

HOUSING 101

THE BASIC STEPS OF AFFORDABLE HOUSING FINANCE & DEVELOPMENT

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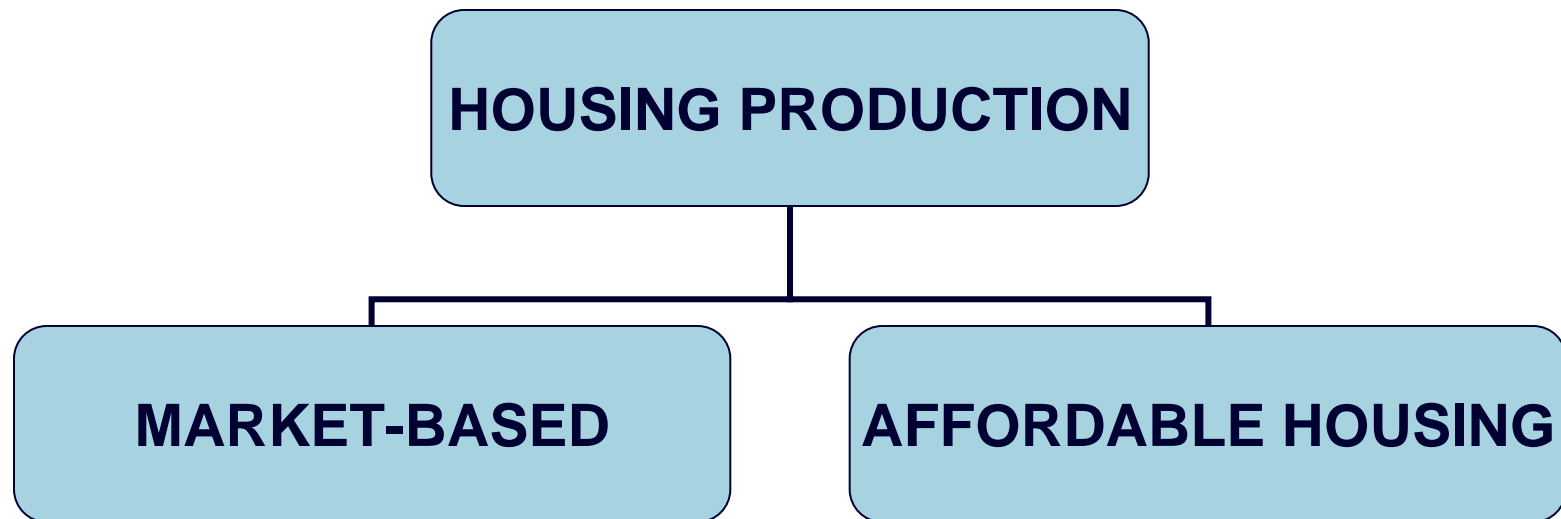
*Dept. of Community Planning,
Housing and Development*

Housing Division

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Housing Development in the USA



Key is Mission and Goals of the Developer

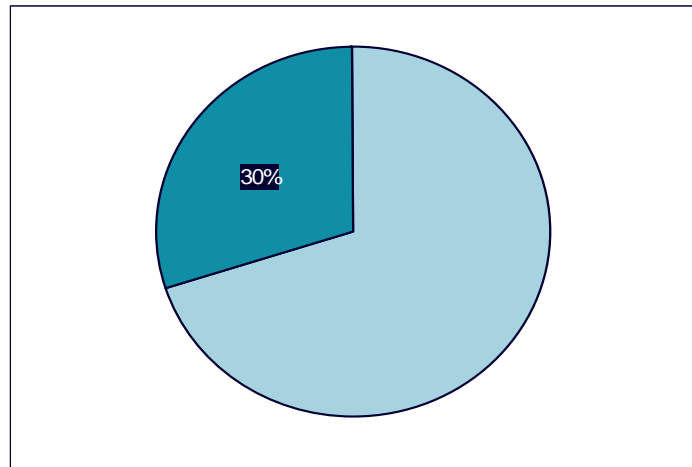


Developer's Mission

- **Non-profit Developers**
 - **AHC Inc.**
 - **APAH**
 - **Wesley Housing**
- **For Profit Developers**

Affordable Housing

Decent, quality housing that costs no more than 30 percent of a household's gross monthly income for rent/mortgage **and utility payments**



What kind of housing is it?

- **Single family and multi-family**
- **Garden apartments and hi-rises**
- **Rental and home ownership**
- **New construction and existing buildings**



ALL KINDS!



Affordable to Whom?

