TOD AFFORDABLE HOUSING: FINANCIAL IMPACT

Affordable Housing in the City of Austin's Transit-Oriented Development (TOD) Districts

Responses to City Council Questions
Station Area Plans 1st Reading
April 10, 2008 and April 24, 2008

Plaza Saltillo
Martin Luther King, Jr. Boulevard
Lamar Boulevard/Justin Lane

August 15, 2008

TOD AFFORDABLE HOUSING
FINANCIAL IMPACT

SUMMARY

Based on City Council direction, DMA has developed a summary of the financial impact of providing the desired affordability in the first three TODs — Plaza Saltillo, MLK, and Lamar.

Based on ERA market data, DMA determined the potential affordable housing yield in each of the three TODs. The "low" and "high" yield estimates for both the short-term (2015) and long-term (2025) are shown in Tables 1 and 2 on the following pages.

The estimated per-unit subsidies are shown in Table 3. The financial models used were for both homeownership and rental projects. The projected financial impact (based on short-term affordable housing goals) is summarized in Table 4. The financial impact varies widely because both the yield projections and the estimated per-unit subsidies vary widely.

DMA highlights three financial models (one for each TOD) in the examples that follow Tables 3 and 4. As evidenced from the data, the rental subsidies varied depending on whether it was an affordable project (e.g., a tax credit project) or a simple "buy down" of market-rate units.

DMA estimates that the cost of "buying down" affordability (e.g., reducing the affordability of a unit from 70% MFI to 60% MFI) is $25,000 per unit per 10% increment. The $25,000 per 10% increment provided in this analysis includes the estimated overhead and administrative costs associated with ensuring affordability (e.g., qualifying tenants and annual recertification, etc.).

Table 5 shows the hypothetical buildout of the Plaza Saltillo TOD. In the short-term (by the year 2015), there is potential for between 66 and 103 affordable units. In the long-term (by the year 2025), the potential yield increases to between 300 and 529 units.

DMA has recommended a mix of approaches, including a density and height bonus program, combined with a focus on tax credit developments within the TODs. By focusing on tax credit developments, the City will be able to achieve greater affordability, with a greater number of units, in one location.

City Council has expressed the desire to achieve 25% affordability by subsidizing the increment between what a developer would provide in exchange for receiving a density or height bonus and the full 25% affordability. The cost of doing so is high, particularly when taking into consideration the resultant number of affordable units.

As shown on Table 5, by increasing the density and height bonus affordability requirements to 25%, combined with tax credit development, the overall affordability of the TOD actually exceeds the TOD Ordinance. The resulting number of affordable units is 438, well within the long-term affordable housing potential. The estimated subsidy required to achieve these affordability goals in Plaza Saltillo is nearly $24 million in today's dollars.

The alternative is the DMA-recommended plan, in which the density bonus would require affordability in 10% of total habitable square footage. The affordability would be at 80% MFI for owner-occupied and 60% MFI for rental units. The height bonus would require 25% of the bonus area to be affordable at the TOD Ordinance levels.

In this alternative scenario, the costs are significantly lower ($13.4 million versus $23.95 million). The number of affordable units is lower (325 versus 428). However, the number is still within the long-term affordable housing demand projections. In addition, nearly one-third of the total units would be affordable, thereby exceeding the TOD Ordinance goals.

NOTE REGARDING ASSUMPTIONS

In order to develop robust financial models that can be utilized for comparative purposes across the spectrum, DMA staff made the following basic assumptions:

*Density***:** All three TOD areas currently being studied are characterized as "Neighborhood Center" TODs. This designation assumes a certain urban character and density of development. Many of the proposed land uses would permit densities between 36 and 60 units per acre. Because of the existing and planned land use for the three TOD areas, DMA assumed in its financial models that future development would occur on average at 48 units per acre.

*Cost***:** The most recent market data for each of the three TOD areas shows home sales averaging $194 per square foot at MLK, $246 per square foot at Plaza Saltillo, and $280 per square foot at N. Lamar/Justin. While the volume and timing of recent sales impacts these averages, DMA utilized these numbers when modeling homeownership units at each of the TOD areas.

