

Development Plan for a Multi-Family Residential Building in San Luis Obispo

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Real estate development is often regarded as a daunting effort that requires a large sum of time and money. However, a greater supply of multi-family housing will protect cities from this homelessness, lack of availability to education, along with poor mental and physical health conditions. This paper addresses methods in which any new developer can efficiently approach developing small-scale, multi-family housing in San Luis Obispo and see overall profitability. The initial research set forth provides interested parties with a generalized basis of the analysis of value, design considerations, and methods of savings involved in development. The research is then directly applied to a currently vacant, city-owned piece of land in San Luis Obispo which lays out each of the necessary components of development such as the feasibility study, creating a conceptual design for the structure, acquiring necessary approvals and permits, as well as the cost and profit analysis. The case study application identifies the best practices in multi-family development so that the developer can methodically approach their cooperation with the city in supplying affordable housing, while still seeing great return on their investment.

Key Words: Real Estate development, multi-family, property value, building ordinances, city planning

Introduction

Real estate often serves as a great investment which generates a source of income for many individuals in America. Investors can generate a great amount of revenue when they choose to involve themselves in the development of a vacant property in order to suit the local demand. As Benedikt Hartl states in his publication addressing cost efficient strategies in building, “property serves as a capital investment where investors can maximize their profits” (Hartl, 2018, p.029). In understanding that developers assert their full control in the future profitability of a project, it is important that they learn the cost influences within the local market that they wish to develop in. Multi-family residential development in San Luis Obispo is anticipated to secure a great turn around if the pre-development stages are fully acknowledged, ensuring the developer has a deep understanding of methods in which they can achieve maximum profitability. By adhering to specific practices in the initial research of a piece of property before the purchase and development stages, the property should suit the developer well in serving the intended purpose, establishing its use as a capital investment.

Prospective Property Investigation

Before involving oneself in the purchase of land for the purpose of developing residentially, it is essential that the developer completes their due diligence in performing extensive studies regarding the location of the property and its geographic features. These attributes of the property will be taken into account when assessing its present value and future value. These beginning stages of the land development process will include market analysis of the location, land prospecting, economic feasibility, as well as generating a preliminary design. This should all be completed before the initial land purchase. By completing this research, the developer will generate a finer understanding of how they can ensure maximum profitability and overall efficiency.

Concept and Feasibility Study

The concept and feasibility study assists the developer in determining the value of the property undergoing investigation as well as possible building opportunities. The developer must identify their purpose for wanting to purchase the land, each factor that contributes to the overall current value of the property, as well as the potential future value and opportunities for the property. Costs to develop are multifaceted, meaning there is no single factor that can explain the cost of developing housing or the overall value of a property. With that said, each component can be categorized into a social, economic, or an environmental element that is considered when determining the overall value. Each of these influences will allow the developer to gauge the overall feasibility of developing residentially on the prospective property and how much they can profit from the conceptual development.

Social Influences on Value

The social influences are often forgone when determining a given property's overall value. Developers must consider social aspects in the region surrounding the property in order to finalize the current, as well as the possible future value of the property. This includes population trends and characteristics, impacts of community and neighborhood organizations or any local establishments which may drive in a specific group of people, as well as the prominent local demand. Developers should involve themselves in a thorough study that identifies characteristics which might draw in a particular group of buyers. This will allow the developer to then adhere to the driving demands when designing their development and establish a practical targeted consumer group.

Economic Influences on Value

The local economy and availability of resources within a given region will largely affect the overall value of a property. The average income of residents within an area will provide the developer with purchase power demographics which will influence what kind of development will be affordable and suit the needs of the population. It is important to acknowledge the government entity which has jurisdiction over the property as it will define what kinds of economic services are provided by the government, along with any tax influences. The availability of financing options will also encourage the property's ability to sell. However, if it is in the developer's interest to lease this space rather than to sell, then this factor will not have as much influence on the overall future value since the rent price will adjust accordingly with the market and financing is not an option for tenants.

Environmental (Physical and Geographic) Influences on Value

The most straightforward influence on a property's value would have to be the actual environment itself. The physical conditions of the environment, the identification of the use of the property as defined by local ordinances, as well as the location in relation to community resources and involvement all have an incredible impact on the value of a property as these factors are easily identifiable by the targeted tenants or buyers. Access to public transit, goods and services, and recreational activities all drive up the price of a property as residents of lower income housing typically value these aspects within a community and require great use of these resources. Along with this, the prospective developer should consider locational hazards or disturbances that reduce the value of the residence and address whether or not it will be a concern for the targeted consumer group. Hazards and disturbances might include nearby industrial facilities, airports or interstate highway systems, and powerlines or transmission lines which cross the property. Distinguishable environmental factors such as those listed will typically alter the value more extensively than the other influences as they are easily observed by consumers. Environmental conditions also limit the opportunities for development, so it becomes even more of a consideration for developers. The zoning ordinances put in place on a particular piece of land will have a major impact on whether or not a developer would want to purchase it due to the use of the building that they have chosen prior to investing. Restrictions such as the maximum lot coverage, units per acre, population density, minimum setback requirements, maximum building heights, etc. prohibit developers from having liberty to build however they would like and ultimately impact the value of the property.

