

## Memorandum

**TO:** City of Alameda

**FROM:** James Edison

**DATE:** February 13, 2017

**SUBJECT:** Main Street Housing Mix and Infrastructure Finance Analysis

A key challenge at Alameda Point generally, and for the Main Street Plan in particular, is the funding of infrastructure. Across all of Alameda Point, the cost per acres is in excess of \$1 million per acre. This amount accrues to all types of development, including affordable housing. Willdan has been working with City staff on assessing what mix of residential development could support the infrastructure necessary for development of Main Street. In broad terms, more expensive residential units can support a higher amount of infrastructure because the net profit of the development is higher.

In the course of the planning of Main Street the council has identified affordable housing as an important objective for development. The City is required to provide 25 percent affordable housing (very low, low, and moderate), but there is interest in providing affordable housing beyond that level. Other communities examining the issue of affordable housing have identified additional levels, Workforce I (120-150 percent of AMI) and Workforce II (150-180 percent of AMI). There are two broad approaches to providing housing at those income levels. The first is to simply set the price of the units at the affordable level. This accomplishes the goal of affordability, but requires a subsidy to cover the difference between the cost of construction of the units and the price paid. This means that the units not only do not contribute toward infrastructure costs but also must be funded from the net proceeds of the market rate units and require significant subsidy without any other qualifying public financing.

The second approach is sometimes known as “affordability by design”. With this approach the unit is designed to be a size that results in an affordable price at market rate. This is possible because the Workforce income levels are considerable higher than traditional affordable housing, and therefore the market price can be within the range of affordability. A key advantage of this approach is that it does not require deed restriction or other limitation. This means that the City does not have to administer and monitor the housing over the term of the deed restriction. As

described above, it also means that no additional subsidy is required. There are no public affordable housing financing sources available to fund this income range. Affordable by design does not guarantee affordability according to specific index, but does guarantee a level of affordable compared to other housing, and that guarantee is permanent.

It is important to note that Alameda Point has a cap on the number of residential units permitted to be constructed. Each residential unit counts against this total, regardless of size. Against this the Main Street development must fund a total of \$53 million in infrastructure costs, including \$36 million on costs allocated from the Master Infrastructure Plan (MIP) for Alameda Point and \$17 million in site preparation costs. These costs are detailed in Exhibit 1, below.

Willdan and City staff have constructed a range of preliminary development scenarios to illustrate the balance among the types of development (single family, townhome, apartments, and workforce housing). In these scenarios, it is assumed that the workforce housing type could range anywhere from apartments to small townhomes. Tables 1-4 below detail a range of options to illustrate the relationship among funding of infrastructure, land use type and the amount of workforce housing. For each Willdan has calculated the net residual value of each prototype (including unit types that require a subsidy). A positive residual value is an indicator that this development plan is likely to be feasible and able to fund the infrastructure burden, although the ultimate feasibility will depend on an actual transaction with a specific developer for a particular development plan. The residual value calculations are detailed in Exhibit 2, below.



**Table 1**  
**Main Street Feasibility Analysis**  
**Townhouse Units**

Item	Total Mkt Units	Total Units	Residual \$/Unit	Total Residual Value
<b>Max Value</b>				
Single Family	0	0	\$363,670	\$0
Tow nhome I	108	108	\$264,940	\$28,613,520
Tow nhome II	100	100	\$255,300	\$25,530,000
Workforce I	0	0	\$148,688	\$0
Workforce II	0	0	\$190,926	\$0
Moderate	0	25	(\$27,737)	(\$693,426)
L/VL Apartment	<u>0</u>	<u>44</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Residual Value</b>	<b>208</b>	<b>277</b>		<b>\$53,450,094</b>
Allocated Backbone Infrastructure Costs				\$36,300,000
Onsite Demo/site prep				<u>\$17,017,001</u>
Total Costs				<u>\$53,317,001</u>
Net Residual Value				\$133,093

