

MIDDLE HOUSING ZONING CHANGES AND RHNA

Jurisdictions considering potential zoning changes to encourage middle housing in areas currently zoned only or predominantly for single family homes want to understand how to quantify the potential contribution of those changes toward meeting their Regional Housing Needs Allocation, or RHNA: including the market-feasible capacity as well as actual number of units that might be created (overall and by income category). This memo provides guidance on how to approach that analysis.

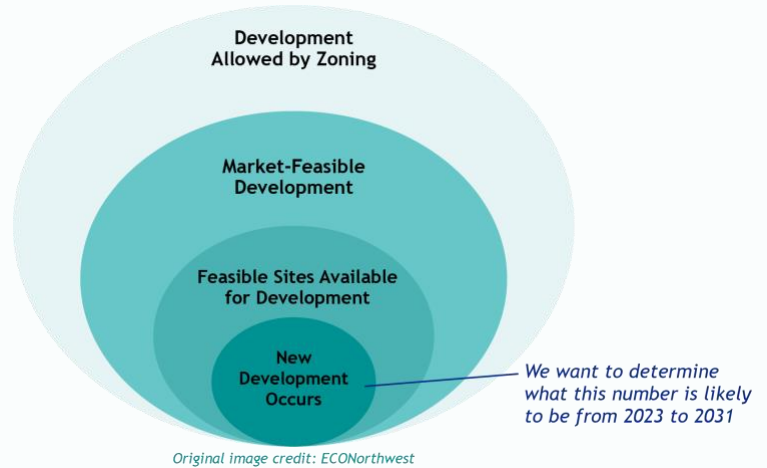
Seven Key Points

Before jumping into the methodological details, here are some important things to keep front of mind:

- 1 Capacity and production are not the same thing.** Your zoning change may create capacity for additional housing, but that doesn't mean people will act on it. The economic value of redeveloping needs to be higher than the economic value of keeping, improving or expanding the single family home already on the property. Understanding the market-feasible capacity of your rezoning is key.
- 2 Market activity from rezoning may be small over the planning period.** Even if there is an economic reason to redevelop a single family home, many homeowners will not act on it. They are happy with where they are living and not looking to make a change. While some homeowners may undertake smaller changes like adding an ADU, redevelopment with middle housing is most likely to occur when a property changes owners. Since only a small fraction of homes come on the market in a given year, this will moderate how many properties may redevelop.
- 3 SB9 may actually encourage more single family homes rather than more duplexes.** This will not be the case in every situation, but depending on lot size and local market conditions, the most economically attractive option may be to split a lot and build a second detached single family home. This should be factored into the analysis.
- 4 Creating new units affordable to low and moderate income households will be challenging.** This will vary based on local market conditions (property and home prices, market rents, etc.) as well as local policies and programs that may incentivize more affordable units, but generally speaking market forces will gravitate toward the housing types with the highest returns, which will tend to serve above moderate income households.
- 5 The details matter.** How development standards are structured will impact market feasibility. Things like parking ratios, site requirements and height limits will affect both physical and economic feasibility. So will development review requirements, fees and timelines (such as requiring a conditional use permit and lengthy, uncertain discretionary review). See the [Zoning for Middle Housing Guidebook](#) for guidance.
- 6 HCD's expectations for your analysis may vary.** If relying on a middle housing rezoning to achieve a high percentage of your RHNA, or if analysis assumptions seem overly optimistic, there will likely be greater scrutiny and requests for additional evidence to justify the numbers being claimed.
- 7 Rezoning to create more diverse housing types and greater affordability in existing neighborhoods should focus on long-term benefit.** While producing units in the coming eight years may or may not help meet RHNA 6, the primary driver for rezoning should be the vision and values for your community into the future. *Just because the RHNA numbers produced by the analysis are low does not mean middle housing isn't worth pursuing.*

How to Analyze Middle Housing Rezoning Toward Meeting Your RHNA

The graphic to the right illustrates the overall methodology for determining how a proposed middle housing rezoning might contribute toward meeting RHNA. The approach focuses on identifying a subset of properties where middle housing realistically could happen based on a combination of physical site conditions and financial factors and then making reasonable estimates of how many of those sites could realistically see development within the planning period. The following describes and provides guidance on how to undertake each step in the analysis to get to a realistic estimate of that number.



STEP 1

Determine Development Allowed by Zoning

This is the physical zoned capacity for the affected properties. While you might want to start with the theoretical zoned capacity (for example a sixplex will now be allowed on every single family property, in which case the theoretical capacity is “number of single family properties multiplied by six”) the analysis should focus on the actual physical zoning capacity based on sizes of the affected properties, development standards (what can actually fit when all the standards are taken into consideration), and potential constraints.

