

Oak to Ninth Affordable Housing Analysis – March 14, 2006

Affordable Housing

The Oak to Ninth development project is located partially in the Central District redevelopment area and partially in the Central City East redevelopment area. Only the Central City East Redevelopment area has a housing production requirement that is triggered by housing construction. Based on the portion of the project within the Central City East redevelopment area, this project creates a minimum requirement for new 420 affordable housing units. Of these units, at least 168 must be affordable to very low income households and 252 must be affordable to low to moderate income households. For typical affordable projects funded by the Agency that leverage redevelopment money with outside subsidies, the unit mix would include about 40% extremely low units and 60% low to very low income units. The housing production requirement is an Agency requirement. However, the Agency may require the developer to accommodate the housing on site. The Central City East PAC recently voted to endorse the concept of providing all affordable housing on site. The Developer has agreed to provide space for the affordable housing on site.

The project proponent proposes to provide two parcels for development of affordable housing. Parcel F is offered for sale to the Agency at developer's cost plus the LAIF investment rate (approximately 4%) and contains 1.76 acres. Parcel G air rights over 2.72 acres above parking and commercial development are offered for sale to the Agency at developer's cost plus the partnership's preferred return of 10%, less \$1,000,000. The developer's contribution toward affordable housing is contained in three parts:

1. Forgoing profit of developing Parcel F or selling at market and accepting a 4% return rather than the 10% preferred return -
 2. A contribution of \$1,000,000 toward the sales price for air rights on Parcel G
 3. A dollar amount contribution toward affordable housing to be determined by March 28th after evaluating the project Pro Forma.
- Parcel F

This site can accommodate 168 – 180 units of studio and one-bedroom apartments in wood-frame type 5 construction appropriate for seniors. Alternately, using a more expensive type of construction that would allow up to eight stories of concrete reinforced type I construction, the site could yield up to 340 units of family housing but this amount of housing could be limited by parking requirements and the fact that subterranean parking is not likely given the high water table in the area. Additionally, this higher density cannot be attained under the proposed zoning without reducing density elsewhere in the project.

- Parcel G

This site can accommodate 280 units of family housing in concrete-reinforced type I construction. The developer is proposing a mixed use development whereby the units would be constructed over commercial development. One developer would construct the commercial shell space, commercial and residential structured parking, and residences. The Commercial shell space and commercial parking would be sold to a private developer. Only a portion of the land cost would be apportioned to the residential development. The methodology for determining this has yet to be worked out.

- Accommodating Housing Equal to Redevelopment Law Requirements

The required 420 housing units can be accommodated on the land offered by the developer if 40 percent of units are constructed as studios and one-bedroom apartments, normally for seniors, with the remaining 60% constructed in a range of 1 to 3 bedroom units for families. It is not possible to accommodate 420 housing units on the property offered if all units are larger units, e.g. units averaging 1100 sq. ft. for families. If the Council wishes to have the flexibility to have more family units, then feedback should be given the developer and staff to enlarge the areas available for affordable housing.

- Accommodating Housing In Excess Of That Required By Redevelopment Law

There has been a proposal by affordable housing advocates to require the developer to increase the amount of affordable housing which should be constructed on site. The coalition of affordable housing advocates has requested that at least 20% of all 3100 units (both within and outside of the Central City East redevelopment area) be affordable to households of very low to extremely low income. This would result in 620 units of deeply affordable housing. Given the constraints of proposed zoning and the maximum unit count proposed with this development, more land would be needed to accommodate 620 units of housing. In addition to the larger land costs the Agency should also consider the higher subsidy per unit needed and the over all ability of the Agency to fund this larger affordability proposal. This section of the report provides information on land and subsidy costs.

- Land cost for affordable housing

Land cost is estimated to be at least \$200 per square foot at the point in time when remediation and infrastructure construction is completed and sites are ready for development. The amount of affordable housing decided on by the City Council will have an impact on land cost. Below is a table that illustrates land cost for various affordable housing scenarios.

