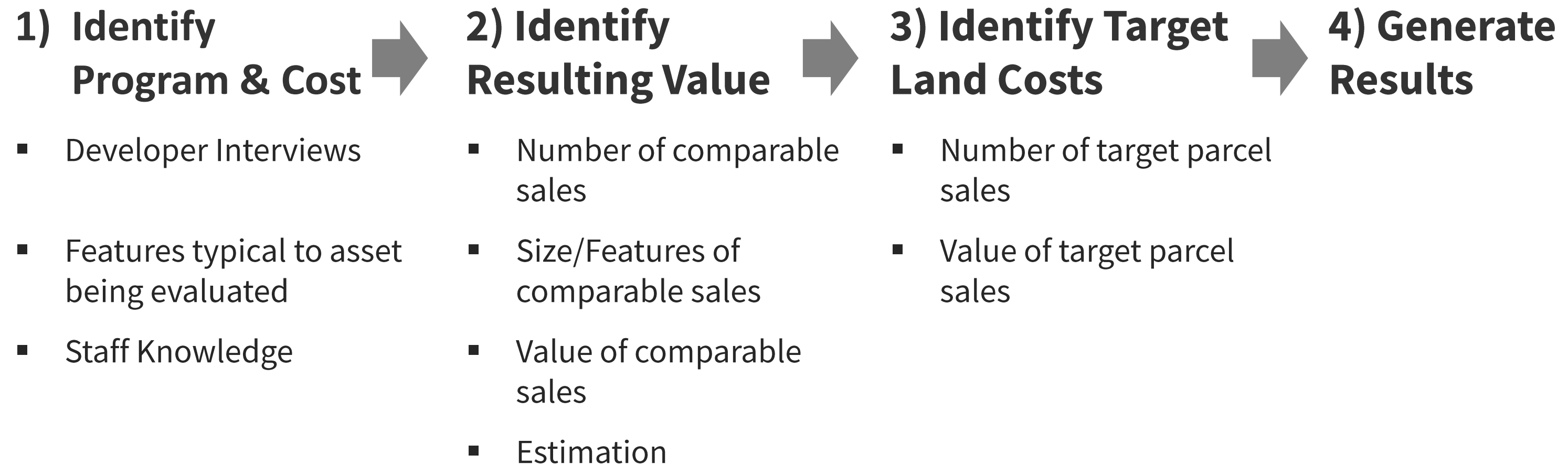
‘Residual’ is the delta between asset value and cost of development.

Formula

Value of new building – Cost of development >> Cost of Land = Development Efforts Likely



Modelling Process



1) Programs Evaluated & Expected Cost

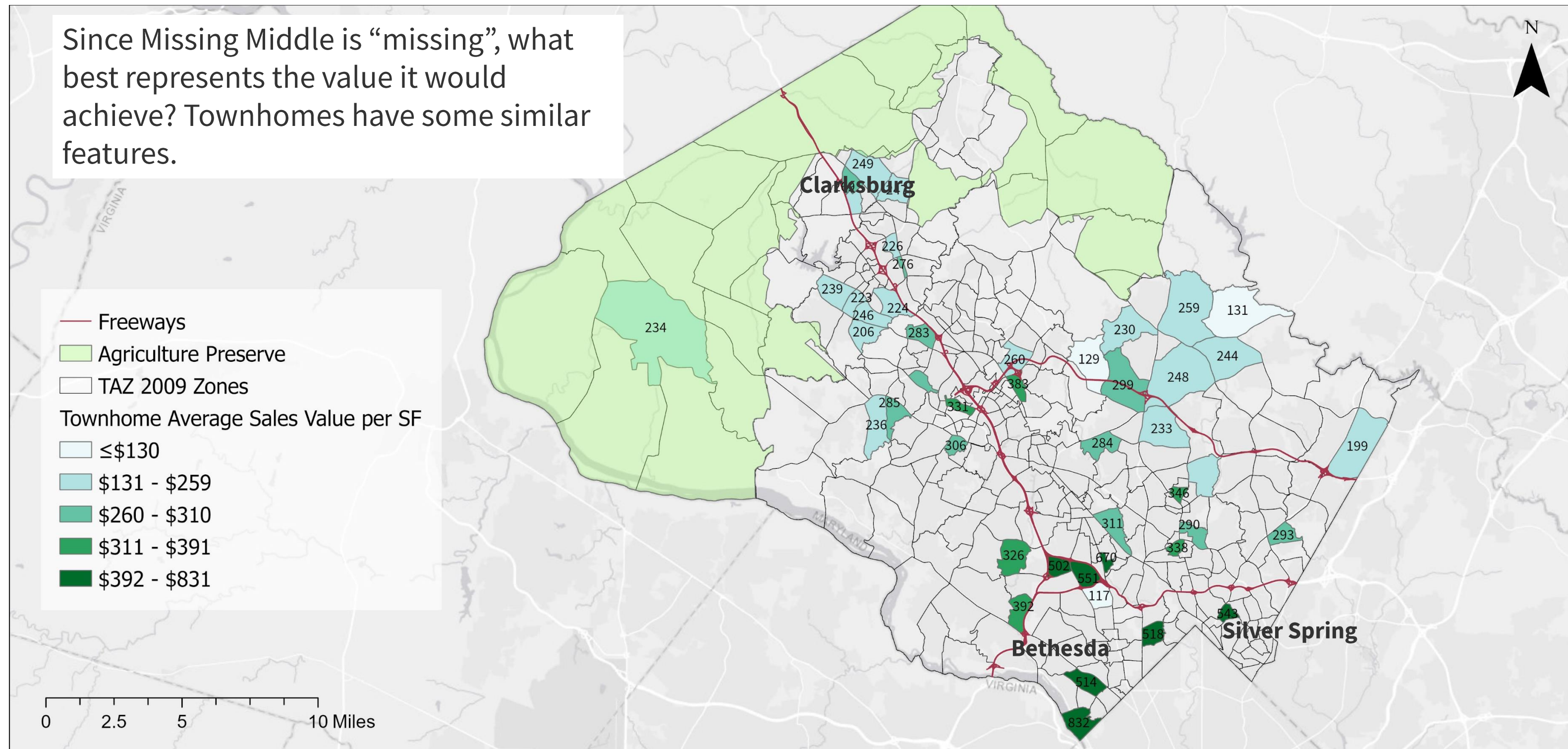
Typology	Density (Net/Gross per acre)	Size per unit/ Gross Building Area per Existing 7.5K SF Lot	Construction Cost per SF	Total Development Cost per Unit (ex. Entitlement fees)
Small Side-by-Side Duplex	Double existing density (generally, 11 – 12 / 9 – 10)	1,000 SF / 2,000 SF	\$170	\$225K
Large Side-by-Side Duplex	Double existing density (generally, 11 – 12 / 9 – 10)	1,800 SF / 3,600 SF	\$185	\$440K
Moderate Density Townhomes	17 – 18 / 20 – 21	1,800 SF/ 5,400 SF	\$180	\$430K

Note: Analysis included evaluation of triplex and sixplex options but used a different model approach and so is not included in today's presentation. The results were similar to the general findings of limited feasibility of modest scale/density missing middle housing.