Existing Conditions. As long as access is granted, developers have the duty to document all conditions of the property that they can before making the purchase. This includes understanding site constraints or opportunities as provided by the jurisdiction with authority and studying any former uses. This can reveal what actions can or cannot take place, as well as uncover opportunities for potential savings due to existing encroachments from neighboring properties, easements or covenants as well as any underground utilities. The developer should have a basic understanding of whether or not there are utilities accessible to serve the property or if they need to be relocated or extended as this will influence the cost to develop. They should also study the geological topography of the property and identify any slopes, low areas, floodplains, wetlands, high points and ridgelines, landforms or unique features, drainage, etc. (Asmus, 2013). The components within the land topography will largely factor into whether or not excessive grading is necessary to ensure proper stormwater outfalls and adequate grounds for the desired land use. The condition of the soil is also crucial in determining what kind of state the property is in to authorize construction as the water table level, possible erosion, and durability of the land will heavily influence the cost of development.

American Land Title Association Survey. If the developer has the capacity to authorize an American Land Title Association (ALTA) survey on the property, they should do so promptly in order to gather accurate information about the land as it will influence the overall value. According to *American National*, “[a]ny time you are considering buying or selling commercial real estate, it is important to conduct due diligence throughout the entire process, ensuring that there are no undocumented aspects of said property that will impact the use or value of the property later on” (ALTA, 2015). This survey will identify the correct boundaries, any observed easement, as well as any easements and exceptions cited in the title commitment, and other significant observations about the property including improvements, utilities and public access, zoning specifics, flood hazard cautions, topography and parking configurations. Having this information will provide the lender and the buyer with an opportunity to evaluate the property and understand any potential benefits or risks of owning it

Conceptual Design Considerations

Developing a conceptual design for a residential building prior to the purchase of the land will mitigate the future possibilities of unnecessary expenses incurred and loss of time. By taking the time to understand how certain decisions will impact the cost, developers will be able to capitalize their investments and maximize profitability. Within the conceptual design considerations, a series of decisions will have to be made which will impact development costs. These decisions are driven by the factors which drive costs associated with building, as well as the value added within each particular component. Developers have the responsibility to reference their research from the feasibility study in order to understand the highest demand of a region so that they can build accordingly. This will ensure future profitability as well as diminish unnecessary costs. Because California has a shortage of affordable housing supply, the developer should consider building multi-family residences in San Luis Obispo if seeking long-term profitability. By paying close attention to market demands, developers will establish strong credibility supporting their use of land, save on upfront costs, and recognize a maximum profit with that particular land-use.

Cost Efficiency in Materials Used

Though durable materials can have a larger upfront cost, it is crucial to consider the high ongoing costs which would persist for the sake of keeping up with maintenance and repairs. The four leading housing agencies in California collaborated to commission a study where more than four hundred distinct and affordable multifamily projects were used to collect data that assists in understanding any forces that drive costs of developing multifamily structures in California. Among other findings, the study determined that the cost of quality building standards increase by about 15 percent on average for every 10 percent increase in the quality measure used for the study (California Affordable Housing Cost Study, 2014). Material costs remain extremely significant in the evaluation of overall costs to develop, but the, “sustainability, durability of construction, and architectural quality contribute[s] toward making a building project profitable and economically efficient in the long run”. It is crucial for developers to distinguish between short term savings and long-term cost efficiency (Hartl, 2018, p.032). While material utilization plays an important role in evaluating long term profitability, there are still short-term cost factors to consider when choosing materials. For example, the owner will see financial benefit by using regional or local building materials with low transport costs. In some cases, prefabrication could be beneficial where high production numbers exist since savings accrue in large quantities. Prefabricated materials could yield fast and simple assembly that reduces the total work time and construction period which then leads to a more precise execution. Minimizing the amount of labor needed by utilizing standardized industrial or semi-finished products will also reduce costs as labor costs constitute roughly 45% of the total construction costs in industrialized countries (Hartl, 2018). For the sake of this small-scale development, no custom prefabrication will be necessary.

