Affordable Housing
Contribution Procedures
and Valuation Techniques
Discussion with AHAAC
Let’s talk about how...

- affordable units get built in the City
- voluntary (monetary) affordable housing contributions are calculated
- affordable housing provided on/off-site is valued

Housing Master Plan: new affordability for 2,000 units by 2025
How affordable units get built

- Voluntary monetary contributions to the Housing Trust Fund
- Sec. 7-700
- CDDs and rezonings
How affordable units get built

- Voluntary monetary contributions to the Housing Trust Fund

Housing Opportunity Fund

- Housing Trust Fund
- HOME
- CDBG
- General Fund

Developer Contributions
Loan repayments
How affordable units get built

- Voluntary monetary contributions to the Housing Trust Fund

Helps fund:
- The development and preservation of affordable rental housing
  - Leverages state and private funding
- Housing counseling services
- Mini-RAMPs (rental accessibility projects)
- Rebuilding Together America
- Homeownership programs
Housing Trust Fund dollars at work!

Station at Potomac Yard

Gateway at King and Beauregard

Arbelo Apts

Jackson Crossing

Community Lodgings
# Voluntary monetary contributions

<table>
<thead>
<tr>
<th>Development Category</th>
<th>Tiers</th>
<th>2015 Rates per Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-residential</td>
<td>n/a</td>
<td>$1.89</td>
</tr>
<tr>
<td>Residential</td>
<td>Tier 1 (by right)</td>
<td>$2.51</td>
</tr>
<tr>
<td>Residential</td>
<td>Tier 2</td>
<td>$5.03</td>
</tr>
</tbody>
</table>

- Rates adjusted annually (CPI for Housing)
  - 2016 rates to be released in March
- Paid when projects are completed

**Exemptions:**
- Religious, public, municipal uses, and ARHA
- Residential uses < 5 units
- New construction and additions < 3,000 sq ft
- Parking except for single-owner garages
601 Henry Street (The Park Residences)

Application:
18 Townhouses: 49,034 GFA

Site characteristics:
Lot area: 29,523
Zoning: CSL
FAR permitted: 0.75
FAR proposed: 1.75
By right: 29,523 * 0.75 = 22,142 GFA

<table>
<thead>
<tr>
<th>Development Category</th>
<th>GFA</th>
<th>2014 Rates per Sq. Ft.</th>
<th>Voluntary Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-residential</td>
<td>n/a</td>
<td>$1.85</td>
<td>n/a</td>
</tr>
<tr>
<td>Residential Tier 1 (by right)</td>
<td>22,142</td>
<td>$2.47</td>
<td>$54,691</td>
</tr>
<tr>
<td>Residential Tier 2</td>
<td>26,892</td>
<td>$4.94</td>
<td>$132,845</td>
</tr>
</tbody>
</table>

Total contribution to Housing Trust Fund: $187,537

FAR=floor area ratio (the total square feet of a building divided by the total square feet of the lot on which the building is located)
Section 7-700 (bonus density and/or height)

- More than 20% bonus permitted if authorized by small area plan (Eisenhower West SAP)
- 1/3 of bonus units (or equivalent) must be committed affordable
- Affordable offsite permitted if equivalent value
- Cash in lieu of units if mutually agreed to

Notch 8

Station 650 at Potomac Yard

Del Ray Central

The Bradley
Section 7-700 (bonus density and/or height)

- Provides for added bonus density (up to 20%*) and/or height (up to 25’ in areas w/o a 50’ or lower height limit) in exchange for affordable housing

- Changes since 2013
  - *More than 20% bonus permitted if authorized by small area plan
    - 2015 Eisenhower West SAP
  - 1/3 of bonus units (or equivalent) must be committed affordable
  - Affordable offsite units permitted if equivalent in value
  - Cash in lieu of units permitted if mutually agreed to
2901 Eisenhower Avenue

