

September 8, 2005

Corporate Office

4725 Wisconsin Ave NW, Suite 200
Washington, DC 20016

Zoning Commission for the District of Columbia
Ms Carol Mitten, Chairman
441 Fourth Street, NW, Suite 210 South
Washington, DC 2001

tel 202 686 0010

fax 202 686 0089

www.pnhoffman.com

Zoning Commission Case #04-33
Mandatory Inclusionary Zoning
Written Testimony
Of

Monty Hoffman

CEO, P N Hoffman

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Madam Chairman and distinguished Members of the Zoning Commission

Thank you for the opportunity to submit comments regarding the Mandatory Inclusionary Zoning proposal, case #04-33

A combination of job creation and mainstream shift toward City living have provided the opportunity for reversing the 40 year trend of population loss in the District. The resulting benefits however may not be felt by everyone. The rising cost of infill development matched with an influx of affluent purchasers has created an affordability gap between market rate housing and the current residential median income. This trend, in its most cautious interpretation, threatens the cultural and economic diversity which makes the city appealing, not to mention challenges the stewardship and moral consideration for preserving a balanced society. Fortunately, tenants' rights, rent control, and numerous affordable housing projects have also influenced our housing composition. Clearly, more needs to be done, it's a question of how can we provide the most affordable housing without staling the very industry that can help alleviate the problem – population growth

Since 1993, P N Hoffman has built or restored over 33 multifamily residential projects in the District of Columbia. We were one of very few developers to invest in the City and build new condominiums and apartments while the District was loosing population. In the '90's' we struggled to make residential projects viable. Only recently, has residential been able to compete with office buildings for highest and best use development. Indeed, our 'housing boom' has only been with us for a few short years. Having risked everything in the 90's, I'm humbled and well aware of our vulnerability to market conditions

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ZONING COMMISSION
District of Columbia

CASE NO. 04-33
EXHIBIT NO. 152
Fine Urban Living™

There is no question that today landowners, builders, homeowners, and the District (through substantial increased tax revenue) are experiencing prosperity - for the first time in decades. However, while we do not subscribe to the 'housing bubble', we do believe the future is less certain. We know first hand that purchasers, for the past several months, are resisting price appreciation, competition and corresponding housing supply has moved in (to the benefit of consumers and the District), and interest rates are moving up. These market forces signal that what lie ahead may be 'flat line' valuations if not slight discounts to sale prices with time of absorption taking longer. At minimum, it would be reckless to speculate, much less rely on, the continued housing appreciation we've experienced over the past few years.

Meanwhile, our working environment is rapidly changing bringing with it increased development costs. This is due to several factors. The most obvious being construction hard costs due to inflation of materials (all of which are affected by petroleum increases and the aftermath of Katrina), more sophisticated designs, lack of quality subcontractors, the shortage of skilled workers, etc. Site development has also become more expensive because most of the 'low hanging fruit' has been picked requiring creative and often expensive solutions to achieve quality urban redevelopment on congested irregular shaped and often contaminated infill sites. The majority of today's projects require a special exception, variance, Planned Unit Development (PUD), and/or Historic Preservation Review Board review (HPRB) making them subject to public venue bringing with it neighborhood amenities which are growing over time. Due to increased demand, the regulatory process is stressed along with the public utility services creating longer and more expensive preconstruction phases. Every project (its respective LLC) is subject to the new stadium tax. Furthermore, the condominium industry, as it moves into mainstream, is becoming more sophisticated bringing with it higher consumer expectations and developer liabilities.

Obviously, reconciling these evolving costs with fluctuating market pricing while making a commercially reasonable profit is risky but necessary for any business's survival. The introduction of Mandatory Inclusionary Zoning (MIZ) as it is currently proposed, threatens to tip this balance of viability. This would discourage housing development thereby stunting the very industry that is generating substantial tax revenue and has the potential to help alleviate the District's affordable problems. The outcome of a reduction in housing supply due to the MIZ affect would produce few affordable homes, reduce the District's tax potential, and exacerbate the disparity between 'affluent' market rate and affordable housing (due to unmet demand and therefore the ability to pass the subsidy on to the purchaser). In other words, the affordability gap would broaden and we would make problems worse.

We recognize that many professionals have worked very hard to come up with the current proposal. We all agree there is an affordability problem. However, having "worked in the trenches" on building housing in the District for the past 12 years, we would like the board to consider a few 1) observations, 2) specific problems with the current MIZ proposal, and finally, 3) suggestions on what we believe is a better plan.

1.) Observations

Montgomery County's misleading success:

Montgomery County's moderately priced dwelling unit (MPDU) program is often cited by MIZ advocates as an example of a successful program. According to the Urban Land Institute, affordable housing is included in "about 8% of the county's total annual housing permits, and annual production is dropping every year." This drop off is attributable to the fact that a majority of the affordable production in the past has been in the upper portions of the county (Gaithersburg, Germantown, etc.) where land was once plentiful for low rise, stick built construction. The Office of Planning has acknowledged this in their August 1st testimony stating "a lot of those were Greenfield units and a lot of them were townhouse units, that were relatively much easier to produce. It wasn't high-rise construction, it wasn't infill development. Those all were fraught with a lot more difficulty and expense."