Cost Efficiency in Design Strategies

Other strategies which can be implemented in the design to contribute to a lower initial cost include utilizing a simple and compact building design. This minimizes façade areas and circulation areas within the structure which will maximize the area to volume ratio (A/V) and usable floor space to gross floor area ratio (UFS/GFA). Complex designs with unnecessary space require “precise proportioning and a high degree of developmental effort” which can multiply the construction cost by roughly 20-30% in residential building (Hartl, 2018, p.031). The compact design will also contribute to lower energy and heating costs for prospective tenants. The simplicity of the building layout will

also prevent large load bearing and spanning requirements. Using a well-reasoned building grid for frame construction with walls aligned above each other, few projections, and efficiently ran electric cables will keep costs at a minimum while still maintaining a respectable building structure. According to the 2014 California Affordable Housing Cost Study it will also be cost efficient to develop a project with more overall units as the cost per unit declines with an increase in units. As far as the size of each individual unit, the demand in California prioritizes single room occupancy or “SRO” units as they are roughly “31 percent less expensive per unit to construct relative to larger units” (California Affordable Housing Cost Study, 2014). The developer will be working closely with the architectural engineer, designer, and building services technician from the onset of the design phase in order to ensure the space is being completely optimized.

Cost Efficiency in Local Allegiance

There is an array of contributing groups which all have a varying amount of authoritative power in determining some of the possible costs incurred when building. Some parties include local residents, community groups, state and federal agencies, and, of course, the developer themselves. The developer must realize that their project is subject to real criticism or support depending on the use of the land, and it is in their best interest to be loyal to the desires of the community and local authorities. Considering local issues by meeting with civic associations, neighborhood groups, surrounding HOAs, and adjacent property owners, will result in profitability as the project will be suited to meet needs and adhere to desires within the community. A large amount of money can be saved if the development suits the intended purpose for the land. When preparing to build on any given plot of land, a developer must do their due diligence in completing a study regarding what kinds of local ordinances, regulations and laws are held in the area. By maintaining consistent with the community’s standards, the developer will save on costs for rezoning, variances, subdivision, or any other special exceptions that might be necessary to complete during the Entitlement process. This cooperation with local jurisdictions will keep the development process uncomplicated and will encourage overall time and cost efficiency.

Application of Property Research

The concept and feasibility study and conceptual design considerations must be the initial undertakings that a developer involves themselves in before beginning the entitlement process. This information will assist them in gathering an understanding of how they will finance the project and what kind of profitability they can expect from such a project. To apply this analysis of the best judgements in purchasing property for prospective development, the researcher will provide an analysis of how a developer might succeed when developing on a specific vacant property in San Luis Obispo. This study focuses on a 10,000 square foot property zoned for high density residential development located at 1049 Orcutt Road. In the following sections, the researcher will walk through the concept and feasibility reasoning, addressing what kind of land prospecting must be conducted in order to gather the best understanding of how social, economic, and environmental factors influence the value of the property. This section will permit the developer to discern methods where they can increase the value of the property without expending too much upfront. They will then walk through the tentative building concept which is a crucial component of the process as it allows the developer to analyze which design strategies will see future benefit, and which strategies are uneconomical. Finally, the researcher will combine these two contributing elements to discern a strategy for

financing the project and conceptualizing a general perception of the profitability of renting out such a development in San Luis Obispo.

Concept and Feasibility

The developer's intentions for the development in this scenario is to profit long term by renting out each unit to desirable candidates given the location and the functions the rental serves. With this in mind, they will need to consider how big the building itself can be, how many units can be built, what certain requirements are for the structure, and other factors that will go into impacting the profitability of the investment. As explained in the section of this research titled "Concept and Feasibility Study", there are many different elements which will ultimately contribute to the costs to develop on the land, as well as the future value of the property. The researcher completed each of the fundamental aspects of land prospecting that a developer would regularly have to do before purchasing land for the property on Orcutt Road in San Luis Obispo. The following information reflects the detailed due diligence for the developer that is referenced in the section entitled "Concept and Feasibility Study".

Social Influences on Value

Considering the affordable housing crisis in California, a small-scale residential development will have the support of local jurisdictions and groups because it will be making use of the zoned multi-family land and supplying more availability to housing in San Luis Obispo. The city is going to be receptive to the proposition to build on this land firstly because the land is already zoned for multifamily residence, but secondly because it is serving the city's demand for lower income housing. San Luis Obispo also serves as a college town for California Polytechnic State University and a large destination of work for many people which pushes a stronger demand for student and workforce housing opportunities. This kind of social support will provide the developer with ease when making proposals for their property's opportunity to make even a minor contribution to the housing crisis in California. If completed in a manner that addresses the local interests, this development will rightfully serve to satisfy the affordable housing crisis as well as student and workforce housing shortages.