People who make less than:

- **30% of area median income**
- **50% of area median income**
- **60% of area median income**
- **80% of area median income**



Area Median Income (AMI)

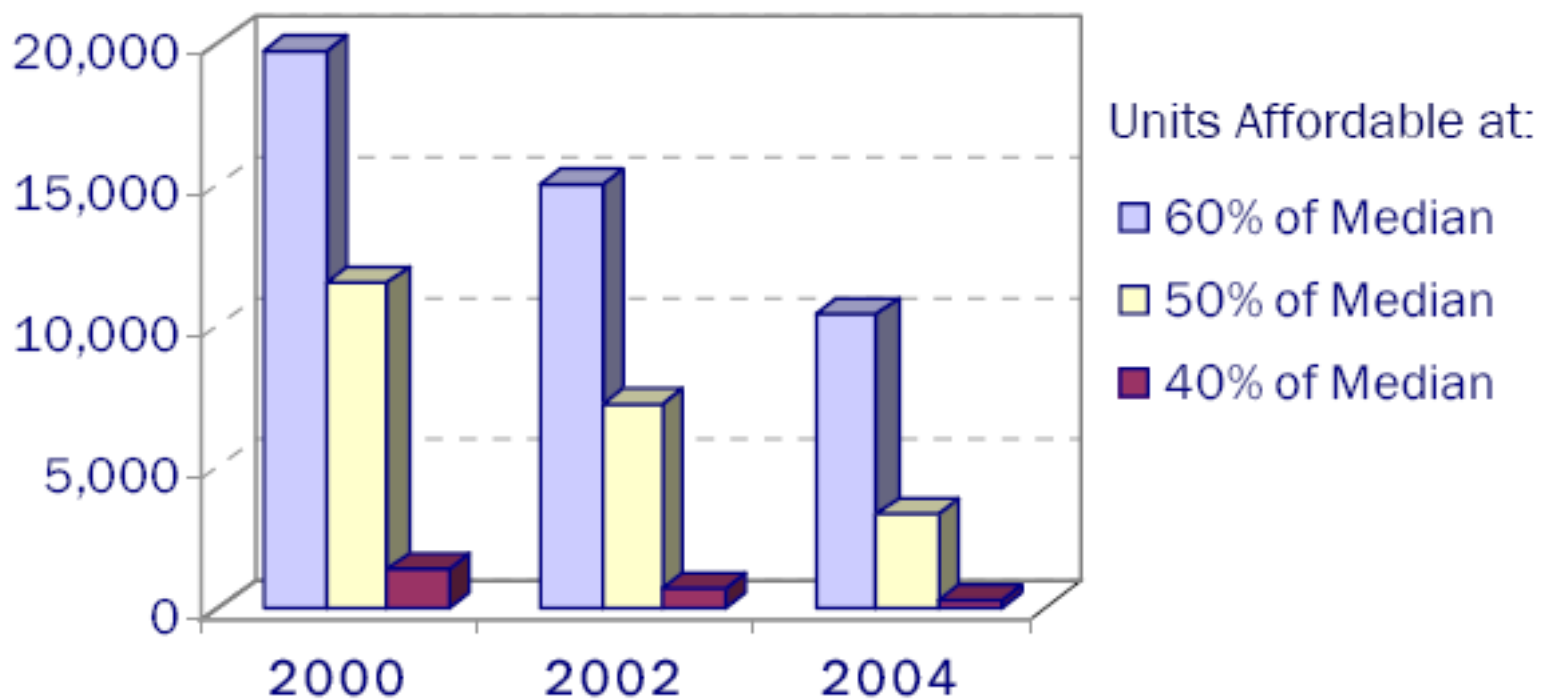
- **Half are above; half are below**
- **Calculated by HUD for family size**
- **Determines eligibility for government programs**



Housing Terms in Arlington

- **Market Housing:** Privately owned and traded on the market without government subsidy
- **MARKS:** Market Affordable Rental units
- **Committed Units (CAFS):** Units set-aside for a specific lower-income group with a controlled rent for a set number of years