Construction Costs: Total construction costs were divided into hard costs, soft costs, and land. Hard costs include all construction expenses and average $130/square foot. (This average assumes that the building type is no more than four stories, wood-frame, wrapped around a parking structure.) Soft costs include professional fees, predevelopment expenses, financing costs, etc. and average $39/square foot. Land costs vary by location and are based on recent market data. Land costs at MLK and Saltillo average $34/square foot. Land costs at N. Lamar/Justin average $17/square foot.[1]

Unit Size: In order to calculate development and sales costs, DMA utilized current market data to determine the following average unit sizes:

- ⇨ 750 square feet (studio and one-bedroom)
- ⇨ 1,000 square feet (two-bedroom)
- ⇨ 1,200 square feet (three-bedroom)

Because of limited market demand, units larger than three bedrooms were not considered.

[1] It is important to note that sales data was gathered by zip code. TOD boundaries do not correlate exactly to designated zip codes. Because there was no recent sales data for undeveloped land in the 78722 zip code (the vast majority of the MLK TOD), data for adjacent zip codes was used. Accordingly, both the MLK and the Saltillo TOD share the same land cost averages, based on their proximity to each other.

Unit Mix: Models are based on a theoretical 100-unit development. Studio/one-bedroom units account for 30% of the units, two-bedroom units account for 60% of the units, and three-bedroom units account for 10% of the units. This unit breakdown was calculated based on recent market data and demand.

Affordability: The level of affordability assumed is based on the TOD affordability goals as articulated in the TOD Ordinance. Specifically, at least 25% of the new housing should be affordable to homeowners at or below 80% MFI. At least 25% of the new rental housing should be affordable to households at or below 60% MFI.[2] In the Community Preservation and Revitalization Zone (CP&R Zone), which includes Saltillo and the vast majority of MLK,[3] those goals are more ambitious. Specifically, at least 25% of new homeowner housing in CP&R Zone should be affordable to households at or below 60% MFI. At least 25% of rental housing in the CP&R Zone should be affordable to households at or below 50% MFI.[4]

Operating Costs: Financial models for rental housing assume an average total operating cost of $4,093 per unit. This number is based on the Texas Department of Housing and Community Affairs' "Actual Average Operating Expense Statements as of Year End 2005" database. This is the most current actual data available. DMA utilized TDHCA data for Region 7, which includes the City of Austin.

Utilities: When factoring in utility expenses, electric and gas expenses are assumed to be paid by the tenant and not included in general operating costs. Water and trash services are assumed to be paid by management and included in the general operating costs.

Debt Coverage Ratio: Financial models for rental housing assume a 1.20 debt coverage ratio. This is a conservative debt coverage ratio and slightly more restrictive than the current minimum 1.15 debt coverage ratio utilized in TDHCA's underwriting process.

Property Taxes: Financial models for homeownership include estimates for insurance and property taxes utilized by the City of Austin's Neighborhood Housing and Community Development Department.

All of the assumptions are based on prevailing market conditions and are subject to change in the future. Changes to one or more of the assumptions will impact the outcome of the financial models.

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[2] Housing goals are further divided into sub-goals; specifically, rental units are targeted as follows: 10% of units for 40%-60% MFI; 10% of units for 30%-40% MFI; and 5% of units for at or below 30% MFI. Homeownership units are targeted as follows: 10% at 70%-80% MFI; 10% at 60%-70% MFI; and 5% of units at or below 60% MFI.

[3] Only a few parcels of land in the MLK TOD lie outside of the CP&R Zone. Accordingly, for purposes of this study, the entire MLK TOD is considered within the CP&R Zone.

[4] CP&R Zone rental housing goals are further divided into sub-goals; specifically, rental units are targeted as follows: 10% of units for 40%-50% MFI; 10% of units for 30%-40% MFI; and 5% of units for at or below 30% MFI. Homeownership units are all targeted to households at or below 60% MFI.