On a similar note, Elizabeth Davison, Director of the Department of Housing and community Affairs for Montgomery County, has stated that the expenses of building and operating high rise concrete construction projects present an added burden and challenge to MPDU success. The results prove this because over the past 30 years of MPDU existence and of the over 10,000 units created, only 6 high rise MPDU condominiums exist in downtown Bethesda.

In fact, PN Hoffman built the first private high rise condominium building in downtown Bethesda in over a decade in 2003. The development was only made viable through 'linkage' to another (within the same area). Today residential condo's are finally being built in Bethesda but the 'Empty Nester' market price is exceeding \$700/SF high enough to subsidize the MPDU requirements. Consequently, the gap between 'market' and 'affordable' is substantial.

Suppose Inclusionary Zoning had been in place:

Care needs to be taken when evaluating speculative studies used to support MIZ initiatives.

A recent article in the Washington Post cited a study claiming that approximately 3,000 additional affordable units (*Low-Cost Housing May Ride Market's Coattails*, July 31, 2005, *Washington Post*) would have been built in the District had a Mandatory Inclusionary Zoning program been in place over the past five years. The findings of this study appear to be very questionable. Office of Planning Director Ellen McCarthy disputes them in her August 1st testimony to the Zoning Commission, claiming to be "mystified" by the numbers in the study. A similar study from the Office of Planning (OP) shows a yield of 780 units during that same 5 year time period. This study only considers areas where they felt the density bonus would actually be attainable.

The Office of Planning's study, however, fails to consider one key component: the 'cause and effect' dynamic. The viability of each of these developments must be considered within the context of market conditions during the time of that development. In other words, residential projects only started as soon as pro-formas indicated there was enough profit compared to the inherent risk of development. Furthermore, we experienced significant material cost increases that would have been damaging, had it not been for even greater housing sales appreciation. Notwithstanding, this recent viability encouraged more land transactions which boosted the number of developed units. However, the added constraint of the MIZ program would have introduced additional expenses that would have prevented this viability. Consequently, many of these projects would not have moved forward.

It's conceivable that these projects would have eventually become viable as unsatisfied demand would have led to higher market rate prices. At the end of the five years, however, it is more likely that fewer projects would have been completed. This would have resulted in fewer affordable units than shown in the Office of Planning's study, providing less tax revenue to the District, and creating an even greater disparity between market rate and affordable housing. In fact we can look to Bethesda, a similar infill high rise development as an example of this phenomenon.

What we do know, is that over the past five years the local housing industry, in partnership with the District, has created or preserved approximately 17,000 affordable units. We should examine these successes, improve them, and duplicate these types of projects as much and as fast as possible.

2.) Problems with the current MIZ proposal

Urban Design Problems:

The Office of Planning's report claims that a 20% density bonus could be achieved with minor zoning adjustments. When asked whether the MIZ program might be a disincentive on the PUD process at the hearing, the Office of Planning claimed that "the differences between the proposed IZ adjustments and matter of right are less than those between existing PUD adjustments and matter-of-right." Zoning Commission Member Kevin Hildebrand further stated "we wanted to be sure that we, in terms of massing and bulk, *had less impact on that than did a PUD*." A closer look at the adjustments proposed in their report however, reveals that this goal is not being achieved.

In the case of zone C-2-A, the square footage allowed by the proposed MIZ program is equal to the square footage allowed by a PUD. MIZ will ensure that developers will be relying on the density bonus and will detract them from using the PUD process.

For zone C-2-C, the proposed allowable FAR of 7.2 is 20% greater than the 6.0 allowed by a PUD and the 90 foot height is equal to that of the PUD. This density will not be attainable in many locations, given that the proposed building would have

to occupy the *entire* allowable envelope to obtain it. This will restrict creativity and will result in big square buildings that lack character and compatibility with the neighborhood. In addition, completely filling out the allowable envelope could introduce troublesome light and air issues for both the proposed building and for the community.

Many of the proposed adjustments also include increases in the allowable lot occupancy. With building codes and zoning requirements such as rear and side yard setbacks, garage ramping, garage exhaust, trash pick up, and loading dock areas this will be very difficult to actually achieve in many locations.

OP & CMIZ Economic Feasibility Analysis Concerns:

The July 15, 2005 Office of Planning's Report on Inclusionary Zoning includes an economic feasibility analysis meant to demonstrate that a 20% density bonus, with 50% of that bonus being available at 80% AMI, would provide developers with a return on cost comparable to that of a similar development with no affordable units and no bonus. This analysis has a number of questionable assumptions, including hard costs, soft costs, and housing sale prices. Our largest concern, however, is that two fundamental items are omitted from the study. First, the cost of providing extra density will result in a higher equity requirement. Second, the MIZ program with a 20% large building will naturally have a longer development schedule. Both of these fundamentals must be considered in the cost equation.

