

Analysis of the Financial Feasibility of Developing Affordable Housing on Under-utilized City-owned Property

PURPOSE: To increase the supply of housing that is affordable to low- and moderate-income households in the City of Ann Arbor

SCOPE: On April 1, 2019, City Council adopted Resolution R-19-138 directing the City Administrator to collaborate with the Ann Arbor Housing Commission (AAHC) to provide coordinated analysis on the feasibility of City-Owned properties as potential locations for affordable housing. This resolution incorporated previous resolutions R-19-100, R-19-111, and R-19-116.

PROPERTIES:

- 1) 721 N Main (vacant public services buildings)
- 2) 2000 S. Industrial (public services buildings & AAHC offices)
- 3) 1501 E. Stadium (fire station #2 currently used for fire inspection services)
- 4) Surface parking lot at 309 – 337 S Ashley & 104 -120 W. William (also known as the Kline’s lot)
- 5) Surface parking lot at 216 W. William (northeast corner of 1st & William)
- 6) Surface parking lot at 121 Catherine (northwest corner of 4th & Catherine)
- 7) 404 – 406 N Ashley (UM Dental Clinic rents building from the City)
- 8) 3432 - 3440 Platt & 3435 – 3443 Springbrook (vacant land purchased by AAHC)
- 9) 415 W. Washington (vacant public services building)¹
- 10) Surface parking lot at 350 S Fifth Ave (also known as the former Y lot)²
- 11) 1320 Baldwin Ave (City Senior Center)³

¹ On July 1, 2019 City Council enacted Resolution R-19-320 to contract with the SmithGroup to conduct a public engagement process, develop potential building concepts and evaluate the feasibility of the property at 350 S Fifth. The Staff Study Team are engaged in this process that is occurring simultaneously.

² On August 19, 2019 City Council enacted Resolution R-19-376 to contract with the SmithGroup to conduct a public engagement process, develop potential building concepts and evaluate the feasibility of the property at 415 W Washington. The Staff Study Team are engaged in this process that is occurring simultaneously.

³ After the resolutions were passed, staff were asked by Councilmember Bannister to add 1320 Baldwin Ave (Senior Center) to the list, which was added.

CITY COUNCIL RESOLUTION GOALS:

- **Goal 1:** The City will preferentially maintain ownership of the property (i.e. land lease)
- **Goal 2:** Potential developers will offer a mix of unit types and rental levels
- **Goal 3:** Developers will optimize the number of affordable units for those who make up to 60% of the Area Median Income (AMI)⁴
- **Goal 4:** Developers and their successors in ownership will accept Housing Choice Vouchers
- **Goal 5:** Developers will provide adequate and appropriate space to accommodate the operations of the Ann Arbor Housing Commission
- **Goal 6:** Developers will explore options with the City to provide dedicated space for other public uses and/or non-profit space

STUDY TEAM: The study team consisted of the following core group:

Howard Lazarus, City Administrator (Sponsor)

Jennifer Hall, Ann Arbor Housing Commission Executive Director (Lead)

Derek Delacourt, Community Services Administrator

Brett Lenart, Planning Manager

Teresa Gillotti, Washtenaw County Office of Community and Economic Development Director

CONTRACTORS: In addition, the City hired the following contractors:

Carlisle Wortman, Zoning Analysis

Gerald Alcock, Appraisals

Absolute Title, Title Search

Marc Norman, Financial Modeling

The team reached out to regulatory bodies, funding agencies, professionals in the development industry and City staff involved in development and construction to ensure the breadth of the staff study fully addressed the intent of Resolution R-19-138.

⁴ Based on HUD-reported annual incomes. The 2019 Area Median Income for the Ann Arbor Area is \$101,900, which includes all of Washtenaw County. 2019 60% AMI 1 person household is \$42,540; 2 persons \$48,600; 3 persons \$54,660; 4 persons \$60,720

PROCESS: Housing development is site specific, dependent on changing market-conditions, and has a high risks related to contractor and developer appetite, financing, organizational capacity and availability of subsidy. Consequently, the study team conducted site-specific analysis, based on current conditions (in the fall of 2019), in order to assess the risk of failure or success to make recommendations to City Council.

The primary risk factors evaluated were:

- 1) Land-use restrictions that prohibit or restrict the type of development, location of development, and density of development
 - a. Deed or Covenant Restrictions
 - b. Zoning and Entitlement
 - c. Easements
 - d. Council Resolutions or City Adopted Planning Documents
- 2) Environmental conditions that restrict the location of development and eligibility for specific funding sources
 - a. Federal Environmental Assessment required for HUD or other federal funding
 - b. State Environmental Assessment required for state funding
 - c. Local and state codes
 - d. Floodway, Floodplain, Wetlands
- 3) Financial resources available to mitigate the cost of development to provide housing that is affordable
 - a. Public Land
 - b. Ground Lease
 - c. Federal Funding such as HUD, Federal Housing Authority (FHA), Fannie Mae etc.
 - d. State Funding such as Low-Income Housing Tax Credits (LIHTC), Bonds, Grants etc.
 - e. Brownfield Tax Increment Financing (TIF), Grants or Loans
 - f. Downtown Development Authority Grants or Loans
 - g. City of Ann Arbor Affordable Housing Funds, Fee Reductions
 - h. Local Bond Financing
 - i. Local Millage
 - j. Payment in Lieu of Taxes (PILOT)
- 4) Other site-specific costs or risks
 - a. Parking Requirements and/or Market Demands
 - b. Ownership Structure (rental, co-operative, owner) & (for-profit, non-profit, public)
 - c. Mixed-income Percentage and Income Mix
 - d. Mixed-use for Retail, Office, Public and/or Non-profit Use
 - e. Developer Capacity
 - f. Uncertainty of Hard and Soft Cost Price Shifts
 - g. City Disposition Process

Chart of the most critical factors to determine the financial feasibility by site for rental housing affordable to 60% AMI or less

Location	Priority	Negative Site Issues (Environmental, Deed etc)	LIHTC & Federal Eligible?	LIHTC Scoring	DDA District	Zoning Recommend	Total Number of Units	Appraised Value	Comments
121 Catherine surface parking lot	HIGH	None	YES	Competitive	YES	D2 Affordable Housing Premium	60-85	\$1.99M	Perfect size for 9% LIHTC deal, 1 st floor retail or office, off-site parking
404 N Ashley	HIGH	None	YES	Competitive	YES	D2 Afford Hsg Premium	60-85	\$1.8M	Perfect size for 9% LIHTC deal, off-site parking
Kline's surface parking lot	HIGH	None	YES	Competitive - Qualified Census Tract	YES	D1 Afford Hsg Premium	400 - 600+	\$13.69M	Large site, 9% & 4% LIHTC w/ bond financing & market rate housing & retail
3400 Platt	MED	None, AAHC owns	YES	LOW	NO	R1E	12 - 14	\$410K - \$560K	LIHTC eligible but not competitive score
1510 E Stadium	MED	None	YES	LOW	NO	R4B	8 - 12	\$380K - \$935K	LIHTC eligible but not competitive score
2000 S. Industrial	MED	300 ft from railroad Underground storage tank	NO	n/a	NO	Office	50-165	\$1.4M - \$3.5M	Limited rental subsidy funding options, good location & size
721 N Main	LOW	300 ft from railroad, FEMA deed restriction floodway/floodplain	NO	n/a	YES, within ¼ mile	Office	25-35	TBD - est \$400k - \$600K	Limited rental funding subsidy options, good location but lots of site constraints
216 W William surface parking lot	NO	Entirely in floodway & floodplain, 2017 council resolution as greenway	NO	n/a	YES	Public	n/a	n/a	Parking structure on site could be paired with S. Ashley development
1320 Baldwin	NO	parks dept property, MDNR deed restriction	n/a	n/a	NO	Public	n/a	n/a	May require public ballot approval to change park use

Explanation of Headings in Chart Above

Negative Site Issues: Can limit the ability to develop housing or limit the types of funding available for housing

LIHTC: Single largest source of affordable rental housing funding available. 9% LIHTC are competitive & must score high enough to get an award. Can also apply for a 4% LIHTC & bond deal, which are not competitive, but a 4% LIHTC award provides less (grant-like) funding than a 9% award. Both 9% and 4% deals are eligible for a PILOT

Federal funds: Generally speaking, if a project is eligible for LIHTC, it is also eligible for other federal funds & can also be eligible for a PILOT under certain circumstances

Local funds: Local funds like Brownfield and Ann Arbor Housing Funds are eligible in some capacity at all sites so it is not a critical factor when comparing sites to each other

DDA District: If property is in the DDA district, it's eligible for TIF and infrastructure funds. If it's in or within ¼ mile of the DDA district, its eligible for DDA affordable housing funds

Zoning: All sites are publicly owned, but not always zoned public land. Planned Unit Development (PUD) zoning is an option, however, this financial analysis used the zoning analysis by Carlisle Wortman as a recommended zoning guide. Office Zoning allows residential and allows denser housing than multi-family zoning options.

Total Number of Units: The size of a project can impact the cost effectiveness and source of funds

Appraisal: Properties can be sold and proceeds used to subsidize other sites or funds can be used to acquire existing properties instead of doing new construction. The appraised values are based on the Carlisle Wortman Zoning analysis and can vary based on the proposed zoning for the site because it impacts what can be developed

SUMMARY OF RECOMMENDATIONS TO CITY COUNCIL

Each site was evaluated using financial modeling that allowed the site to be modified to evaluate different variables such as changing the number of units, changing the size of the units (literally the square feet and also the number of bedrooms), changing the financing (which impacted both development and operating costs), changing the construction costs and even changing the ownership model (condominiums, rental apartments, and/or co-operatives). The following pages include a site-by-site analysis of each property that is developable, and it includes 3-4 of the best financial models from the hundreds that were analyzed. All numbers should be treated with a + or – 10% range to reflect these variables. Following the site-by-site analysis are 3 recommended scenarios or portfolios that approach affordable housing development from different perspectives.

