Affordable Housing Contribution Procedures and Valuation Techniques

Discussion with AHAAC

MARCH 3, 2016

OFFICE OF HOUSING

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

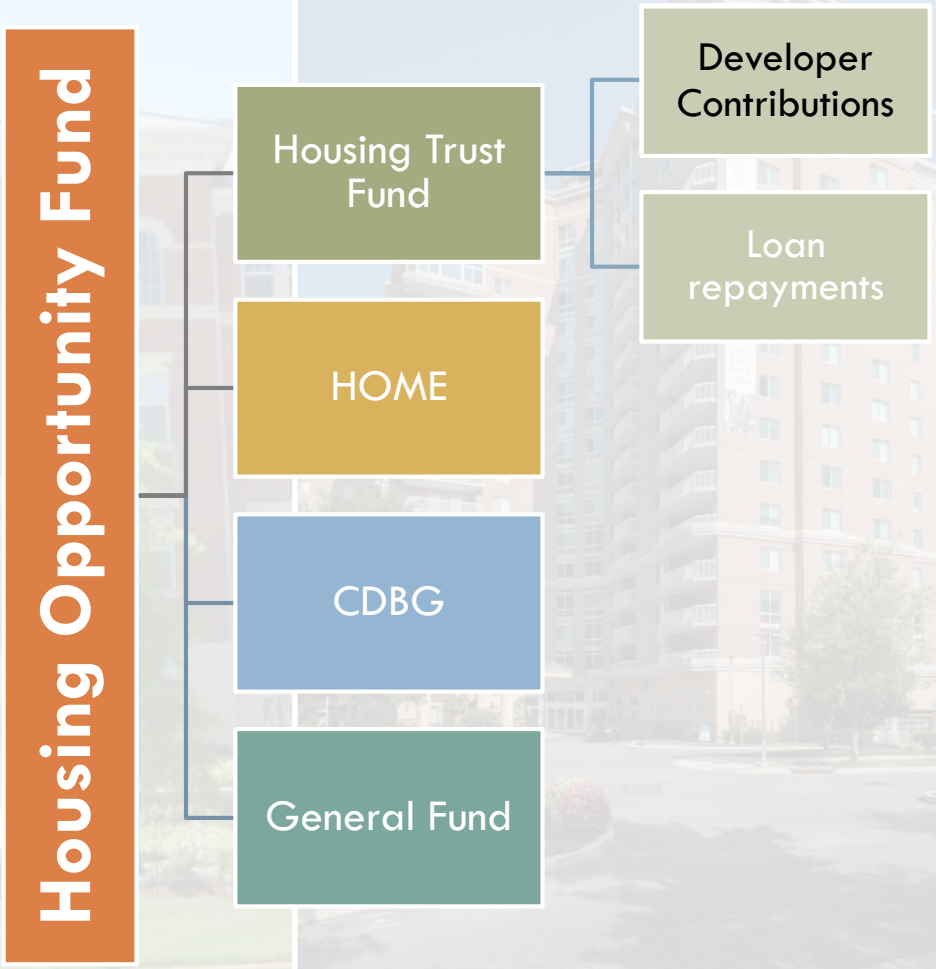
Housing Master Plan: new affordability for 2,000 units by 2025

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



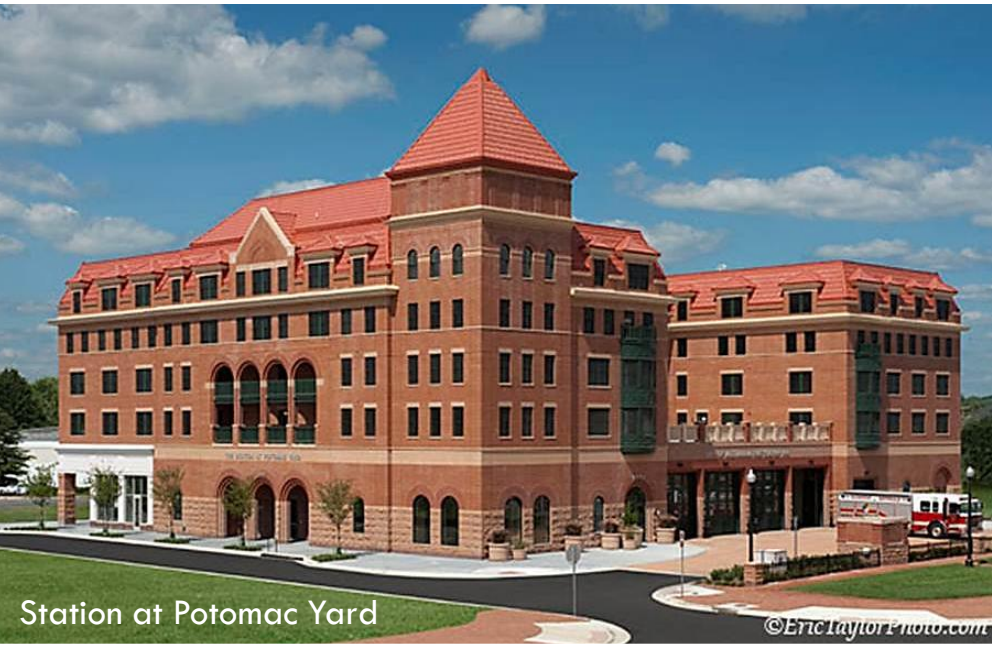
How affordable units get built

- 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

Community Lodgings

Arbelo Apts

Gateway at King and Beauregard

Jackson Crossing

Voluntary monetary contributions

Development Category	Tiers	2015 Rates per Sq. Ft.
Non-residential	n/a	$1.89
Residential	Tier 1 (by right)	$2.51
Residential	Tier 2	$5.03

- 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

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

Station 650 at Potomac Yard

The Bradley

Notch 8

Del Ray Central

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

Valuation—different techniques (cont.)

- **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

Development Category	GFA	2015 Rates per Sq. Ft.	Voluntary Contribution
Non-residential	460,962	$1.89	$871,218
Residential Tier 1 (by right)	476,349	$2.51	$1,195,635
Residential Tier 2	567,902	$5.03	$2,856,545
Standard contribution to Housing Trust Fund:			**$4,923,398**

Net Present Value Analysis	
Number of affordable units	65 (63 studios & 2 two-bedrooms)
Area median income	At or below 60% AMI
Term of affordability	25 years
Annual escalation rate	3%
Discount rate	5%
Estimated value of on-site units:	**$7,818,570**

Thank you! Questions/Ideas?