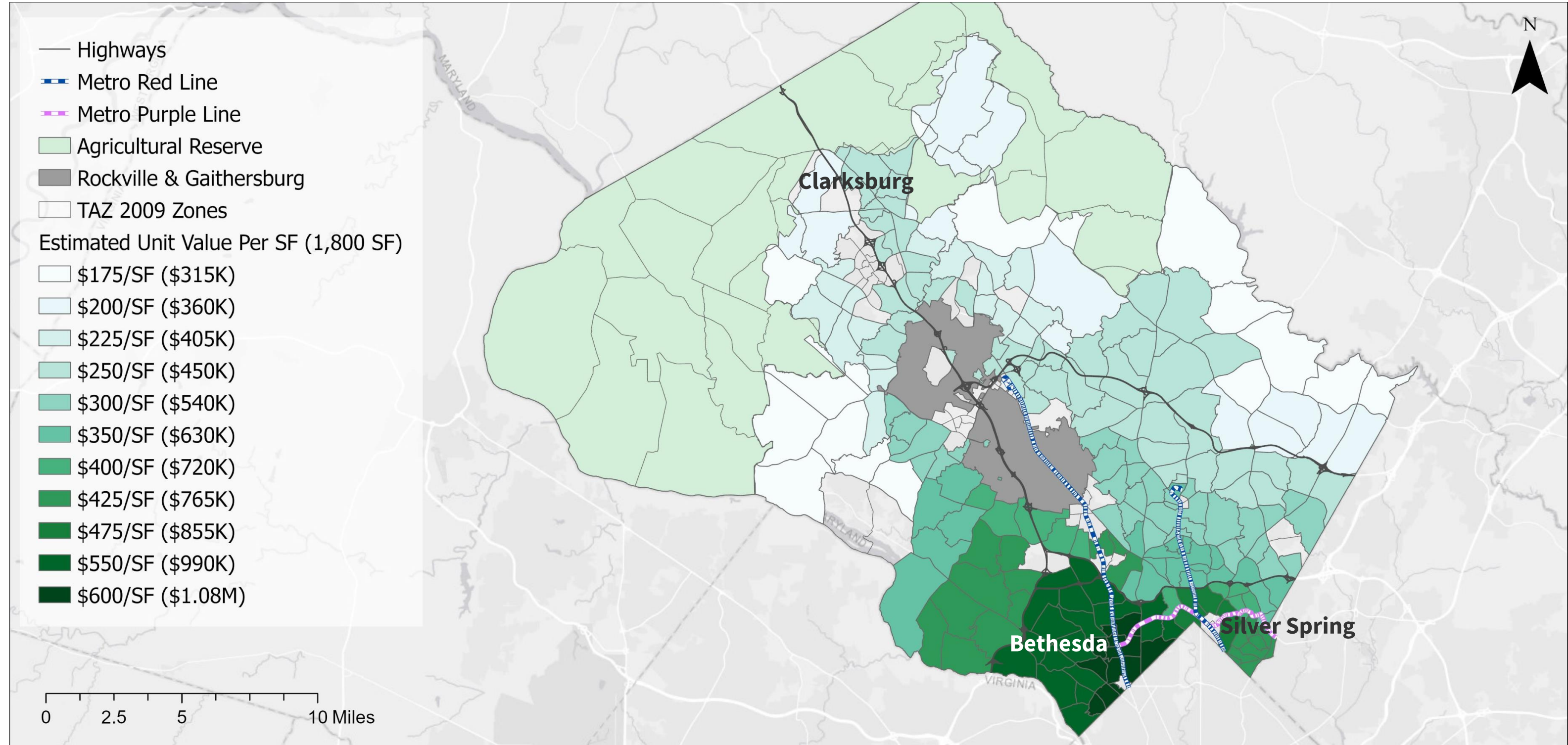


2) Resulting Value: Comps? Newly built Townhomes?

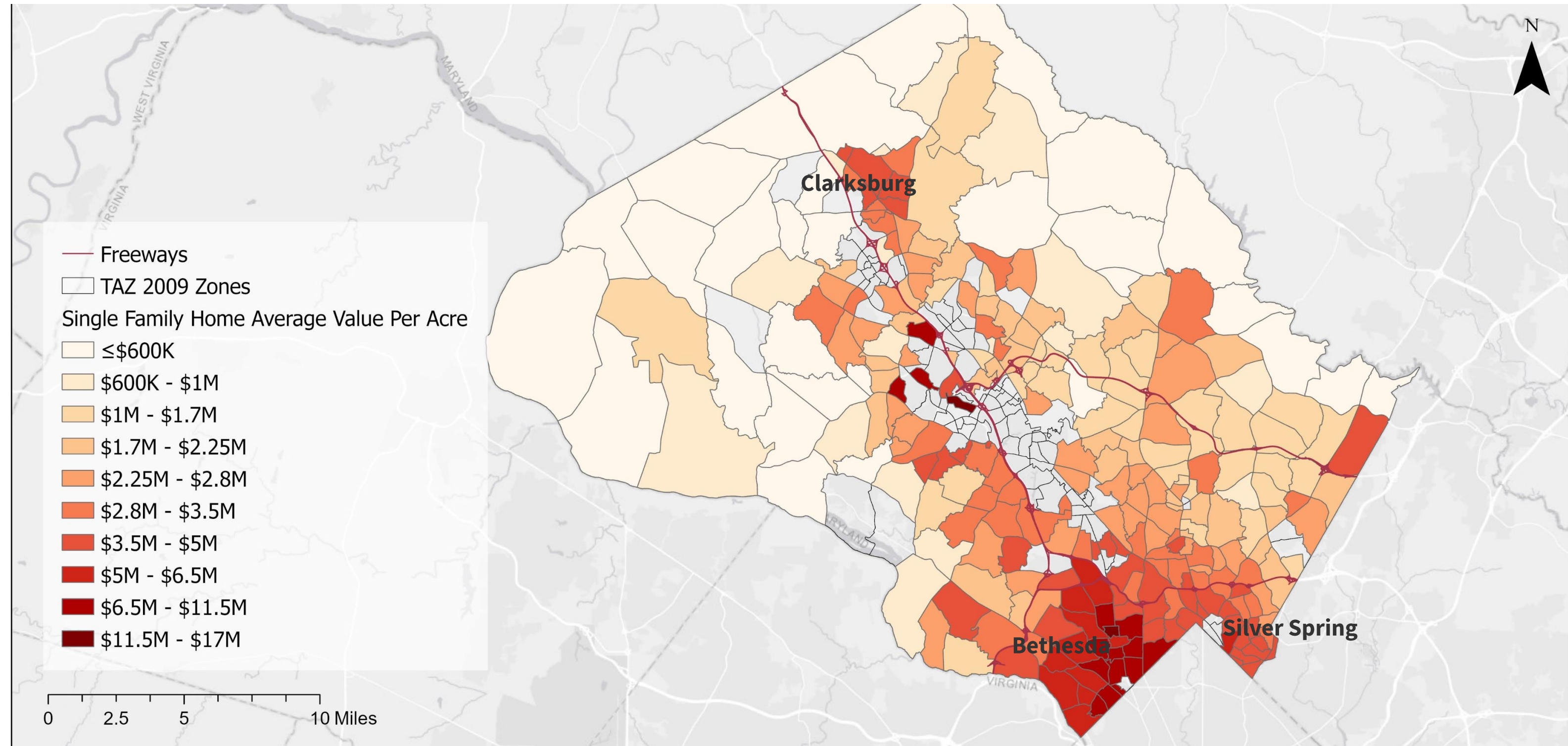
Since Missing Middle is “missing”, what best represents the value it would achieve? Townhomes have some similar features.



