

Housing Conservation District Advisory Group



February 28, 2018

Economic Model - Background

- Model tests a variety of addition, infill, partial infill, and redevelopment scenarios
 - High-level economic model
 - Consultant assisted with development inputs
 - Serves as a “check” for proposed recommendations
- Separately calculates the capitalized value and required return to the developer for market and affordable units
 - Resulting land residual value is compared to assumed market-rate acquisition costs (if any) of the existing units
 - Remaining gap is excess value available to pay for cost of affordable housing (renovations or development)

Economic Model - Background

- Model helps to inform draft recommendations
 - Financial feasibility generally increases if affordable units are placed in existing buildings
 - Parking/land values among primary factors in analyzing feasibility
- Financial Modeling is an iterative process
 - Will continue to analyze scenarios based on draft density parameters, development scenarios
- Economic model does not compare townhome development to rental scenarios

Inputs

Input Assumptions	
Developer Return	7%
Vacancy and Collection Loss	5%
Hard Costs (including general conditions, site improvements) per SF	
Stick (no podium)	\$185
Stick (podium)	\$190
Concrete and Steel	\$215
Soft Costs	28% of hard costs
Parking Costs per Space	
Surface	\$6,000
Above-Grade Structured	\$22,000
Below Grade Structured (1-2 Levels)	\$35,000
Below Grade Structured (3+ Levels)	\$40,000

Inputs

Input Assumptions - Continued

Developer Fee	4% of TDC
Replacement Reserves	\$350/unit
Operating Costs	
Less than 100 units	\$8,500/unit
More than 100 units	\$8,000/unit
Capitalization Rate	5.25%
Permanent Interest Rate	4.50%
Term	30 years
Debt Coverage Ratio	120% of debt service
Construction Loan Rate	5% of loan
Construction Finance Fee	1% of loan

Rents – Vary by Area	
	Penrose Example
Studio	\$3.04/SF
1 BR	\$2.99/SF
2 BR	\$2.70/SF
3 BR	\$2.45/SF

Tier 1 Overview

- Add additional density up to what is allowed by-right
 - Small additions/infill, basement units
 - No demolition of existing units
- Allows other structural renovations (gym, amenity space, etc.)
- Provides relief for set-backs and parking
- Draft recommendation to preserve 20% of total units as affordable up to 80% AMI for 10 years
 - Affordable units can be placed in existing buildings
 - Increased rental revenue can help subsidize affordable units
 - Revenue needed to preserve units up to 80% AMI anticipated to be minimal since current rents are up to or below 80% AMI
 - Committed affordable units must be in good condition (must meet the Housing Quality Standards set by HUD and the VA Uniform Statewide Building Code standards)

Tier 1 Example Scenario

- Example Scenario – Infill
 - Existing = 74 units
 - Infill = 17 (1-bedroom) units
 - Total = 89 units
- Develops 17 additional units (allowed by-right), however relief provided for parking
- Draft recommendation to preserve 20% of total units (18) as affordable up to 80% AMI for 10 years
 - Units preserved in existing buildings
- Using model assumptions, excess value remaining after development costs and return to owner is ~\$350,000