QUESTIONS TO ASK

- *Can the middle housing types you intend actually be built on the affected properties?*
- *Are some properties too constrained for any development or redevelopment due to other factors (stream setbacks, wildfire zones, historic districts, etc.)?*

This step requires careful attention to specific standards and how they cumulatively impact development. While most middle housing should be house-scaled (with the exception of Upper Middle Housing) and therefore have similar development constraints as a single family home, any standards that increase based on the number of units need to be carefully analyzed. This analysis may lead to rethinking the proposed standards, or removing some properties from further analysis of development capacity.

HOW?

- Use the [Middle Housing Feasibility Tool](#) to explore and understand the potential impact on physical feasibility based on core standards for different middle housing types.
- Conduct site-specific testing to substantiate that middle housing prototypes can be physically achieved on the affected properties based on proposed zoning standards.

STEP 2

Determine the Total Market-Feasible Capacity

This step in the analysis considers whether the affected properties will support middle housing development that is not only physically feasible but also market-feasible.

QUESTIONS TO ASK

- *Do the economics work? Do the potential financial returns from sale or rent of a middle housing development greater than the cost of purchasing the site and building the units?*
- *Is it financially attractive to undertake middle housing development compared to other options-most notably the option of remodeling the existing home or redeveloping it as a larger single family home?*

Depending on local market conditions, this step in the analysis may take many properties off-the-table of sites likely to redevelop as middle housing due to the high value associated with single family homes. If a single family home-as it currently exists or based on remodeling, expanding or rebuilding-has a higher economic value than redevelopment as a duplex, fee-simple townhome or other middle housing type, it is unrealistic to expect that it will redevelop within the eight-year planning period (or ever, until underlying conditions shift). In fact, in some circumstances, jurisdictions are seeing older duplexes, triplexes and other middle housing types demolished in favor of high-end single family homes due to their higher market feasibility. This step in the analysis may lead you to consider changes in development standards or requirements for middle housing and/or single family housing in order to increase relative market feasibility (e.g., allowing higher FAR for multi-unit buildings, or requiring a conditional use permit for single family home developments but not middle housing).

HOW?

- Use the [Middle Housing Feasibility Tool](#) to understand the potential impact on financial feasibility based on core standards for different middle housing types as well as local rent, sales prices and property values.
- Conduct pro-forma analyses on a sampling of sites to test performance of middle housing prototypes in relation to single family home options.
- Undertake economic modeling of the proposed rezoning to test and demonstrate market-feasible capacity.

STEP 3

Determine the share of feasible sites that may become available for development

The previous two steps helped to narrow down the number of rezoned sites on which the middle housing types being proposed are both physically feasible and economically attractive. But how many of them are likely to actually redevelop?

QUESTIONS TO ASK

- *Are there local market conditions or trends that point to a likely rate of property turn-over and redevelopment to middle housing?*
- *Do you have evidence from local developers or property owners expressing interest in pursuing middle housing development?*

The likelihood that any property is going to redevelop is subject to many factors, some of which are difficult to analyze or model: individual decisions by homeowners, developer interests and priorities, demand from buyers and renters, etc. For this step in the analysis you will want to gather whatever evidence is available to arrive at a reasonable assumption regarding the number of market-feasible sites you might anticipate becoming available for development *and* choosing to redevelop as middle housing.

HOW?

- Use local market data to quantify the percentage of single family properties that turn-over in a given year. To the extent possible, determine if that percentage might be higher or lower in the area(s) you are analyzing (e.g., is there a major investment or change in the area that might prompt more property owners to sell, or create an uptick in developer interest?).
- Look at any nearby examples of similar rezonings in the past ten years, even if in adjacent or nearby jurisdictions, to quantify a potential rate-of-change that might be expected.

STEP 4

Determine Potential Development, by Income Category, for 2023-2031

Based on what you learned in Steps 1, 2 and 3, establish realistic development projections for the eight-year planning period, starting in 2023.

QUESTIONS TO ASK

- *In what year will the rezoning be in effect?*
- *Are there any incentives being provided (or that you could provide) to encourage redevelopment within the planning period?*
- *Are there policies or programs you could adopt to encourage more affordable middle housing development?*

Now you are ready to develop the actual RHNA projection, drawing on information from the analysis of physical feasibility, market feasibility and expected rate of redevelopment. If the rezoning is introducing a new concept, or analysis results showed a positive but not strong advantage for market-feasible middle housing, it may make sense to assume a slow up-take during the initial years after rezoning. If there are strong indications of developer or property owner interest, or an impending change that might spur greater activity, it may make sense to assume a higher rate of up-take.

HOW?

- Use available evidence to establish a realistic rate of development over the eight-year planning period, broken out by middle housing type as relevant.
- Use the estimated market rents or sales prices that informed the analysis of financial feasibility (and any incentives being provided) to determine what percentage of projected development is likely to be affordable at each income level.