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SMALL LOT TOWNHOME

The California Housing Crisis



LIKE COUNTLESS OTHERS, I MOVED TO CALIFORNIA for the weather and for the ocean. But as an investor, I was drawn to the investment opportunities – particularly the return profile on small lot housing as a solution to product shortage. California is facing a serious housing crisis with an existing shortage of over 600,000 residences.

To further illustrate the gravity of this situation, we are seeing that there would need to be roughly 100,000 units each year built in Los Angeles for nearly a decade in order to catch up to existing demand. The gap as it stands will only continue to expand unless more product is introduced to the market, particularly in high demand infill markets near desirable coastal zones and around pockets of industry.

Why is There a Shortage?

» INCREASING POPULATION

With a 50,000 person increase in L.A. County alone in 2015, coastal regions and pockets of industry are among the areas with large quantities of newly arrived residents. Not only are these regions desirable for their eco-diversity and proximity to some of the best beaches in the country, but also home to new and expanding industry epicenters such as the newly dubbed “Silicon Beach” of West Los Angeles. And while usual suspects like San

Francisco are thought to have the highest shortages, the city has actually increased its available housing inventory by 12.3 percent in comparison to Greater Los Angeles, which grew by only 8.6 percent.

“Not only are there fewer homes available to buyers of all income levels, those just starting out or making their first foray into home ownership are worse off than they’ve been in years.” - TRULIA

» ENVIRONMENTAL CONSTRAINTS

Factors that play a role in this shortage of affordable inventory are both expected constraints and products of social economic change. For one, California is earthquake country. Therefore not only are there restrictions on where we can build but also on how high we can build in zones above fault lines or in areas at risk of liquefaction, for example, the majority of

Los Angeles County which rests on top of sediment basins. This dramatically limits the ability to increase density from zoning changes.

» NIMBY (NOT IN MY BACKYARD)

For many long time residents, the idea of increasing density in their neighborhoods signifies a change they are unwilling to embrace. Fights against public transit and new housing in certain areas have been a long time battle for many residents eager to maintain cities the way they know them. Many cite local bureaucracy, rather than zoning. For this reason, many new policies have been implemented as mandates to build new housing, such as the amended 2005 Small Lot Ordinance.

» HOUSING PRICES ARE TOO HIGH

Even while many home buyers have returned or look to enter to the market, the majority are still unable to afford the capital intensive inventory available to them – many of which require high costs to renovate and maintain. The median price of a single family home in Los Angeles is \$600,000. In the core infill areas and especially in the coastal zone areas, that price is significantly higher. For example, in Venice Beach CA, the median price is \$1,687,000. Add to this plight the reality that entry level single family homes are usually in “tear down” condition, or ones that would require a tremendous amount of time, capex and elbow grease to make that a sufficiently attractive option creates a bigger challenge. There are simply not enough new units being built, therefore making it nearly impossible for first time buyers to break into the market.

The shortage also causes increases in general cost of living. A dollar buys less in California than in almost any other state, and housing costs are a major reason.



» LOWERED INTEREST RATES AND A RECOVERING ECONOMY

First time home buyers are finally returning to the market, encouraged by lower interest rates and the 2014 bounce back from the 2008 housing collapse that halted nearly all development. Unfortunately, these lower interest rates and favorable economic climate is not enough to solve the problem. There are still not enough units for the new generation of home buyers.

The Solution - An Investment Opportunity

» SMALL LOT HOUSING ORDINANCES

Given the tremendous need outlined in this report, there is a great investment opportunity. In 2005 Los Angeles passed the ordinance, which allows someone to build multiple single family, fee simple homes, on a single lot that fits within certain building zones/codes and lot sizes. The idea was to help 1st time homebuyers with a “relatively” affordable single family home ownership options.

» SMALL LOT DEVELOPMENTS INCREASE HOMEOWNERSHIP AT REDUCED COSTS

Small lot developments are fee-simple units that increase homeownership opportunities while working within existing land use designations. Because these units are fee-simple, homeowners acquire ownership of the housing structure, as well as the land on which it's built. When the amount of land needed for housing construction is decreased, the savings in land costs can be passed on to the homebuyer.

» SMALL LOT DEVELOPMENTS INCREASE HOUSING PRODUCTION

Although small lot developments do not technically increase zoning density, they are usually built on underutilized lots, thereby increasing the number of units made available to the public.

» SMALL HOUSING DEVELOPMENTS ARE NOT SUBJECT TO MONTHLY HOMEOWNERS ASSOCIATION (HOA) FEES

HOAs are corporations with formal bylaws created to maintain common areas within a certain development. Members are charged monthly fees ranging from \$250 to \$750 (depending on the area) to cover the cost of property management. Small lot developments are constructed without



common walls or foundations and therefore do not require HOAs. Small lot developments are easier to finance than condominium projects. New housing development in Los Angeles has come to a standstill. Stringent lending practices and insurance liabilities have made condominium projects (which are usually targeted to median-income residents) nonexistent. An increase in construction defect litigation has forced condominium HOAs to require additional insurance that can cost more than \$20,000 a unit. Because small lot developments do not require HOAs, they do not face mandatory additional insurance costs, which makes obtaining bank financing easier.

» PRICE-ATTAINABLE HOUSING

Small Lots provide an affordable alternative for working families seeking the benefits of home ownership. Unlike townhomes or condos, small lots occupy unique plots of land, meaning no shared walls and easier financing for both home builders and home buyers. Additionally, owners are able to save considerable amounts on otherwise high homeowner fees. These benefits are critical, particularly as home ownership opportunities become less available throughout many Los Angeles neighborhoods.

NEW HOMES FOR THE MODERN BUYER

BREAKFORM | RE through its fully integrated real estate investment, design & build practice has been focused on the core Coastal California markets and in providing residential investment opportunities which take advantage of this Housing Crisis. We see this opportunity and not only work with investors to identify prime opportunities for private investment but also through our design and construction capabilities that provide site specific, modern, and affordable turnkey housing to residents looking for property to buy in a recovering economy.

Our work is eco-friendly, architecturally designed, and expertly acquired. Our ability to provide such comprehensive value to our clients and investors is unparalleled and increasingly valuable in a market where developers who design and construct face an increasingly transparent and design savvy customer. **FOR THOSE EAGER TO LEARN MORE ABOUT WHERE WE ARE INVESTING AND HOW YOU MAY INVEST WITH US, FEEL FREE TO CONTACT US AT INFO@BREAKFORMRE.COM.**