Scenario #1 – Meets Council’s First and Second Goals to Include a Land Lease, and a Mixture of Housing Types & Incomes

Scenario #2 – More Realistic Success by Selling Difficult to Develop and/or High Value Properties to Fund Development of Easier Properties

Scenario #3 – Achieves Goal Number 3 to Maximize the Number of 60% AMI Households through City-Controlled Local Resources

Regardless of the Scenario/s that City Council ultimately pursues, the team is recommending the following:

- 1) Request that the AAHC to pursue development of 121 Catherine & 404 N. Ashley as 9% LIHTC developments
 - a. Both properties score competitively for LIHTC financing
 - b. Both properties are small enough that they will not need significant local funding to ensure that the projects are feasible
- 2) Request that the AAHC to pursue development of S. Industrial through non-LIHTC financing
 - a. The size of the property is large and close to community services (grocery, laundry etc), which makes it a good site for housing
 - b. However, the property is disqualified for LIHTC financing due to the adjacent railroad (less than 300 feet)
 - c. Therefore, the AAHC needs to secure alternative financing to make the project feasible such as housing revenue bonds, brownfield funding, sales proceeds from other City-owned properties and/or other local funding sources
- 3) Request that staff to work with the DDA to issue an RFP to start a Community Engagement process on the Kline’s & 216 W William surface parking lots
 - a. The Kline’s lot is large and its development will have a significant impact on the downtown, including parking
- 4) Request that staff to work with the DDA to issue an RFP to start a Community Engagement process on 721 N Main
 - a. 721 N Main has multiple site challenges that reduce the footprint available for development
- 5) Request the AAHC to continue a community engagement process with the immediate and adjacent neighbors of the Platt property
 - a. The City purchased the property for the AAHC with HUD funds to develop affordable housing
 - b. The site could include rental or owner housing and the AAHC will engage the neighbors in the design process
- 6) Request the AAHC to determine the feasibility of using 1501 E. Stadium for temporary or permanent AAHC or other City office space
 - a. Bring back recommendation to City Council whether to redevelop as offices, affordable housing or sell

CATHERINE/FOURTH Lot

Council Ward I

Schools: Bach, Slauson, Skyline

Current Zoning

D2

Zoning Recommendation

D2 with Affordable Housing Premium

Lot Size

16,700 Sq/ft (0.38 acres)

Development Type

100% Affordable Rental as Supportive Housing, Senior, or Low-Income

Ownership

Ground Lease - AAHC or Nonprofit

LIHTC & Federal Eligible

Yes

Negative Site Issues

None

Total Residential Sq/ft

48,775

Office/Retail Sq/ft

4,000

Total Units/Total Units <60% AMI

73/73

Estimated Total Development Cost

\$15,300,000

Appraised Value if Sold

\$1,990,000

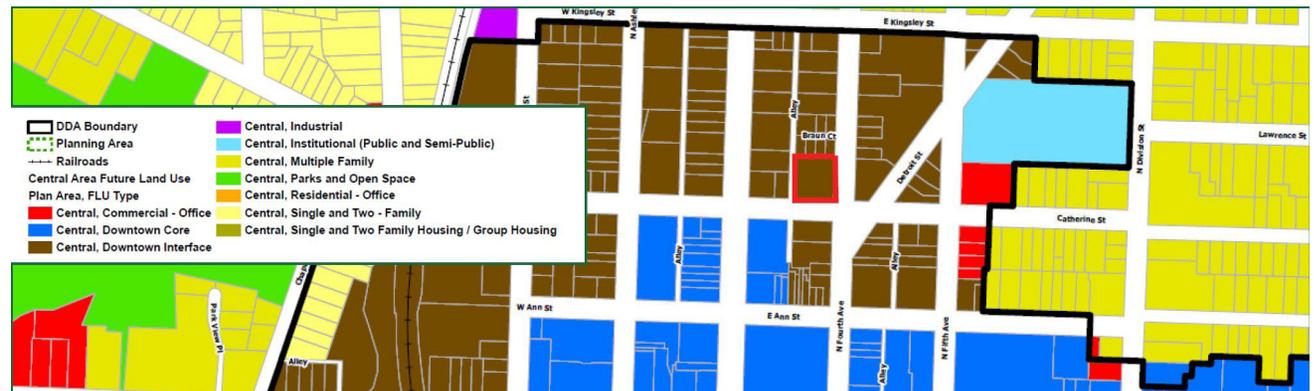


Building Mass for D2 Zoning Scenario with Affordable Housing Premium



Existing Parcel

Zoning Map - 2019



Catherine Scenarios	9% LIHTC Rental	Revenue Bond Rental	Land Sale	
Description	9% LIHTC all affordable, ground floor retail or office	AAHC develop all affordable, ground floor retail or office	Private, market rate Housing no affordable required	
Ownership	Ground Lease	Ground Lease	Land Sale	
Development Type	Rental: supportive housing, affordable, or senior	Rental: supportive housing, affordable, or senior	Market rate rental or owner	
Zoning	D2	D2	D2	
Density Bonus for Affordable Housing	Yes	Yes	No	
Residential Sq/ft	48,775	48,775	32,300	
Office/Retail Sq/ft	4,000	4,000	4,000	
Total Units / Total Affordable <60% AMI	73/73	73/73	44/0	
Parking Required	34 - 1 space per 1,000 feet exceeding 200% FAR	34 - 1 space per 1,000 feet exceeding 200% FAR	No parking required	
Estimated Total Development Cost	\$15,300,000 not including parking	\$15,100,000 not including parking	\$10,000,000 - \$12,000,000	
Annual Ground Lease Payment to City (if applicable) or Taxes	\$1 lease \$40,000 if retail taxes \$73 PILOT	\$36,000 lease \$40,000 retail taxes	\$0 lease, \$450,000 retail and residential taxes	
Total Gap Financing Needed / Per <60% AMI unit	\$600,000/\$8,200	\$8,800,000/\$122,000	\$0	
Appraised Value	\$1,360,000	\$1,360,000	\$1,990,000	
Comments	Low local subsidy assuming successful LIHTC. Potential for deep affordability & DDA parking agreement	Revenue bond financing - plus large local subsidy including DDA parking agreement	Land sale could generate funds for affordable housing fund, and tax revenue	

404 N. ASHLEY

Council Ward I

Schools: Bach, Slauson, Skyline

Current Zoning

D2

Zoning Recommendation

D2 with Affordable Housing Premium

Lot Size

16,376 Sq/ft (0.37 acres)

Development Type

100% Affordable Senior or Low-Income Rental

Ownership

Ground Lease - AAHC

LIHTC & Federal Eligible

Yes

Negative Site Issues

None

Total Residential Sq/ft

53,550

Office/Retail Sq/ft

0

Total Units/Total <60%AMI Units

84/84

Estimated Total Development Cost

\$17,800,000

Appraised Value if Sold

\$1,800,000



Building Mass for D2 Zoning Scenario with Affordable Housing Premium



Existing Parcel



404 N Ashley Scenarios	9% LIHTC Rental	Revenue Bond Rental	Land Sale - Market Rate	
Description	9% LIHTC all affordable	AAHC develop all affordable	Private, Market Rate Housing / no affordable required	
Ownership	Ground Lease	Ground Lease	Land Sale	
Development Type	Rental affordable or senior	Rental affordable or senior	Market rate rental or owner	
Zoning	D2	D2	D2	
Density Bonus for Affordable Housing	Yes	Yes	No	
Residential Sq/ft	53,550	53,550	26,400	
Office/Retail Sq/ft	0	0	0	
Total Units / Total Affordable <60% AMI	84/84	84/84	40/0	
Parking Required	33 - 1 space per 1,000 feet exceeding 200% FAR	33 - 1 space per 1,000 feet exceeding 200% FAR	no parking required	
Total Development Cost	\$17,800,000 not including parking	\$17,500,000 not including parking	\$8,700,000 - \$11,000,000	
Annual Ground Lease Payment to City (if applicable) or Taxes	\$1 lease \$84 PILOT	\$40,000 lease \$0 taxes	\$0 lease \$350,000 residential taxes	
Total Gap Financing Needed / Per <60% AMI unit	\$0/\$0	\$7,600,000/\$90,000	\$0/\$0	
Appraised Value	\$1,500,000	\$1,500,000	\$1,800,000	
Comments	Low local subsidy assuming successful LIHTC. Potential for deep affordability and DDA agreement on parking	Revenue Bond Financing - plus large local subsidy including DDA parking agreement	Land sale could generate funds for affordable housing fund and tax revenue	

ASHLEY/WILLIAM Lot (Klines)

Building Mass for D2 Zoning Scenario with Affordable Housing Premium

Council Ward I

Schools: Bach, Slauson, Pioneer

Current Zoning

DI

Zoning Recommendation

DI with Affordable Housing Premium

LotSize

53,588 Sq/ft (1.22 Acres)