Equity

The cost of equity needs to be considered in the economic study. A 20% increase in the size of the building will result in a 20% increase in equity requirement. Additional time will also be required to bring the larger project through the design and permitting process. The construction schedule itself will be extended due to the increased building volume and more time will be needed to settle units and successfully move owners into the building. A project such as the 'base' example used in the OP study, with minor entitlement issues (no PUD, no rezoning required, etc.) will take approximately 36 months to complete. The equity is calculated over 30 months. By increasing the project size by 20% and by facilitating an affordable housing component, the project duration would increase by 10% (3 months – one month in preconstruction, one month in construction, and one month in disposition). The very real costs associated with this additional time are not reflected in either of the feasibility studies.

- The study has been revised to include Cost of Equity as described above.
- For bonus density scenarios, 3 months have been added to development schedule.

Hard Costs

The July 15th hearing report states that lower grade finish materials and appliances may be used in affordable units, yet this is not reflected in the feasibility study.

In the case of the parking garage, additional parking will be needed to sustain marketability of the additional units and to support price points used in the study. This will require more excavation and will increase both the risk and complexity, thereby increasing costs. The OP report assumes an average gross square footage per parking space of 375. This is an aggressive assumption and is most often unrealistic. The study also details out parking garage costs, showing that a 1-3 level garage should cost between \$75 and \$80 per sqft and that a 4-5 level garage costs between \$85 and \$90 per sqft.

- Above grade hard costs decrease from \$180 to \$170 for affordable units
- Increase square footage per space in the parking garage from 375 to 400
- Additional parking necessary to dispose of the added market rate units has increased in hard costs from \$75 to \$85

Soft Costs

The OP study shows a projection of soft costs equal to 23% (of Hard and Land Costs) for both the base case scenario and for the bonus density scenarios. At the August 1st hearing, Stephan Green stated that the major responsibility “would be placed on the developer to ascertain eligibility of people applying for affordable units” and that “a new (government) agency would not be required” and that “some staff” will be needed to “merely review, monitor, and audit as is necessary”.

PN Hoffman has first hand experience with administering affordable unit sales efforts and can attest that there is an undeniable increase in soft costs which cannot be ignored. We are currently handling a project with affordable units and we are experiencing a soft cost premium of 1.25%.

- Project soft costs have been increased to 24% for affordable unit scenarios

Unit Sale Prices

Tables 6 and 7 in the attachment to the OP report show that purchasers of affordable units will be paying reduced condominium fees based on PAR values. This is of concern to us because there is no logical correlation between the sale price of a unit and the operating costs of a building. Indeed, some units may have a lower intensity use in a building yet may have been purchased at a higher price. This may be due to the timing of the initial sale in a fluctuating market or to some qualitative value that the market places on a unit, such as location inside of the building. By using the PAR value analysis the results are skewed by overstating the sale price that affordable purchasers will be able to afford.

- Market rate condo fees based on an average square footage calculation (\$0.35/sqft) was used for affordable units

We feel that the revisions proposed above give a more accurate depiction of real world scenarios. Table 3 in the attachments provided illustrates the impact of using this revised set of assumptions on the OP feasibility study. It is clear from reviewing this table that the current MIZ proposed scenario of using 50% of a density bonus at

80% AMI costs a developer and/or land owner substantial money. The MIZ proposed is far from neutral and will likely arrest current development plans in process.

3.) Suggestions for a better plan

Table # 5 of the attachments illustrates a new proposal, where an affordable unit to market rate ratio of 2:1 is used for the density bonus. Under these conditions, a much smaller subsidy is coming from the Developer. Making this would bring a better assurance that development in the District will continue and that the housing construction will remain viable.

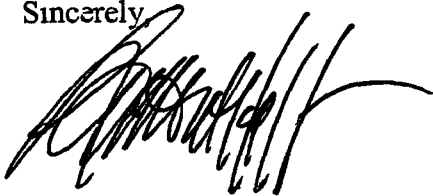
As stated in a recent DCBIA testimony, "assuming a market potential of 5,000 new units of applicable production over the next five years, a change from 1:1 to 2:1 in the proposed OP ratio of market rate to affordable units results in only 160 fewer affordable set asides over five years – or 32 per year. The use of a 2:1 ratio would result in a higher probability that 5,660 market rate units will, in fact, be produced in the District (and not in Northern Virginia) potentially yielding an estimated 45 million in annual tax revenue."