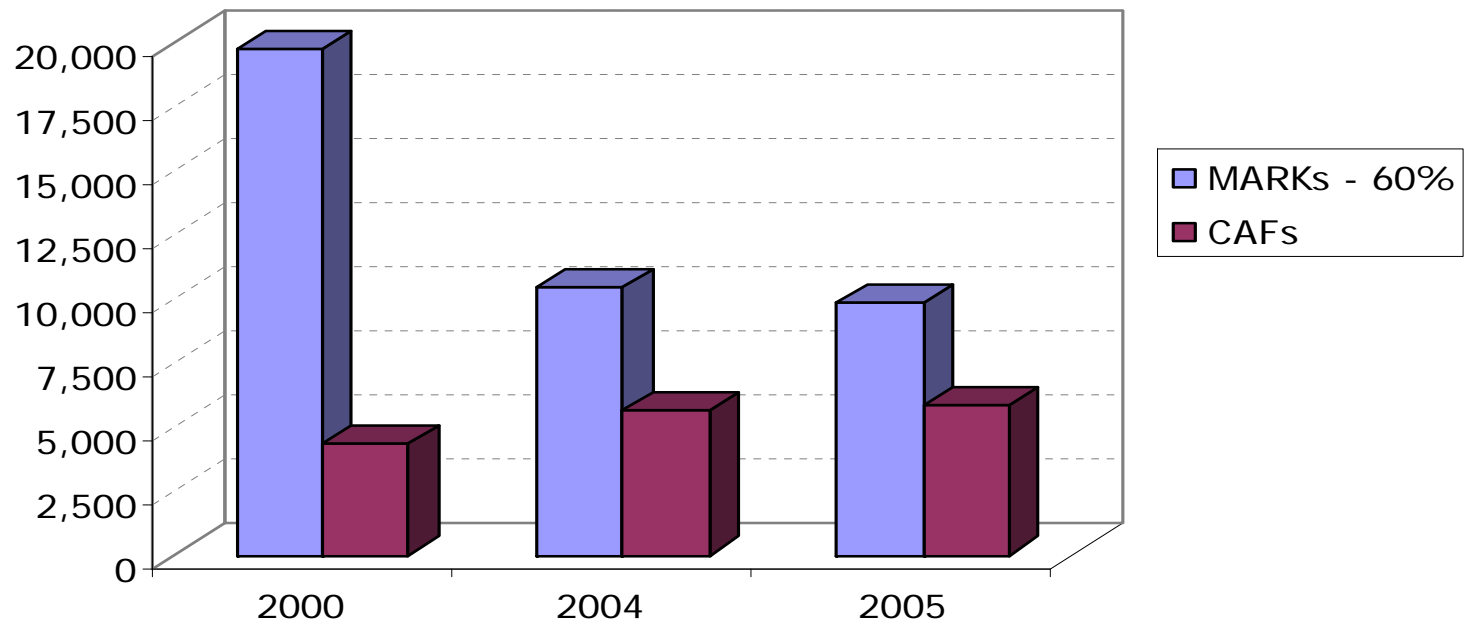
Loss of MARKS in Arlington



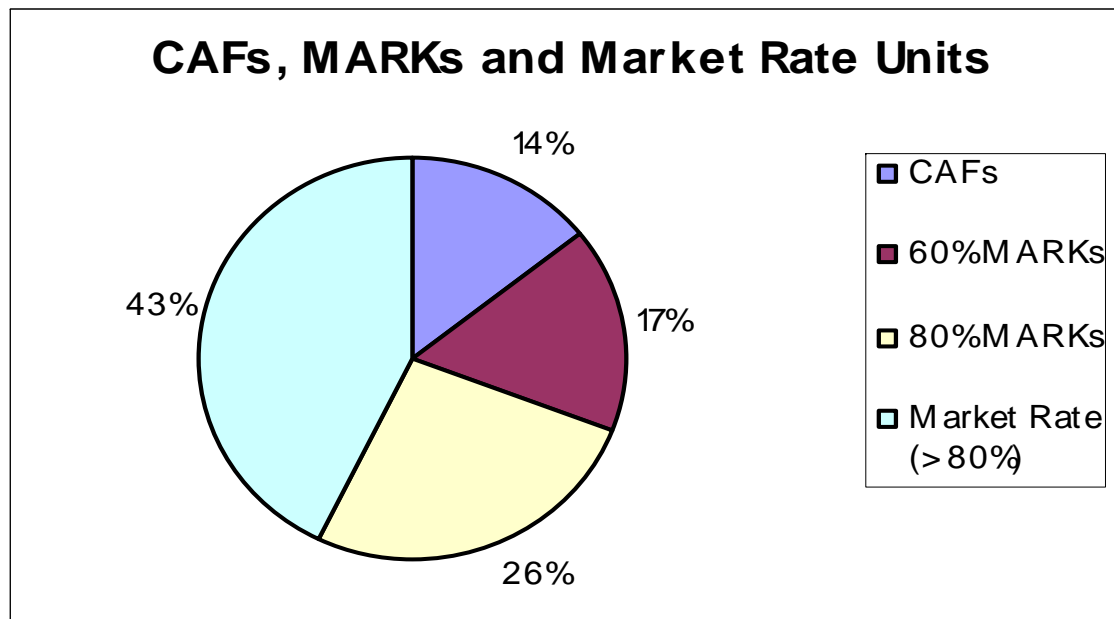
Source: CPHD Housing Division

Gain of CAFs in Arlington

MARKS & CAF's



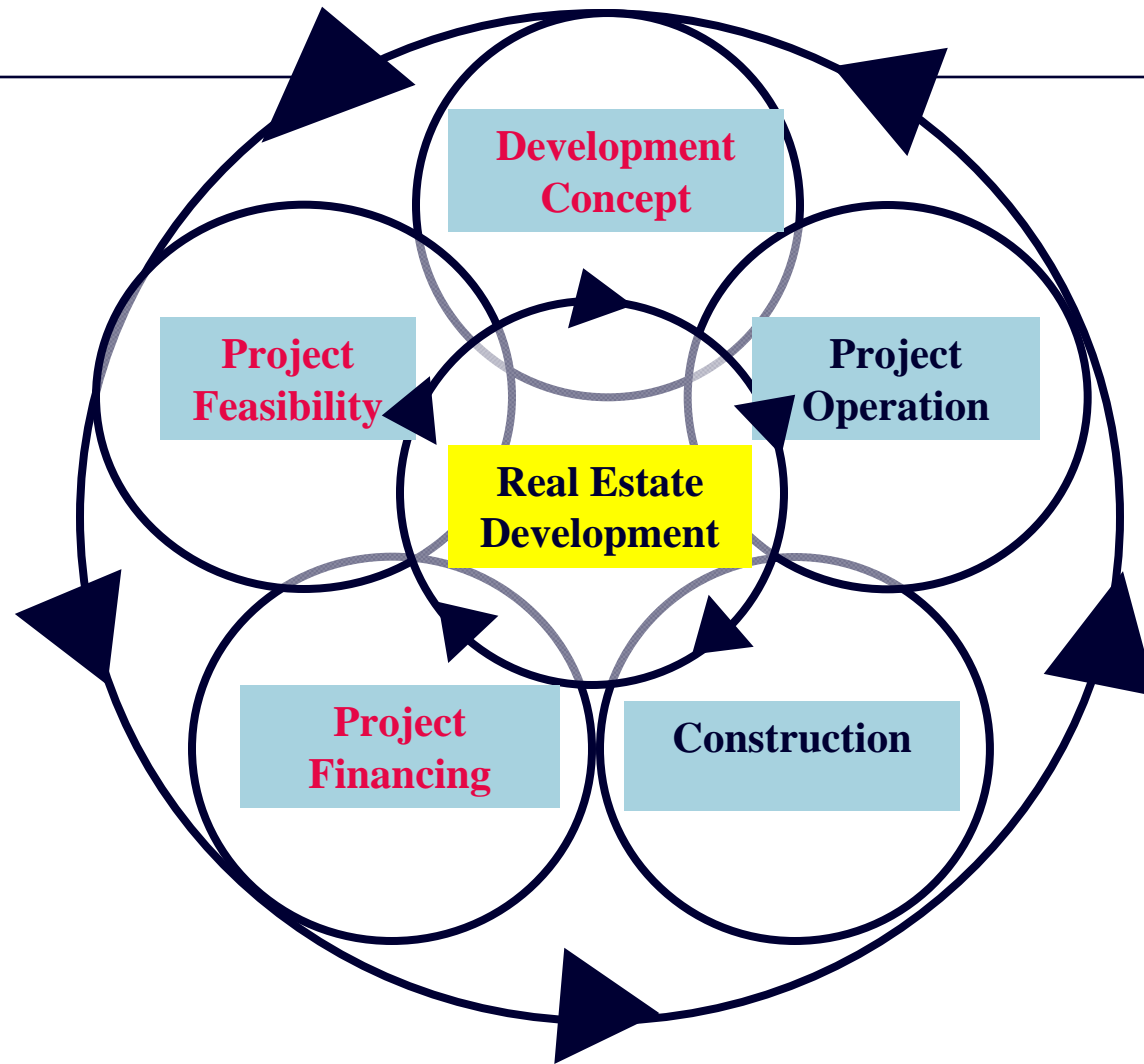
Rental Mix in Arlington - 2009



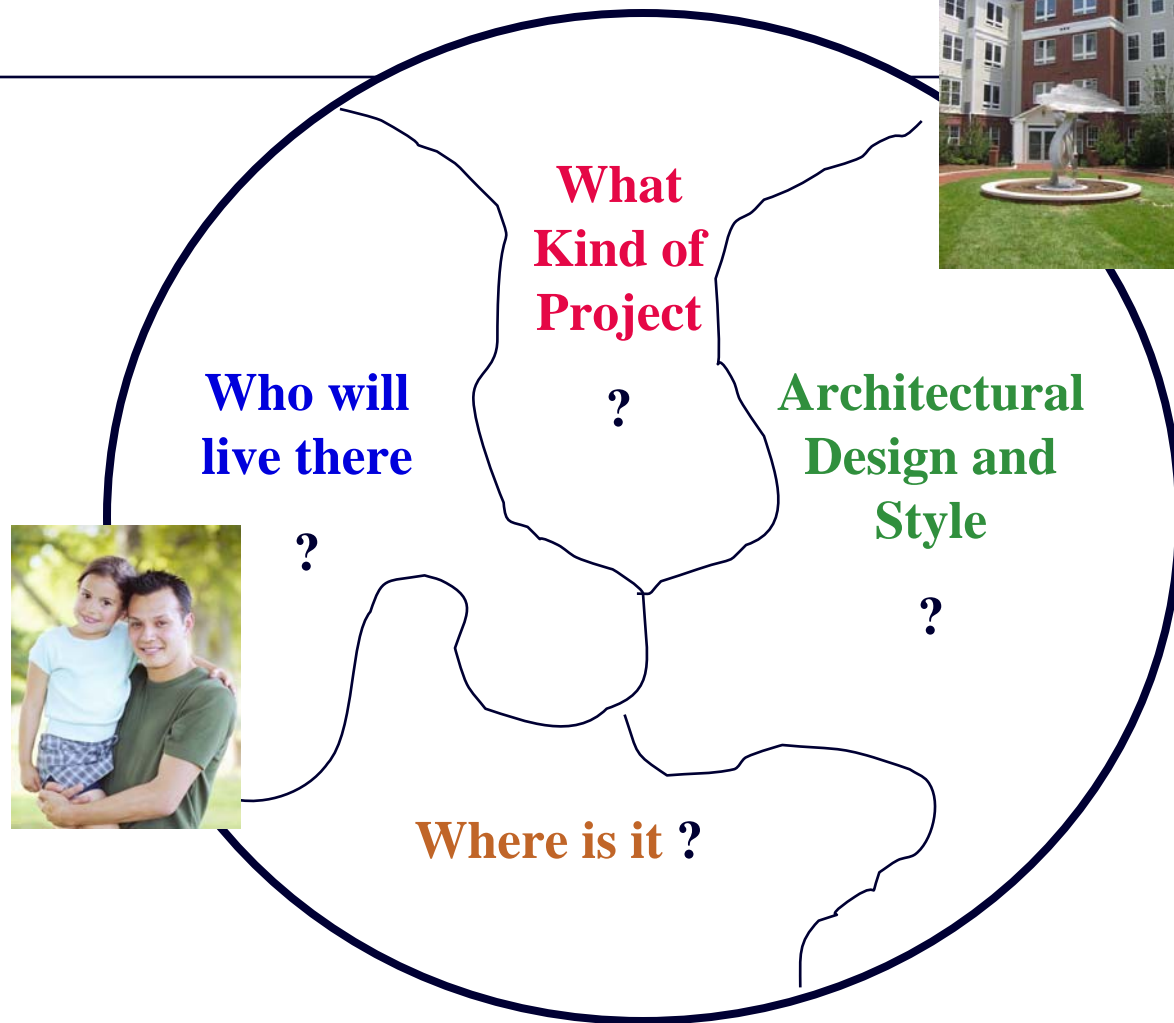
42,000 Total Units

- **18,000 MARKS**
- **6,000 CAFS**

The Real Estate Development Process



Project Concept



What kind of housing?

- **Single family or multi-family**
- **Garden apartments or hi-rises**
- **Rental or home ownership**
- **New construction or renovation**