Economic Influences on Value

For this property, the government entity with jurisdiction over the property is San Luis Obispo City. This information must be considered when determining the current value of the vacant property and the future value of the development as there are specific tax influences in specific regions. The current mortgage rates and property tax rates will have an impact in how much profit is collected. Typically, low mortgage rates will make people more eager to purchase land. After speaking with a local real estate professional who studies the fluctuations of the housing market, the researcher found that the current interest rates for vacant property in San Luis Obispo are the likely the lowest that they will be any time in the prospective future at an estimated 5% of the purchase price. The price of the property and the corresponding mortgage payments required will be analyzed in the section of this research paper titled, "Project Financing and Profitability". As for now, we are taking into account local tax influences and the current market to determine whether the land parcel will be a good investment. Along with the conditions of the market that must be taken on the purchasing party's behalf, it is important to analyze the income and purchase power demographics in the region to determine what future value of the rental units will be the common demand. There is a current demand for affordable housing in San Luis Obispo, so this will help the developer determine how much money he is willing to put into this kind of housing to suit the local demand. Based on a 2018 SLO County Report

conducted by BW Research Partnership, inc., “[a] high concentration of low-paying jobs and a lower concentration of high-paying jobs pose a threat to job quality and living affordability in the county” (BW Research Partnership, p.2, 2018). According to this study, average wages per job are below the national and state average and the cost of living is above the national average. Given this information, it is important for the developer to acknowledge the fact that they should not supply rental housing that is consistent with what the average housing quality and prices are currently listed at. This information should indicate that there is a need for lower-income housing that will better promote economic health in the area. The developer is not risking less profit by building affordable housing as they will be suiting the local demand and the property will consistently be hot on the market. Choosing to develop housing for higher-income residents will not only be more of a cost investment at the initial stage of building, but there is no guarantee that the dwelling would always be occupied. Low-income housing will be the highest demand in this area until the housing crisis is completely settled, which market observers would not see to be any time in the prospective future. The developer will take this into account when designing the small-scale development so that they can still ensure profitability as well as meet the local needs.

Environmental (Physical and Geographic) Influences on Value

Environmental influences on the property value includes physical and geographic benefits and concerns. The following factors will determine the developer’s flexibility in building and ultimately have a large effect on how profitable they will be with the development:

- Zone: R3
- Size: 10,000 square feet
- Maximum Lot Coverage: 60%
- Maximum Population Density: 40 persons per net acre
- Minimum Setback: 10 feet from the street
- Maximum Building Height: 35 feet
- Size of Developable Area: 6,000 square feet

Each of these elements will have great authority in determining the developer’s limitations for building. In the section titled “Tentative Building Concept”, one will be able to recognize the measures that will need to be taken when designing a structure so that they can maximize profitability and still comply with the zoning requirements. For now, the researcher is considering the existing land constraints in order to determine what kind of building flexibility the developer will have. This land presents potential opportunities as well, like the accessibility of underground utility services. Figure 1 (shown on the following page) presents existing underground utilities that the developer must determine the adequacy and reliability of. According to these Demolition Plans, it is the responsibility of the contractor or permittee to “contact ‘Underground Service Alert U.S.A.’... for location of power, telephone, oil and natural gas, underground facilities” as well as the appropriate agency for the location of “cable T.V., water, sewer, drainage, or underground facilities” (Demolition Plans, p.1, 2007).

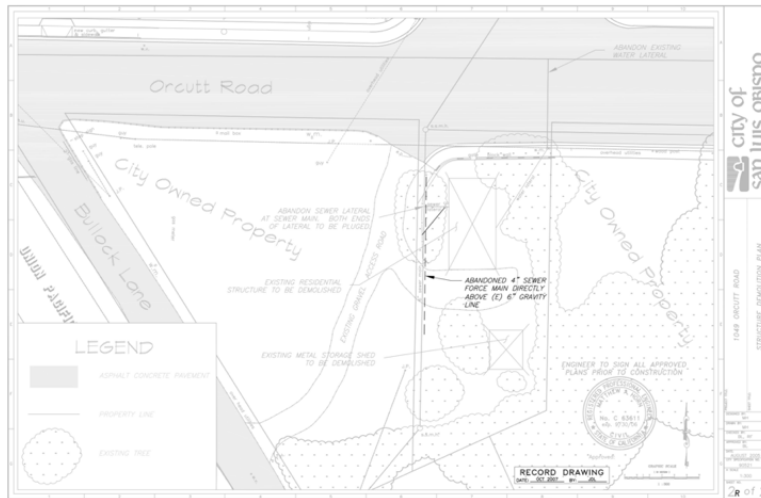


Figure 1. Demolition Plans for APN 053-071-025 (Lynch, B., 2007)