In order to have a chance at success, an inclusionary zoning program must have flexibility and provide adequate incentives. Additional considerations that should also be evaluated as part of the overall solution are:

- Voluntary /discretionary affordable programs
- Increasing the flexibility (height) of zoning modifications under the current proposal
- Exemptions on transfer taxes/franchise tax for a developer as a way to lower developer subsidy
- Increase affordability on subsidized units by offering property tax breaks to qualified purchasers
- Government loans for affordable home down payment that appreciate per the CPI over time and that are paid back to the District upon the eventual resale of the unit
- NCRC and should be required to have a minimum of 35% affordable housing requirement in the disposition of a government real estate
- 'Market rate' and 'Affordable' linkage

Thank you for giving us the opportunity to submit this testimony for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to be "R. M. H. H.", written in a cursive style.

Mandatory Zoning Analysis

	TABLE 1	TABLE 2	TABLE 3	TABLE 4	TABLE 5
	Market Rate	OP Proposal No Bonus Low Condo Fee 8% Affordable 80% AMI	OP Proposal 20% Bonus Low Condo Fee 1 to 1 Ratio 80% AMI	OP Proposal - Adjusted 20% Bonus Mrkt Condo Fee 1 to 1 Ratio 80% AMI	OP Proposal - Adjusted 20% Bonus Mrkt Condo Fee 2 to 1 Ratio 80% AMI
Development Costs	\$ 57,417,750	\$ 57,933,930	\$ 65,524,950	\$ 65,486,500	\$ 65,510,000
Net Revenue	\$ 73,252,500	\$ 69,986,127	\$ 84,169,996	\$ 83,218,581	\$ 84,767,016
Margin (After Cost of Sales/ Warranty)	\$ 12,172,125	\$ 8,234,891	\$ 14,076,546	\$ 13,211,152	\$ 14,658,665
Margin Ratio	21.2%	14.2%	21.5%	20.1%	22.3%
Amount of Equity	\$ 11,483,550	\$ 11,483,550	\$ 13,104,990	\$ 13,102,000	\$ 13,102,000
Cost of Capital	\$ (9,398,186)	\$ (9,398,186)	\$ (10,725,179)	\$ (12,243,015)	\$ (12,243,015)
Net Margin	\$ 2,773,939	\$ (1,163,295)	\$ 3,351,367	\$ 968,136	\$ 2,415,650
Net Margin Ratio	4.8%	-2.0%	5.1%	1.5%	3.7%
Required Subsidy		\$ 3,937,234	\$ (577,428)	\$ 1,805,802	\$ 358,289

Table 1. - Market Rate Base Case

No Density Bonus; No Affordable Units

Updated 05/03/05

BUDGET ASSUMPTIONS		SALE SCHEDULE							PROJECT BUDGET		
Gross Floor Area (sf)	152,500		No of	Avg	Total	Avg	Avg	Total		Total Cost	Cost Per GSF
Core Area	16%	24,400	Unit Type	Units	Unit Size / SF	SQFT	Sales Price/SF	Price / Unit	Sales	Land	\$ 13,725,000 \$ 90
Net Saleable Floor Area		128,100	Studio	30	500	15,000	\$ 525	\$ 262,500	\$ 7,875,000	Hard Cost Above Grade Market Rate Units	\$ 27,450,000 \$ 180
Average Unit Size		854	1 Bed	50	701	35,050	\$ 525	\$ 368,025	\$ 18,401,250	Hard Cost Above Grade Affordable Units	\$ - \$ -
Total Number of Units		150	2 Bed	70	1,115	78,050	\$ 525	\$ 585,375	\$ 40,976,250	Hard Cost Parking	\$ 4,218,750 \$ 28
Land Price (per GFA)		\$90	3 Bed	-	1,350	-	\$ 525	\$ 708,750	\$ -	Soft Cost	\$ 10,440,563 \$ 68
Hard Cost Market Units		\$180	Total / Avg	150	854	139,456	\$ 525	\$ 448,350	\$ 67,252,500	Contingency	\$ 1,583,438 \$ 10
Hard Cost Affordable Units			Parking	150				\$ 40,000	\$ 6,000,000		\$ -
Hard Cost Parking		\$75	Total Revenue					\$ 73,252,500		TOTAL DEVELOPMENT COSTS	\$ 57,417,750 \$ 377
Parking Ratio (1 to 1)		1.00	Less Total Cost					\$ (57,417,750)			
Total Parking Spaces		150	Less Cost of Sales - 5%					\$ (3,362,625)			
Avg S F Garage Per Space		375	Less Warranty Costs					\$ (300,000)			
Soft Cost (% of Land & HC)		23%	Projected Profit Before Cost of Equity					\$ 12,172,125			
Equity: 20% Total Cost @ 25% IRR, 24 Mths			Return on Cost Before Cost of Equity					21.2%			
Contingency (% of HC)		5%	Less Cost of Equity					\$ (9,398,188)			
			Net Profit					\$ 2,773,939			
			Return on Cost					4.8%			
Warranty Costs (Per Unit)		\$2,000	Profit per GFA					\$18.2			