Development Type

Market Rate/Mixed Use

Ownership

Ground Lease, 9% & 4% LIHTC

LIHTC & Federal Eligible

Yes

Negative Site Issues

None

Total Residential Sq/ft

431,750

Office/Retail Sq/ft

24,000

Total Units/Total <60% AMI Units

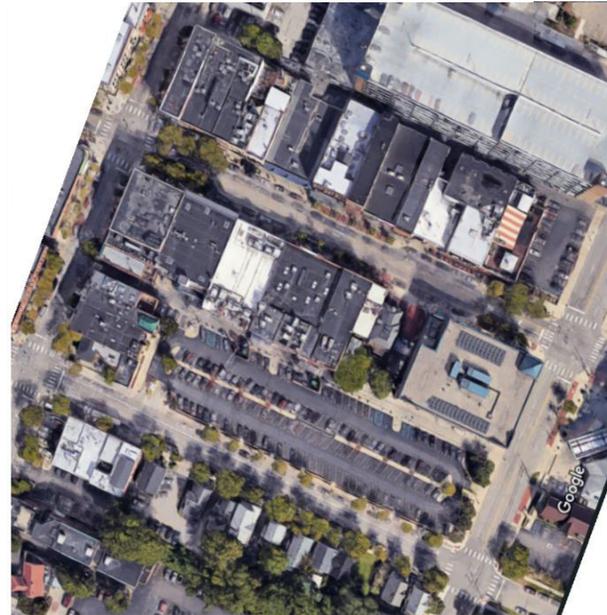
600/125

Estimated Total Development Cost

\$136,000,000

Appraised Value if Sold

\$13,690,000



Existing Parcel



Zoning Map - 2019



Ashley Lot Scenarios	9%/4& LIHTC & Market	Revenue Bond Rental	Land Sale - Market with Affordable Density Bonus	Land Sale - Market no Density Bonus
Description	Multiple LIHTC w/ public private partnership for mixed use/mixed income	AAHC develop 100% affordable rental with ground floor retail	Large mixed-use, rental &/or owner development with ground floor retail	Reduced size market rate owner &/or rental with ground floor retail
Ownership	Ground Lease, separate condo LIHTC & market	Ground Lease, separate condo affordable & retail	Land Sale	Land Sale
Development Type	Mixed Income/Mixed Use	All Affordable/Mixed Use	Mixed Income/Mixed Use	Market Rate/Mixed Use
Zoning	DI	DI	DI	DI
Density Bonus for Affordable Housing	Yes	Yes	Yes	No
Residential Sq/ft	431,750	431,750	431,750	328,000
Office/Retail Sq/ft	24,000	24,000	24,000	24,000
Total Units / Total Affordable <60%AMI	600/125	600/600	600/0 <80% - 120	448/0
Parking	267 - 1 space per 1,000 feet exceeding 400% FAR	267 - 1 space per 1,000 feet exceeding 400% FAR	267 - 1 space per 1,000 feet exceeding 400% FAR	no parking required
Estimated Total Development Cost	\$136,000,000 not including parking	\$136,000,000 not including parking	\$133,000,000 - \$158,000,000 \$158M includes parking	\$110,000,000 - \$130,000,000
Annual Ground Lease Payment to City (if applicable) or Taxes	\$2.4 million lease \$3 - \$4 million taxes \$125 PILOT	\$350,000 lease \$300,000 retail taxes	\$0 lease \$3.4 - \$5 million taxes	\$0 lease \$3.4 - \$4.5 million taxes
Total Gap Financing Needed / Per <60% AMI unit	\$7,000,000/\$56,000	\$60,000,000/\$100,000	\$0	\$0
Appraised Value	\$12,000,000	\$12,000,000	\$12,000,000	\$13,690,000
Comments	Large site with significant affordable units. Need DDA agreements for parking. Untested developer model/capacity	Substantial affordable housing with significant risk for developer and high local subsidy. Untested developer model/capacity	Substantial funds for Affordable Housing Fund from sale. Potential for affordable units on-site and substantial property tax revenue.	Substantial funds for Affordable Housing Fund. No affordable housing on-site. High property tax revenue

3400 PLATT

Council Ward 3

Schools: Mitchell, Scarlett, Pioneer

Current Zoning

RIC

Zoning Recommendation

RIE

Lot Size

57,029 Sq/ft (1.31 acres)

Development Type

Single Family Rental

Ownership

AAHC current owner

LIHTC & Federal Eligible

Yes, but LIHTC scores poorly

Negative Site Issues

None

Total Residential Sq/ft

16,520

Office/Retail Sq/ft

0

Total Units / Total <60% AMI Units

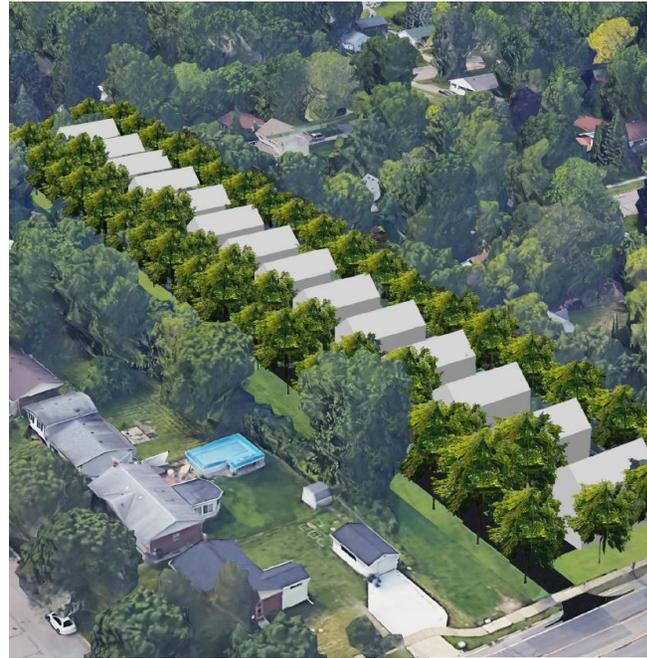
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Estimated Total Development Cost

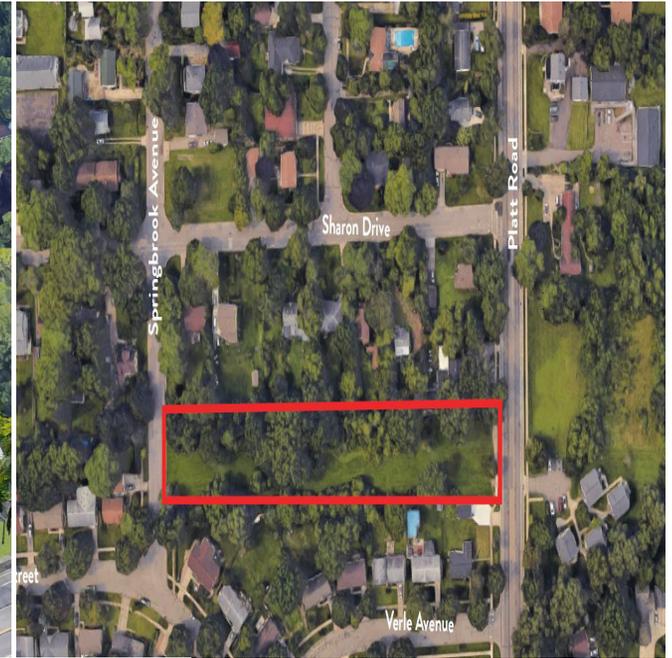
\$3,100,000

Appraised Value if Sold

\$560,000

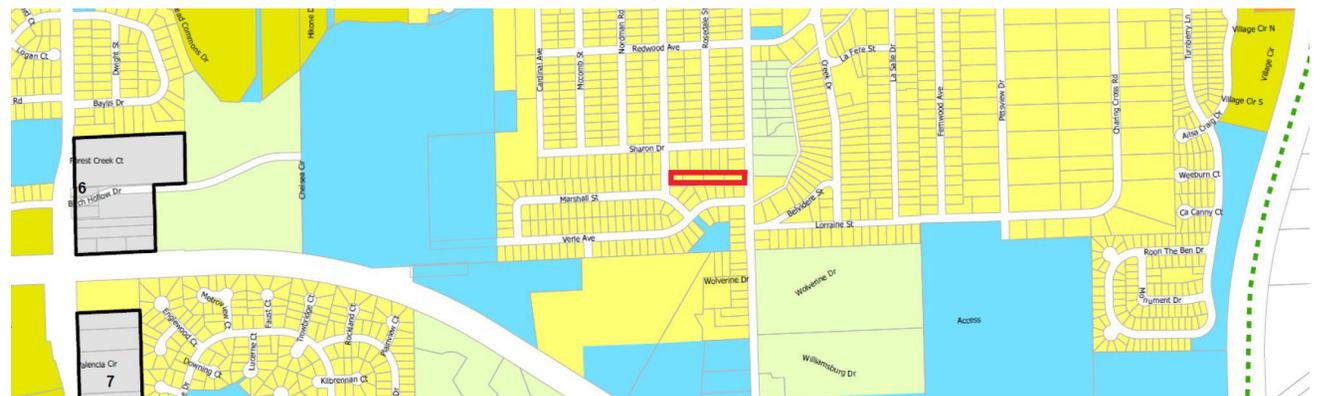


Building Mass for RIE Zoning



Existing Parcel

Zoning Map - 2019



3400 Platt Scenarios	Ground Lease - Owner	Revenue Bond Rental	Land Sale - Market Rate	
Description	For sale homes w/ nonprofit like Habitat for Humanity ground lease	AAHC develop innovative net-zero energy modular housing	Market Rate Developer	
Ownership	Ground Lease	AAHC already owns	Land Sale	
Development Type	Low-income owners with ground lease and covenant resale restriction	Single family rental	Market rate owner or rental	
Zoning	R1E	R1E	R1E	
Density Bonus for Affordable Housing	n/a	n/a	n/a	
Residential Sq/ft	16,520	16,520	16,520	
Office/Retail Sq/ft	0	0	0	
Total Units / Total Affordable <60% AMI	14/14	14/14	14/0	
Parking Required	14 - 1 per unit	14 - 1 per unit	14 - 1 per unit	
Estimated Total Development Cost	\$3,100,000	\$3,100,000	\$4,000,000	
Annual Ground Lease Payment to City (if applicable) or Taxes	\$1 lease \$49,000 taxes	\$8,000 lease \$0 taxes	\$0 lease \$70,000 taxes	
Total Gap Financing Needed / Per <60% AMI unit	\$980,000/\$70,000 or \$45,000/unit if all 80% AMI	\$1,100,000/\$79,000	\$0/\$0	
Appraised Value	\$560,000	\$560,000	\$560,000	
Comments	Habitat takes development risk, ground lease with shared equity resale restrictions	Demonstration project to pilot innovation in green, modular, net zero energy rental units	Market sale may produce lower sales price, or lower unit count	