Who Will Live There?

People who make less than:

- **30% of AMI**
- **50% of AMI**
- **60% of AMI**
- **80% of AMI**





Median Income

For a family of 4 in the Washington Area





Median Income

For a family of 4 in the Washington Area

\$103,500

(\$8,625 per mo)



2010 Washington Area Median Incomes

Family Size	Extremely Low 30% AMI	Low 50% AMI	Tax Credit 60% AMI	Moderate 80% AMI
1	\$21,750	\$36,250	\$43,500	\$58,000
2	\$24,840	\$41,400	\$49,680	\$66,240
3	\$27,960	\$46,600	\$55,920	\$74,560



Affordability by Income Level

3-Person Family

AMI	INCOME/yr	INCOME/mo	AFFORDABLE
30%	\$27,960	2,330	700
50%	\$46,600	3,880	1,165
60%	\$55,920	4,660	1,400



Who Makes That?

The Butcher - \$31,490

The Baker - \$24,840

The Candle-stick Maker - \$25,190

U.S. Bureau of Labor Statistics
DC-VA-MD PMSA
November, 2004



Who Makes That?

- Social Workers - \$50,840
- Police Officers - \$49,280
- Para-legals - \$47,210
- Plumbers - \$44,890
- Nurses - \$42,860
- Auto Mechanics - \$42,610



Who Makes That?

- Dental Assistants - \$37,020
- Secretaries - \$35,440
- Hairdressers - \$28,880
- Daycare Workers - \$26,330
- Retail Salespersons - \$23,150
- Waitresses - \$16,780

