Concurrent Session Three:

The Challenge and Opportunities in Attainable Housing: Non-Subsidized For-Sale Housing for America’s Middle Class
The Challenge and Opportunities in Attainable Housing: Non-Subsidized For-Sale Housing for America’s Middle Class

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RCLCO
Moderator

Michael Nunziata
13th Floor Investments

Angel Rodriguez
Philadelphia Land Bank

Bob Youngentob
EYA, LLC
The Challenges and Opportunities in Attainable Housing – Non-Subsidized Housing for America’s Middle Class

ULI Housing Opportunity Conference 2020
Adam Ducker
Senior Managing Director
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FRAMING QUESTIONS

1. Does the Middle Class in America have the same access to home ownership as they did a generation ago? (And do they still want it?)

2. Is there a business case to be made for serving this market audience?

3. What are the biggest barriers to building to the Attainable price points? How does D.C. compare to the rest of the county?

4. Where is D.C. should interested parties be focused? (And is the juice worth the squeeze?)
WHAT’S ACTUALLY HAPPENED TO HOUSING?

Median Home Price and Median Household Income (1975 = 100)

Homebuilding – Starts in the United States (,000s)

Source: U.S. Census; BLS; RCLCO
New Home Sales by Price Band Relative to Pre-Recession Levels (2003-2006 Average = 100%, United States)

Source: U.S. Census; BLS; RCLCO
THE FACTS: AFFORDABILITY WORSE THAN PRE-GREAT FINANCIAL CRISIS

U.S. Home Price to Income Ratio and Median Sales Price

Source: Moody’s, Federal Reserve Bank of St. Louis
SO WHO AND WHAT ARE WE REALLY TALKING ABOUT IN D.C.?

Annual Income by Decile (2019$)
United States

Source: U.S. Census; RCLCOs

Annual Income by Decile (2019$)
High Cost Markets (Washington MSA)

Source: U.S. Census; RCLCOs
MAYBE THE CULPRIT IS DEMAND (LIMITED INCOME GROWTH)?

Real Average Household Income by Quintile in 2018$; United States

<table>
<thead>
<tr>
<th>Household Segment</th>
<th>2018 Mean Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 5%</td>
<td>$416,520</td>
</tr>
<tr>
<td>Top Quintile</td>
<td>$233,895</td>
</tr>
<tr>
<td>2nd Quintile</td>
<td>$101,570</td>
</tr>
<tr>
<td>Middle Quintile</td>
<td>$63,572</td>
</tr>
<tr>
<td>4th Quintile</td>
<td>$37,293</td>
</tr>
<tr>
<td>Bottom Quintile</td>
<td>$13,775</td>
</tr>
</tbody>
</table>

Source: Census Bureau, 1967-2018
MAYBE THE CULPRIT IS SUPPLY (SO LITTLE HOME BUILDING IN D.C.?)

COMPARISON OF HISTORIC RESIDENTIAL DELIVERIES AND PROJECTED DEMAND; WASHINGTON MSA
MAYBE THE CULPRIT IS PRICING MISMATCH?

ESTIMATED DEMAND COMPARED TO RECENT ACTUAL HOME SALE; High Cost Market (D.C.)

RCLCO Estimated Demand from Households
$75,000+ (4,500+)

2019 Home Sales (3,000 Actual Home Sales)

Source: Advisor Perspectives; U.S. Census; s
### Characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Definition</th>
<th>Unit Type</th>
<th>Unit Size</th>
<th>Density</th>
<th>Land Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Less than 1,400 SF (Tier 1)</td>
<td>1-3 BD, 1-2BA</td>
<td>700 – 1,400 SF</td>
<td>8-20 du/ac</td>
<td>All</td>
</tr>
<tr>
<td><strong>Definition</strong></td>
<td>Less than 1,800 SF (Tier 2)</td>
<td></td>
<td></td>
<td></td>
<td>Most effective with Density</td>
</tr>
<tr>
<td><strong>Unit Type</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unit Size</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Density</strong></td>
<td></td>
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</tr>
<tr>
<td><strong>Land Plan</strong></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Boulder Creek Neighborhoods**
Wee-Cottages; Stapleton, CO

