

PHED COMM #4
March 27, 2006

ADDENDUM

REVISED PER 3/27/2006 Revision to Bolan Smart
Scenarios 7D and 14B

MEMORANDUM

March 30, 2006

TO: Planning, Housing, and Economic Development Committee
FROM: Linda McMillan, Senior Legislative Analyst
SUBJECT: **Worksession: Bill 30-05, Housing - Workforce Housing**

The March 21 packet includes 18 scenarios regarding rental and condominium projects. Two scenarios looked at how the economics of a high-rise project might change if it were using the 22% MPDU density bonus (which provides additional market units for increasing MPDUs from 12.5% to 15%) and a Workforce Housing density bonus (which does not add new market units).

Scenario 7C provides the result for a rental project. Scenario 7D (not in the March 21 packet) provides the result when only the 22% MPDU bonus is assumed; there is no workforce density bonus. In summary, if the workforce units are targeted to households with an average income of \$60,780 the estimated increase to the rent for the market units are:

Table	Description (High-rise Rental)	\$ per month increase to market unit rents
7B	Targeted AMI (82.5%) Workforce Density Bonus Lower Land Cost	\$51
7C	Targeted AMI (82.5%) Workforce Density Bonus 22% MPDU Density Bonus Lower Land Cost	\$43
7D	Targeted AMI (82.5%) NO Workforce Density Bonus 22% MPDU Density Bonus Lower Land Cost	\$84

In reference to high-rise condominium projects, Scenario 14 considers a project that uses both a 22% MPDU density bonus (additional market units) **and** a Workforce Housing density bonus (no new market units). Scenario 14B provides results if only the 22% MPDU density bonus is used. Targeting the Workforce Housing to a household earning \$69,989 the estimated impacts on the market unit prices are:

Table	Description (High-rise Condo)	\$ price increase to market unit
13	Targeted AMI (95%) Workforce Density Bonus	\$5,930
14	Targeted AMI (95%) Workforce Density Bonus 22% MPDU Density Bonus	\$5,004
14B	Targeted AMI (95%) NO Workforce Density Bonus 22% MPDU Density Bonus	\$17,964

As the Committee is aware, the Planning Board has testified in support for the Workforce Housing concept. They expressed support for targeting households with incomes at or below 100% AMI. A majority of the Board expressed reservations about an approach that relies on an added component of density and was not convinced that added density is necessary to make the program work. Planning staff asked Mr. Bruce Gamble of RBG Associates to review the scenarios developed by Bolan Smart. As he states in his memo (attached) Mr. Gamble was asked to look at a several issues, "including whether or not workforce housing requires a density bonus to be economically feasible." Mr. Gamble's memo indicates that, while he is not saying that any of the Bolan Smart assumptions are incorrect, he is not yet convinced a density bonus is required because changes to certain assumptions such as land cost, financing on rental projects, and developer profit might yield a different outcome.

As Council staff noted in the March 21 packet, "The [Bolan Smart] scenarios are based on current conditions. Because of this, they should be treated as guidance on the **order of magnitude** of any impact or cost shift. Any inputs could rise or fall by the time a project in a targeted area is proposed. Changes to the cost of land, concrete, steel, financing, or investor expected rate of return would all affect the specific dollar amounts."

The following 2 pages of this memo provide an updated chart of the Bolan Smart economic analysis scenarios. The 2 additional scenarios (7D and 14B – REVISED ON 3/27 BY BOLAN SMART based on discussion at March 27 worksession) not available at the time of the original packet are included in the new summary.

Four Floor (stick-built) Rental Units

Table #	Description	Workforce Average AMI%	Workforce Average \$ Income	Increase to Market Units	Market Rent	Increase as % of total market rent	Workforce Rent
1	Neutral Economic Impact Workforce Density Bonus	92.3%	\$68,035	NA	\$2,077	NA	\$1,701
2	Targeted AMI Workforce Density Bonus	82.5%	\$60,780	\$18 per month	\$2,094	0.8%	\$1,519
3	Targeted AMI Workforce Density Bonus 22% MPDU Bonus	82.5%	\$60,780	\$15 per month	\$2,091	0.7%	\$1,519
4	Neutral Economic Impact* NO Workforce Density Bonus	Not Achievable*	\$73,673 (assumed)	NA	\$2,077	NA	\$1,842
5	Targeted AMI NO Workforce Density Bonus	82.5%	\$60,780	\$54 per month	\$2,130	2.5%	\$1,519