Application:
South Tower (apts): 333,734 GFA
South Tower (retail): 9,000 GFA
North Tower (apts): 560,182 GFA
67 Townhouses: 218,767 GFA

Site characteristics:
Lot area: 391,093
Zoning: CDD 3 (existing)
FAR permitted: 2.5
FAR proposed: 2.73
Bonus density: 90,698 GFA
Net parking: 63,313 GFA

ADUs attributed to bonus density*:
1/3 of bonus net parking: 21,104 GFA
= 21 units (averaging 1,000 sqft/unit)
(13 one-bedrooms & 8 two-bedrooms)

* $2.2 million was also contributed to the Housing Trust Fund
CDDs and rezonings

- When additional density is requested, the Housing Master Plan recommends contributions take into account that affordable housing is one of the City’s highest priorities and that there should be a significant monetary or in-kind contribution to affordable housing in excess of what would normally be required with a DSUP.
  - Examples: Oakville Triangle (approved) & ABC/Giant site (on 3/12 council docket)
  - Planning Commission feedback: Compare contribution to affordable units that would have been achieved through Sec. 7-700
Valuation—the importance of inputs

- Inputs
  - Market rents (comps)
  - Affordable rents—maximum LIHTC gross rents (source: VHDA) at 30% of 60% AMI for Northern Virginia MS
  - Rent escalation rates
    - market (changes in overall market)
    - affordable (changes in LIHTC rents)
  - Expense escalation rates
    - market
    - affordable (may be the same)
  - Vacancy rates
    - market
    - affordable
  - Turnover rates
  - Parking reductions for affordable units

Are we missing anything?
Valuation—different techniques

- **Net operating income (NOI) and cap rate**
  - Value = NOI/cap rate
  - “Point in time”
  - Cap rate
    - Return on investment; market driven/determined by comps
    - Sources: CoStar, CBRE, IRR
  - Example: Beauregard

NOI = Potential Gross Income - Vacancy - Bad Debt - Operating Expenses

Potential Gross Income = rental income + other income + expense reimbursements

Operating Expenses = taxes + repairs + maintenance + insurance + utilities + replacement reserves
Net present value analysis

“Over time” (e.g. 20, 25, 30, 40 years, etc.)

Discount rate (factor)

Highly sensitive to length of analysis (affordability term), discount factor, and rent and expense escalation rates

Example: Oakville Triangle project

“The discount rate takes into account not just the time value of money, but also the risk or uncertainty of future cash flows; the greater the uncertainty of future cash flows, the higher the discount rate.”
Oakville Triangle DSUP

- Affordable housing negotiated as part of broader community benefits package
  - Estimated standard monetary contribution
  - Developer agreed to provide on-site units
  - Estimated affordable unit target
  - Negotiated number and terms of units at a significantly higher value

<table>
<thead>
<tr>
<th>Development Category</th>
<th>GFA</th>
<th>2015 Rates per Sq. Ft.</th>
<th>Voluntary Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-residential</td>
<td>460,962</td>
<td>$1.89</td>
<td>$871,218</td>
</tr>
<tr>
<td>Residential Tier 1 (by right)</td>
<td>476,349</td>
<td>$2.51</td>
<td>$1,195,635</td>
</tr>
<tr>
<td>Residential Tier 2</td>
<td>567,902</td>
<td>$5.03</td>
<td>$2,856,545</td>
</tr>
</tbody>
</table>

|                  | Standard contribution to Housing Trust Fund: | $4,923,398 |

<table>
<thead>
<tr>
<th>Net Present Value Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of affordable units</td>
</tr>
<tr>
<td>Area median income</td>
</tr>
<tr>
<td>Term of affordability</td>
</tr>
<tr>
<td>Annual escalation rate</td>
</tr>
<tr>
<td>Discount rate</td>
</tr>
<tr>
<td>Estimated value of on-site units:</td>
</tr>
</tbody>
</table>
Thank you! Questions/Ideas?