**The Cottage Company**
Danielson Grove; Kirkland, WA

**New Home Company**
Azure at Escencia; Mission Viejo, CA
THE FACTS: THE MUCH ANTICIPATED SHRINKING FOOTPRINT... WENT THE OTHER WAY

Average Size of New For-Sale Homes Delivered 1999-2017, United States

Distribution of New Homes by Size

- Under 1,400
- 1,400 to 1,799
- 1,800 to 2,399
- 2,400 to 2,999
- 3,000 or more
- Percent of Homes Under 1,400 SF

% of Homes Under 1,400 SF
## BUILDER STRATEGIES – “MISSING MIDDLE”

<table>
<thead>
<tr>
<th>CHARACTERISTICS</th>
<th>Holmes Homes</th>
<th>Onyx East</th>
<th>Michael Harris Homes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Mews Collection; South Jordan, UT</td>
<td>Switchyard at Onyx; Indianapolis, IN</td>
<td>The Copley at Crown; Gaithersburg, MD</td>
</tr>
<tr>
<td><strong>Density</strong></td>
<td>12-20 du/ac</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unit Type</strong></td>
<td>1-3 BD, 1-2BA</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Unit Size</strong></td>
<td>700 – 1,900 SF</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Landplan Options</strong></td>
<td>Duplex to Multi-Plex (Stacked, Side/Side), Row Townhome,, Bungalow Cluster, Combos</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Defined by Opticos Architects as typologies between detached hand mid-rise buildings.
THE FACTS: DECLINING SHARE OF MEDIUM DENSITY FOR-SALE

MF Permits by Intention: For-Rent vs. For-Sale

For-Sale  For-Rent  % For-Sale

RCLCO REAL ESTATE ADVISORS
## Characteristics

<table>
<thead>
<tr>
<th>Definition</th>
<th>Streamlined structural and interior finish options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit Type</td>
<td>All</td>
</tr>
<tr>
<td>Unit Size</td>
<td>All</td>
</tr>
<tr>
<td>Density</td>
<td>All</td>
</tr>
<tr>
<td>Landplan</td>
<td>All</td>
</tr>
</tbody>
</table>

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Fresh Paint by Garman Homes  
Brier Chapel; Chapel Hill, NC

DR Horton Express  
Windermere Townhomes; Shakopee, MN

LGI  
Mirror Lake; Lehigh Acres, FL
MARKET’S OPENNESS TO TRADE OFFS DRAMATICALLY UNDER-STUDIED

Quality & Location > Lot & Home Size

Percent of Respondents That Would Consider Trade-Off

- Smaller lot: 49%
- Smaller home: 37%
- Lower quality finishes/appliances: 21%
- Less desirable location: 9%

Source: RCLCO Consumer Research 2019; n=1,500
IMPROVED RESILIENCY

$200K–$300K SURROUNDING HOME VALUES

20+ ACRE PUBLIC PARK DEDICATION

7 EXISTING HOA’S 1960-1970’S BUILT

214 NEW SFR ZLL HOMES

HIDDEN TRAILS

28’ SFR LOT

23’ SFR HOME
VILLAGES OF ORIOLE
HOA 3,742 EXISTING
HOMES (55+)

104 NEW
SFR’S

3 MILE PUBLIC
TRAIL NETWORK

200 NEW
MULTIFAMILY
HOMES

REC CAMPUS W/
PUBLIC CAFE

217 NEW
VILLAS

IMPROVED
RESILIENCY

$100k-$200k
SURROUNDING
HOME VALUES
PHILADELPHIA’S WORKFORCE HOUSING PROGRAM

Land + Credit = Workforce Homeownership (L+C)
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Executive Director, Philadelphia Land Bank
Deputy Executive Director - LAND,
Philadelphia Redevelopment Authority
OBJECTIVES:

The goal of the Workforce Housing program is to create 6,000 units of new workforce homeownership units in 10 years through a three-pronged approach:

• Locational analysis,

• Customized pricing,

• Restrictive Covenants, and

• Credit enhancement offered by the public sector
LOCATIONAL ANALYSIS:

• The City identifies clusters of publicly owned parcels in appreciating neighborhoods through analysis of market conditions and trends,

• Packages requests for proposals (RFPs) of bundled parcels that are appropriate for workforce homeownership.
MAKING PHILADELPHIA BETTER BLOCK BY BLOCK

LOCATIONAL ANALYSIS:

FIGURE 5: Proposed Market Segments by Census Tract. Source: Interface Studio and Real Estate Strategies

1234 Market Street, 16th Floor, Philadelphia, PA 19102 www.phdcpghila.org
MAKING PHILADELPHIA BETTER BLOCK BY BLOCK

LOCATIONAL ANALYSIS: WFH PROJECT LOCATIONS
CUSTOMIZED PRICING

LAND PRICING
The City disposes publicly-owned parcels:
• At a discounted price that seeks the highest possible sale price to the public sector and
• Providing a discount sufficient to allow deals to pencil with a capped sale price to the homebuyer.

SALES PRICE
The City sets a maximum sale price to the initial homebuyer, adjusted on an annual basis.
• Buyers can have household incomes up to 120% of AMI,
• The sale price is based on an average PITI payment affordable to an 80% AMI buyer—currently $229,999.
• The City holds developers strictly to this maximum sale price (it is not a base price that can be increased with add-ons).
• Homes must be sold to income eligible households (up to 120% Area Median Income).
RESTRICTIVE COVENANTS

Developers must sell properties to homebuyers with a Declaration of Restrictive Covenants that ensures the properties are:

• Owner-occupied,
• Homeowners are income certified, and
• Resales are made at an affordable price-point for up to 30 years
Provide construction lenders of workforce housing with:

- Up to a twenty-five percent (25%) guarantee on secured construction loans of up to three million dollars ($3,000,000) on the condition that they loan at or above 85% loan-to-cost (LTC)
  - Up to $750,000 of credit enhancement for WFH projects, to be payable to the financial institution in event of default or nonpayment.
- The term is up to 24 months with one 12-month extension option.
OUTCOME

The program currently has 13 projects:

- 210 total units
- 148 units of workforce housing
- 62 units of market-rate housing
THANK YOU
The Lindley at Chevy Chase Lake

Location
Chevy Chase Lake, MD

Project Type
Townhomes
Multifamily

Details
• 200 multifamily
• 62 townhomes

Affordability:
• 10 for-sale townhomes at $200,000 (≤60% AMI)
• 80 income-restricted rental units (40%), 40 at 50% AMI and 40 workforce

Partners
Old Town Commons

Location
Alexandria, VA

Project Type
Townhomes, Multifamily

Site Size
8.49 Acres

Home Prices
$200,000 to $800,000

Unit Count
• 155 townhomes
• 76 multifamily
• 134 affordable rental units

Groundbreaking
June 2010

Partner
ARHA
Graham Park

Location
Fairfax, VA

Project Type
Townhome

Home Size
1,150 to 2,300 SqFt

Home Prices
$540,000 to $850,000

Site Size
8.3 Acres

Unit Count
180 townhomes
Riggs Park Place

Location
Fort Totten, Washington DC

Project Type
Townhomes and Affordable Senior Housing

Home Size
1,250 to 1,800 SqFt

Home Prices
$559,000 to $650,000

Site Size
4 Acres

Unit Count
90 Townhomes
80 Affordable Senior Units
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Housing Opportunity Conference