*Analysis indicates that in this scenario market units are achievable but there is an overall loss per workforce unit of about \$37,500 – neutral economic impact not achieved

Twelve Floor (high-rise) Rental Units

Table #	Description	Workforce Average AMI%	Workforce Average \$ Income	Increase to Market Units	Market Unit Rent	Increase as % of total market rent	Workforce Rent
6	Neutral Economic Impact** Workforce Density Bonus	Not Achievable*	\$73,673 (assumed)	NA	\$2,432	NA	\$1,842
7A	Neutral Economic Impact*** Workforce Density Bonus Lower Land Cost	Not Achievable*	\$73,673 (assumed)	NA	\$2,432	NA	\$1,842
7B	Targeted AMI Workforce Density Bonus Lower Land Cost	82.5%	\$60,780	\$51 per month	\$2,483	2.0%	\$1,519
7C	Targeted AMI Workforce Density Bonus 22% MPDU Bonus Lower Land Cost	82.5%	\$60,780	\$43 per month	\$2,475	1.7%	\$1,519
7D	Targeted AMI 22% MPDU Bonus NO Workforce Density Bonus Lower Land Cost	82.5%	\$60,780	\$84 per month	\$2,517	3.3%	\$1,519
8	Targeted AMI NO Workforce Density Bonus Lower Land Cost	82.5%	\$60,780	\$91 per month	\$2,524	3.6%	\$1,519

**Analysis indicates that this scenario results in an overall loss per unit of about \$46,000 for workforce unit and \$83,000 for market unit – neutral economic impact not achieved

***Analysis indicates that in this scenario market units can be achieved but workforce unit has a loss of about \$33,000 Targeted AMI = impact of targeting to certain income groups – pushes cost above affordable limit to market units

All scenarios assume 12.5% MPDUs in base cost

Lower Land Cost assumes same cost for stick built and high-rise projects = \$32 per gsf

Four Floor (stick-built) Condominium Units

Table #	Description	Workforce Blended AMI%	Workforce Blended \$ Income	Increase to Market Units	Market Unit Price	Increase as % of total market price	Workforce Unit Price
9	Neutral Economic Impact Workforce Density Bonus*	87.1%	\$64,181	NA	\$301,567	NA	\$219,717
10	Neutral Economic Impact NO Workforce Density Bonus	110.0%	\$81,050	NA	\$301,567	NA	\$284,691
11	Targeted AMI NO Workforce Density Bonus	95.0%	\$69,989	\$5,497	\$307,065	1.7%	\$242,087

The targeted AMI was set at 95% average. In this scenario which includes density bonus, the units are affordable to come below the targeted AMI. Therefore, no separate scenario for targeted AMI with density bonus is included.

Twelve Floor (high-rise) Condominium Units

Table #	Description	Workforce Blended AMI%	Workforce Blended \$ Income	Increase to Market Units	Market Unit Price	Increase as % of total market price	Workforce Unit Price
12	Neutral Economic Impact Workforce Density Bonus	115.9%	\$85,385	NA	\$450,095	NA	\$295,507
13	Targeted AMI Workforce Density Bonus	95.0%	\$69,989	\$5,930	\$456,025	1.3%	\$236,208
14	Targeted AMI Workforce Density Bonus 22% MPDU Bonus,	95.0%	\$69,989	\$5,004	\$455,099	1.0%	\$236,208
14B	Targeted AMI NO Workforce Density Bonus 22% MPDU Bonus	95%	69,989	\$17,964	\$468,059	3.8%	\$236,208
15	Neutral Economic Impact NO Workforce Density Bonus	Not Achievable	\$88,407 (assumed)	NA	\$450,095	NA	\$431,120 cannot be purchased at 120% AMI
16	Targeted AMI NO Workforce Density Bonus	95.0%	\$69,989	\$19,491	\$469,586	4.1%	\$236,208