1510 E. STADIUM

Council Ward 3

Schools: Bryant, Pattengil, Tappan, Pioneer

Current Zoning

RIC

Zoning Recommendation

R4B

Lot Size

32,804 Sq/ft (.75 acres)

Development Type

Rental

Ownership

Ground Lease AAHC

LIHTC & Federal Eligible

Yes, but LIHTC scores poorly

Negative Site Issues

None

Total Residential Sq/ft

10,560

Office/Retail Sq/ft

0

Total Units / Total Units <60% AMI

12/12

Estimated Total Development Cost

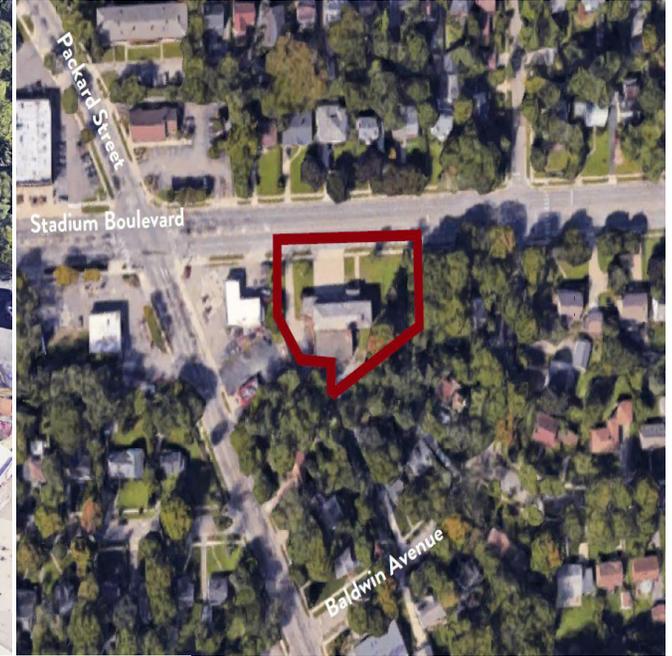
\$3,100,000

Appraised Value if Sold

\$935,000

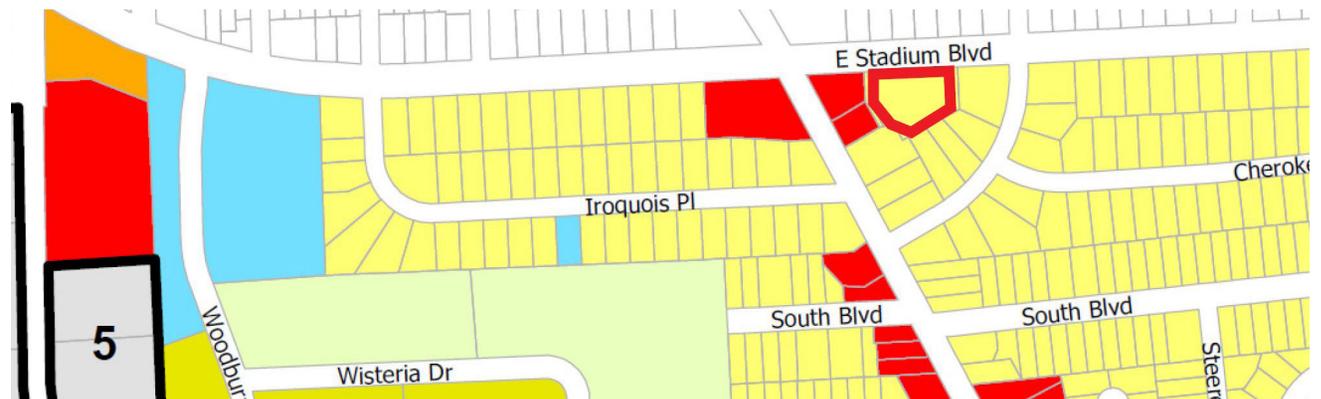


Building Mass for R4B Zoning



Existing Parcel

Zoning Map - 2019



1510 E Stadium Scenario	Local Funding Rental	Revenue Bond Rental	Land Sale Market Rate	AAHC Office / Maintenance Garage
Description	Small Supportive, Senior or Low-Income AAHC ownership	Small Supportive, Senior or Low-Income AAHC ownership	Sale to Private developer for residential.	Renovate existing, add wing with elevator for accessibility, No Housing
Ownership	Ground Lease	Ground Lease	Land Sale	Publicly Owned
Development Type	Affordable Rental	Affordable Rental	Residential Rental or Sale	Office
Zoning	R4B	R4B	R4B	Public or Office
Density Bonus for Affordable	n/a	n/a	n/a	n/a
Residential Sq/ft	11,520	11,520	11,520	0
Office/Retail Sq/ft	0	0	0	12,000 - 15,000
Total Units / Total Affordable <60% AMI	12/12	12/12	12/ 0	0
Parking Required	18 - 1.5 spaces per unit	18 - 1.5 spaces per unit	18 - 1.5 spaces per unit	25 - 30 spaces for staff and customers
Estimated Total Development Cost	\$3,000,000	\$2,800,000	\$3,400,000	\$1,000,000 to \$2,000,000
Annual Ground Lease Payment to City (if applicable) or Taxes	\$1	\$7,000 lease	\$50,000 - \$75,000 taxes	\$0
Total Gap Financing Needed / Per <60% AMI unit	\$2,200,000/\$183,000	\$1,700,000/\$142,000	\$0	\$1,000,000 to \$2,000,000
Appraised Value	\$380,000 - \$935,000	\$380,000 - \$935,000	\$380,000 - \$935,000	
Notes:	Small development, low score LIHTC, therefore high local subsidy requirement, demo city facility	Bond reduces local subsidy but still high per unit local subsidy	Sale with denser rezoning to generate proceeds for Fire Department	On 2 bus lines, accessible site to SE side of county. Has existing garage for maintenance

2000 S. INDUSTRIAL

Council Ward 4

Schools: Bryant, Pattengil, Tappan, Pioneer

Current Zoning

Public Land (PL)

Zoning Recommendation

Office

Lot Size

178,058 Sq/ft (4.09 acres)