2) Resulting Value: The “art” of modelling



3) Target Land Cost: Single-Family Sales (value per acre)



4) Initial Results: Understanding the Model Output

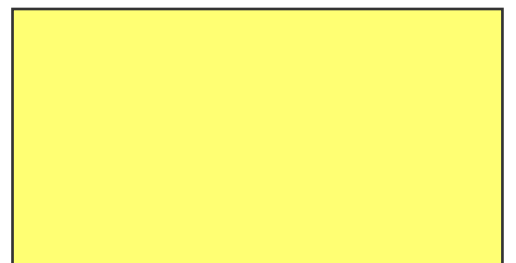
Redevelopment is not Possible: Residual Value is negative (doesn't even cover development costs before buying land)



Redevelopment is not likely: Residual value is positive but less than 75% of the value of an average home



Redevelopment has potential with the right property: Residual value is between 76% and 125% of the value of an average home



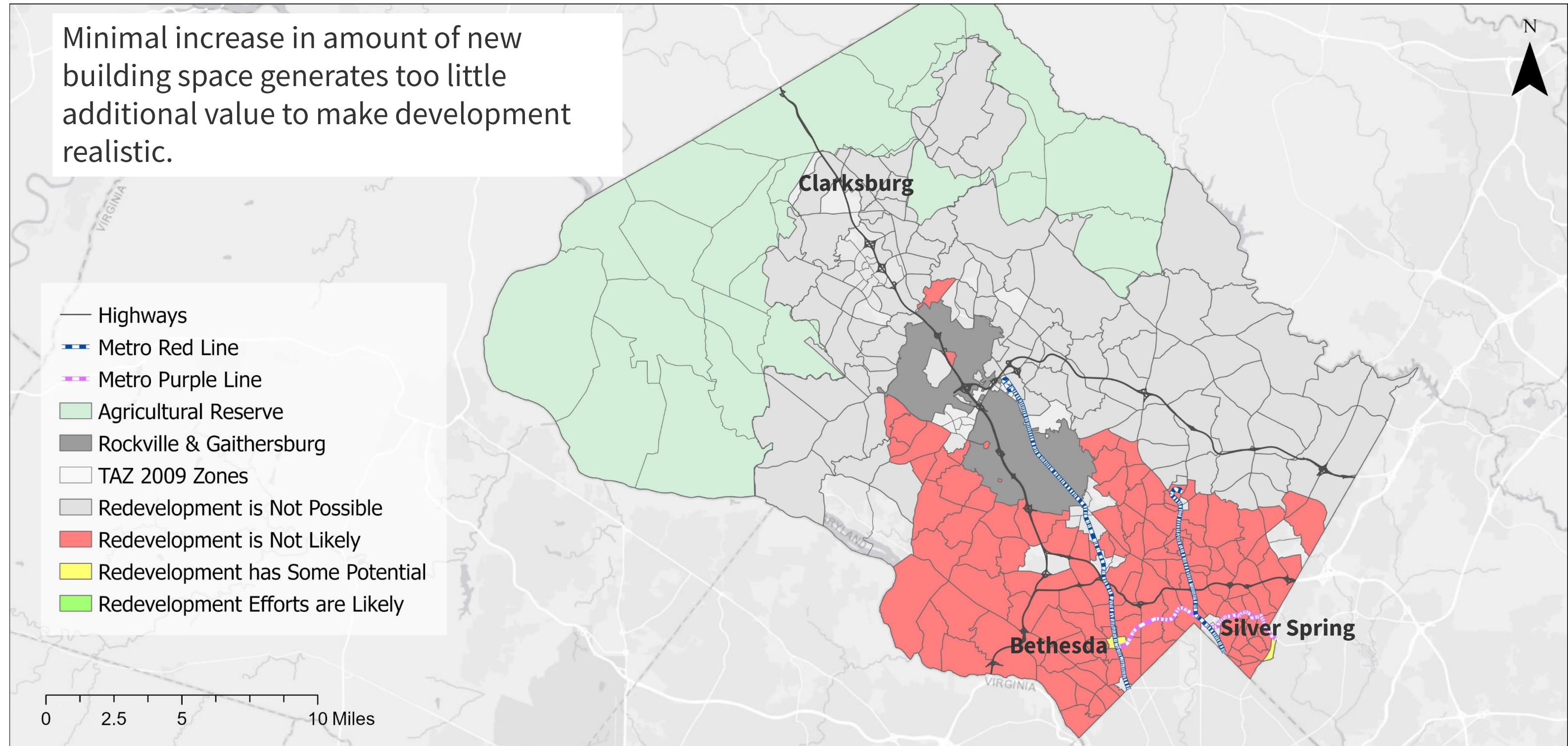
Efforts to redevelop are likely: Residual Value is greater than 125% of the value of an average home