All Units Assumed For Sale, Moderate Units Deed-Restricted

Willdan, 2016



**Table 2**  
**Main Street Feasibility Analysis**  
**Ten Percent WF Units/Min Single Family**

Item	Total Mkt Units	Total Units	Residual \$/Unit	Total Residual Value
<b>Max Value</b>				
Single Family	24	24	\$363,670	\$8,728,080
Tow nhome I	78	78	\$264,940	\$20,665,320
Tow nhome II	78	78	\$255,300	\$19,913,400
Workforce I	14	14	\$148,688	\$2,081,633
Workforce II	14	14	\$190,926	\$2,672,959
Moderate	0	25	(\$27,737)	(\$693,426)
L/VL Apartment	<u>0</u>	<u>44</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Residual Value</b>	<b>208</b>	<b>277</b>		<b>\$53,367,966</b>
Allocated Backbone Infrastructure Costs				\$36,300,000
Onsite Demo/site prep				<u>\$17,017,001</u>
Total Costs				<u>\$53,317,001</u>
<b>Net Residual Value</b>				<b>\$50,965</b>

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**Table 3**  
**Main Street Feasibility Analysis**  
**TH/Ten Percent WF, No Single Family**

Item	Total Mkt Units	Total Units	Residual \$/Unit	Total Residual Value
<b>Max Value</b>				
Single Family	0	0	\$363,670	\$0
Tow nhome I	94	94	\$264,940	\$24,904,360
Tow nhome II	86	86	\$255,300	\$21,955,800
Workforce I	14	14	\$148,688	\$2,081,633
Workforce II	14	14	\$190,926	\$2,672,959
Moderate	0	25	(\$27,737)	(\$693,426)
L/VL Apartment	<u>0</u>	<u>44</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Residual Value</b>	<b>208</b>	<b>277</b>		<b>\$50,921,326</b>
Allocated Backbone Infrastructure Costs				\$36,300,000
Onsite Demo/site prep				<u>\$17,017,001</u>
Total Costs				<u>\$53,317,001</u>
Net Residual Value (% reduction in DIF fee)			-4%	(\$2,395,675)

All Units Assumed For Sale, Moderate Units Deed-Restricted

Willdan, 2016



**Table 4**  
**Main Street Feasibility Analysis**  
**TH/WF Maximum Units**

Item	Total Mkt Units	Total Units	Residual \$/Unit	Total Residual Value
<b>Max Value</b>				
Single Family	0	0	\$363,670	\$0
Tow nhome I	57	57	\$264,940	\$15,101,580
Tow nhome II	50	50	\$255,300	\$12,765,000
Workforce I	78	78	\$148,688	\$11,597,668
Workforce II	77	77	\$190,926	\$14,701,276
Moderate	0	29	(\$27,737)	(\$804,374)
L/VL Apartment	<u>0</u>	<u>52</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Residual Value</b>	<b>262</b>	<b>343</b>		<b>\$53,361,150</b>
Allocated Backbone Infrastructure Costs				\$36,300,000
Onsite Demo/site prep				<u>\$17,017,001</u>
Total Costs				<u>\$53,317,001</u>
Net Residual Value (% reduction in DIF fee)			0%	\$44,149

All Units Assumed For Sale, Moderate Units Deed-Restricted

Willdan, 2016

A question that came up at the planning board is whether it would be possible to fund only a portion of the required infrastructure for Main Street if not all of the land was needed. Willdan and the City have asked the City's infrastructure consultant, CBG, to examine this question. The conclusion is that of the total required funding of \$53.3 million cannot be reduced significantly by partial improvement of the site, because the majority of the improvements are site wide (like flood control) or can only be reduced slightly by reducing the area of work. Also, City staff would like to have the entire area available for development to take advantage of commercial opportunities that arise from development of Site A.



Willdan has prepared an analysis of the range of housing that could be afforded by residents at a variety of income levels. The median family income for a family of 4 is \$93,500 for Fiscal Year 2016.