Development Type

Affordable Rental

Ownership

Ground Lease AAHC

LIHTC & Federal Eligible

No

Negative Site Issues

<300 ft from railroad
Underground storage tank

Total Residential Sq/ft

85,000

Office/Retail Sq/ft

17,000

Total Units/Total <60% AMI Units

163/163

Total Development Cost

\$37,000,000

Appraised Value if Sold

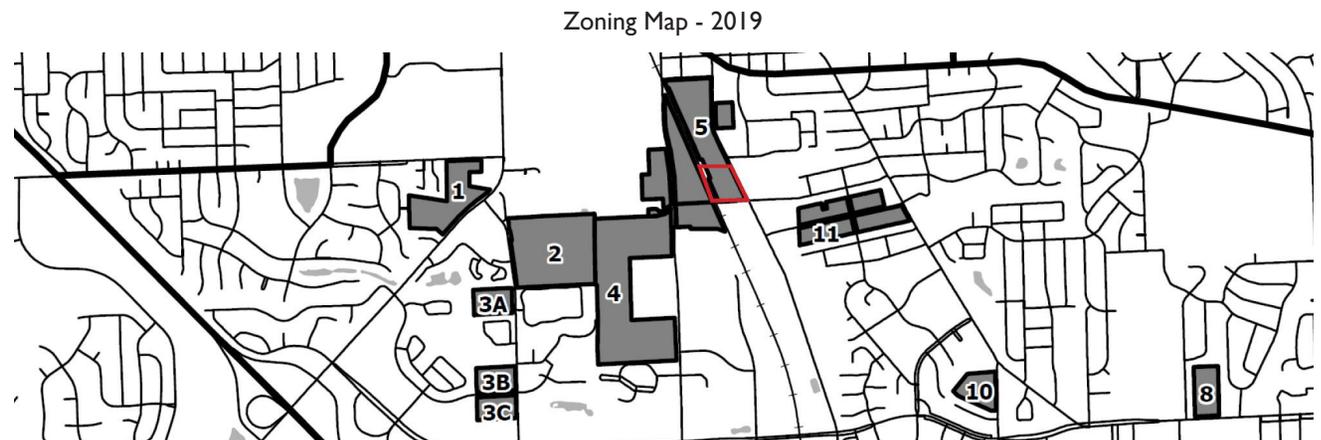
\$3,525,000



Building Mass for Office Zoning Scenario



Existing Parcel



2000 Industrial Scenarios	Limited Equity Co-op	Revenue Bond Rental	Land Sale - Market Rate	Revenue Bond Rental - Reduced Size
Description	Limited equity cooperative for low-moderate income housing	AAHC office and affordable rental housing financed by revenue bond and local funds	AAHC offices split lot with sale to private entity for housing development.	AAHC office and affordable rental housing financed by revenue bond and local funds
Ownership	Ground Lease	Ground Lease	Land Sale	Ground Lease
Development Type	Cooperative	Affordable Rental	Market Rate	Affordable Rental
Zoning	Office	Office	Office	Office
Density Bonus for Affordable	n/a	n/a	n/a	n/a
Residential Sq/ft	102,450	117,815	117,815	85,000
Office/Retail Sq/ft	0	17,000	0	17,000
Total Units / Total Affordable <60% AMI	116/18 and <80% AMI - 98	163/163	163/0	116/116
Parking Required	116 - 1 space per unit	163 - 1 space per unit	163 - 1 space per unit	116 - 1 space per unit
Total Development Cost	\$32,500,000	\$37,000,000	\$39,000,000	\$28,000,000
Annual Ground Lease Payment to City (if applicable) or Taxes	\$320,000 lease \$0 taxes Assumes \$1/unit/yr PILOT	\$70,000 lease	\$0 lease \$600,000 - \$1.2 million taxes	\$49,000 lease
Total Gap Financing Needed / Per <60% AMI unit	\$0	\$16,500,000/\$101,000	\$0	\$14,700,000/\$127,000
Appraised Value	\$1,400,000 - \$3,525,000	\$1,400,000 - \$3,525,000	\$1,400,000 - \$3,525,000	\$1,400,000 - \$3,525,000
Notes: Public Services Enterprise Fund Owns, Need to purchase prior to ground lease	High market risk, relies on owner financing. Untested developer model. Assumes \$1/yr/unit PILOT as co-op	Good location - large size. Many different options on design, income target etc.	Appraised value reduced by AAHC portion of lot, no affordable units.	Smaller version of bond financing to reduce local gap financing.

721 N. MAIN

Council Ward I

Schools: Bach, Wines, Skyline

Current Zoning

Public Land

Zoning Recommendation

Office

Lot Size

229,185 Sq/ft (5.26 acres)

Development Type

Cooperative

Ownership

Ground Lease

LIHTC & Federal Eligible

No

Negative Site Issues

<300 Ft from railroad

FEMA deed restriction floodway/floodplain

Total Residential Sq/ft

25,900

Office/Retail Sq/ft

0

Total Units/Total Units <60% AMI

28/8, 20 units <80% AMI

Estimated Total Development Cost

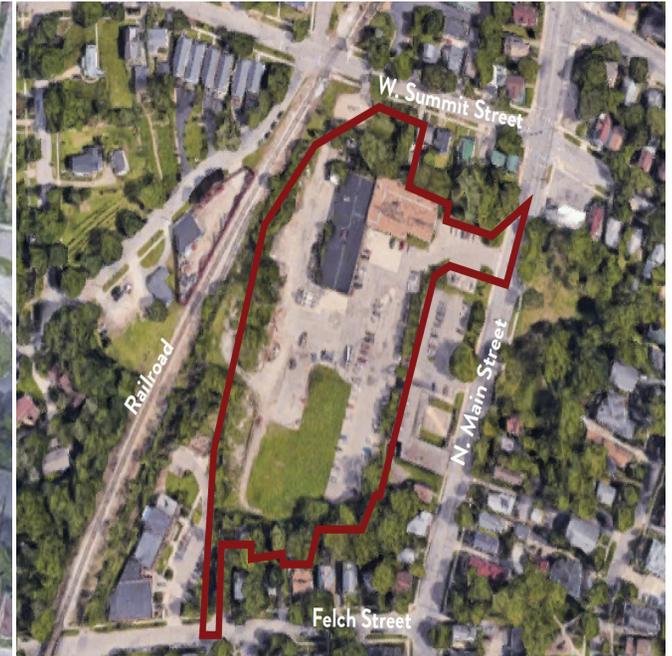
\$7,600,000

Appraised Value if Sold

TBD est. \$400,000-\$600,000



Office Zoning Scenario



Existing Parcel



721 N Main Scenarios	Limited Equity Co-op	Revenue Bond Rental	Land Sale - Market Rate with Lot Split	Hold Parcel for Future Public Use
Description	Limited equity cooperative for low-moderate income housing	AAHC affordable rental property with long term ground lease	Split lot between developable portion (sell) and non-developable portion (hold for public green space)	City holds entire property for future public use
Ownership	Ground Lease	Ground Lease	Land Sale	City Owned
Development Type	Cooperative	Affordable Rental	Market Rate	TBD
Zoning	Office	Office	Office	Public
Density Bonus for Affordable	n/a	n/a	n/a	
Residential Sq/ft	25,900	23,995	25,900	
Office/Retail Sq/ft	0	0	0	
Total Units / Total Affordable <60% AMI	28/8 and <80% - 20	32/32	32/0	
Parking Required	28 - 1 space per unit	32 - 1 space per unit	32 - 1 space per unit	
Total Development Cost	\$7,600,000	\$8,400,000	\$7,600,000 - \$8,500,000	
Annual Ground Lease Payment to City (if applicable) or Taxes	\$77,000 lease \$0 taxes assumes \$1/unit/yr PILOT	\$14,000 lease \$0 taxes	\$0 lease \$250,000 taxes	
Total Gap Financing Needed / Per <60% AMI unit	\$0	\$5,100,000/\$160,000	\$0	
Appraised Value	TBD	TBD	TBD estimate \$400,000 - \$600,000	
Notes: Public Services Enterprise Fund Owns, Need to purchase prior to ground lease	High market risk, relies on owner financing. Untested developer model. Assumes \$1/yr/unit PILOT as co-op	Site conditions disqualify LIHTC development. High local funding	Small development providing modest sales proceeds and tax revenue.	Most of the site is in the floodway/floodplain which makes site more appropriate as green space

Scenario #1 – Meets Council Resolution’s First and Second Goals to Include a Land Lease, and a Mixture of Housing Types & Incomes

HIGH Initial Local Subsidy - \$0 land acquisition, high development subsidy for small sites and large sites

HIGH Local Control – All land leases

MODERATE level of taxes, lease payments and 60% AMI units

RISK - Will private developers even respond to an RFP to develop city owned property with a ground lease? For sale, limited equity cooperative model is untested in current market

Location	Zoning Recommended	Ownership Structure/Target Population	Total Housing Units	60% AMI or less	61% - 80% AMI	Market Rate	Total Develop Costs	1 st Yr Taxes, Lease & PILOT	Local Funding Needed	Comments
121 Catherine	D2, Afford Housing Premium	AAHC or Nonprofit Seniors, Mixed Income, or Supportive Housing Rental	73	73	0	0	\$15M - \$16M	\$73 PILOT \$0 Lease \$40K if retail taxes	\$600K - \$2M	9% LIHTC, local funding needed is dependent on parking, vouchers & income target
404 N Ashley	D2, Afford Housing Premium	AAHC or Nonprofit Seniors or Mixed-Income Rental	84	84	0	0	\$17M - \$18M	\$84 PILOT \$0 Lease	\$0 - \$1.5M	9% LIHTC, local funding needed is dependent on parking, vouchers & income target
Kline’s surface parking lot	D1 Afford Housing Premium	Private Developer Mixed-Income, Mixed-Use Rental	600	125	0	475	\$130M - \$160M	\$125 PILOT \$2.4M lease \$3M - \$4M taxes	\$7M - \$31M	Complicated site, 9% & 4% LIHTC & market rate, local funding dependent on parking costs
3400 Platt	R1E	AAHC Rental or Habitat Owner	14	0	14	0	\$2.8M - \$3.2M	\$49K taxes	\$600K - \$1M	Limited rental funding options, If Habitat then homeowners pay taxes & limited equity resale
1510 Stadium	R4B	AAHC Rental	12	12	0	0	\$3M- \$3.2M	\$0 taxes \$0 lease	\$2M - \$2.4M	High local subsidy, limited funding options
2000 S. Industrial	Office	Private Developer Co-operative	116	18	98	0	\$31M - \$34M	TBD PILOT \$320K Lease	\$0 - \$1M	Individual Owner Mortgages, Co-op, PILOT
721 N Main	Office	Private Developer Co-operative	28	8	20	0	\$7.6M	TBD PILOT \$77K Lease	\$0 - \$1M	Individual Owner Mortgages, Co-op, PILOT
TOTAL			927	320	132	475			\$10M - \$40M	

***AAHC office/maintenance space could be built on a portion of Industrial as stand-alone building, or renovate and expand 1510 Stadium instead of housing*

Scenario #2 – More Realistic Success by Selling Difficult to Develop and/or High Value Properties to Fund Development of Easier Properties

MODERATE City control & LOW City risk – 4 properties leased with restrictions, 3 properties sold without restrictions

MODERATE number of units at 60% AMI – Maximize 60% AMI units within currently available local funding resources

HIGH sales proceeds and HIGH property taxes - sales proceeds to fund other properties in portfolio & 3 for-sale properties pay property taxes

Location	Disposition	Zoning Recommended	Ownership Structure/Target Population	Total Housing Units	60% AMI or less	Total Development Costs	Local Funding Needed	Comments
121 Catherine	Lease	D2, Afford Housing Premium	AAHC or Nonprofit Rental	73	73	\$15M - \$16M	\$600K - \$2M	9% LIHTC, local funding needed is dependent on parking, vouchers & income target, 1 st floor retail or office
404 N Ashley	Lease	D2, Afford Housing Premium	AAHC Rental	84	84	\$17M - \$18M	\$0 - \$1.5M	9% LIHTC, local funding needed is dependent on parking, vouchers & income target
3400 Platt	Lease	R1E	AAHC Rental	14	14	\$2.8M - \$3.2M	\$1M - \$1.2M	Small single-family rental as demonstration project for green, modular, zero-energy model
2000 S. Industrial	Lease	Office	AAHC Rental	163	163	\$37M - \$39M	\$16M - \$18M	Revenue Bonds and Local Funding including sales proceeds below. Housing & AAHC offices and maintenance facility
			TOTAL	334	334	\$72M - \$76M	\$18M - \$23M	

