



Brion Economics
INCORPORATED

MEMORANDUM

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Subject: Initial Assessment of San Mateo's GP Update;
BEI #2549
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Purpose

This memorandum focuses on draft General Plan background data and findings that may determine future options for the City of San Mateo's General Plan Update. Specifically, the "San Mateo Existing Conditions Report – Economics" concludes that "By 2040, San Mateo's population is projected to grow by another 28,000 people, who would require about 10,000 new housing units just to meet this population increase."¹ If this estimate is low, it could limit development opportunities and effectively reduce potential future developments' public and private benefits. In addition to the number of future units, the General Plan Update should consider the types of units, other future demographic, office and retail trends that affect the ability to achieve the City's vision for land use and community life in 2040.

¹ Strive San Mateo, General Plan 2040 Briefing Book, Housing Affordability, pg. 5.

As described below, housing development balanced against projected job growth indicates at least 15,000 units. A planning cap up to 20,000 units would provide flexibility to accommodate a range of development types and designs, and the ability to respond to future conditions. The General Plan Update process will refine the allowed number of units based on consideration of site-specific conditions, proximity to commercial and transit, community amenities and other factors.

The nature and character of the new residential development can be an asset to the City of San Mateo and help to achieve many elements of the Draft General Plan Vision Statement. A review of studies described below demonstrates that higher density housing has been found to have minimal if any impact on neighboring home values, while offering many opportunities to improve the community.

Population and Housing Forecasts

The Existing Conditions Report shows an ABAG 2040 population growth forecast of approximately 28,000 residents (Table 15) compared to 2018.² The Report indicates that these residents will generate demand for 10,000 units.³

The Existing Conditions Report, as noted above, estimates housing demand based on projections of new residents. However, the direct driver of housing demand is largely employment growth.

² The ABAG estimate reported by EPS in the Existing Conditions report is higher than the DOF/Caltrans forecasts shown at the top of Table 15, and greater than ABAG 2013 estimates obtained by BEI. The difference could be explained if EPS is utilizing revised ABAG estimates not generally available, and/or has increased the ABAG forecast for the City as suggested in the note to Table 15. BEI data from ABAG indicates a growth of about 21,500 new residents compared to the Existing Conditions Report of 28,000.

³ The Existing Conditions Report uses a factor of 2.6 persons per household to convert 28,000 residents into 10,000 units. The latter calculation suggests 2.8 persons per household; the difference could be explained by an implicit allowance for vacancy and rounding.

Job Forecasts

The Existing Conditions Report shows an ABAG 2040 jobs growth forecast of approximately 0.8% annual average rate, and assumes the City continues to capture 12% of ABAG's County job growth.⁴ The City's resulting job growth through 2040 is about 10,500 new jobs.

Woods and Poole forecast a significantly greater amount of job growth in the County compared to ABAG estimates, according to the Existing Conditions Report. The Woods and Poole forecast indicates a 1.2% annual average growth rate for the County compared to the 0.8% ABAG growth because "Woods and Poole collect data on self-employed residents as well as a portion of untaxed, informal sector jobs."⁵ The Woods and Poole estimates better represent the actual composition of the workforce and related housing demand. The number of new City jobs based on Woods and Poole grows by 19,400 through 2040 (Table 25).⁶

Table 1: Estimated Future Housing Need in the City of San Mateo

	2020	2040
Woods & Poole Projections (1)		
County Jobs	565,793	715,893
City Jobs	72,987	92,350
Ratio of City Jobs/County Jobs	12.9%	12.9%
City of San Mateo Housing Need		
Job Increase 2020-2040		19,363
Workers per Household (2)		1.32
New Households		14,669
Occupancy Rate		95%
Total New Units Needed (3)		15,441

(1) Existing Conditions Report – Economics, Table 25, pg. 34. City estimate assumes constant 12.9% share as noted in Table 25.

(2) ABAG 2040 City of San Mateo Employed Residents per total City of San Mateo households.

(3) Job growth balanced with housing production.

⁴ See the note to Existing Conditions Report Table 15 for description of City job forecast by EPS assuming 12.9% of the DOF/Caltrans County forecasted jobs through 2040.

⁵ Existing Conditions Report – Economics, pg. 32.

⁶ Existing Conditions Report – Economics, Table 25, pg. 34, Woods and Poole County forecast.

Assuming that the City captures a constant share of the demand from the higher Woods and Poole jobs forecast, the number of units forecast in the Existing Conditions Report would increase to approximately 15,000 units, compared to the Existing Conditions Report estimate of 10,000 units. This increase is generally consistent with housing demand estimates based on the higher Woods and Poole 19,400 jobs. For example, an estimate of 19,400 jobs divided by a projected factor of 1.32 employed residents per household and an occupancy factor of 95%, demand would support over 15,000 total new units.⁷

Housing Prices of New Units

The General Plan Briefing Book highlights the City's lack of affordability by comparing the \$1.7 million average price for a single-family home to the \$700,000 price affordable by a median San Mateo household.⁸

While the single-family price emphasizes affordability issues, the single-family price does not correctly reflect average prices of single-family, multifamily, resale and new, which are closer to \$1.1 million.