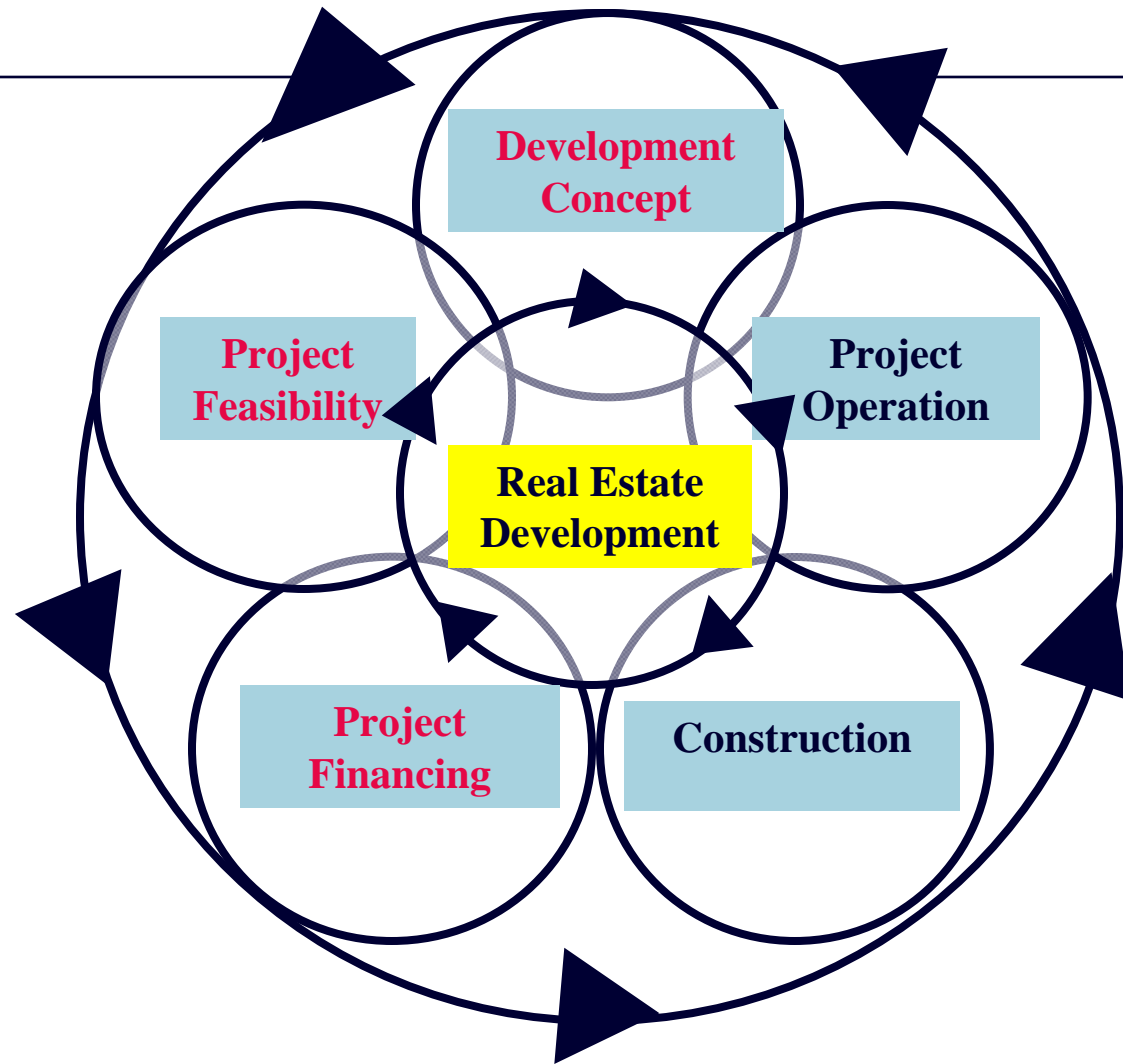


Where Is It?

LOCATION, LOCATION, LOCATION

- Finding a site
- The right zoning
- Near schools? Metro? Bus?
- Neighborhood Support

The Real Estate Development Process



Project Feasibility

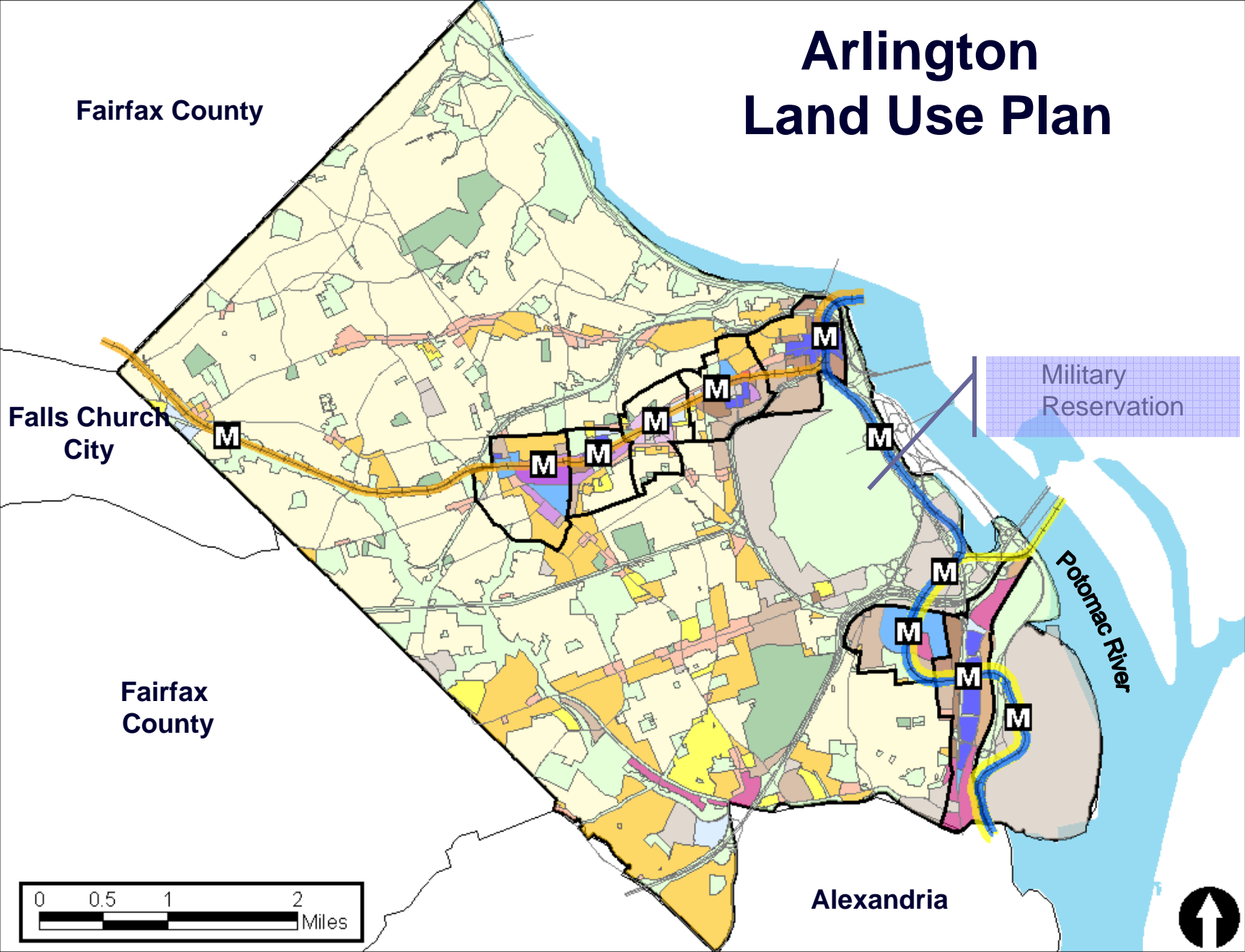




Site: Zoning & Land Use Issues

- Use Restrictions
- Density
- Setbacks & coverage
- Parking
- Historic designation
- Neighborhood or Sector Plans