Location	Disposition	Appraised Value	Zoning Recommended	Ownership Structure	Total Housing Units	Total Development Costs	1 st Year Taxes	Comments
Kline's Lot	Sell	\$13.7M	D1	Private Developer	400-600	\$110M - \$158M	\$3.4M - \$5M	Sell without restrictions, proceeds to fund S. Industrial development above
721 N Main	Sell	Est \$400k - \$600K	Office	Private Developer	25-35	\$7M - \$9M	\$200K - \$300K	Lot split all portions out of the floodplain & sell without restrictions, proceeds to Pub Services
1510 E Stadium	Sell	\$930K	R4B	Private Developer	8 - 12	\$2.8M - \$3.4M	\$50K - \$75K	Sell without restrictions, proceeds to Fire Dept
		\$15M		TOTAL	433-647	\$120M - \$170M	\$4M-\$5M	

Scenario #3 –Achieves Council Goal 3 to Maximize the Number of 60% AMI Households Through City-Controlled Local Resources

HIGH City control - AAHC as co-developer with fee-based partnership with private developer (instead of equity and return on investment)

MAX number of 60% AMI or less units

HIGH local subsidy – minimal ground lease, sites pay taxes and/or PILOT if eligible, local funds include millage & housing revenue bonds

Location	Target Population	Total Housing Units	60% AMI	Total Development Costs	Local Funding Needed all sources	Housing Revenue Bonds	Tax & Lease 1 st Year	Comments
121 Catherine	Supportive Rental Housing, 1 st floor retail	73	73	\$15.1M	\$8.8M	\$6.3M	\$36K lease, \$40K if retail	Apply for 9% LIHTC first and if not awarded, use local funds & bond financing Efficiency, 1 & 2 bedrooms
404 N Ashley	Senior Housing	84	84	\$17.5M	\$7.6M	\$9.9M	\$40K lease	Apply for 9% LIHTC first and if not awarded, use local funds & bond financing Efficiency, 1 & 2 bedrooms
Kline's lot & 216 W William surface parking lot	First Floor Retail, Rental	600	600	\$136M	\$60M	\$76M	\$350K lease \$300K tax	Large site, combine with parking deck on 1 st /William to meet downtown parking needs, Efficiency, 1, 2 & 3 bedrooms, \$136M does not include the cost of parking
3400 Platt	Rental	14	14	\$3.1	\$1.1M	\$2M	\$8K lease	Net Zero Modular Homes demonstration 2 - 3 bedrooms
1510 E Stadium	Rental	12	12	\$2.8M	\$1.7M	\$1.1M	\$7K lease	Demo and new construction 2 bedrooms
2000 S. Industrial	Rental Family	163	163	\$37M	\$17M	\$20M	\$70K lease	AAHC offices/maintenance Efficiency, 1, 2 & 3 bedrooms
721 N Main	Rental	32	32	\$8.4M	\$5.1M	\$3.3M	\$14K	Demo and new construction 1 & 2 bedrooms
		978	978	\$220M	\$101M	\$119M	\$525K lease	\$340K tax

Total Development Costs: Soft costs such as legal fees, LIHTC oversight fees, financing fees slightly decrease if no complicated LIHTC/HUD financing

Local Grant Funding: Includes local sources such as AAHF, CDBG, DDA, Brownfield etc and supplemented with a housing millage, which requires ballot initiative approval

Housing Revenue Bonds: AAHC & City are authorized under the Michigan Housing Facilities Act (PA 18 of 1933) to issue bonds for housing development. Interest rates are generally 2% lower than other private loans, which reduces the grant funding needed. Housing Revenue Bonds can only be used for rental housing up to 80% AMI. Operating costs also decrease due to reduced regulatory burden if no LIHTC/HUD financing

Taxes, Lease, PILOT: AAHC-owned properties have \$0 taxes or a \$1/unit/yr PILOT, therefore just the lease is calculated as 50% of annual cash-flow, post-audit. Commercial space is taxed

FINANCING. The supply of affordable housing cannot be increased in the current Ann Arbor marketplace through either acquisition of existing market-rate housing or new construction without public financial support to reduce the cost. That support can be in the form of grants, low-cost financing, reduced taxes, reduced-cost or no-cost land, high-density zoning, regulatory concessions and/or fee reductions. City Council's goal of maximizing the amount of affordable housing can be met through a variety of strategies.

Grants. Programs like the City, DDA and Washtenaw County Brownfields Redevelopment Authority (WCBRA) Revolving Fund are important sources of local gap financing. These funds should not be used to pay for 100% of the cost of developing an affordable housing unit, they should be a source of leverage for other funds. In the past, these funds have provided \$5,000 - \$100,000/unit in subsidy.

Debt. Most projects require both construction loan financing to finance development prior to lease-up and a separate longer-term loan after development to pay-off the construction loan. Just like a homeowner loan, the interest rate, equity (down payment) and term (length of time to repay the loan) all affect how much debt a project can afford. Homeowners have to be able to make the monthly debt payments that they can afford and the developer/owner has to be able to make the monthly debt payment that the project can afford. Generally speaking, the rent revenue minus the operating expenses equals the net operating income (NOI).⁵ Debt (principal and interest) is paid from NOI. A lender will evaluate a project's NOI to determine whether there is enough cash-flow to make a monthly debt payment including a cushion such as 15%, called the debt-service coverage ratio (DSCR). In this case, if the annual debt payment is \$100,000, then the annual NOI must be at least \$115,000/year to meet the DSCR of 1.15 (i.e. 15%).

In addition, the lender will require the borrower to provide some equity so that the borrower has a vested interest in a successful outcome. For example, a lender might only loan 80% of the value of the project, which means that the developer/owner must provide 20% of the value of the project as equity. If the City leases the land rather than selling the land up-front to the developer, the value of the City's land can be used as equity in addition to cash equity.

Loans can be from local, state or national lenders and the interest rate and term follows the market. If a developer can access construction financing or long-term debt at a 4% interest rate instead of a 6% interest rate, this can save thousands to hundreds of thousands of dollars in interest payments, depending on the size of the project. In addition, just like a homeowner taking on a 30-year loan instead of a 15-year loan, if the term is longer, the monthly debt payment is lower. Reduced financing costs and lowering debt payments can enable a developer to include affordable and workforce housing units.

⁵ Net Operating Income (NOI) is simply the annual income generated by a property (through rents and fees) and minus all the expenses from operations (such as maintenance, property taxes, and utilities). The NOI does not include debt service, depreciation, and income taxes. Sometimes a lender or investor will require the owner to set-aside annual financial reserves in order to replace a major item in the future such as a roof, and these replacement reserves are usually included in the NOI.

Equity Investment. There are a variety of ways a developer can raise capital to provide equity for a project. Equity is different from grants because an equity investor has an ownership stake and is expecting a return on the investment.⁶ Equity is also different from debt in that equity repayment is variable because it is based on cash-flow and is a risk/market based return. Debt is a loan that does not require ownership and the debt is paid off in agreed-upon monthly installments. Depending on the financing, the value of the City’s land can be used as equity even if the City leases the land.

Brownfield. The Washtenaw County Brownfield Redevelopment Authority (WCBRA) includes the City of Ann Arbor. All properties in this analysis are eligible for brownfield funding in some capacity. If an environmental assessment is needed (Phase I and Phase II) to determine the extent of brownfield eligibility and/or extent of clean-up. Assessment grants may be available to assist with required testing, and TIF can help finance the portion of the clean-up and site preparation of the property that is taxable. A site with unsuitable and/or contaminated soils can make the site eligible for Brownfield Tax Increment Financing (TIF)⁷. TIF can be used to address environmental as well as non-environmental concerns such as public infrastructure, underground parking, etc. If TIF is used for non-environmental concerns, then the developer must include 15% of the units as affordable housing or pay a fee-in-lieu of providing affordable housing on-site. In addition, the WCBRA can provide grants to non-profit and governmental entities, or loans to for-profit entities for infrastructure costs through the Local Brownfield Revolving Fund (LBRF).

Other Financial Incentives: Other communities have adopted millages, charged impact fees on market-rate development, charge real estate transfer taxes, levy taxes on other industries such as hotels/AirBnB to raise cash for affordable housing projects, and/or provided tax-exempt bond financing for affordable housing projects to significantly reduce the cost of debt. In addition, several communities are starting to dedicate a portion of their marijuana taxes to low-income housing.

Taxes. If the City or the AAHC owns the housing project, the property is tax exempt regardless of rent levels. If the city owns the housing project and leases a portion of the property to a non-tax exempt entity, the improvements leased to the non-tax exempt entity are subject to taxation per PA 189 of 1953. The property value for the non-exempt portion of the project will be determined using standard appraisal theory and the appropriate valuation method.

⁶ Return on Investment (ROI) is a performance measure used to evaluate the efficiency of an investment. $ROI = \frac{\text{Annual return (operating revenue – operating expenses)}}{\text{initial investment}}$ = a percent reflecting the return on the initial investment. For rental properties a typical target ROI is 10% - 12%. Capitalization (Cap) Rate is the ratio of NOI to property asset value.

⁷ Tax Increment Financing (TIF) is a public financing method that captures and diverts future property tax revenue increases from a defined area or district toward an economic development or public improvement project in the community.

