 Late Backup

The Grove – December 13, 2016 Work Session Questions / Responses

Question:

1. **Why didn't we required 2 bedroom units in affordable rental units same as was negotiated for affordable ownership units? Percentage rather than proportional mix. (Tovo)**

Response:

ARG maintains that for affordable rental units, the net loss to the developer (ARG) over time, on a per square foot basis assuming $2.25/sf current market rental, is not feasible for the developer to deliver over the forty (40) year affordability period. The agreed upon "50% of affordable ownership units" was in response to housing stakeholders and staff expressing the need for some portion of affordable, family-sized units within The Grove. The Grove assumes a mixed-income, rental development mix, where the affordable units will be interspersed with market-rate rental units.

The developer/land owner has agreed to provide an affordable rental mix of studio, one, two and three bedroom units in the same proportion as the market rate rental units. And, for affordable homeownership, 50% of the affordable ownership units will be 2 bedrooms units.

Question:

2. **Calculation information (Tovo) – Basis for calculations per unit cost at the MFI level.**

Response:

Rental Units:

When calculating the cost of providing rental units at affordable price points we look at the difference between a market rate rent and the affordable rent amount. This allows us to determine the amount of subsidy required to "buy-down" a unit to an affordable price point. From a market and accounting perspective, this amount is the amount of money a development will not receive because units are offered at a below-market cost.

The "cost difference" (or "buy-down amount") to the developer is determined, based on the current market-rate rent cost (by unit size), the City's set rent limits (by unit size) and the current HUD MFI limits (by household size), as follows:

Chart 1. Cost Difference by Unit Size and Income

	UNIT SIZE			
	Eff	**1 bed**	**2 bed**	**3 bed**
Sq Ft Per Unit	**500**	**650**	**933**	**1200**
Market Rate Rent	**$1,125**	**$1,463**	**$2,099**	**$2,700**
AFFORDABLE HOUSING COST SUMMARY BY MFI & UNIT SIZE				
30% MFI Rent Limit	$409	$409	$468	$526
"Cost Difference" of 30% Unit	***$716***	***$995***	***$1,573***	***$2,700***
60% MFI Rent Limit	$763	$763	$872	$981
"Cost Difference" of 60% Unit	***$362***	***$700***	***$1,227***	***$1,719***
80% Rent Limit	$1,017	$1,017	$1,162	$1,308
"Cost Difference" of 80% Unit	***$108***	***$446***	***$937***	***$1,392***

The sum of all annual buy-down amounts equals the amount of money the City would need to pay a property owner in order to buy the unit over the 40-year affordability term in year one. The amount per unit, based on a 40-year affordability term and discounted by a 4.25% cap rate is as follows:

Chart 2. Average per Unit Subsidy by Income

COST TO PROVIDE AFFORDABLE HOUSING	
Average Rent of Market Rate Unit	**$1,847**
Cap Rate Assumption	4.25%
RENTAL HOUSING - ASSUMES 40 YEAR AFFORDABILITY TERM	
Average Rent of Affordable Unit @ 80% MFI	**$1,126**
Average Cost Difference Between Market & 80% MFI	$721
Total Cost (Subsidy) Required for 1 unit @ 80% MFI	$203,488
Average Rent of Affordable Unit @ 60% MFI	**$845**
Average Cost Difference Between Market & 60% MFI	$1,002
Total Cost (Subsidy) Required for 1 unit @ 60% MFI	$282,900

Chart 2 notes:

Average Rent of Market Rate Unit = the average of the rents for efficiency, one, two and three bedroom
Average Cost Difference = the average of the cost differences for efficiency, one, two and three bedroom
The total Cost (Subsidy) = the total value of the subsidy discounted by the cap rate
Cap rate is used to determine the present value to buy down a unit over the 40 year term in year one.

In addition, the cost-burden for market-rate rental, supported by market-rate comparables, in the neighborhoods surrounding The Grove is as follows:

Occupancy	Monthly Income Required to Rent an Average Market Rate Unit in the project development area at $1850/mo	MFI %	Monthly Cost	Cost Burden
Rental	**$4,625**	**100%+**	**$1,850**	**30%**

<u>Ownership Units:</u>

In The Grove market area, the median price of an attached, new construction units is an estimated $544,000. The values are supported by area market-rate comparables in MLS. In order to take into account the possibility of rising mortgage interest rates, a lower market value of $400,000 was assumed for the market-rate, for-sale value. Because the developer recognizes the proceeds of a "for-sale" unit upon closing/sale of the home to the owner, the affordability period for ownership is not factored into the formula to determine the "cost to developer."