Due to the limitations of research availability for this project, the researcher is assuming that the developer has adequate access to these underground utilities. It is important for the interested buyer to also recognize the extent they will have to go in order to remove the trees that are protected per City Standard 20-2. This will involve working with the Public Works Urban Forest Services to submit necessary tree removal applications for each of the necessary trees that must be removed in order to move forward with the development. For the purpose of this research, it is assumed that the City is compliant with the necessary provisions as the proposed development will be suiting the local need for affordable housing. Other existing conditions for this parcel includes adequate soils conditions and water table levels, minimal slopes in the topography, adequate drainage, no powerlines or transmission lines crossing the property, nor any water wells, septic tanks, or leach fields. As mentioned in the research portion subsection entitled “American Land Title Association Survey” it is common for a landowner to conduct an ALTA land title survey in order to discover any specific characteristics of the land that is unable to be visually observed. For the sake of this research, it is assumed that the findings from any conducted ALTA land title survey is consistent with the documented existing conditions for reasons resulting from the lack of authority and access to request this survey on city-owned land. The existing conditions of the land are crucial to analyze as they will determine how much money will need to be initially put into the land to develop, but there are geographic factors that go into determining value that simply cannot be changed or removed under the authority of the landowner. Such factors include access to goods and services, public transit, conditional hazards or disturbances, and the characteristics and conditions of surrounding residences. This property is very centralized in San Luis Obispo as it is near a train station and a bus stop, has access to goods and services such as grocery stores, a hospital, restaurants, convenience stores, car repair shops, as well as recreational activity centers like parks, a rock-climbing gym, a skate park, fitness centers, tennis courts, outdoor hiking trails, a downtown area, etc. A conditional hazard that must be taken into account when purchasing this piece of land for prospective tenants is the location in relation to the San Luis Obispo Airport. This land is located in the Aviation Safety Area S-1C, meaning there will be aircraft operations at 501 to 1000 feet above ground level (SLO Airport FAA-Approved Airport Layout Plan, 2010). However, given the targeted consumer group of lower income workforce families, couples or even college students, this is not anticipated to be much of an issue in acquiring interested tenants now or anytime in the prospective future. Especially when taking into account how much accessibility the location has to public transportation, facilities, as well as goods and services.

Tentative Building Concept

After taking into consideration each of the influences on value of a property before development, the owner of the land must refer to their original intention for purchasing the land and determine the best method for procurement. The owner agrees with the City of San Luis Obispo's intended purpose for the land to be medium density multi-family residential space. In order to remain consistent with the local demand, the developer will be leasing the units at a rate which will support the housing crisis while still generating personal profitability. For this reason, they must be cautious about the initial investment made so that they can see the highest possible profit. With the property requirements enforced, the developer is limited to 6,000 square feet of developable area, 2 full units, and a total of 9 persons allowed. A single bedroom dwelling that is less than 600 square feet constitutes only 0.50 units and a two-bedroom dwelling constitutes 1.00 unit. Given this information, the developer must maximize the land so that local demands are best suited. To provide variety, the developer should build one double-bedroom unit and two single-bedroom units on the main building. The building is to be two stories high and each unit's entrance will be an external door. The two-bedroom unit is to be exactly 1200 square feet and each of the two units are to mirror each other exactly and take up 600 square feet each. The building is to take up 1200 square feet of floor space total. Because the purpose of this development is to maximize profitability while still legally providing the greatest amount of housing, the owner will be adding an attached junior Accessory Dwelling Unit (ADU) which must have a bedroom, bathroom, living room and kitchen. This ADU must be 500 square feet or less. An additional detached ADU will be built behind the main building as well. This unit is acceptable so long as it does not surpass the 1200 square feet that the other units inhabit. The monetary benefits of these supplemental units will result in roughly 45% more profitability as approximated by the previously mentioned real estate market professional. The developer will recognize cost savings by referencing design methods detailed out in section of this research entitled "Conceptual Design Considerations". Some of these design strategies would suggest focusing on the durability and energy efficiency of the building and work with the architect and engineer closely to compose a compact, flexible, structurally coherent, and simple building design. The choice of materials used in building also impact the initial cost. In utilizing regional and local building materials with low transport costs, the developer will ensure overall cost-efficiency and sustainability. The developer will see great benefit in paying close attention to the productivity of their initial investment to establish a large foreseeable profit margin.

