



Affordable Housing Nexus Analysis

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Program Options (Scenarios)



- Current in-lieu fee payment
 - \$21.68 DT & SLU residential; \$15.15 other residential; \$24.95 commercial (plus TDR, childcare if applicable)
- Scenario 1:
 - Current performance requirement for residential:
Approx. 5% of total units affordable @
 - 80% AMI for renters
 - 100% AMI for owners
 - \$40/SF in lieu fee for commercial
- Scenario 2 (residential only):
 - 10% of total units affordable on-site for residential
 - same income levels as Scenario 1



Return on Equity (ROE) Analysis Approach



Market value of prototype



Less: Total development costs of prototype
(including land)

Equals: Net project value of prototype



Return on equity (ROE) equals net project value annualized over the estimated term of investment, divided by the total amount of the equity investment





Cap Rates

- Ratio of net operating income (NOI) to sales price exhibited in sales in the market.
- Tracked by land use and market area over time
- Rates used for analysis:
 - Apartment: 4.25% (low); 5.00% (high)
 - Office: 5.00% (low); 5.50% (high)



Feasibility Thresholds

- Return on equity analysis:
 - Residential: 6% to 9%
 - Commercial: 10% to 12%
- Residual land value:
 - RLV equal to or greater than market sales prices for land



Sensitivity Analysis

- Lower and higher cap rates
- Economic scenarios
 - Version A (Baseline): middle scenario
 - Version B: current underwriting
 - Version C: higher rents/sales prices



Impact of Program on Financial Feasibility



Findings are mixed, depending upon the economic scenario



Version A, middle scenario, residential prototypes:

- In general, at lower cap rates, there is some room to raise the in lieu fee to approximate the performance cost of current program (Scenario 1) Version A)
- In few cases do the prototypes remain feasible under the higher performance cost of Scenario 2 (10% affordable units)





Impact of Program on Financial Feasibility (2)



Version A (middle scenario) residential prototypes:

- In most cases, residential prototypes infeasible at higher cap rates, indicating financial feasibility highly dependent on market and investment conditions



Version A (middle scenario) commercial prototypes:

- DT commercial prototype infeasible
- SLU commercial prototype feasible at lower cap rate only





Impact of Program on Financial Feasibility (3)



Version B (current underwriting), residential prototypes:



- Low cap rates: DT prototype infeasible; SLU and low/mid-rise prototypes feasible with current in lieu fee only



- High cap rates: only DT condo prototype feasible

Version B (current underwriting), commercial prototypes:



- Infeasible at both low and high cap rates



Purpose of Nexus Study

Quantify the deleterious impact of new market-rate residential and non-residential development on the shortage of housing affordable to very low and low income residents



Nexus Methodology

1. Define residential, office and hotel prototypes.
2. Estimate household incomes of owners or renters of new homes based on home prices and rents.
3. Estimate consumer expenditures of these new households on goods and services.



Nexus Methodology (2)

4. Estimate the number of full-time employees required to provide the goods and services purchased by the new households.
5. Estimate the number of new households associated with the projected employment growth.
6. Estimate the income distribution of the new employee households.



Nexus Methodology (3)

7. Estimate the number of new employee households requiring affordable housing based on their incomes.
8. Estimate the affordability gap for the affordable housing units needed for the employee households.
9. Calculate the maximum supportable residential nexus fee.



Estimated New Employee Households Residential Nexus Analysis: DT and SLU Prototypes



	Downtown		SLU High-Rise	
	Owner	Renter	Owner	Renter
<60% AMI	51	48	29	30
60% - 80% AMI	14	14	8	9
Total	65	62	37	39



Per Unit Affordability Gaps

Income Level	30% AMI	60% AMI	80% AMI
Per Unit Gap	\$280,000	\$230,200	\$179,400

Gaps based on average development cost of \$350 per net SF for a low/mid rise apartment prototype, assuming provision of 1 BR unit



Maximum Supportable Nexus Fee Per Net SF Building Area Residential Prototypes: Downtown and SLU



	Downtown		SLU High-Rise	
	Owner	Renter	Owner	Renter
<60% AMI	\$41	\$36	\$36	\$34
60% - 80% AMI	\$9	\$8	\$8	\$8
Total	\$50	\$44	\$44	\$42

All nexus fees shown assume 2017 minimum wage



Existing Affordable Housing Incentive Program Fees Per Net SF Building Area Residential Prototypes: Downtown and SLU



	Downtown		SLU High Rise	
	Owner	Renter	Owner	Renter
Current In Lieu Fee	\$11	\$10	\$15	\$14
Scenario 1 Gap Cost	\$17	\$24	\$18	\$26
Scenario 2 Gap Cost	\$31	\$46	\$34	\$50



Maximum Supportable Nexus Fee Per Net SF Building Area Residential Prototypes: Low- and Mid-Rise



	4 Stories¹		6 Stories²		7 Stories³	
	Owner	Rental	Owner	Rental	Owner	Rental
<60% AMI	\$23	\$30	\$21	\$29	\$17	\$27
60% - 80% AMI	\$6	\$7	\$4	\$7	\$3	\$5
Total	\$29	\$37	\$25	\$36	\$20	\$33

¹Prototypes 10B and 9B

²Prototypes 10A and 9A

³Prototypes 12A and 11A

Based on “low” price scenario for low- and mid-rise prototypes



Existing Affordable Housing Incentive Program Fees Per Net SF Building Area

Residential Prototypes: Low- and Mid-Rise



	6 Stories ¹		7 Stories ²	
	Owner	Rental	Owner	Rental
Current In Lieu Fee	6	6	4	4
Scenario 1 Gap Cost	1	10	1	7
Scenario 2 Gap Cost	3	22	2	14

¹Prototypes 10A and 9A

²Prototypes 12A and 11A

Based on "low" price scenario for low- and mid-rise prototypes



Maximum Supportable Nexus Fee Per Net SF Building Area Commercial Prototypes



	Downtown Office	SLU Office	Hotel
<60% AMI	\$41	\$41	\$51
60% - 80% AMI	\$11	\$11	\$3
Total	\$52	\$52	\$54



Existing Affordable Housing Incentive Program In Lieu Fees Per Net SF Building Area Commercial Prototypes



	Downtown	SLU
Current In Lieu Fee	\$17	\$12
Scenario 1 Fee	\$26	\$18