Figure 1: Home Affordability by Income Level

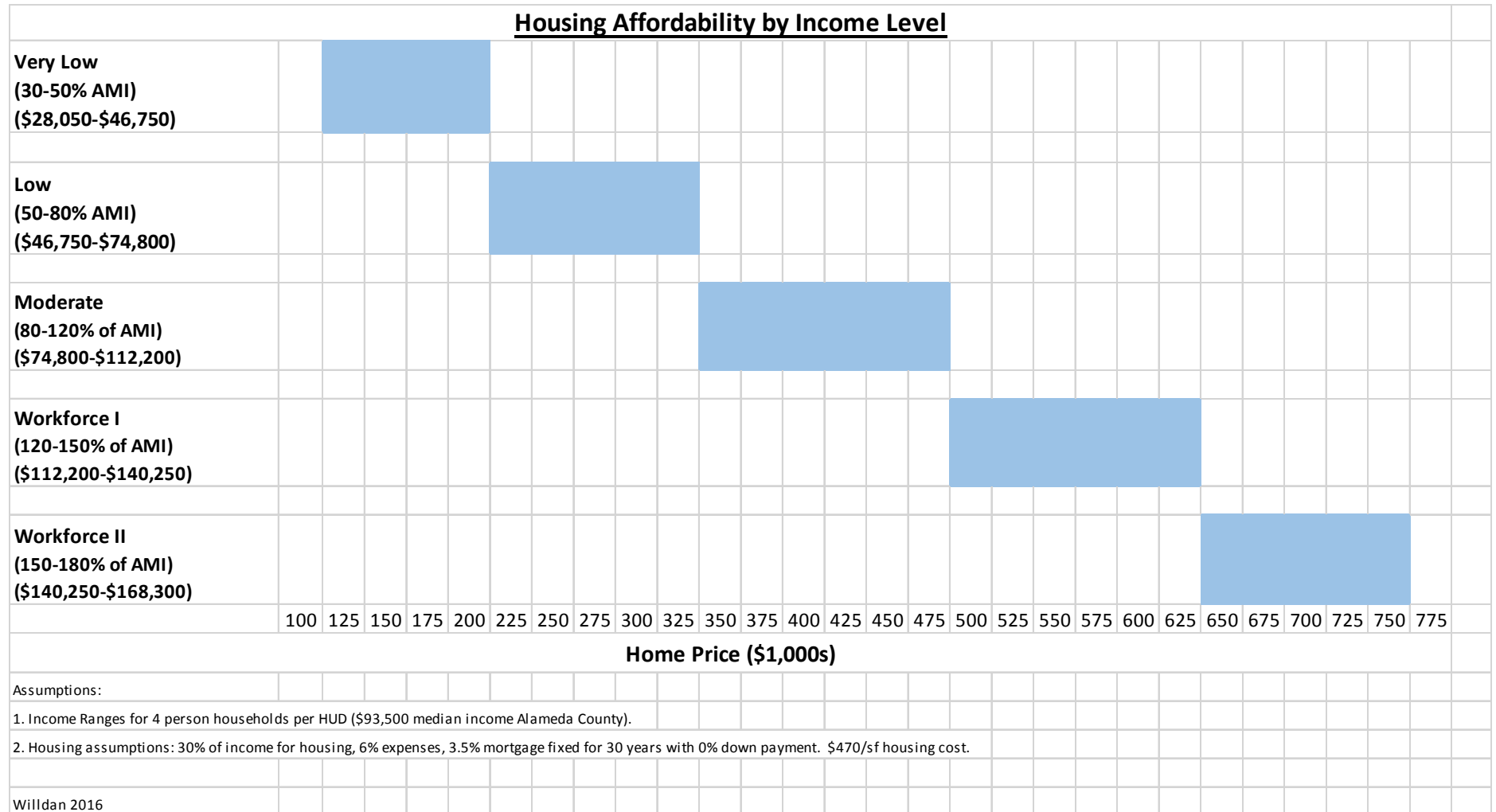
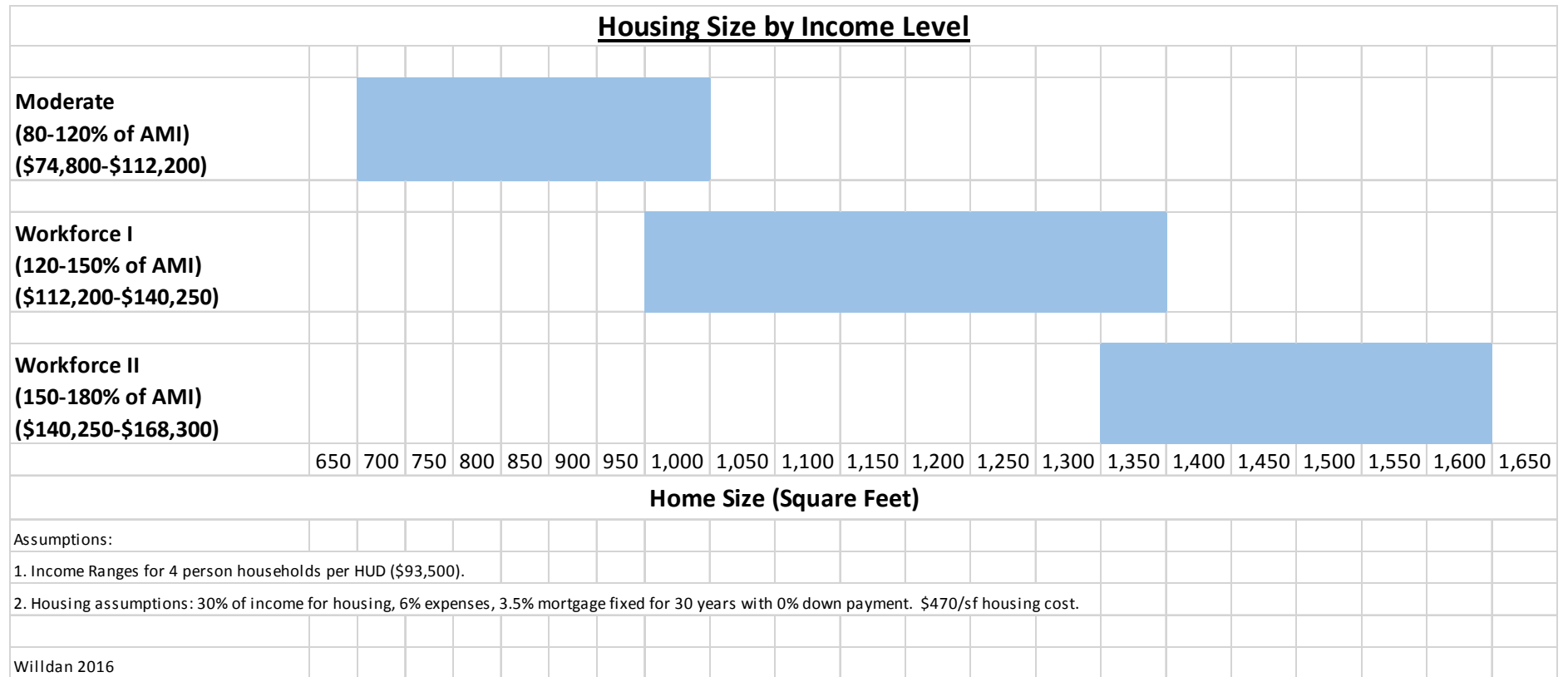