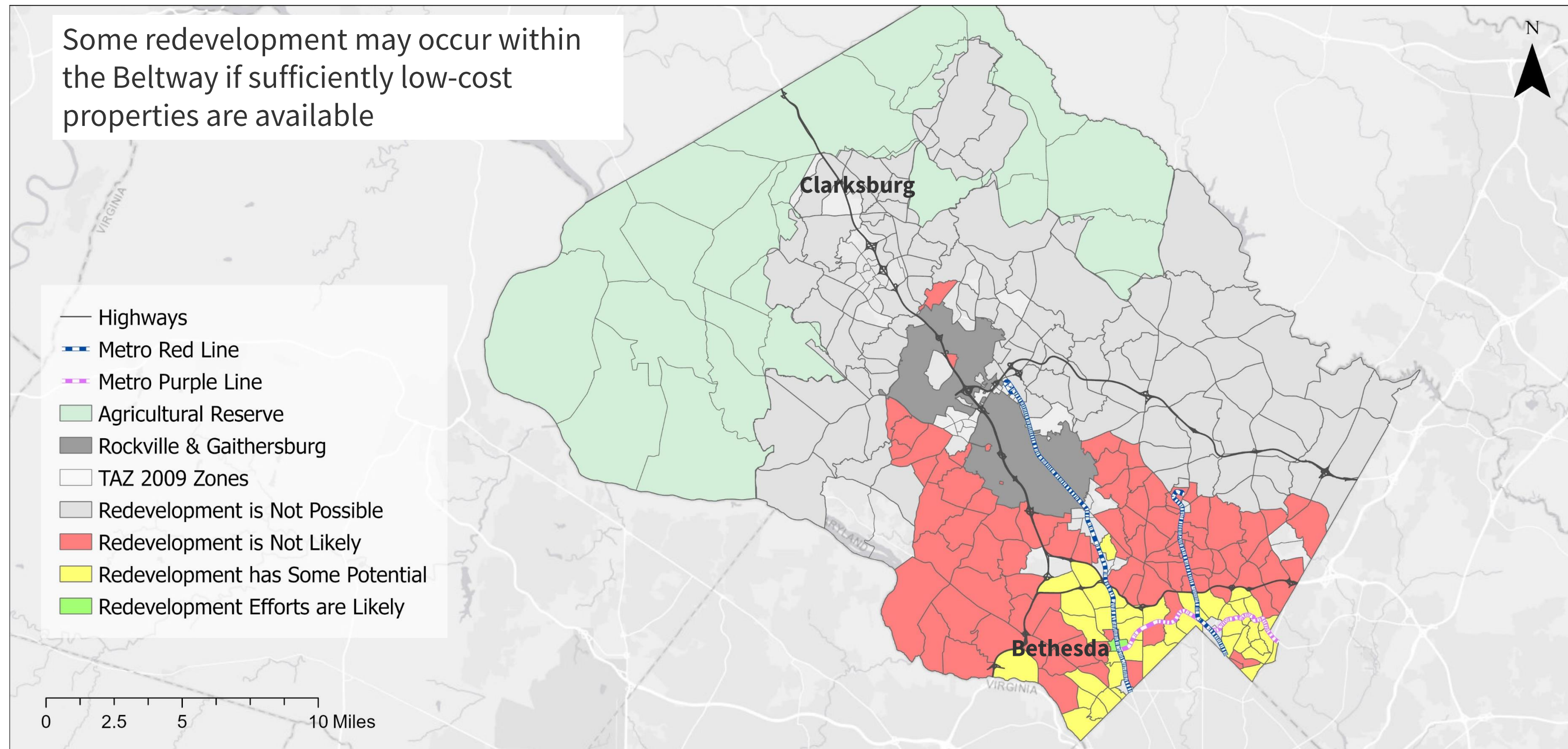
Caveat: Property is not a commodity and many factors influence availability and price. It is possible that builders may find developable parcels at low costs even if a market-wide analysis indicates that development is not likely. Conversely, It is possible that developers are unable to secure land even if the residual value far exceeds land values.