Targeted AMI = impact of targeting to certain income groups – pushes cost above affordable limit to market units
 All scenarios assume 12.5% MPDUs in base cost

**(REVISED MARCH 27) Table 7D - Prescribed AMI Limits, Market Rent Absorbed Cost - Lower Land Cost
12-Floor Rental Apartment Bldg, Density Bonus 22% MPDU, No Workforce Bonus
Montgomery County Workforce Housing Analysis - (\$2006)**

			PER UNIT		MARKET / WF RATIO
			Market	Workforce	15.0% MPDU Density
1) <u>Project Type</u>		average size	982 gsf	982 gsf	9.495 market units
2) one bed	50.00%	720 nsf	84.00%	84.00%	1.830 MPDUs
3) two bed	50.00%	930 rsf	825 rsf	825 rsf	0.875 WF units per base case
4) average	100.00%	825 rsf	1 unit	1 unit	12.200 total units
5) parking		below grade	1.0 spaces	1.0 spaces	10.850 market / WF units
6) <u>Development Costs</u>					
7) land			\$32.00 / gsf	\$32.00 / gsf	
8) hard construction			\$31,429 / unit	\$31,429 / unit	
9) parking		below grade	\$170 / gsf	\$97.50% of mkt	
10) total			\$166,964 / unit	\$162,790 / unit	
11) soft costs (a&e, financing, legal, marketing, etc.)			\$30,000 / space	\$30,000 / space	
12) reserves / development fee			\$30,000 / unit	\$30,000 / unit	
13) impact fees			15.00% of cost	\$97.50% of mkt	
14) other public benefit costs			\$34,259 / unit	\$33,402 / unit	
15) total delivery costs per unit			8.00% of cost	100.00% of mkt	
20) Permanent Funding Requirements			\$21,012 / unit	\$21,012 / unit	
21) debt		75.00% of total cost	\$8,000 / unit	\$0 / unit	
22) equity		25.00% of total cost	\$1,500 / unit	\$1,500 / unit	
23) net equity			\$355 / rsf	\$340 / rsf	
24) net equity return @ 12.00% market			\$293,164 / unit	\$280,133 / unit	
25) net equity return @ 9.00% workforce					
29) Required Revenue					
30) operating expenses			\$219,873 total	\$210,100 total	
31) real estate taxes (2005)		65.00% of cost	\$16,837 /year	\$16,089 /year	
32) state tax rate		0.132%	\$73,291 total	\$70,033 total	
33) county tax rate		0.734%	(\$11,886)	(\$11,357)	
34) special area		0.275%	\$61,405	\$58,676	
35) total		1.141%	\$7,369 /year	\$5,281 /year	
36) total expenses			\$24,206 /year	\$21,370 /year	
37) annual financing costs					
38) required revenue (financing and expenses)			\$4.95 /rsf	\$4.95 /rsf	
39) projected initial revenue			\$4,084 /year	\$4,084 /year	
40) effective rent (monthly after concessions)			\$231 /rsf	\$221 /rsf	\$2,432 mkt unit rent net WF
41) required market renter income (@ 30.0% rent)			\$0.30 /rsf	\$0.29 /rsf	\$2,517 mkt unit rent with WF increase / month
42) workforce households			\$1.70 /rsf	\$1.62 /rsf	
43) 1.50 persons / 1bed			\$0.64 /rsf	\$0.61 /rsf	\$97,295 mkt renter income net WF
44) 2.25 persons / 2bed			\$2.64 /rsf	\$2.52 /rsf	\$100,667 mkt renter income with WF increase over net WF
45) 2.25 persons / unit			\$2,174 /year	\$2,078 /year	
46) 30.0% rent		AMI	\$7.59 /rsf	\$7.47 /rsf	
47) 65.0% AMI			\$6,258 /year	\$6,161 /year	
48) 82.5% AMI			\$24,206 /year	\$21,370 /year	
49) 100.0% AMI			\$30,464 /year	\$27,531 /year	
50) blended workforce		82.5%	\$3.05 /rsf		
51) unit split					
52) 0.0% AMI					
53) 100.0% AMI					
54) blended workforce		82.5%			
55) extra parking / misc income (per month)			\$3.05 /rsf		
56) vacancy / collection loss		5.00%	\$2,517 /month	\$1,197 /month	
57) total revenue			\$30,200 /year	\$1,519 /month	
58) required revenue			\$100,667	\$1,842 /month	
59) initial loss / profit (later stabilization)					
60) implied value					
61) potential revenue			\$30,400 /year	\$18,177 /year	
62) expenses			(\$6,258) /year	(\$6,161) /year	
63) net income			\$24,142 /year	\$12,016 /year	
64) capitalization rate (for present valuation)			6.50%	6.66% (1.025% mkt)	
65) implied value		market workforce	\$371,419	\$180,351	
66) transaction costs		3.00% 3.00%	(\$11,143)	(\$5,411)	
67) return on cost / opportunity cost		18.00% 18.00%	(\$52,770)	(\$50,424)	
68) total delivery costs			(\$293,164)	(\$280,133)	
69) break-even loss / surplus			\$14,343	(\$155,617)	
					\$155,617 for 10.85 market units