**Table 2. - Office of Planning High Rise Condominium - ADJUSTED
Affordable Housing Scenario**

8% GSF at 80% AMI

BUDGET ASSUMPTIONS		SALE SCHEDULE							PROJECT BUDGET		
		Unit Type	No. of Units	Avg Unit Size / SF	Total SQFT	Avg. Sales Price/SF	Avg. Sales Price	Total Sales Price		Total Cost	Cost Per GSF
Original GSF	152,500								Land	\$ 13,725,000	\$ 90
Core Area	16%								Hard Cost Above Grade Market Rate Units	\$ 20,160,000	\$ 132
Net Saleable Floor Area		MARKET							Hard Cost Above Grade Affordable Units	\$ 6,885,000	\$ 45
Net Affordable	8%	EFF	44	501	22,044	\$ 525	\$ 263,025	\$ 11,573,100	Hard Cost Parking	\$ 4,672,000	\$ 31
Net Market Rate		1 BR / 1 BA	45	719	32,355	\$ 525	\$ 377,475	\$ 16,986,375	Soft Cost	\$ 10,906,080	\$ 72
Average Unit Size		2 BR / 2 BA	57	1,116	63,612	\$ 525	\$ 585,900	\$ 33,396,300	Contingency	\$ 1,585,850	\$ 10
Affordable Units		Total / Avg.	146	808	118,011	\$ 525	\$ 424,355	\$ 61,955,775	Total Development Costs	\$ 57,933,930	\$ 380
Market Rate Units											
Land Price	\$90	AFFORDABLE									
Hard Cost Market Units	\$180	EFF	2	500	1,000	304.81	\$ 152,405	\$ 304,810			
Hard Cost Affordable Units	\$170	1 BR / 1 BA	5	630	3,150	268.61	\$ 169,224	\$ 846,122			
Hard Cost Parking	\$80	2 BR / 2 BA	6	1,020	6,120	169.84	\$ 173,237	\$ 1,039,421			
Parking Ratio (1 to 1 Market Units)		Total / Avg.	13	790	10,248	228.59	\$ 168,489	\$ 2,190,352			
Total Parking Spaces	146	TOTAL	159	807			\$ 403,435	\$ 64,146,127			
Avg. S.F. Garage Per Space	400	Parking	146				\$ 40,000	\$ 5,840,000			
Soft Cost (% of Land & HC)	24%	Total Revenue						\$ 69,986,127			
Contingency (% of HC)	5%	Less Total Cost						\$ (57,933,930)			
Equity: 20% Total Cost @ 25% IRR; 24 Mths		Less Cost of Sales - 5%						\$ (3,499,306)			
Warranty Costs (Per Unit)	\$2,000	Warranty Costs						\$ (318,000)			
		Projected Profit Before Cost of Equity						\$ 8,234,891			
		Return on Cost Before Equity						14.21%			
		Less Cost of Equity						\$ (12,243,015)			
		Net Profit						\$ (4,008,124)			
		Return of Cost						-6.92%			
		Margin per GFA						-\$26.3			

**Table 3. - Office of Planning High Rise Condominium
Affordable Housing Scenario**

20% Density Bonus; 50% of Bonus at 80% AMI

BUDGET ASSUMPTIONS		SALE SCHEDULE								PROJECT BUDGET				
Original GSF	152,500		No. of	Avg	Total	Avg.	Avg.	Total		Total Cost	Cost Per GSF			
IZ density Bonus	20%	Unit Type	Units	Unit Size / SF	SQFT	Sales Price/SF	Sales Price	Sales Price						
Gross Floor Area (s.f.)	183,000	MARKET												
Core Area	16%	EFF	33	501	16,533	\$ 525	\$ 263,025	\$ 8,679,825						
Net Saleable Floor Area	153,720	1 BR / 1 BA	55	719	39,545	\$ 525	\$ 377,475	\$ 20,761,125	Land Cost Above Grade Market Rate Units	\$ 13,725,000	\$ 75			
Average Unit Size	859	2 BR / 2 BA	76	1,116	84,816	\$ 525	\$ 585,900	\$ 44,528,400	Hard Cost Above Grade Affordable Units	\$ 20,160,000	\$ 110			
Total Number of Units	180	Total / Avg.	164	859	140,894	\$ 525	\$ 451,033	\$ 73,969,350	Hard Cost Parking	\$ 12,780,000	\$ 70			
Land Price	\$90											Hard Cost Parking	\$ 5,062,500	\$ 28
Hard Cost Market Units	\$180	AFFORDABLE										Soft Cost	\$ 11,897,325	\$ 65
Hard Cost Affordable Units	\$180	EFF	3	500	1,500	325.56	\$ 162,780	\$ 488,340	Contingency	\$ 1,900,125	\$ 10			
Hard Cost Parking	\$75	1 BR / 1 BA	5	630	3,150	274.10	\$ 172,683	\$ 863,415	Total Development Costs	\$ 65,524,950	\$ 358			
Parking Ratio (1 to 1)		2 BR / 2 BA	8	1,020	8,160	202.07	\$ 206,111	\$ 1,648,891						
Total Parking Spaces	180	Total / Avg.	16	801	12,810	247.73	\$ 187,540	\$ 3,000,646						
Avg. S.F. Garage Per Space	375	TOTAL	180	854		\$ 512	\$ 427,611	\$ 76,969,996						
Soft Cost (% of Land & HC)	23%	Parking	180				\$ 40,000	\$ 7,200,000						
Contingency (% of HC)	5%	Total Revenue						\$ 84,169,996						
Equity: 20% Total Cost @ 25% IRR; 24 Mths		Less Total Cost						\$ (65,524,950)						
		Less Cost of Sales - 5%						\$ (4,208,500)						
Warranty Costs (Per Unit)	\$2,000	Warranty Costs						\$ (360,000)						
		Projected Profit Before Cost of Equity						\$ 14,076,546						
		Return on Cost Before Equity						21.48%						
		Less Cost of Equity						\$ (10,725,179)						
		Net Profit						\$ 3,351,367						
		Return of Cost						5.11%						
		Margin per GFA						\$18.3						