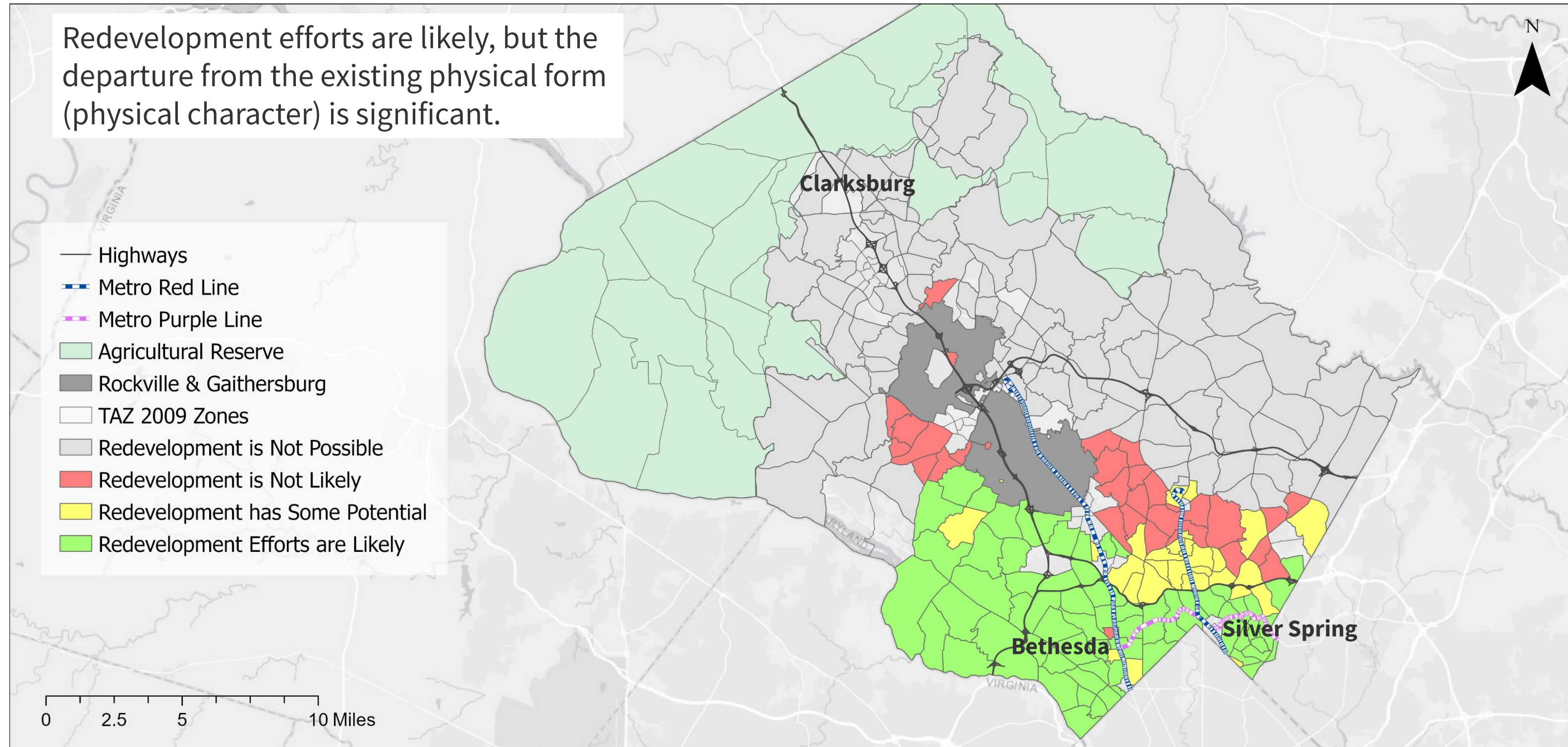
4) Initial Results: Small Duplex



4) Initial Results: Large Duplex



4) Initial Results: Moderate Density Townhomes



Can Anything Get Built in Existing Single-Family Zones? Replacement Homes



1948/ 1,080 SF / \$517,500

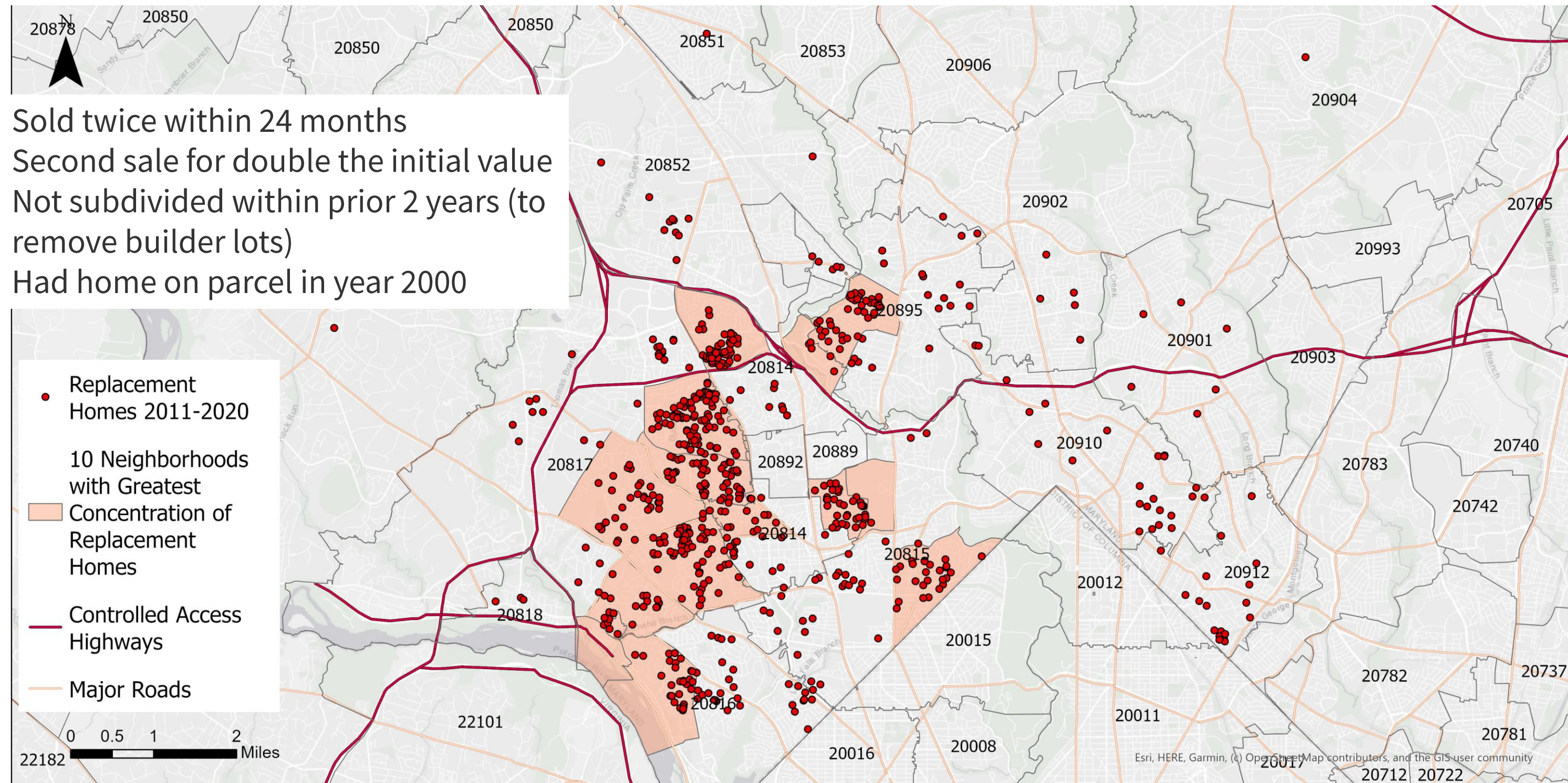


