

# The Elephant In the Room

## A Case Study of Marin County's Housing Crisis

### Current Situation

#### **I. Land Information**

The total land size is 4.9 acres which is equivalent to 213,444 square feet. In Novato, you are only allowed to build on 40% of the land, as 60% is required to be kept as "open space." So, we have 85,377.60 square feet of land that can legally be developed on. The remaining 128,066.40 square feet must be kept as open space. Using the listing on Loopnet, we can see that the land cost is \$1,300,000.

#### **II. Income**

##### **Building Specifications:**

The building will be three stories high and will occupy all of the land that we can legally develop on. Unit Breakdown:

153 One Bedroom Apartments (700 square feet)	\$2000/month
153 Two Bedroom Apartments (1100 square feet)	\$2400/month

The total square footage of the building will be 252,450 square feet.

##### **Income:**

Monthly Income:	\$673,200	
Annual Income:	\$8,078,400	
Operating Expense:	\$2,423,520	(assumed 40%)
Net Annual Income:	\$5,654,880	

#### **III. Construction Cost**

The average cost of construction in Novato is \$320 per square foot. The total construction cost of the building will be **\$80,784,000**. This puts the average construction cost for only **one** unit in Novato at **\$572,936!**

#### **IV. Taxes**

These taxes were tabulated using the tax rates that the current owners have been paying on this property over the last three years. It is assumed that neither the value of the land nor the tax rates will appreciate over the period of the investment (7 years).

##### **One-Time Fees:** Transfer Tax (also referred to as sales tax)

State Sales Tax:	\$2,730	(\$1.10 per thousand dollars)
County Sales Tax:	\$1,365	(\$0.55 per thousand dollars)
City Sales Tax:	\$1,365	(\$0.55 per thousand dollars)

**Annual:** Based on a land value of **\$2,481,879** and a business property value of **\$81,216,000**.

Property Tax:	\$966,339	(per year)
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This corresponds to a Real Estate Tax Percentage of 1.16%. To put this into context, California's average Real Estate Tax Percentage is only 0.79%.

## **V. The Cost of Bureaucracy**

One immense cost that is commonly overlooked when discussing the housing crisis is the cost of local government. Rather than working with the local businesses to ensure that they can operate as efficiently as possible, the process of government has become unnecessarily complicated. In order to develop the building, the developer will have to pay \$6,279,642 in fees demanded by local government (details and a full breakdown of all Novato government fees can be found in Appendix A-5).

## **VI. Economic Viability**

In order for any development to be worthwhile, it must be economically feasible. After consulting with developers and real estate investment companies, we have determined that a reasonable cap rate for an investor is around 10%. This means that an investor will receive back 10% of their initial investment on an annual basis. For example, if you were to invest \$100,000, you would make \$10,000 back each year.

Over a period of 7 years (average time for an investment), the owner of this property will pay \$6,764,379, driving the cost of the property up to \$93,833,482! With a net annual income of \$5,654,880, the cap rate is only **6.0%**. This is all assuming that there are no complications in this long process.

## **Crafting a Solution**

### **I. Reassessing Local Fees**

One of the biggest disincentives to building is the unnecessarily complex local process that developers must endure. By eliminating all of these local fees and drastically streamlining the process, developers have more of an economic incentive to build more housing. Upon eliminating or reducing government fees, the cap rate jumps to **6.4%**. However, this still isn't as high as most developers would like.

### **II. Temporary Moratorium on Real Estate Taxes**

Westchester County, a wealthy enclave to the north of New York, was in a similar situation to Marin County in the 1960's with a severe shortage of housing and little to no new developments. However, the mayor at the time implemented a 10 year real estate tax moratorium, where no property tax or sales tax was paid on real estate. Within a few years, the county had completely overcome its housing crisis. Marin County, if it could similarly implement a moratorium on real estate taxes, can lift a burden of \$6,799,409 from potential developer's pockets in this case study. Doing so would shoot the cap rate to **7.0%**.

### **III. The Role of Government in Addressing the Housing Crisis**

In order to incentivise developers to invest in real estate in Marin County, there must be cooperation from the government. In order to reach a cap rate of **10%** and bring more housing to the county, the government must also pass regulation that reduces the construction cost from **\$320** a square foot down to **\$225** a square foot. This can be done through:

- a. Direct covering of construction costs.
- b. Changing conditions in SB 35 to temporarily removing prevailing wage condition, allowing more people to work on construction (not only those that are part of a union).

## Appendix A-1: Land Information

Lot Size (acres)	4.9	
Lot Size (sq. ft.)	213,444	
Maximum Buildable Land (sq. ft.)	85,377.60	As per the Novato Code of Ordinances, can only build on 40% of lot
Required "Open Space" (sq. ft.)	128,066.40	60% required as per Novato Code of Ordinances
Land Cost (dollars.)	\$1,300,000	

## Appendix A-2: Rent Roll

	One Bedroom Apartments	Two Bedroom Apartments	Total
Size (sq. ft.)	750	900	
Number of Units(1 story)	51	51	102
Number of Units(2 story)	102	102	204
Number of Units(3 story)	153	153	306
Rent Collected(per Unit)*	\$2,000	\$2,400	
Monthly Income*	\$306,000	\$367,200	\$673,200
Annual Income*	\$3,672,000	\$4,406,400	\$8,078,400
Operating Expense*	30% Operating Income		\$2,423,520
Net Annual Income*			\$5,654,880

\* based on three story building

## Appendix A-3: Construction Costs

Total square footage of Building	252,450
Expected Time Construction	
Labor Cost	
Cost of Materials	
Cost Per Square Foot (dollars)	\$320
Total Construction Cost of Building	\$80,784,000
Average Construction Cost Per Unit	\$264,000