Given the extreme shortage of vacant land for single family uses, the excessive average prices of single-family homes, multi-family development at high densities will offer the majority of households' options for homeownership and rental units at more affordable prices than the \$1.7 million reported in the Briefing Book.

Impact of Higher Density Residential Development on Existing Housing Values

Review of new, higher density residential developments consistently indicates minimal or no impact on the value of existing residential development in a community. For example, a recent analysis found that "Research on the effects of condominiums and market-rate multi-family housing on property values is much sparser than for subsidized housing. From among those studies that do exist, however, the consensus is that condominiums and market-rate apartments have no negative effect on neighborhood property values."⁹

⁷ Providing a supply of 15,000 units would allow for an approximate 5% vacancy rate and accommodate demand for 14,200 units.

⁸ Strive San Mateo, General Plan 2040 Briefing Book, Housing Affordability, pg. 5.

⁹ "Effects of Multi-family Housing on Property Values, Crime and Code Violations in Little Rock, Arkansas" UALR Center for Public Collaboration, Dr. Michael Craw, Principal Investigator, January 19, 2017.

Many factors influence the successful integration of higher density development, as noted in various studies, including the following.

Quality and Nature of Development

The new higher-density residential development will be constructed to high standards consistent with market demand and competing property in the market area. City standards and review will assure a high level of amenities, including landscaping and open space, and sustainability measures. New tax revenues and impact fees generated by higher density residential development will contribute to maintenance and enhancement of public amenities Citywide, which in turn will support and enhance existing home values. As noted by a study of the potential effects of multifamily housing on nearby home values, “Developing more affordable and multifamily housing in a metropolitan area – in the suburbs and in the core – clearly can be done in ways that enhance proximate property values.”¹⁰

Tenant Characteristics and Tenure

Differences in income and socio-economic status of new residents of higher density residential will be minimal and unlikely to adversely affect successful integration into the City’s social fabric.

The higher density residential development anticipated in the City of San Mateo would include 10 percent of units affordable to “workforce” and middle-income households in the 70% to 120% of area median income, depending on type of units, consistent with City policy. The remainder would be market-rate. This type of higher density development would have none of the potential minimal adverse impacts described in academic studies on property values attributable to concentrations of lower income households in housing subsidized by tenant subsidies (e.g., Section 8 programs).

The tenants of new development are likely to be similar to the mix and income distribution of existing residents in the City of San Mateo, appealing to distinct groups. Higher density residential development will offer housing attractive to younger, single residents. The new housing can provide affordable and convenient options for small, young families, particular if the new development offers a range of amenities. Units may also appeal to older, empty-nester households downsizing but wishing to remain in the community. This mix and range of

¹⁰ “The Effects of Affordable and Multifamily Housing on Market Values of Nearby Homes,” George Galster, Chapter 5 in *Growth Management and Affordable Housing: Do They Conflict?* Anthony Downs, June 15, 2004, Brookings Institution Press.

households are likely to remain longer-term and contribute to the City's vitality and "social capital."¹¹

Context

The higher density residential development will be built near transit nodes, along commercial corridors, and near existing commercial development. These locations not only support the use of transit and mitigation of traffic impacts, but also will support the economic and social vibrancy of the nearby commercial shops, restaurants and businesses. Buffered from existing neighborhoods, higher density development will not impact the City's historic character, tree-lined streets and single-family neighborhoods.

Other Benefits of Increased Residential Density

The nature and character of the new residential development can be an asset to the City of San Mateo and help to achieve many elements of the Draft General Plan Vision Statement.

Housing

Development of higher density housing near transit nodes helps achieve the draft General Plan "Housing" vision by contributing to a range of housing types for all ages and abilities that are affordable to all income levels. New development would include an affordable component consistent with current City policies.

Jobs and Economy

15,000 to 20,000 new units balance projected job growth with housing development. As described above and shown in Table 1, projected housing needs driven by projected jobs could exceed 15,000 new units.

Increased residential population residing adjacent to commercial centers will support and help a variety of local businesses succeed.

Community Life

Master planned higher density housing offers opportunities to plan and to financially support community amenities such as childcare and open spaces. Increasing the "tenure" of higher density residential units by providing ownership opportunities as well as amenities that encourage longer-term residency has been shown to increase "social capital". Long-term residents, including residents of rental units, participate more in local civic activities and community life.

¹¹ Ibid, Dr. Michael Crow (2017), discusses "social capital" which depends more on tenure than type of housing (rental vs. for sale). He demonstrates that social capital attributable to tenure and residents' investments in a community can help reduce impacts on crime and increase civic involvement.

Parks and Public Spaces

In addition to parks and public spaces provided by master planned development, significant impacts fees can help to fund new parks, open space and recreation facilities citywide. Increased property taxes and other revenues will improve the ability of the City to maintain its facilities and infrastructure.

Sustainability

Master planned higher density housing can better support financially a range of innovative sustainability measures including reducing greenhouse gas emissions, mitigating and adapting to the effects of climate change, and building community resiliency.