Arlington Land Use Plan





Land Use

 Low Residential (1-10 units/acre)

 Low Residential (11-15 units/acre)

 Low-Medium Residential

 Medium Residential

 High-Medium Residential

 High Residential

 Service Commercial

 General Commercial

 Service Industry

 Public


 Semi-Public

 Government and Community Facilities

 Low Office-Apartment-Hotel

 Medium Office-Apartment-Hotel

 High Office-Apartment-Hotel

 Medium Density Mixed-Use

 High-Medium Residential Mixed-Use

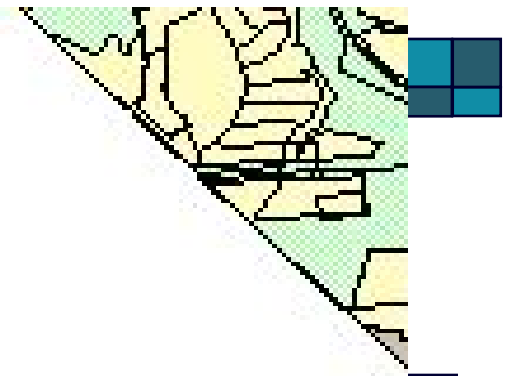
 Coordinated Mixed-Use Development District

 High-Medium Residential/Low Office-Apartment-Hotel

 Low Office-Apartment-Hotel/Medium Residential

 High Residential/High Office-Apartment-Hotel

 Medium Office-Apartment-Hotel/Medium Residential



Site Plan – New Construction





The Cost of Land

Total Cost	\$1 million
Per Unit: 2 units	\$500,000
Per Unit: 10 units	\$100,000

The Relationship of Land to Density



*“No man acquires property without
acquiring with it a little arithmetic also.”*

~ Ralph Waldo Emerson



A Tale of Two Budgets

Operating Budget

INCOME

Rent

Other

EXPENSES

Taxes

Insurance

Utilities

Maintenance

Management

Replacement Reserves

Vacancy

Services



A Tale of Two Budgets

Development Budget

SOURCES

Debt

Equity

USES

Acquisition

Construction

“Soft” Costs



Basic Feasibility Rule

+ **Income (Sources)**

- **Expenses (Uses)**

= A POSITIVE NUMBER



Operating Budget

+ **Income (Rents)**

- **Expenses**

= **NOI**

Net Operating Income



Operating Budget

+ **Income (Rents)**

- **Expenses**

= **Net Operating Income**

- **Mortgage Payments**

= **Cash Flow = Profits**



“Affordable Housing” Economics

$$\begin{array}{r} + \quad \text{Income from Restricted Rents} \\ - \quad \text{(Operating and Maintenance costs)} \\ \hline = \quad \text{Net Operating Income (+) or Gap (-)} \end{array}$$

How much mortgage can the project afford??



“Affordable” Rents

Affordable Cost	Less Utilities	Affordable Payment
\$1,400	150	\$1,250

Family of 3 at 60% Median Income

Affordable Rental Feasibility

Operating Budget

Affordable Rent	1250
Less Operating and Maintenance costs	500
NOI	750
Available for Debt Service	625

Family of 3 at 60% Median Income



Affordable Rental Feasibility

Development Budget

Available for Debt Service	\$625
Mortgage @ 6.5%, 30 yr.	\$100,000
Development Costs	More than that

Family of 3 at 60% Median Income



A Tale of Two Budgets

Development Budget (Per Unit)

USES

Acquisition	\$ 100,000
Construction	150,000
“Soft” Costs	<u>50,000</u>
TOTAL	\$ 300,000



Basic Feasibility Rule

+ **Income (Sources)**

- **Expenses (Uses)**

= A POSITIVE NUMBER



Basic Feasibility Rule

+ \$100,000 (Sources)

- 300,000 (Uses)

= (\$200,000) GAP



Reducing Development Costs

- **Land Discounts**
- **Frugal Design and Construction**
- **Donated materials and labor**
- **Results:**
 - Lower Total Development Cost Per Unit**

BEWARE! Tradeoffs on cost and quality



The Cost of Land

Total Cost	\$1 million
Per Unit: 10 units	\$100,000
Per Unit: 50 units	\$ 20,000

The Relationship of Land to Density



Basic Feasibility Rule

+ \$100,000 (Sources)

- 220,000 (Uses)

= (\$120,000) GAP



Where's the Money?

Development Budget Sources

DEBT

Bank Loans

Gov't Loans

Bond Proceeds

EQUITY

Savings

Grants

Tax Credits



The Cost of Money

Available for Debt Service	\$625
Mortgage @ 6.5%, 30 yrs	\$100,000
Mortgage @ 4.5%, 30 yrs	\$125,000
Mortgage @ 4.0%, 35 yrs	\$140,000



Basic Feasibility Rule

+ \$140,000 (Sources)

- 220,000 (Uses)

= (\$80,000) GAP



50-Unit Apartment Project

+ \$ 7,000,000 (Sources)

- 11,000,000 (Uses)

= (\$4,000,000) GAP



Where's the Money?