## Appendix A-4: Taxes

Land Value	\$2,481,879
Business Property Value	\$56,801,250
Total Value	\$59,283,129

One Time Taxes					
	Federal	State	County	City	Total
Sales/Transfer tax:		\$2,730	\$1,365	\$1,365	\$5,460

Annual Taxes	
Property Tax	

Tax Levy	Name	Rate/Fund	Value	
0	Basic Tax	0.01	\$592,831.29	
1	School Bonds	0.001422	\$84,300.61	
1	City Bonds	0.000162	\$9,603.87	
3	MS Mosquito #1	105110	\$12.00	need to contact
3	Novato Schools	107651	\$251.00	need to contact
3	Novato-Runoff Charge	109159	\$200.00	need to contact
3	CO Library Spec Tax	101160	\$51.96	need to contact
3	FCZ #1-Novato	102587	\$36.00	need to contact
3	Library Zone #2	109283	\$36.00	need to contact
3	Marin Emergency Radio	109283	\$1,189.00	need to contact
3	S.F. Bay Restoration Authority	109290	\$12.00	need to contact
Total Property Tax			\$688,524	
Real Estate Tax Percentage:		1.161415968		

## Appendix A-5: Novato Fees

Planning Division			
Cost Based Fees*		Flat Fees	
Annexation Issues of Waiver of Dual Annexation Policy	\$8,134.00	Certificate of Compliance	\$2,256.00
Archaeological Investigation Permit	\$2,192.00	Home Occupation Permit	\$77.00
Design Review Fees	\$5,526.00	Pre-Application Assistance Fee	\$970.00
General Plan Amendment	\$8,775.00	Zoning Clearance	\$1,354.00
Environmental Impact Report	\$9,543.00	Zoning Inquiry Letter	\$450.00
Master Plan Amendment	\$15,230.00		
Precise Development Plan	\$6,576.00		
Rezoning	\$6,518.00		
Tentative Map	\$4,280.00		
Tree Removal - 6 or more trees	\$862.50		
Variance	\$2,154.00		
Zoning Code Interpretation	\$225.00		

Building Division		
Application Review	\$5,000.00	For a residential property valued more than 1,000,000
Plumbing/Mechanical/Electrical Permits	\$8,835.75	\$0.035per square foot
Engineering Site Inspection	\$100.00	
Planning Site Inspection	\$100.00	additional inspections may be required
Reinspecions	\$148.00	\$74.00 per reinspection:
Investigation Fee		work commenced without first obtaining permit will be 3X greater
Planning Plan Check Fee	\$39.00	

Engineering Plan Check Fee	\$38.00	
Building plan Check Fee	\$20.00	
Title 24 Compliance Energy Fee	\$3,458.94	25% of Building Permit Fees
Novato Housing and Building Codes Appeals Board Hearing Fee	\$100.00	
City Council Code Appeals Filing Fee	\$100.00	
Seismic Tax	\$5,680.13	10 cents per thousand dollars of construction cost
Green Building Standards Fee		\$1 per 25,000 permit fees
Parking Dedication Fee	\$1,530,000.00	
Residential Development Tax	\$79,270.00	Five Bedrooms- 1240 + 170/ bedroom
Multiple Unit Inspection Fees	3541	\$230 + \$11/additional unit over 5

Public Works Department / Engineering Division		
<b>Cost Based Fees* (Minimum Deposits)</b>		
Abandonments & Property Disposal	\$1,436	
Certificate of Compliance	\$792	
Certificate of Correction	\$2,223	
Consultant Services	\$300	
<b>Development Flat Fees</b>		
Parcel Map Waiver Map Check	\$756	
Tentative Map	\$19,970	
Vesting Tentative Map	\$22,650	
Planning Commission Meetings		\$1604.00/meeting (2 free)
Final Map	\$17,392	
City Council Meeting		\$3842.00/meeting (2 free)
Standard Subdivision Improvement Agreement	\$5,709	
Development Agreements	\$4,126	
Design Review	\$1,680	
Design Review Meetings		\$690.00/meeting (2 free)
<b>Flat Fees - based on engineer's estimate</b>		
Encroachment Permit		
Encroachment Public Works Inspection		
<b>Miscellaneous and Annual Flat Fees</b>		
Release of Lien and Recordation	\$749	\$107/year
Utility Company Annual Encroachment Permit	\$19,390	\$2770.00/year
<b>Impact Fees</b>	\$4,468,518	\$14603.00/unit
<b>Total Novato Fees</b>	<b>\$6,277,244</b>	

## Appendix A-6: Investment Viabilities

Investment Viability- assuming ideal world: with Novato fees	
Desired Cap Rate	10%
Duration of Investment(years)	7
Total Property Tax (over 7 yrs)	\$6,764,379
Total Cost	\$93,833,482
Net Annual Income	\$5,654,880
Actual Cap Rate	6.0%

Investment Viability- assuming ideal world: no Novato fees	
Desired Cap Rate	10%
Duration of Investment(years)	7
Total Property Tax (over 7 yrs)	\$6,769,839
Total Cost	\$88,859,300
Net Annual Income	\$5,654,880
Actual Cap Rate	6.4%

Investment Viability- assuming ideal world: no Novato fees and no taxes	
Desired Cap Rate	10%
Duration of Investment(years)	7
Total Property Tax (over 7 yrs)	0
Total Cost	\$80,784,000
Net Annual Income	\$5,654,880
Actual Cap Rate	7.0%

Investment Viability- assuming ideal world: no Novato fees and no taxes with government cooperation	
Desired Cap Rate	10%
Duration of Investment(years)	7
Total Property Tax (over 7 yrs)	0
Total Cost	\$56,801,250
Net Annual Income	\$5,654,880
Actual Cap Rate	10.0%