Entitlement Process

The entitlement process is the legal method in which an owner obtains the necessary approvals and permits to develop on a given piece of land for its desired use. In order for a prospective design to be approved by the city, the Site Development Plan must be coherent with all of the codes and ordinances that are detailed out in the latest "SLO City Zoning Regulations" manual.

Codes and Ordinances

The San Luis Obispo City website provides access for the regulation manual to be downloaded onto any computer for free. This manual will be the best resource for the developer if they wish to diminish the amount of time spent working with the city prior to construction. Zoning regulations ensure authorized uses with the zoning district, required parking, as well as property development standards including lot coverage, building height, setback, and density requirements. To maximize efficiency in the entire building process, the developer should do their due diligence in studying the codes and

ordinances so as to respect the city's regulations and mitigate risks in development. The city tends to be rigid in their city planning efforts, so the entitlement process for such a development could result in taking years to finalize. The best practice in this region would be to adhere to city requirements as they are detailed out on the City's website.

Permitting and Fees

The purpose of permits for any project is to “maintain safety, order and quality of life for residents” (City of San Luis Obispo, 2021). Upon asking an architect who has years of experience working with city planning about each of the fees that are to be expected for a hypothetical multi-family development in San Luis Obispo, he responded with a mere “too many”. This is a common perception of the City's involvement with any development, but it is an aspect that must be considered when preparing to build. This architect then provided the researcher with an estimate for how much money is typically spent in fees per unit developed which will be referenced when evaluating the financing and profitability of the project. Permits for multi-family residential development can be broken into three categories which each have many subsidiary portions. These general branches include a land use (planning), building permits, and encroachment permits.

Planning Permits. The planning permit will address how suitable the proposed Site Development Plan is with the city's requirements. This permit will address matters such as land use, rezoning, variances, subdivisions, upon many more aspects of compliance with SLO standards. The planning application requires an architectural review of the plan which entails a pre-application meeting with an architectural review conceptual where a public hearing is required, and then the actual architectural review itself. Each of these processes have corresponding fees that must be paid within six months of the final decision. For this piece of property, the developer will mitigate risk by not requesting any exceptions, variances, subdivision services, or specific use permits. Obtaining this permit is often a lengthy and expensive process as the city desires full control in ensuring that the project will be adequately benefitting the surrounding community and adhering to necessary provisions.

Building Permits. Building permits encompass all means to build, alter, repair, improve, demolish, convert or repair on a piece of property. These actions include any building, grading, plumbing, mechanical, or electrical work to be done on the land. On the following page, Figure 2 demonstrates a simplified map that should be addressed when applying for a building permit.

 **CITY OF SAN LUIS OBISPO**
Building Permit Process

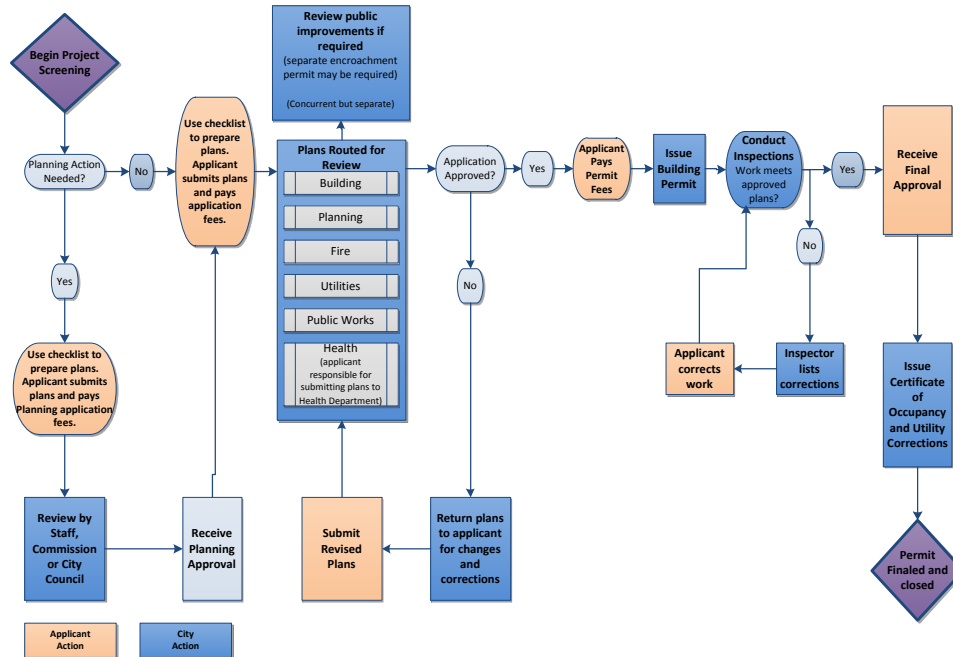


Figure 2. City of San Luis Obispo Building Permit Process (SLOCity.org, 2021).