If a for-profit entity owns the housing project and leases individual units below market rent or leases to low-income tenants, there is no reduction in market value. If a qualified non-profit entity owns a housing project subject to a PILOT program (see below) and rents units to a non-qualifying person, the unit leased to the non-qualifying person is subject to the amount of taxes that would be levied as if it were not tax exempt in accordance with city ordinance.

PILOT (Payment in Lieu of Taxes). The only way to significantly reduce taxes for affordable rental housing owned by the private sector is through the City’s Payment In Lieu of Taxes (PILOT) Ordinance. A project can only qualify for a PILOT if it meets the statutory requirements of having financing from a state or federally-aided mortgage; and if the ownership entity is a non-profit housing corporation, a consumer housing cooperative, a limited dividend housing association limited partnership, a limited dividend housing association limited liability corporation or a limited dividend housing corporation. In addition, the City of Ann Arbor limits the PILOT to households at 60% AMI or less or seniors without income restrictions.

Congress recently amended the LIHTC regulations to increase the maximum income under the program from 60% AMI to 80% AMI. A LIHTC project can only include 80% AMI units if the average LIHTC unit is still 60% AMI. This new rule is intended to incentivize more 30% - 40% AMI units by off-setting the lower rent revenue with 80% AMI rents. The City’s PILOT ordinance would need to be amended to increase the maximum rent to 80% AMI (or 60% AMI averaging) for qualified PILOT projects doing income-averaging. In addition, the City’s PILOT ordinance would need to be amended to provide a PILOT to a consumer housing cooperative. It should be noted that a property cannot have both a PILOT and TIF financing on the same portion of the property.

AAHC-OWNED PROPERTIES, TAXES AND REVENUE BONDS. The Michigan Housing Facilities Act (Act 18 of 1933) enables municipalities to create housing commissions to own and manage housing that is affordable to low-income households (up to 80% AMI). This act exempts AAHC property from taxation by the state or municipality unless the property is subject to a PILOT.

The act enables the AAHC or the municipality to issue tax-exempt revenue bonds for the development and maintenance of rental housing affordable to low-income households. The bonds must be re-paid through rents and the bonds are not a general obligation of the municipality. The interest rate on tax-exempt revenue bonds are currently about 2% lower than a loan from a financial institution, which means that a housing project can take on more debt and less equity/grants to make the project financially feasible.

MILLAGE. The residents of Ann Arbor can vote to approve a millage that is a dedicated property tax revenue used specifically for preserving, acquiring and/or constructing affordable housing. Millage funds work well with housing revenue bond financing to target lower-income households whose rents are too low to make full payments on housing revenue bonds. The estimated impact of a \$78 million millage on the average residential taxpayer with a residential taxable value of \$133,000 is \$121/year for a 20 year millage or \$194/year for a 10 year millage.

LOCAL RESOURCES Available to any developer of Affordable Housing:

Grants Non-Federal	Annual	*1 time	5 year Projection	Conditions
Ann Arbor Housing Fund	\$660,000	\$500,000	\$3,800,000	60% AMI cap, 30% AMI preference
DDA Housing Fund	\$320,000+		\$1,710,000	Annual set-aside increases 3.5% annually, FY20 \$320K. 50% AMI cap
Local Brownfield Revolving Fund			\$2,460,000	Grant if Non-profit or Government, Loan if for private (for-profit)
TOTAL			\$7,970,000	

* Projected \$500K contribution from Private Development as cash-in-lieu payment under zoning ordinance

Grants Federal	Annual	**1 Time	5 year Projection	
HOME	\$300,000		\$1,500,000	80% AMI
CDBG Demo & Infrastructure	\$150,000	\$300,000	\$1,050,000	80% AMI demo & infrastructure eligible
TOTAL			\$2,550,000	

** \$300,000 Current unallocated balance

Other Local Resources	Eligibility
Brownfield Tax Increment Financing	Must be functionally obsolete, blighted, or a facility under state law and consistent with City Brownfield policy.
Fee Waivers	50% of zoning fees
AAHC Revenue Bond Financing	up to 80% AMI rental
Senior PILOT	62 or older, 4% of sheltered rents
60% AMI Unit PILOT	\$1/unit/year must be eligible under state law
DDA Infrastructure	DDA assistance could also include DDA undertaking necessary streetscape, alley or utility improvements
Brownfield Assessment Fund	\$15K per site public or NP, \$10K private (for profit) for phase I and phase II assessments

POLICY DISCUSSION TOPICS

Ground (Land) Lease – An agreement whereby the city or a city entity retains ownership of the land with a lease agreement with the developer of the land. Typical terms range from 50-99 years.

Benefits:

- The agreement can dictate requirements and restrictions on development, operations and use including affordability for rentals, cooperatives or other structures.
- In the case of mixed income, condo or coop development, a ground lease payment can be calculated based on a percentage of the value and contain annual increases if desired.
- At the end of the ground lease it can be re-negotiated, or the land and all improvements revert to the city or city entity.
- A ground lease is similar to the mechanism used by non-profit owned community land trusts to reduce the cost of owner housing by removing the value of the land from the purchase price. The land is owned by the land trust and the buyer purchases the improvements only. Land trusts usually couple a ground lease with a limited equity resale formula to keep the housing affordable for the next buyer

Risks:

- Non-performance by the developer/operator under the terms of the ground lease could lead to litigation and the improvements reverting to the city.
- If condominiums are developed under a ground lease structure sales prices might be reduced, or buyers might have difficulty obtaining 30 years mortgages.

Low Income Housing Tax Credit Financing (LIHTC) - An indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing whereby an investor funds housing in exchange for a write-off of federal corporate tax obligations. LIHTC is the single largest source of financing for low-income housing available and it is administered by the IRS, not HUD.

Benefits:

- Eligible developments must have a minimum of either 20% of the units rented to households at 50% AMI or less, or 40% of total units rented to households at 60% AMI or less, or 40% of the total units are rented to an average of 60% AMI or less (with highest income at 80% AMI for purpose of averaging). Up to 100% of the units are eligible for LIHTC funding
- An award of tax credits from MSHDA can fund between 20% - 70% of the total development costs
- The LIHTC program requires that the investor become part of the ownership entity
- The LIHTC program has a competitive component, known as 9% LIHTC and a non-competitive component known as 4% LIHTC/bond deals
- This competitive funding awards points for walkable locations, near employment centers, in close proximity to services

- MSHDA has set-aside LIHTC funding for supportive housing, non-profit developers, rehabilitation, and senior housing
- Qualified Census Tracts can receive additional LIHTC funding⁸

Risks:

- 9% LIHTC funding is highly competitive and awarded only twice per year creating timing risks for developments (but not an issue with publicly controlled land because holding costs are eliminated)
- Developers applying for LIHTC need a successful track record of completion of similar projects to score competitively
- The amount of funds that go into a development are dependent on the current state of the economy and investor appetite
- Affordability periods for LIHTC developments are a minimum of 30 years in Michigan and can convert to market rate after meeting the affordability period

Mixed Income / Mixed use Development – Development that accommodates a broad range of incomes, often including low-, moderate-, middle-income and/or market rate residents throughout the project.

Benefits:

- Residents in a variety of income brackets live together rather than segregated in enclaves.
- Higher rents from market rate renters can help to make the inclusion of more affordable units feasible
- Housing in proximity to transportation, jobs and other amenities (which tends to be more expensive), is available to families which reduced commuting distances, and distances to services.

Risks:

- Developments are built with a complex mix of public and private resources, and any competitively awarded funding can slow down and further complicate development
- The developer must have a track record of similar developments completed
- If market rate units within the development are set at the highest projected rents, lease-up risks associated with the highest rents could create risks for the entire development.

⁸ For the purposes of LIHTC, a Qualified Census Tract is a census tract where at least 50% of the households have incomes of 60% AMI or less or at least 25% of the households are below the poverty line. The purpose of a QCT is to provide additional financial incentives to build in a low-income area, which in most communities are harder to attract development. However, in the City of Ann Arbor, almost all of the QCT's are in high student population areas, including the downtown. The former Y lot and the Klines Lot are in a QCT, which makes it eligible for a 30% increase in its eligible basis (expenses) for the purpose of calculating how much tax credits the project generates. For example, a tax credit project that has \$1 million in eligible basis, can increase its eligible basis to \$1.3 million if it is in a QCT. A portion of the cost to construct the commercial component can be included in the LIHTC basis because it is in a QCT.

Tax Exempt Bond Financing - An obligation taken on by a state or political subdivision for the purpose of financing development. Bonds are sold to investors who pay interest which is exempt from federal and state taxation.

Benefits:

- Tax-exempt bonds provide financing for development at lower interest rates than traditional bank loans
- The AAHC or the City can issue revenue bonds to develop AAHC owned rental units for families up to 80% AMI, and it is not a general obligation bond of the City
- If the Michigan State Housing Development Authority (MSHDA) issues bonds, 4% non-competitive tax credits are included
- The bond issuing entity can create rules, regulations and restrictions on development type, amenities, or affordability.
- Because tax-exempt bonds have lower interest rates, it can close financing gaps and/or increase the number of affordable units or target deeper affordability levels.

Risks:

- The bond issuer depends on payments from rent from completed developments to repay the bonds.
- Transaction costs may be higher than traditional market-rate developments, due to the complexity of bond finance.

Housing Choice Voucher Subsidy (Section 8) – A federal program administered by the Ann Arbor Housing Commission and MSHDA that provides rental subsidy for very low income renters (50% AMI or less) who pay no more than 30% of their income for rent and utilities with the subsidy covering the difference. A voucher can be tenant-based, in which case the voucher rent subsidy follows the tenant. Or a voucher can be project-based, in which case the voucher is attached to the apartment and any tenant who lives in that apartment benefits from the rent subsidy.