TABLE 1
TOD HOUSING POTENTIAL YIELD[5]

TOD District	ERA Housing Potential Estimate through 2015		Potential Affordable Housing Unit Yield (at 25%) through 2015		ERA Housing Potential Estimate through 2025		Potential Affordable Housing Unit Yield (at 25%) through 2025	
	Low	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**
Plaza Saltillo	264	411	66	103	1,198	2,116	300	529
MLK	209	343	52	86	914	1,438	229	360
Lamar	199	394	50	99	1,012	1,654	253	414

TABLE 2
TOD HOUSING POTENTIAL YIELD – SUMMARY

TOD	Affordable Housing Potential Short-Term (2015)	Affordable Housing Potential Long-Term (2025)
Plaza Saltillo	66-103 units	300-529 units
MLK	52-86 units	229-360 units
Lamar	50-99 units	253-414 units

5 Economic Research Associates (ERA) estimated the residential development potential (including condominiums, live/work lofts, apartments, and townhomes/duplexes) for each of the TODs. ERA's most recent projections are from August 2007. ERA estimated the potential demand for housing citywide and then estimated each TOD's ability to capture a percentage of that development potential. Low yield and high yield numbers are TOD-specific and are based on a variety of factors, including location, competition from planned and future developments, neighborhood support, and conceptual plans.

TABLE 3
SUBSIDIES REQUIRED

TOD	Financial Model	Subsidy Required[6]
Plaza Saltillo	Rental – Buydown	$127,623/unit
	Rental - 9% HTC Development	$36,750/unit
	Rental - 4% HTC/Bonds	$56,800/unit
	Homeownership	$136,731/unit
MLK	Rental – Buydown	$127,623/unit
	Rental - 9% HTC Development	$36,750/unit
	Rental - 4% HTC/Bonds	$56,800/unit
	Homeownership	$83,131/unit
Lamar	Rental – Buydown	$75,870/unit
	Rental - 9% HTC Development	$21,400/unit
	Rental - 4% HTC/Bonds	$56,900/unit
	Rental – 4% HTC/Bonds in QCT	$41,350/unit
	Homeownership	$133,600/unit

TABLE 4
TOD AFFORDABLE HOUSING FINANCIAL IMPACT (SHORT-TERM)

TOD	Affordable Housing Potential Short-Term (2015)	Financial Impact[7]
Plaza Saltillo	66-103 units	$2,425,500 - $13,145,169
MLK	52-86 units	$1,911,000 - $10,975,578
Lamar	50-99 units	$1,070,000 - $7,511,130

[6] Tax credit subsidies were calculated in late 2007. Since that time, there has been significant volatility in the tax credit market. Because the projected affordable housing development will not occur in the near-term (e.g., through 2015 or 2025), DMA is assuming that stability in the credit prices will return.
[7] The financial impact estimates range from the "low yield" number of units multiplied by the least costly estimated per-unit subsidy to the "high yield" number of units multiplied by the most costly estimated per-unit subsidy.

EXAMPLE #1
PLAZA SALTILLO RENTAL BUYDOWN ($127,623/UNIT)

RENTAL BUYDOWN — PLAZA SALTILLO

Income Designation	# of Units	# of Bedrooms	Fed. Aff. Rent Limit	Market Rent	Rent Gap	20yr @ 7.5% Subsidy per unit	Total Subsidy
30%	2	1	$326	$1,245	$919	$114,077	$228,155
30%	3	2	$382	$1,695	$1,313	$162,985	$488,956
30%	0	3	$426	$1,865	$1,439	$178,626	N/A
40%	3	1	$459	$1,245	$786	$97,568	$292,704
40%	6	2	$542	$1,695	$1,153	$143,124	$858,746
40%	1	3	$613	$1,865	$1,252	$155,413	$155,413
50%	2	1	$592	$1,245	$653	$81,058	$162,117
50%	6	2	$702	$1,695	$993	$123,263	$739,579
50%	2	3	$798	$1,865	$1,067	$132,449	$264,898
Total Subsidy Required for 25 Affordable Units:							$3,190,568

EXAMPLE #2
MLK — 4% HTC/BONDS ($56,800/UNIT)