Table 4. - Office of Planning High Rise Condominium - ADJUSTED
Affordable Housing Scenario

20% Density Bonus; 50% of Bonus at 80% AMI

BUDGET ASSUMPTIONS		SALE SCHEDULE								PROJECT BUDGET		
Original GSF	152,500		No. of	Avg	Total	Avg.	Avg.	Total		Total Cost	Cost Per GSF	
IZ density Bonus	20%	Unit Type	Units	Unit Size / SF	SQFT	Sales Price/SF	Sales Price	Sales Price				
Gross Floor Area (s.f.)	183,000	MARKET										
Core Area	16%	EFF	33	501	16,533	\$ 525	\$ 263,025	\$ 8,679,825	Land	\$ 13,725,000	\$ 75	
Net Saleable Floor Area	153,720	1 BR / 1 BA	55	719	39,545	\$ 525	\$ 377,475	\$ 20,761,125	Hard Cost Above Grade Market Rate Units	\$ 20,160,000	\$ 110	
Average Unit Size	859	2 BR / 2 BA	76	1,116	84,816	\$ 525	\$ 585,900	\$ 44,528,400	Hard Cost Above Grade Affordable Units	\$ 12,070,000	\$ 66	
Total Number of Units	180	Total / Avg.	164	859	140,894	\$ 525	\$ 451,033	\$ 73,969,350	Hard Cost Parking	\$ 4,920,000	\$ 27	
Land Price	\$90								Hard Cost Bonus Parking	\$ 544,000	\$ 3	
Hard Cost Market Units	\$180	AFFORDABLE							Soft Cost	\$ 12,210,000	\$ 67	
Hard Cost Affordable Units	\$170	EFF	3	500	1,500	304.81	\$ 152,405	\$ 457,215	Contingency	\$ 1,857,500	\$ 10	
Hard Cost Parking	\$75	1 BR / 1 BA	5	630	3,150	268.61	\$ 169,224	\$ 846,122	Total Development Costs	\$ 65,486,500	\$ 358	
Hard Cost Parking	\$85	2 BR / 2 BA	8	1,020	8,160	169.84	\$ 173,237	\$ 1,385,894				
Parking Ratio (1 to 1 Market Units)		Total / Avg.	16	801	12,810	226.01	\$ 168,077	\$ 2,689,231				
Total Parking Spaces	164	TOTAL	180	854		\$ 512	\$ 425,881	\$ 76,658,581				
Avg. S.F. Garage Per Space	400	Parking	164				\$ 40,000	\$ 6,560,000				
Soft Cost (% of Land & HC)	24%	Total Revenue						\$ 83,218,581				
Contingency (% of HC)	5%	Less Total Cost						\$ (65,486,500)				
Equity: 20% Total Cost @ 25% IRR; 24 Mths		Less Cost of Sales - 5%						\$ (4,160,929)				
		Warranty Costs						\$ (360,000)				
Warranty Costs (Per Unit)	\$2,000	Projected Profit Before Cost of Equity						\$ 13,211,152				
		Return on Cost Before Equity						20.17%				
		Less Cost of Equity						\$ (12,243,015)				
		Net Profit						\$ 968,136				
		Return of Cost						1.48%				
		Margin per GFA						\$5.3				

Table 5. - Office of Planning High Rise Condominium - ADJUSTED
Affordable Housing Scenario