Benefits:

- Vouchers have an income cap of 50% of (AMI) and usually houses renters below 30% AMI
- Vouchers provide higher rental income to the owner due to the rent subsidy that a household would otherwise not be able to afford
- Vouchers can assist special needs individuals and supportive housing developments
 - To target 30% AMI or below households, either the development needs significant up-front development subsidies to lower the debt service or project-based vouchers to increase the rent in order to pay a higher debt service
 - MSHDA can provide project-based vouchers to 100% of the apartments in a 100% supportive housing project
- Tenant-based vouchers will be accepted at all projects but it is not assumed in the operating and development pro formas because it is unpredictable and up to the tenant where they want to live

Risks:

- AAHC vouchers are a limited resource and must be used selectively as project-based vouchers
- Project-based voucher contracts are time limited and are subject to renewal, typically in 15 or 20 year increments.
- Voucher funding is subject to federal budget allocations

Request for Proposals/ Request for Qualifications – Development and ownership structures that have not been done in Ann Arbor like mixed income/mixed use, medium to large density non-profit/for-profit partnerships may need a specific RFP/RFQ process to understand if expertise exists and if there is appetite in the development community for these types of ownership and covenant structures.

Benefits:

- Developers will do their own financial, regulatory and market condition analysis which will give the City a better sense of costs, development fees and developer appetite
- Risks of all sorts including reputational, financial, operational and lease-up can be shifted to the chosen development partner
- The process identifies the universe of potential partners and acceptable terms and conditions in advance of binding agreements

Risks:

- The RFP/RFQ process could reveal that there are no willing partners for the type of development contemplated
- RFP responses could have terms, designs, organizational structures, etc... not contemplated.

Limited Equity Cooperative – Resident-controlled, long-term affordable housing where members purchase shares in the cooperative that entitle them to live in one of the units and have a vote in the governance and management of the building.

Benefits:

- Affordable homeownership opportunities for individuals and families between 50% - 100% of area median income (AMI)
- Residents determine the type of development and have a say in management and operations
- If built with an underlying city ground lease, long term affordability can be assured even with turnover of units

Risks:

- Not typically professionally managed which could jeopardize long term success
- Coop residents must secure financing for the initial purchase which may limit the type of buyers to those with existing wealth and/or high credit scores.
- Financing for cooperatives is not typically provided by conventional banks

- The State authorizes the City to provide a PILOT for “Consumer Housing Cooperatives” that have a federally or State-aided mortgage, but the City ordinance is currently silent on the amount of the PILOT

Parking – Minimum parking requirements are set by zoning regulations. A developer can provide more parking than is required by ordinance if market conditions or financial investors demand it. The least expensive parking to construct is a surface parking lot. If a site requires more parking than a surface parking lot can supply on-site, the developer must meet the parking requirements with more expensive options such as underground parking, above-ground parking structure, leasing parking structure spaces, or making a financial contribution to the DDA for future downtown public parking.

- Based on AAHC tenants, households at the lowest income levels are less likely to have a vehicle than higher income households
- And low-income families are more likely to have a vehicle than low-income individuals

Downtown Parking: Parking is not required for the base 400% FAR in D1 zoning or base 200% FAR in D2 District. However, parking is required for the affordable housing premium area at a rate of 1 parking space for each 1,000 SF of premium building area.

The city has a policy to allow contributions in lieu of required parking to provide a full array of transportation alternatives in the downtown.

- The contribution can include the purchase of monthly parking permits plus 20% of the permit parking cost for fifteen years. For example, a permit in the William Street structure would cost $1.2 \times \$180/\text{month} = \$216/\text{month} \times 12 \text{ months} \times 15 \text{ years} = \$38,880$. The DDA also makes available “Offpeak/Overnight” parking permits at \$30/month. For a development contract, this would be \$36/mo or \$432/year x 15 years = \$6,480. With this permit, parking access is limited to 3:30pm to 9am M-F and all day Saturday, Sunday and holidays.
- Alternatively, the contribution can be \$55,000/parking space paid to the DDA prior to the Certificate of Occupancy
- Underground parking can cost up to \$90,000/parking space. The DDA’s most recent examination of the Kline’s lot occurred several years ago and at that time the cost was estimated at around \$90,000/parking space to support a building on top of the underground parking.

If any affordable housing will be built in the downtown that requires parking, the DDA needs to be engaged as soon as possible to have a discussion about parking needs, parking requirements, parking management, and how parking will be funded.

Public Utilities & Public Roads. The location and size of public utilities including water, sewer, and stormwater can significantly impact the cost of construction if the developer must install or increase the capacity of public utilities. Likewise, the location and age of public streets, street lights and sidewalks can significantly impact the cost of construction if these public amenities do not exist or must be brought up to code. A downtown

is generally a good location for a new construction project due to the existing public infrastructure in the downtown. In addition, a vacant property that was previously developed is more likely to have appropriately sized public utilities on or near the site.

This financial feasibility analysis does not include a site-specific public infrastructure analysis.

Public Utilities Recovery Fees & Sanitary Sewer Flow Mitigation. All new construction sites in Ann Arbor are required to pay public utility recovery fees. The purpose is to recover capital costs for past system investment and to provide funding for future system improvements. New developments utilize existing public infrastructure that was previously paid for by the City and other previous developments. The capital recovery fees distribute the cost across all developments and helps to pay for existing maintenance as well as future improvements.

The sanitary sewer flow mitigation fee was created to protect the health and safety of our community and environment using a city-wide approach. The purpose is to reduce the potential for development sites to exacerbate sanitary sewer backups in basements or sanitary system surcharging during wet weather rain events. Developments that are adding sewer flow to the system must mitigate 110% of the estimated net new flow contribution from the development into the sanitary system.

This financial feasibility analysis does not include a site-specific public infrastructure analysis.

Property Management. The property can be managed by a single entity or multiple entities if the building is divided into separate condominiums with separate owners. The property or condominiums within the property can be managed by a for-profit, non-profit and/or public entity.

Waitlist. If the City adopts a policy to develop underutilized city-owned property on a large scale with private-sector developers, then the City should consider adopting a centralized public waitlist for income-restricted apartments and condominiums. Currently, each private developer is responsible for marketing their affordable units to low-income households, collecting income documentation and certifying that the tenants meet the income qualification for the apartment. The City currently contracts with the Washtenaw County Office of Community and Economic Development (OCED) to annually review the rent and income certifications for these units as well as for PILOT units.

As the number of rent-restricted units grows, the City will need to provide additional funding to the County to conduct these annual certifications. As the inventory grows, potential tenants will have to contact each individual property manager to find out what the process is to rent or purchase a unit. A centralized waitlist will streamline the process for potential tenants, homebuyers and property managers. A centralized waitlist will also ensure a standardized, fair and public process to access income-restricted apartments and condominiums. Staff recommends that the City create a centralized waitlist for all income-restricted units the City is monitoring through a covenant. Properties that already have other regulators, like

HUD or MSHDA, overseeing the waitlist and income and rent restrictions would be exempt from the centralized waitlist but would still be required to show evidence of compliance with the income and rent restrictions.

Income & Special Population Targeting

30% AMI: If a project is targeting any special needs populations such as homeless households, persons with disabilities, domestic violence survivors, and youth aging out of foster care, then units would be set aside that are affordable at 30% AMI or less. Due to the very high incomes in Ann Arbor, people who are working full time at or near minimum wage can also fall into the 30% AMI or less income category. People who are on a fixed-income such as Supplemental Security Income (SSI) or Social Security Disability Income (SSDI) are nearly always in the 30% AMI or less income category in Ann Arbor.

31% - 60% AMI: Households in this income range nearly always have earned income from a job. The exception is usually retired households with Social Security Retirement Income and/or pension income.

Seniors: Senior housing is usually defined as housing for households that have a member who is 62 years or older. Some senior housing is reserved for households with a member who is 55 years or older. Senior housing may or may not also have an income restriction depending on the funding source.

Housing Costs equaling 30% of Adjusted Gross Income: A household that spends more than 30% of their gross income on housing costs (rent & utilities or mortgage, insurance, taxes and utilities) is generally considered to be housing cost burdened. Setting aside housing for households at specific income targets such as 30% AMI or 50% AMI does not guarantee that the household will pay 30% of their income on housing.

For example, if a 1 bedroom apartment is set-aside for a household at 50% AMI and rents for \$886/month, all households whose income does not exceed 50% AMI, regardless of their income, would be income-qualified to rent this apartment. A household making \$20,000 is income qualified and a household making \$35,000 is income qualified and both households must pay \$886/month.

The only way to guarantee that a household is not spending more than 30% of their income on housing costs is if there is also a rent subsidy, like a section 8 voucher. When there is a rent subsidy, the tenant pays 30% of their adjusted income on rent and the subsidy pays the balance of the rent to the landlord. A rent subsidy can follow the tenant from one apartment to another as a tenant-based rent subsidy, or it can be attached to a unit as a project-based rent subsidy and any household who lives in that apartment receives the rent subsidy.

The following documents are available on-line at www.a2gov.org/housingcommission

City Council resolutions related to this analysis

Zoning Analysis by Carlisle Wortman

Appraisals conducted by Gerald Alcock

Relevant legal docs such as deeds

2019 MSHDA rent and income limits

2019 Washtenaw County Office of Community and Economic Development rent and income limits

Ann Arbor Housing Fund policy

Brownfield funding policies

DDA documents related to DDA funding

2015 Washtenaw County Housing Affordability and Economic Equity Analysis