Affordable homeownership is a "one-time" cost/income to the developer. To determine the "cost to developer" for the affordable ownership units, the following assumptions apply:

FOR SALE COST ANALYSIS AFFORDABILITY @ 80% & 120% MFI	
80% FOR SALE UNITS	
Market Value -	$400,000
Affordable Sales Price @ 80% MFI	$200,000
Cost Difference Per Unit Between Market & 80% For Sale	$200,000
120% FOR SALE UNITS	
Market Value -	$400,000
Affordable Sales Price @ 120% MFI	$250,000
Cost Difference Per Unit Between Market & 120% For Sale	$150,000

In addition, the cost-burden for market-rate ownership in the neighborhoods surrounding The Grove is as follows:

Occupancy	Monthly Household Income Required to Purchase a Market Rate Home in the project development area at $544,000	MFI %	Monthly Cost	Cost Burden
Owner-Occupied	**$13,882**	**217%**	**$4,165**	**30%**

Question:

3. **When does the City start subsidizing the affordable units? What is buildout timeline? 10 year buildout or more? (Pool)**

Response

The City would not subsidize any affordable units, with Housing Trust Funds, until the affordable units are delivered and the tax revenue is realized from the site. Per the Grove at Shoal Creek Planned Unit Development Land Use Plan, Section 18b dated November 29, 2016, the developer/land owner agreed at least 35% of the total required affordable rental units shall be provided once 325 multi-family residential units are constructed before any additional multi-family units may be constructed. They also agreed to at least 35% of the total required affordable for-sale residential units shall be provided once 100 "podium style" condominium residential units are constructed before any additional "podium style" condominium residential units may be constructed.

The City would not be required to provide any subsidy from the tax increment (Housing Trust Fund), unless and until the City receives the tax increment generated from the development at The Grove, thus giving ARG a further incentive to deliver the project as soon as possible. The project timeline will be further detailed in the Affordable Housing Agreement, as the other build-out details (e.g., traffic, etc.) are finalized.

Question:

4. **Impact of this development to trust fund. How much money will be coming into the trust fund? (Mayor)**

Response:

According to the developer's build out schedule, the project will "ramp" up with buildings being delivered and construction completed over a 5 year period. Over a 20 year time frame the City's property tax revenue from The Grove is estimated to be $77M in property tax.

Question:

5. **How would an Employer Assistance Program be integrated? (Pool)**

Response:

ARG has agreed to work in good faith to promote Employer-Assisted housing and provide affirmative marketing to area employees, in an attempt to promote a live-work balance that reduces traffic and benefits the environment.

Question:

6. **Provide additional detail regarding the breakdown of fee waivers vs trust fund (Tovo)**

Response:

The Development Services Department fee waivers will be used to offset the overall cost to deliver the affordable units. The fee waiver estimated over the life of the project is $3.3 million. This estimate does not include fee waivers related to construction inspection. Construction inspection fees are calculated based on construction cost and we do not have those numbers at this time. As the construction inspection fees are waived, the amount of Housing Trust Fund or other lawful funding mechanisms will be reduced. Attached is the breakdown of Development Services Department fee waivers as it relates to review fees.

Question:

7. **Capital Recovery Fee waiver restrictions from law (why are there no CRF waivers on the affordable units) (Mayor)**

Response:

Chapter 395 of the Texas Local Government Code limits the reduction or waiver of an impact fee to a unit that qualifies as affordable housing as defined under federal law. The federal law definition requires that a portion of the affordable rental units be set aside for households at 50% Median Family Income. ARG's proposed Median Family Income levels do not currently qualify for the waiver.

Question:

8. **If we removed the 10 homeownership units 120% MFI, how many additional rental units could we achieve at 60% or 80% MFI?**

Response:

The 120% MFI have an assumed subsidy of $150,000 for 10 units or $1,500,000. Assuming there are no other requirements that would be triggered by the PUD, which could buy 5 units for 60% MFI at a cost of $282,900 per unit or 7 units for 80% MFI at a cost of $203,488