20% Density Bonus; 33% of Bonus at 80% AMI

BUDGET ASSUMPTIONS		SALE SCHEDULE								PROJECT BUDGET		
Original GSF	152,500		No. of	Avg	Total	Avg.	Avg.	Total		Total Cost	Cost Per GSF	
IZ density Bonus	20%	Unit Type	Units	Unit Size / SF	SQFT	Sales Price/SF	Sales Price	Sales Price				
Gross Floor Area (s.f.)	183,000	MARKET							Land	\$ 13,725,000	\$ 75	
Core Area	29,280	16% EFF	34	501	17,034	\$ 525	\$ 263,025	\$ 8,942,850	Hard Cost Above Grade Market Rate Units	\$ 20,160,000	\$ 110	
Net Saleable Floor Area	153,720	1 BR / 1 BA	57	719	40,983	\$ 525	\$ 377,475	\$ 21,516,075	Hard Cost Above Grade Affordable Units	\$ 12,070,000	\$ 66	
Average Unit Size	858	2 BR / 2 BA	78	1,116	87,048	\$ 525	\$ 585,900	\$ 45,700,200	Hard Cost Parking	\$ 5,070,000	\$ 28	
Total Number of Units	180	Total / Avg.	169	858	145,180	\$ 525	\$ 450,646	\$ 76,159,125	Hard Cost Bonus Parking	\$ 374,000	\$ 2	
Land Price	\$90								Soft Cost	\$ 12,246,000	\$ 67	
Hard Cost Market Units	\$180	AFFORDABLE							Contingency	\$ 1,865,000	\$ 10	
Hard Cost Affordable Units	\$170	EFF	2	500	1,000	304.81	\$ 152,405	\$ 304,810	Total Development Costs	\$ 65,510,000	\$ 358	
Hard Cost Parking	\$75	1 BR / 1 BA	4	630	2,520	268.61	\$ 169,224	\$ 676,897				
Hard Cost Parking	\$85	2 BR / 2 BA	5	1,020	5,100	169.84	\$ 173,237	\$ 866,184				
Parking Ratio (1 to 1 Market Units)		Total / Avg.	11	784	8,540	230.30	\$ 167,990	\$ 1,847,891				
Total Parking Spaces	169	TOTAL	180	854		\$ 512	\$ 433,372	\$ 78,007,016				
Avg. S.F. Garage Per Space	400	Parking	169				\$ 40,000	\$ 6,760,000				
Soft Cost (% of Land & HC)	24%	Total Revenue						\$ 84,767,016				
Contingency (% of HC)	5%	Less Total Cost						\$ (65,510,000)				
Equity: 20% Total Cost @ 25% IRR; 27 Mths		Less Cost of Sales - 5%						\$ (4,238,351)				
		Warranty Costs						\$ (360,000)				
Warranty Costs (Per Unit)	\$2,000	Projected Profit Before Cost of Equity						\$ 14,658,665				
		Return on Cost Before Equity						22.38%				
		Less Cost of Equity						\$ (12,243,015)				
		Net Profit						\$ 2,415,650				
		Return of Cost						3.69%				
		Margin per GFA						\$13.2				

	TABLE 1	TABLE 2	TABLE 3	TABLE 4
	Base Case	Bonus - OP	OP Adjusted	PNH - 80% @ 2:1
1	\$ 11,483,550	\$ 13,104,990	\$ 13,102,000	\$ 13,102,000
2	\$ 11,722,791	\$ 13,378,011	\$ 13,374,958	\$ 13,374,958
3	\$ 11,967,015	\$ 13,656,719	\$ 13,653,603	\$ 13,653,603
4	\$ 12,216,328	\$ 13,941,234	\$ 13,938,053	\$ 13,938,053
5	\$ 12,470,835	\$ 14,231,677	\$ 14,228,429	\$ 14,228,429
6	\$ 12,730,644	\$ 14,528,170	\$ 14,524,855	\$ 14,524,855
7	\$ 12,995,866	\$ 14,830,840	\$ 14,827,456	\$ 14,827,456
8	\$ 13,266,613	\$ 15,139,816	\$ 15,136,362	\$ 15,136,362
9	\$ 13,543,001	\$ 15,455,229	\$ 15,451,702	\$ 15,451,702
10	\$ 13,825,147	\$ 15,777,213	\$ 15,773,613	\$ 15,773,613
11	\$ 14,113,171	\$ 16,105,905	\$ 16,102,230	\$ 16,102,230
12	\$ 14,407,195	\$ 16,441,444	\$ 16,437,693	\$ 16,437,693
13	\$ 14,707,345	\$ 16,783,974	\$ 16,780,145	\$ 16,780,145
14	\$ 15,013,748	\$ 17,133,640	\$ 17,129,731	\$ 17,129,731
15	\$ 15,326,534	\$ 17,490,591	\$ 17,486,601	\$ 17,486,601
16	\$ 15,645,837	\$ 17,854,979	\$ 17,850,905	\$ 17,850,905
17	\$ 15,971,792	\$ 18,226,957	\$ 18,222,799	\$ 18,222,799
18	\$ 16,304,538	\$ 18,606,686	\$ 18,602,440	\$ 18,602,440
19	\$ 16,644,216	\$ 18,994,325	\$ 18,989,991	\$ 18,989,991
20	\$ 16,990,970	\$ 19,390,040	\$ 19,385,616	\$ 19,385,616
21	\$ 17,344,949	\$ 19,793,999	\$ 19,789,483	\$ 19,789,483
22	\$ 17,706,302	\$ 20,206,374	\$ 20,201,764	\$ 20,201,764
23	\$ 18,075,183	\$ 20,627,340	\$ 20,622,634	\$ 20,622,634
24	\$ 18,451,749	\$ 21,057,076	\$ 21,052,272	\$ 21,052,272
25	\$ 18,836,161	\$ 21,495,766	\$ 21,490,861	\$ 21,490,861
26	\$ 19,228,581	\$ 21,943,594	\$ 21,938,587	\$ 21,938,587
27	\$ 19,629,176	\$ 22,400,752	\$ 22,395,641	\$ 22,395,641
28	\$ 20,038,117	\$ 22,867,435	\$ 22,862,217	\$ 22,862,217
29	\$ 20,455,578	\$ 23,343,839	\$ 23,338,513	\$ 23,338,513
30	\$ 20,881,736	\$ 23,830,169	\$ 23,824,732	\$ 23,824,732
31			\$ 24,321,081	\$ 24,321,081
32			\$ 24,827,770	\$ 24,827,770
33			\$ 25,345,015	\$ 25,345,015
	\$ 9,398,186	\$ 10,725,179	\$ 12,243,015	\$ 12,243,015