2021/ 4,271 SF / \$1,449,900



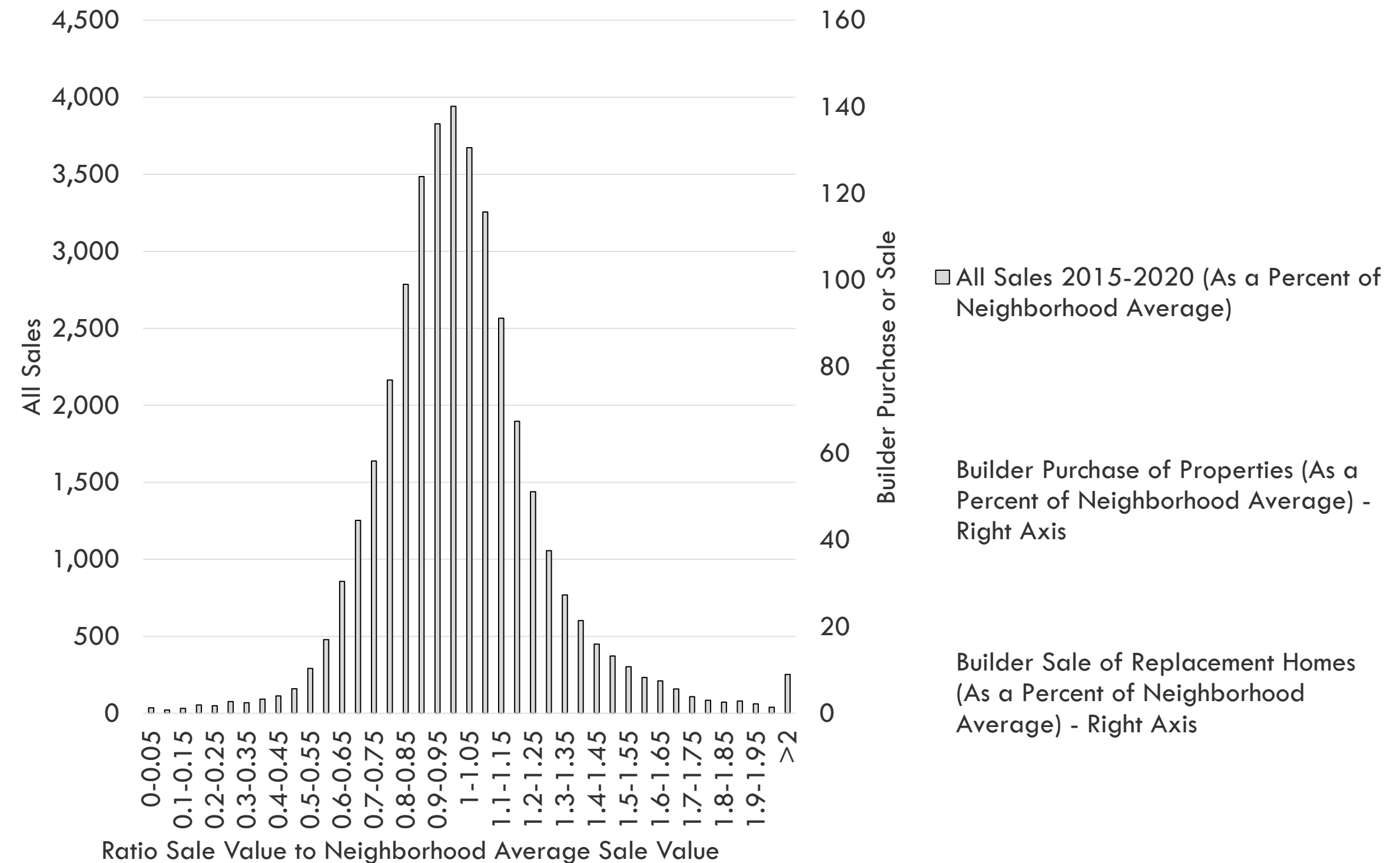
Replacement Homes: 600+ Identified Instances in Last Decade

- Sold twice within 24 months
- Second sale for double the initial value
- Not subdivided within prior 2 years (to remove builder lots)
- Had home on parcel in year 2000