**(REVISED MARCH 27) Table 14B - Prescribed AMI Limits, Market Rent Absorbed Cost
12-Floor Residential Condominium Bldg, Density Bonus 22% MPDU, No Workforce
Montgomery County Workforce Housing Analysis - (\$2006)**

policy related workforce housing variables	PER UNIT		MARKET / WF RATIO 15.0% MPDU Density
	Market	Workforce	
1) Project Type	982 gsf	982 gsf	9.495 market units
2) one bed 50.00% average size	84.00%	84.00%	1.830 MPDUs
3) two bed 50.00%	825 nsf	825 nsf	0.875 WF units per base case
4) average 100.00%	1 unit	1 unit	12.200 total units
5) parking below grade	1.0 spaces	1.0 spaces	10.850 market / WF units
6) Development Costs			
7) land	\$85.00 / gsf	\$85.00 / gsf	
	\$83,482 / unit	\$83,482 / unit	
9) hard construction	\$180 / gsf	\$180 / gsf	
10) parking below grade	\$176,786 / unit	\$170,156 / unit	
11) parking below grade	\$30,000 / space	\$30,000 / space	
12) total	\$30,000 / unit	\$30,000 / unit	
13) soft costs (a&e, financing, legal, sales, etc.)	20.00% of cost	20.00% of cost	
14) reserves / development fee	\$58,054 / unit	\$56,602 / unit	
15) impact fees	8.00% of cost	8.00% of cost	
16) other public benefit costs	\$27,866 / unit	\$27,866 / unit	
17) development profit / opportunity cost	\$8,000 / unit	\$8,000 / unit	
18) total delivery costs per unit	\$1,500 / unit	\$1,500 / unit	
19) total delivery costs per unit	18.00% of cost	18.00% of cost	
20) total delivery costs per unit	\$64,408 / unit	\$61,513 / unit	
21) total delivery costs per unit	\$546 / nsf	\$523 / nsf	
22) total delivery costs per unit	\$450,095 / unit	\$431,120 / unit	\$450,095 mkt unit cost net WF
23) Workforce Affordability			
24) workforce households			
25) 1.50 persons / 1bed			
26) 2.00 persons / 2bed			
27) 2.25 persons / unit			
28) 70.0% AMI	\$51,571	\$1,432 / month	
29) 33.3% housing cost 95.0%	\$69,989	\$1,944 / month	
30) 120.0% AMI	\$88,407	\$2,456 / month	
31) Unit split 0.0%	70.0% AMI	0.00 units	
32) 100.0%	95.0% AMI	1.00 units	
33) 0.0%	120.0% AMI	0.00 units	
34) blended workforce 95.0%	\$69,989	\$1,944 / month	
35) blended workforce		\$23,327 / year	
36) Housing Expenses	\$567 / nsf	\$286 / nsf	
37) purchase price	\$468,059 / unit	\$236,208 / unit	\$468,059 mkt unit cost with WF
38) mortgage 95.00% of total cost	\$444,656 total	\$224,398 total	\$17,964 increase
39) 30 years @ 6.50% interest rate	\$34,051 / year	\$17,184 / year	
40) condominium fees	\$3.50 / nsf	\$3.50 / nsf	
41) mortgage insurance	\$2,888 / year	\$2,888 / year	
42) real estate taxes (2005) 0.250%	\$1,112 / year	\$561 / year	
43) state tax rate 100.00% of cost	\$567 / nsf	\$286 / nsf	
44) county tax rate 0.132%	\$0.75 / nsf	\$0.38 / nsf	
45) special area 70.75%	\$4.16 / nsf	\$2.10 / nsf	
46) total 0.275%	\$1.56 / nsf	\$0.79 / nsf	
47) total 1.141%	\$6.47 / nsf	\$3.27 / nsf	
48) total expenses	\$5,341 / year	\$2,695 / year	
49) total expenses	\$11.32 / nsf	\$7.45 / nsf	
50) annual financing costs	\$9,340 / year	\$6,144 / year	
51) annual financing cost (financing and expenses)	\$34,051 / year	\$17,184 / year	\$125,520 req mkt income net WF
52) required annual income 33.33% housing cost	\$43,390 / year	\$23,327 / year	\$130,184 req mkt income with WF
53) Developer Net Cost	\$130,184 / year	\$69,989 / year	\$4,664 increase
54) potential revenue	\$468,059	\$236,208	\$5,078,442 for 10.85 market units
55) total delivery costs	(\$450,095)	(\$431,120)	(\$4,883,531) for 10.85 market units
56) break-even loss / surplus	\$17,964	(\$194,911)	\$194,911 for 10.85 market units

