

Rising costs of land are often related to the limited availability of buildable land. In Riverside County, which has the largest expanses of buildable land, this has not historically been considered a problem. In fact, much of the recent development pressure in the County has been attributed to lower land costs relative to surrounding Orange and Los Angeles County land prices. There are areas within the County where land prices are increasing rapidly, however, particularly in areas close to larger cities such as Riverside and Palm Springs. Rising land costs tend to directly increase housing costs. Developers may respond to this situation by decreasing the size of lots and houses in order to market a lower priced product, or by increasing the size and options of houses in an effort to keep a balance between land costs and the price of a house.

Construction Costs

The cost of construction depends primarily on the cost of materials and labor, which are influenced by market demand. The cost of construction will also depend on the type of unit being built and on the quality of product being produced. Labor saving materials and construction techniques are available but tend to reduce the quality of the finished product. The cost of labor is based on a number of factors, including housing demand, the number of contractors in the area and the unionization of workers. Labor cost is usually two to three times the cost of materials, thus, the cost of labor represents an estimated 17% to 20% of the cost of building a unit.

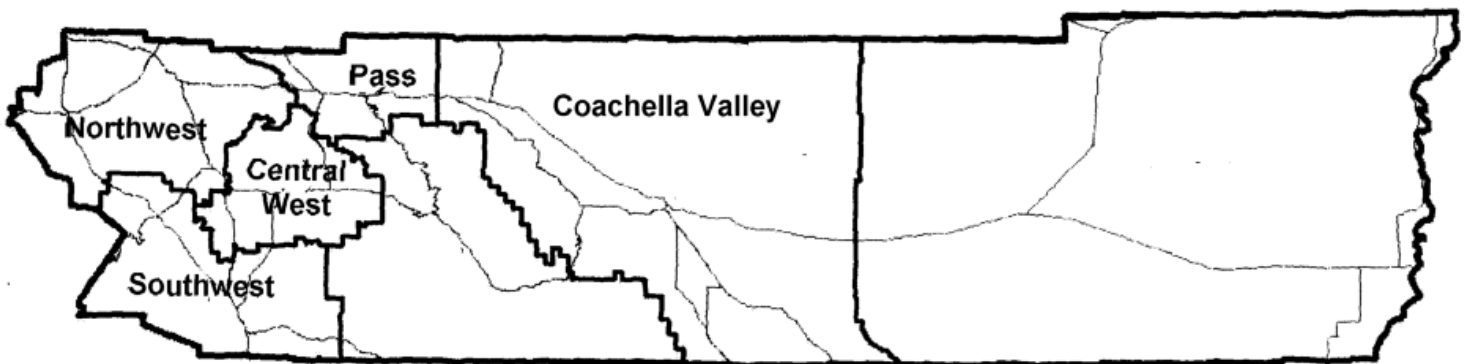


Figure H-1 - Land and Construction Cost Analysis Areas, Riverside County

The preceding Table H-40 lists the overall development costs per unit, inclusive of: land; infrastructure improvements; materials; labor; construction financing; and indirect costs/assessment fees, for a hypothetical 100-unit project. The data indicates that construction costs can constitute 43% to 48% of the cost of a single family detached housing unit. These figures are even more impressive considering that the cost of raw land constitutes only 4% to 14% of the cost of a housing unit.

The construction cost of housing affects the affordability of new housing and may be considered a constraint to affordable housing in the Riverside area. A reduction in the construction costs can be brought about in several ways. A reduction in amenities and quality of building materials in new homes (still above the minimum acceptability for health, safety, and adequate performance)



may result in lower sales prices. State housing law provides that local building departments can authorize the use of materials and construction methods if the proposed design is found to be satisfactory and the materials or methods are at least equivalent to that prescribed by the applicable building codes. The County of Riverside has adopted the latest version of the Uniform Building, Plumbing, Mechanical and Electrical Codes and has made no modifications to the Code which would add to the cost of housing.

In addition, pre-fabricated, factory-built housing may provide lower priced products by reducing labor and material costs. As the number of units built at once increases, savings in construction costs over the entire development are generally realized as a result of an economy of scale, particularly when combined with density bonus provisions. The County may also implement a variety of programs to write down land costs or provide other incentives such as waivers in development standards or processing fees in order to increase affordability.

Cost and Availability of Financing

Interest rates are determined by national policies and economic conditions, and there is little that local governments can do to affect these rates. Jurisdictions can, however, offer interest rate write-downs to extend home purchase opportunities to lower income households. In addition, government-insured loan programs may be available to reduce mortgage down-payment requirements.

First-time home buyers are the group most impacted by financing requirements. Current mortgage interest rates for new home purchases range from 6.5% to 8% for a fixed-rate 30-year loan. Lower initial rates are available with Graduated Payment Mortgages (GPMs), Adjustable Rate Mortgages (ARMs), and Buy-Down Mortgages. Variable interest rate mortgages on affordable homes may increase to the point where the interest rate exceeds the cost of living adjustments, which is a constraint on the affordability. Although rates are currently low, they can change significantly and substantially impact the affordability of the housing stock.

Interest rates at the present time are not a constraint to affordable housing. Financing for both construction and long-term mortgages is generally available in Riverside County subject to normal underwriting standards. A more critical impediment to home ownership involves both the affordability of the housing stock and the ability of potential buyers to fulfill down payment requirements. Conventional home loans typically require 5% to 20% of the sales price as a down payment, which is the largest constraint to first time home buyers. This indicates a need for flexible loan programs and a method to bridge the gap between the down payment and a potential home owner's available funds. The availability of financing for developers under current economic conditions may also pose a constraint on development outside of the County's control.

NIMBYism

Public opposition can be a powerful obstacle to the development of low-cost housing or housing for persons with special needs. The "Not In My Back Yard" (NIMBY) syndrome occurs when existing residents feel threatened by new development that is perceived to adversely affect their neighborhood property values or security. One strategy for overcoming NIMBYism is for County staff