4% TAX CREDIT (WITH BONDS) — MLK

Unit Type	SF Per Unit	Total Number Of Units	Gross Monthly Rent	Monthly Utility Allowance	Tenant Paid Rent
1 BR, 1 Bath @ 30% MFI	750	2	400	74	326
1 BR, 1 Bath @ 40% MFI	750	3	533	74	459
1 BR, 1 Bath @ 60% MFI	750	25	800	74	726
2 BR, 2 Bath @ 30% MFI	1,000	2	480	98	382
2 BR, 2 Bath @ 40% MFI	1,000	5	640	98	542
2 BR, 2 Bath @ 60% MFI	1,000	47	984	98	862
3 BR, 2 Bath @ 30% MFI	1,200	1	552	126	428
3 BR, 2 Bath @ 40% MFI	1,200	2	439	126	613
3 BR, 2 Bath @ 60% MFI	1,200	13	1,109	126	983
Sources			**Uses**		
Mortgage	$6,264,000				
Deferred Developer Fee	$563,223		Land	$3,085,500	
Tax Credit Equity	$6,738,277		Construction	$12,441,000	
Additional Subsidy Required	$5,680,000		Soft Costs	$3,719,000	
Total Sources	$19,245,500		**Total Uses**	$19,245,500	

EXAMPLE #3
HOMEOWNERSHIP — LAMAR ($133,600/UNIT)

HOMEOWNERSHIP — LAMAR

	1 bedroom unit	2 bedroom unit	3 bedroom unit
Market Sales Price	$210,000	$280,000	$336,000

Subsidy	MFI Target	Income Needed
$0	129% MFI (1 bedroom) 153% MFI (2 bedroom) 165% MFI (3 bedroom)	$71,190 (1 bedroom) $95,170 (2 bedroom) $114,350 (3 bedroom
$40,000[8]	104% MFI (1 bedroom) 131% MFI (2 bedroom) 145% MFI (3 bedroom)	$57,490 (1 bedroom) $81,460 (2 bedroom) $100,650 (3 bedroom
$75,000 (1 bedroom unit) $128,500 (2 bedroom unit) $168,000 (3 bedroom unit)	80% MFI (1 bedroom) 80% MFI (2 bedroom) 80% MFI (3 bedroom)	$45,500 (1 bedroom) $51,200 (2 bedroom) $56,900 (3 bedroom)

COST FOR TOD RECOMMENDED UNITS — LAMAR

	1 Bedroom	2 Bedroom	3 Bedroom	Total Cost
Subsidy Per Unit	$75,000	$128,500	$168,000	
Number of Units	5	10	10	
Total Cost	$375,000	$1,285,000	$1,680,000	**$3,340,000 ($133,600/unit)**

[8] Current maximum amount of City's Down Payment Assistance Program.

HOW DO WE REACH THE 25% AFFORDABILITY GOAL?

TOD	Affordable Housing Potential Short-Term (2015)	Affordable Housing Potential Long-Term (2025)
Plaza Saltillo	66-103 units	300-529 units

TABLE 5
PLAZA SALTILLO — HYPOTHETICAL BUILDOUT
(LONG-TERM THROUGH 2025)

Development	Total Units	% of Units Affordable	Affordable Units	Estimated Per Unit Subsidy	Estimated Total Subsidy
9% HTC	150	100%	150	$36,750	$5,512,500
4% HTC/Bond	100	100%	100	$56,800	$5,680,000
Density Bonus	500	25% of total square footage	125	$127,623	$9,571,725[9]
Height Bonus	250	25% of total square footage	63	$127,623	$3,190,575[10]
Total	**1000**	**43.8%**	**438**		**$23,954,800**

— OR —
DMA-Recommended Approach

Development	Total Units	% of Units Affordable	Affordable Units	Estimated Per Unit Subsidy	Estimated Total Subsidy
9% HTC	150	100%	150	$36,750	$5,512,500
4% HTC/Bond	100	100%	100	$56,800	$5,680,000
Density Bonus	500	10% of ***total*** square footage	50	$45,000	$2,250,000[11]
Height Bonus	250	25% of ***bonus*** square footage	25	$0	$0
Total	**1000**	**32.5%**	**325**		**$13,442,500**

[9] Developer provides 10% of the units (50 units) and the City subsidizes the remaining 15% of units (75 units).
[10] Developer provides 15% of the units (38 units) and the City subsidizes the remaining 10% of units (25 units).
[11] The Density Bonus Model (based on VMU) is assumed to yield 10% of the total square footage affordable to 60% MFI. In order to achieve the CP&R goals (affordability at or below 50% MFI, with sub-categories for rental), the additional "buydown" will need to be subsidized.