Development Budget Sources

DEBT

Bank Loans \$ 7,000,000

Gov't Loans

Bond Proceeds

EQUITY

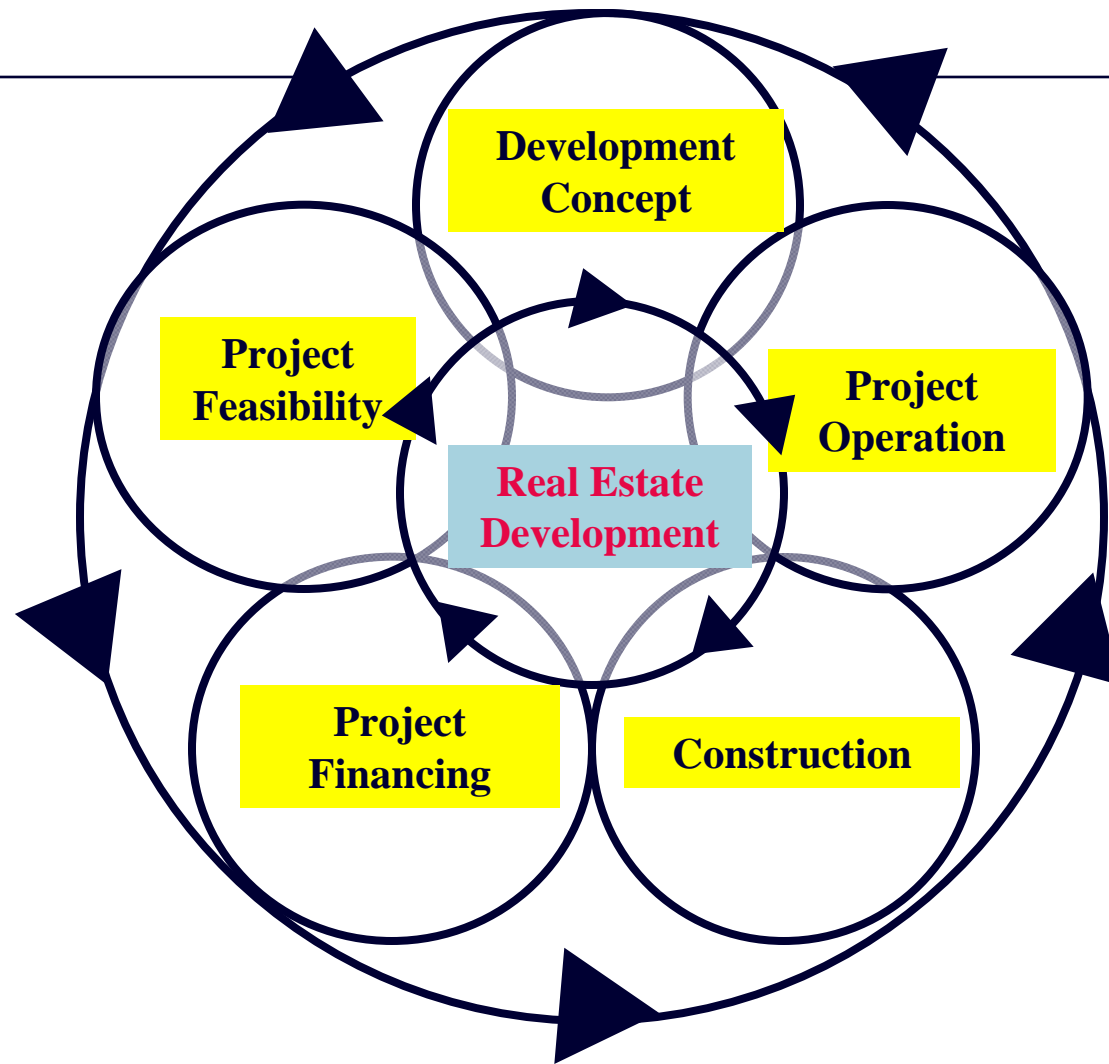
Savings \$ 600,000

Grants 1,000,000

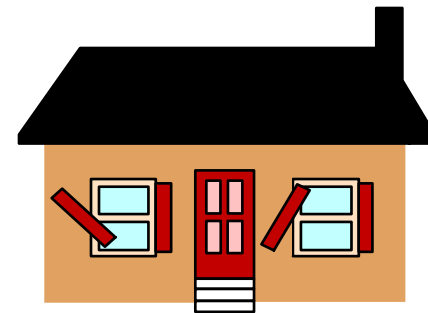
Tax Credits 2,400,000

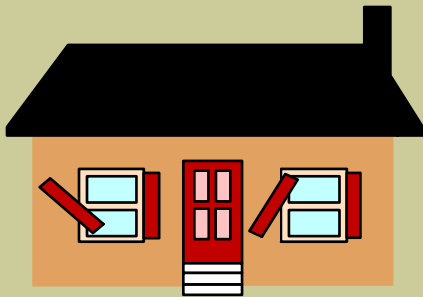
TOTAL \$ 11,000,000

The Real Estate Development Process



The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little. – FDR





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