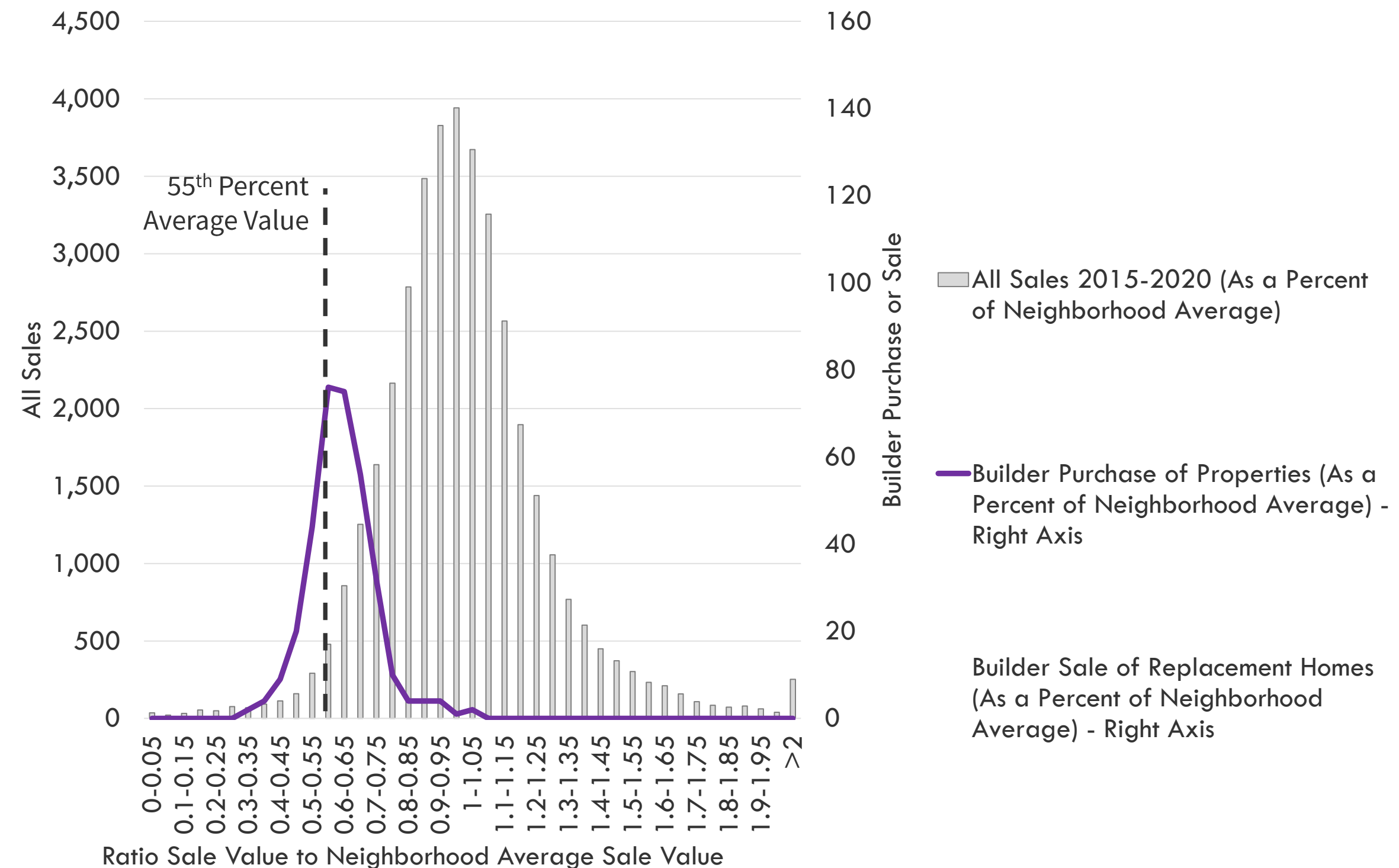
Replacement Home: Industry Approach

- Most homes in a neighborhood are about average value



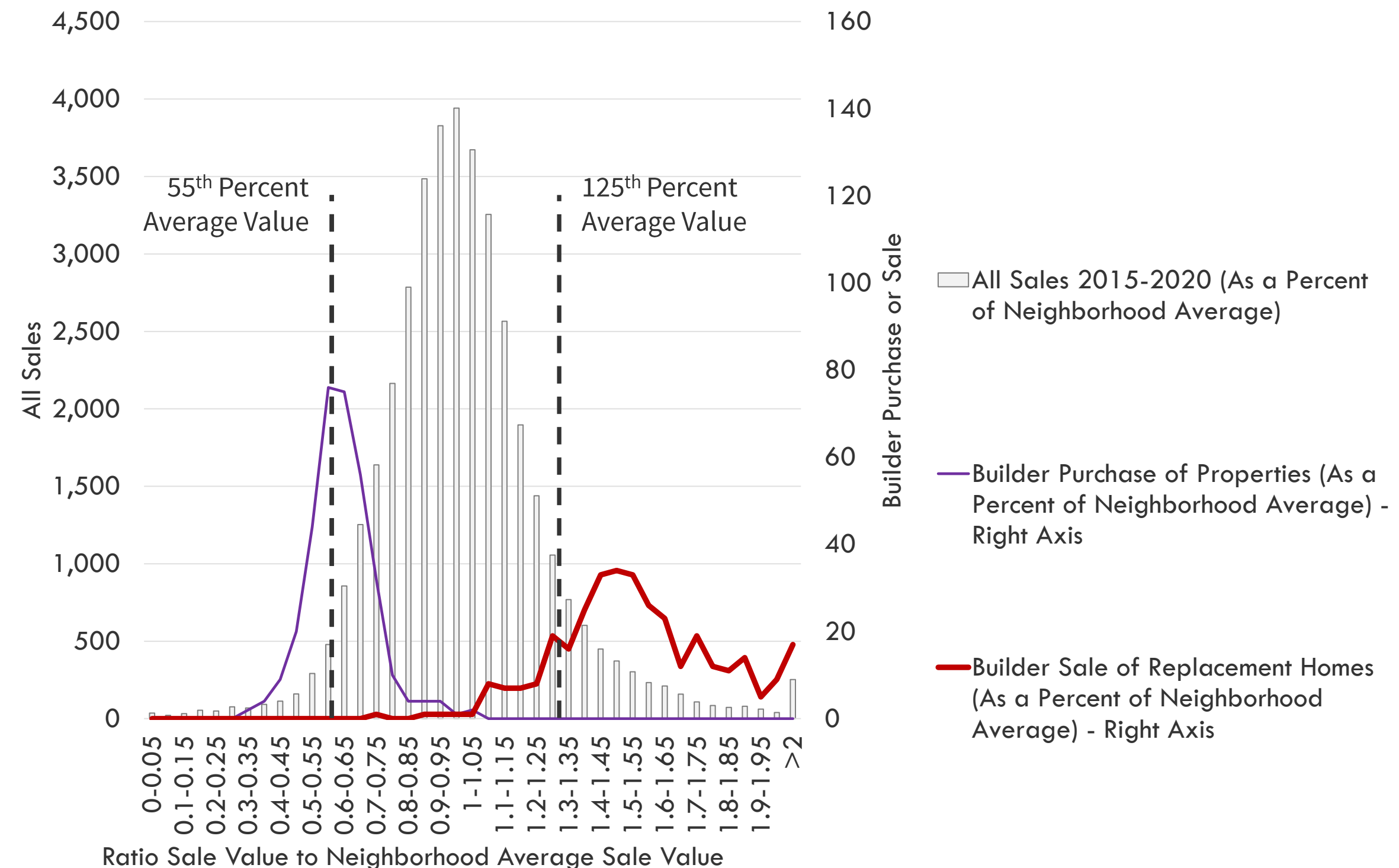
Replacement Home: Industry Approach

- Most homes in a neighborhood are about average value
- Builders target 10% of lowest cost properties that are between 30th & 70th percent of average value



Replacement Home: Industry Approach

- Most homes in a neighborhood are about average value
- Builders target 10% of lowest cost properties that are between 30th & 70th percent of average value
- and convert them into the 10% most expensive properties >125th percent of average value