Before applying for a building permit, it is highly suggested that the developer calls the City of San Luis Obispo to determine whether or not the proposition is within the City’s development guidelines. Building permits can only be obtained after the planning approvals have been granted. It is important for the developer to discuss the project with the Public Works Department, the Fire Department, and the Health Department to determine whether or not there are any special requirements that will need to be met. To apply for a building permit, the developer must turn in an application package at the Building and Safety Division of the City’s Community Development Department. This package consists of the completed application, checklist and related forms, the plan review deposit, copies of the plans, and any supporting documentation including structural, energy, soils analysis, etc. After the application has been submitted, the Building and Safety Division will ensure that the building, plumbing, mechanical, electrical, energy conservation, disabled access, Greenbuild codes and storm water control regulations have been met. Once this is completed, the Fire Department will ensure compliance with fire safety and the Public Works Department will check that flood control, drainage, parking and driveway standards and public improvement requirements are met. The Planning Division will then certify that zoning regulations and the Utilities Department will review for objectives in water conservation and waste management. This kind of project is expected to take approximately six weeks for the initial plan check. Often times, the first set of plans is not approved, in which case the City will provide necessary corrections from each department. The submission should then take roughly three weeks to be reexamined. It is important for the developer to acknowledge the fact that they must begin construction within six months of obtaining the permit and they must continually work until completion so as to avoid permit expiration. Throughout the construction process, the city will monitor the progress of the project by inspecting the construction after each phase is completed.

Encroachment permits. Encroachment permits are necessary when it is necessary to improve on the public side of the property. This typically will include sidewalk, curb and gutter, and all utility stub outs. In order to minimize the amount of time spent working with ensuring entitlement, the developer should be confident that their plan is consistent with the information provided by each of the separate departments within the City Council.

Accessory Dwelling Units. The best practice for the developer will be to adhere to the requirements as stated in the San Luis Obispo Zoning Regulations. In doing so, they are limited to building only two full sized units (or in this case, one full sized unit and two half units). However, provisional ADU bylaws have allowed a work around to allow access to more lower income housing. These ADU laws are of great benefit when building because the developer can bypass the whole city planning step in the process and shift straight forward in working to obtain a building permit. Accessory Dwelling Units are exempt from some typical fees, such as school bond initiatives, due to the removal of the need for a planning permit. This allowance came as a result of the pressing need for housing in San Luis Obispo and will serve the community greatly. As discussed in the “Tentative Building Concept” section of this project, the developer is to accommodate more tenants with a junior ADU that is to be attached, as well as a detached ADU behind the main structure. By choosing to maximize the number of units built in this way, the developer will be ensuring profitability while supplying the housing that is at such a high demand in today’s market. They will also be bypassing many required actions and fees that would be involved in acquiring exceptions, variances, or rezoning permits.

Project Financing and Profitability

The property being studied is city-owned and is not listed for sale, but to generate a relative understanding of what the approximate cost would be, the researcher enquired the real estate expert about the land parcel to generate an appraisal price. This was done by analyzing multifamily properties which have sold in the last six months and analyzing the current state of the land in order to generate an estimated cost per square foot. The researcher will be assuming the cost of the land to be roughly \$292,500. To estimate a cost for development, the architect suggested using a basis of \$150 per square foot of floor space. This takes into account the methods discussed previously in order to provide adequate housing at a low initial cost. Including the ADU’s at the approximate rate, this development is expected to cost \$615,000. As mentioned previously, the fees involved in obtaining planning, building, and the necessary encroachment permits are far too exhaustive to draft in a single description. The light blue bars presented in Figure 3 on the following page represent an estimated cost of development fees per unit for six popular cities in California.