Source: Bolan Smart Associates, Inc. (03/06)

BOLAN SMART ASSOCIATES, INC.

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To: Montgomery County Workforce Housing Task Group
From: Eric Smart, Bolan Smart Associates
Date: March 30, 2006

RE: Workforce Housing Economic Analysis

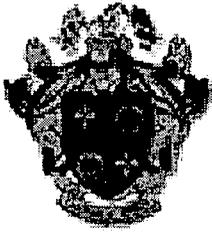
Per Council request of March 27, 2006, Bolan Smart Associates has discussed with MNCPPC's economic consultant (Bruce Gamble) our prior economic analysis of workforce housing impacts concerning proposed County legislation. I believe Mr. Gamble and Bolan Smart are in agreement with the following general statement:

"Depending on the assumptions employed, and up to moderate thresholds, the impacts of slight shifts in any number of economic variables are likely to be absorbed by the marketplace in accommodating the development of a limited number of workforce housing units. Achieving workforce units beyond moderate levels of economic burden, however, will require some form of cost offset if the overall development is still to proceed."

More specifically, Bolan Smart's has identified the following principal findings based on the represented development scenarios:

1. Stick-built workforce housing units (rental or condo) provided **with** an achievable WF density bonus may be economically feasible if average WF incomes limits are not less than 85% to 90% of AMI.
2. Stick-built workforce housing units (rental or condo) provided **without** a WF density bonus may be economically feasible if average WF unit income limits are (a) permitted to exceed 100% of AMI or (b) if required rents for market units can be increased by 1.0% to 3.0% to absorb WF unit related deficits.
3. High-rise workforce units (rental or condo) **with** an achievable WF density bonus are generally not feasible without (a) allowing for WF unit income limits exceeding 100% of AMI or (b) combining relatively high WF income limits with lowered land or other development costs, and relying on increased market unit charges of up to 2.0%.
4. High-rise workforce units (rental or condo) **without** a WF density bonus are generally not feasible without substantially higher WF unit cost offsets.

Note: All of the requested Bolan Smart economic analyses assume that unit sizes are moderate, impact fees are waived for workforce units, real estate taxes reflect the lower value of the workforce unit, and most critically, the added project density does not trigger higher site development or construction costs. (For economic modeling assumptions please see pages 1 and 2 of Bolan Smart's twenty-two page March 2006 report.)



Montgomery County Council
Legislative Information Services

Packet Index

Friday, March 31, 2006

Item Number	Note	Staff
PHED Item #1	Please bring PHED Item #4 from March 27.	Faden/McMillan
PHED Item #2	Please bring PHED Item #5 from March 27.	Wilson/Healy