Affordable Housing Financial Analysis

Interest Rate	6.75%
Debt Constant	7.78%
Taxes	0.0096 (annual)
Homestead Deduction	\$38,000
Condo Fee	(\$0.35) psf, monthly
Down Payment	5.00%
% of Income to housing	30.00%

	2005 Area Median Income by Family Size			
Household Size	1	2	3	4
HH Size Factor	70%	80%	90%	100%
Income	\$ 62,510	\$ 71,440	\$ 80,370	\$ 89,300

	50%				80%				100%			
	1 Person	2 Person	3 Person	4 Person	1 Person	2 Person	3 Person	4 Person	1 Person	2 Person	3 Person	4 Person
Household Income	\$ 31,255	\$ 35,720	\$ 40,185	\$ 44,650	\$ 50,008	\$ 57,152	\$ 64,296	\$ 71,440	\$ 62,510	\$ 71,440	\$ 80,370	\$ 89,300
Available for Housing	\$ 9,377	\$ 10,716	\$ 12,056	\$ 13,395	\$ 15,002	\$ 17,146	\$ 19,289	\$ 21,432	\$ 18,753	\$ 21,432	\$ 24,111	\$ 26,790
Monthly	\$ 781	\$ 893	\$ 1,005	\$ 1,116	\$ 1,250	\$ 1,429	\$ 1,607	\$ 1,786	\$ 1,563	\$ 1,786	\$ 2,009	\$ 2,233
Utility Allowance	\$ (45)	\$ (59)	\$ (74)	\$ (89)	\$ (45)	\$ (59)	\$ (74)	\$ (89)	\$ (45)	\$ (59)	\$ (74)	\$ (89)
Estimated Taxes	\$ (38)	\$ (44)	\$ (39)	\$ (37)	\$ (92)	\$ (105)	\$ (108)	\$ (114)	\$ (127)	\$ (146)	\$ (154)	\$ (165)
Condo Fee	\$ (175)	\$ (221)	\$ (357)	\$ (473)	\$ (175)	\$ (221)	\$ (357)	\$ (473)	\$ (175)	\$ (221)	\$ (357)	\$ (473)
Mortgage Payment	\$ 523	\$ 569	\$ 534	\$ 518	\$ 939	\$ 1,044	\$ 1,068	\$ 1,111	\$ 1,215	\$ 1,360	\$ 1,423	\$ 1,506
Debt Constant	7.78%	7.78%	7.78%	7.78%	7.78%	7.78%	7.78%	7.78%	7.78%	7.78%	7.78%	7.78%
Loan Amount	\$ 80,668	\$ 87,787	\$ 82,407	\$ 79,859	\$ 144,787	\$161,021	\$ 164,738	\$ 171,285	\$ 187,473	\$ 209,792	\$219,557	\$ 232,288
Down Payment	\$ 4,246	\$ 4,620	\$ 4,337	\$ 4,203	\$ 7,620	\$ 8,475	\$ 8,670	\$ 9,015	\$ 9,867	\$ 11,042	\$ 11,556	\$ 12,226
Sales Price	\$ 84,914	\$ 92,407	\$ 86,745	\$ 84,062	\$ 152,407	\$169,495	\$ 173,408	\$ 180,300	\$ 197,340	\$ 220,833	\$231,112	\$ 244,514
Ave SQFT	500	631	1021	1350	500	631	1021	1350	500	631	1021	1350
Per SQFT	\$ 169.83	\$ 146.45	\$ 84.96	\$ 62.27	\$ 304.81	\$ 268.61	\$ 169.84	\$ 133.56	\$ 394.68	\$ 349.97	\$ 226.36	\$ 181.12