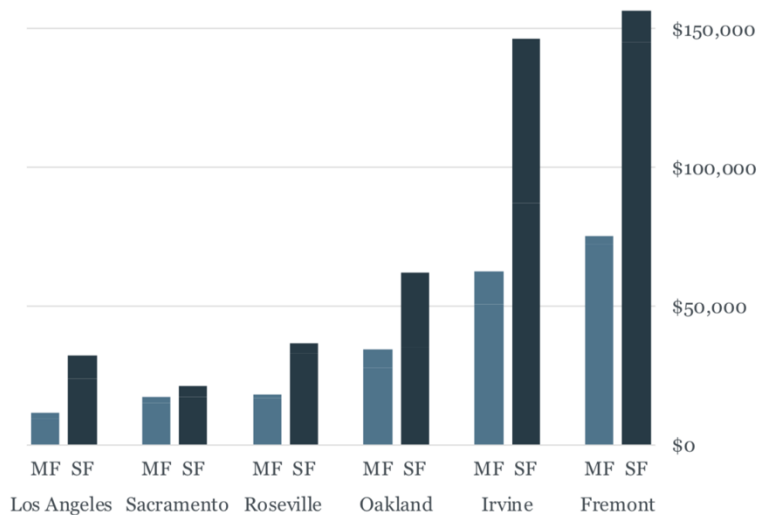


Figure 3. Estimated Development Fees Per Unity for Prototypical Multifamily and Single-Family Projects (Mawhorter et al., p.3, 2018)

While these averages do not include project specific features, this estimation is conducive for the purpose of this study because development fees are extremely difficult to estimate as the type and size of fees levied vary so much from city to city and each project is so unique. The researcher outsourced an approximate number from the referenced real estate professional and architect which can be expected for a project such as the one described in this analysis. Due to the complications with each of the main units and Accessory Dwelling Units having different applicable fees, the two professionals suggested that the researcher utilizes a flat rate of \$150,000 to be allocated out for all fees involved in such a development. When configuring each of the expenses into one rate, the developer can expect to put a principal amount of \$1,057,500 into this development.

Financing. For the initial purchase of the vacant property, the developer will have to put down 50% in cash because banks will not often involve themselves in large loans for unused property. This will leave a remaining \$146,250 bank loan that will be collected through monthly mortgage payments. Other imposing factors include the estimated 5% interest rate and the property taxes, which are assumed to constitute about \$3,500 a year per the real estate market professional's insight. With each of these contributing factors, the total monthly mortgage payment for this property has been calculated to equate to \$1,180.23 for a 30-year loan. For the development loan, the developer should expect to have sufficient funds to put 30% down which will leave \$430,500 left to be paid to the lender. When configuring the monthly payment for this loan at a 5% interest rate, the developer will have an estimated \$1,255.63 monthly payment for 30 years. The \$150,000 amount that is expected to be owed to the city in miscellaneous fees must be paid within six months of the start of the project. With all of these costs considered, the developer should be prepared with a cash amount of \$480,750. The remaining \$576,750 will be incurring interest and will be paid throughout the 30-year lifetime of the loan. The total monthly payment for these two separate loans will equate \$2,435.86.

Profitability. At the current market rate, the housing market professional who provided estimate costs debited to the owner also predicted an amount to be incurred each month. The two-bedroom unit and the detached ADU will each start at \$2,375 per month, each of the single bedroom units should start at \$1,775 per month, and the junior ADU will be \$1,500 per month. This equates to a monthly

revenue of \$9,800. After the monthly costs, the developer will be profiting \$7,634.14 each month. If all rates were to remain consistent, it will take the owner roughly 5 years to pay off the initial costs. However, with the current market, an investment such as this one can expect to see a much higher return in upcoming months. A local mortgage officer in San Luis Obispo predicts that the central coast will see a major increase in demand for housing due to the current market conditions. The developer of this property will be making great use out of such an investment.

Conclusion

Considering current market conditions, real estate is a great investment that will provide interested parties with a large return. However, it is vital that a developer who wishes to involve themselves in the complete development of vacant land performs an adequate amount of research regarding particular practices which best suit the market conditions and the desired outcome of the development. Such practices will include analysis of the land itself and studies which address what kinds of factors will influence the current value as well as future value. The developer will also need to perform studies which disclose the most cost-efficient design and building procedures in order to meet the proposed use for the land. In this example, the developer is meeting a current market demand for affordable housing in San Luis Obispo. Therefore, one can expect that the initial investment will not be as high as it might be for a single-family residence in the same area. The developer must also take into account the amount of time and money which is spent with the city in ensuring that the development will result in overall safety, order and high quality of life for residents. After each of these considerations are well analyzed and composed, the owner should analyze the available financing and understand the expected profitability of such a residence. Markets are constantly fluctuating but given the current conditions of the housing market in San Luis Obispo, the demand is only going to increase, and it is only for small-scale residential developers who are interested in an investment such as this one to partake in contributing to the supply. According to references who have much experience in analyzing the market in San Luis Obispo, the value of such a development will increase in the prospective future. However, there is no determinate method to figure exactly what will happen to the housing market in the future. The profitability of multi-family investments in the current local market is quite satisfactory, and therefore should be acted upon if an interested developer has access to the means and resources of initiating such a project.

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