Land Costs for Various Affordable Housing Scenarios		
Project Type	Land Area Needed	Cost ¹
420 Units (15% as required by law) with a mix of studio to three bedroom units.	5.5 acres	\$39,700,000
420 Units including 180 senior studio and one-bedroom units (the developer proposal).	4.48 acres	\$31,000,000
620 units (the coalition proposal) (assumes that the additional 200 units would be family units in addition to the developer proposal)	6.7 acres ²	\$50,400,000

- Subsidies Required by Housing Type and Affordability Level

Subsidies necessary to produce affordable housing are affected by the following variables:

1. Unit Size
2. Construction Type
3. Affordability Level

Generally, affordable family housing funding can be more highly leveraged with State dollars because the funding formulas favor larger units. Affordability levels at which the units are offered can dramatically affect the total subsidy required. For projects applying for City/Agency affordable housing development funding, a minimum of 10% of units must be made affordable to extremely low income households. However, in order to be competitive for local and outside funding, developers generally provide even deeper affordability targeting. Average subsidies for units in a project that has 40% of units affordable to extremely low income households and 60% of units affordable to low-very low income households (not including land) are:

For Senior Housing in Type V construction - \$79,200 per unit
 For Family Housing in Type V construction - \$122,000 per unit
 For Family Housing in Type I construction - \$156,100 per unit

This mixture of affordable units generally permits the projects to cover operating expenses over time, with low and very low income units effectively subsidizing some of the operating expenses for the extremely low income units. For example, the 2005 maximum rent for a 2BR unit at 35% AMI is \$651 per month. At 60% AMI, the maximum rent for this unit would be \$1,117 per month, a difference of 71%. Should all of the units be targeted to extremely low income households, very large operating subsidies would be required to make the development feasible over the long-term. A project with 100% very-low to extremely low income households would require

¹ Assumes that, absent a specific development and cost spreading formula, 2/3 of the land cost would be applied to the residential units. Land cost is assumed at \$200 per acre. Developer contributions are not factored into this land cost analysis as they are still under negotiation.

² The additional 2.2 acres needed for an additional 200 units is based on the density and unit mix of the family housing to be located behind the Fox Theater as part of the Uptown development.

additional subsidies both to offset lower rents and to provide the additional services needed for this population group. Therefore, subsidies would increase by about 30% per unit if the affordability were to be targeted to 100% very low to extremely low.

Based on these recent subsidy costs a chart is provided below which indicates the approximate construction subsidy, land subsidy and total subsidy for three alternative affordable housing scenarios.

Subsidy Costs for Various Affordable Housing Scenarios			
Project Type	Construction Subsidy ³ (40% of development costs)	Land Cost	Total Subsidy
420 Units (15% as required by law) with a mix of studio to three bedroom units. (mixture of Type I and Type V)	\$77,200,000	\$39,700,000	\$116,900,000
420 Units including 180 senior studio and one-bedroom units (the developer proposal). (Senior units Type V, Family Units Type I)	\$67,200,000	\$31,000,000	\$98,200,000
620 units (the coalition proposal) (assumes that the additional 200 units would be family units in addition to the developer proposal)	\$128,600,000	\$50,400,000	\$179,000,000

- Project Revenue

Preliminary estimates of the total revenue generated from the project for affordable housing over the life of the project is \$200 million. However, the net present value of this amount is only about \$78,000,000. There is insufficient increment to cover the cost of any affordable housing scenario under the present assumptions. Projections are still being refined and studied and actual revenues may be somewhat higher depending on sale prices of units, project turnover, and increases in housing costs over time, and may be higher based on recent project modifications to include more for sale housing. Based on what is known at this time, this analysis results in four conclusions:

1. Any affordable housing project that requires subsidies in an amount in excess of that generated by the project will require drawing funds from the portion of the Central City East redevelopment area which lies outside of the Oak to Ninth project area.
2. The non-housing funds generated by Oak to Ninth will be spent outside of the Oak to Ninth area and will leverage other development which will generate additional tax increment, 25% of which will go to the housing fund.

³ Construction costs are assumed to increase 30% over the next three years when the project is expected commence construction.

3. Due to the large subsidies necessary, it will be necessary to pool resources from other redevelopment areas, i.e. the City-wide NOFA, in future years to cover the up-front subsidy requirements of affordable housing for this project.
4. The Wood street project will also require large subsidies for affordable housing within a few years of the time the Oak to Ninth project requires subsidies. Since the Army Base redevelopment area will not have sufficient affordable housing increment generation at the time the subsidies are needed, this project will also require utilizing funds from the Citywide NOFA. The Council should consider this cash flow issue carefully when deciding on requiring more affordable units or units which are more deeply affordable.