Replacement Homes: Sample Neighborhood - Kensington



50

Replacement homes
built/sold from
2011-2020 in
neighborhood

\$815K

Average home sale
2011-2020

\$485K

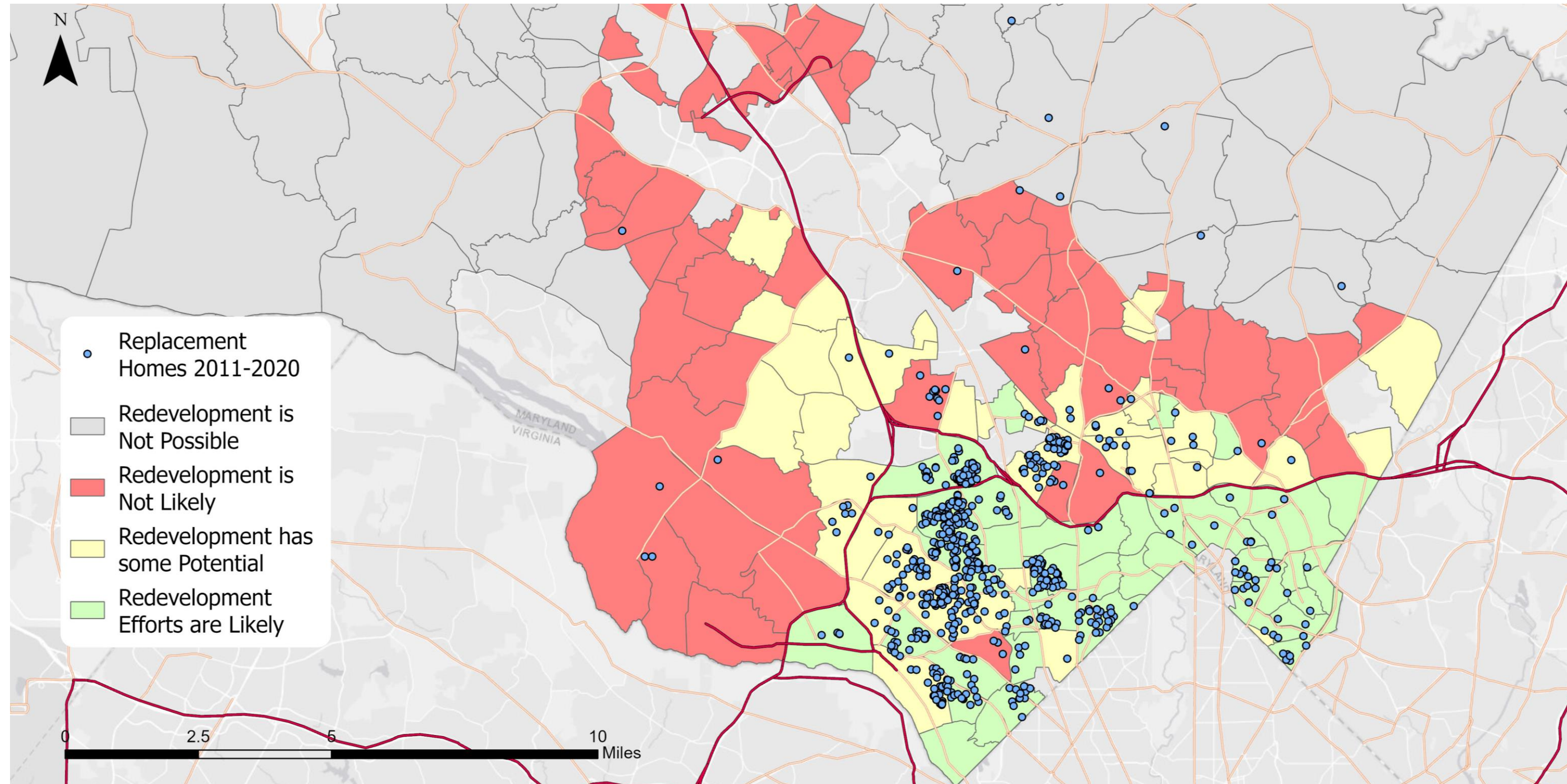
Avg. value of
properties acquired
by replacement home
builders

\$1.25M

Average sale price
of replacement
homes



Revised Model: duplex on properties at the 55th percent of average value



Results from Modelling Efforts

- In few places with high demand for single-family homes will single-family zoning reform (> units) generate much development
- There will be modest amounts of attainable housing built on the lowest cost properties that builders already target for replacement homes
- (Sightline & UC Berkeley's Turner Center published after us... they confirmed *our* findings)



Why Reform Single Family Zoning?

Immensely controversial on “the left”... and on “the right”

PROPOSED “THRIVE MONTGOMERY PLAN” AND ZONING CHANGES TO ALLOW LARGE MULTI-FAMILY BUILDINGS IN YOUR NEIGHBORHOOD WITHOUT NOTICE OR REVIEW

Windfall for Developers

Market-Rate Housing



Example of a Building with Permitted Multi-Family Units



Example of Your Neighborhood with New Multi-Family Housing Under Proposed Zoning Changes

No Design or Compatibility Standards

Insufficient On-Site Parking, Increased Street Parking



WAR ON SINGLE FAMILY HOME NEIGHBORHOODS SURFACES IN MARYLAND: MORE DENSITY, DIVERSITY



Why Reform Single Family Zoning?

Modest increase in supply

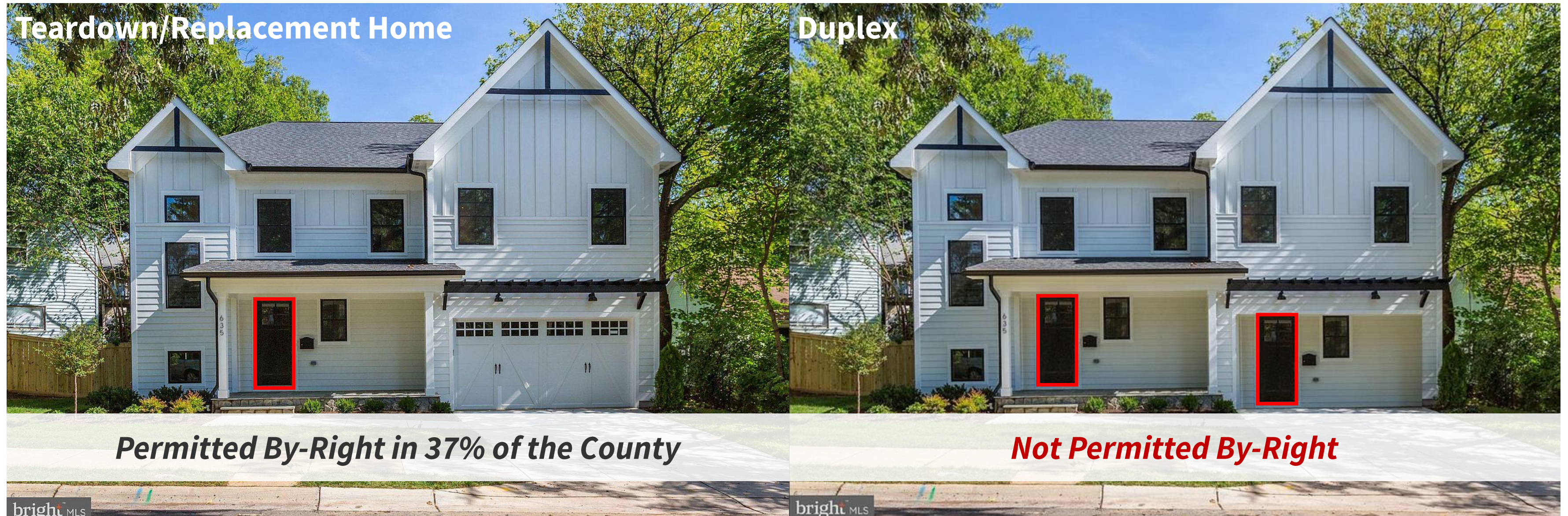
... or ... Significant upzoning



(Photo from Denver)



Why Reform Single Family Zoning?



**Even with challenges, reform is
worthwhile**

Why NOT?



Thank you!

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- <https://montgomeryplanning.org/planning/housing/attainable-housing-strategies-initiative/>