Figure 2: Home Size by Income Level



## Exhibit 1: Infrastructure Costs

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### Backbone Infrastructure Costs south of Main

Acres	33
Cost Per Acre	1,100,000
<b>Total</b>	<b>\$36,300,000</b>

### On site infrastructure costs

demo/site prep	6,219,000
flood prot and site grading	7,995,000
subtotal	14,214,000
softcosts	<u>2,803,001</u>
<b>Total</b>	<b>17,017,001</b>
per acre	\$561,617
<b>Grand total</b>	<b>53,317,001</b>

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Source: CBG

Willdan, 2016



**Exhibit 2: Main Street Neighborhood Residential Product Type Residual Land Value Illustration**

	<b>Single Family</b> 3,000 sq. ft. lots	<b>Town Home</b> Townhouses	<b>Town Home</b> Townhouses	<b>Affordable Moderate</b> Apartments (c)	<b>Market High Density</b> Apartments	<b>Workforce I</b> 120-150% AMI (d)	<b>Workforce II</b> 150-180% AMI (d)
<b>Project Characteristics</b>							
DU/Acre	8.5	15	16	25.0	25.0	20	20.0
<b>Unit Characteristics</b>							
Average Unit Size	2,800	2,100	2,000	1,600	1,600	1,329	1,595
Estimated Sale Price (/Sq. Ft.)	\$470	\$470	\$470	\$312	\$470	470	470
Estimated Average Sale Price	\$1,316,000	\$987,000	\$940,000	\$499,728	\$752,000	\$624,659	\$749,591
<b>Developer Costs</b>							
Estimated Hard Construction Costs (/Sq. Ft.)	\$200	\$200	\$200	\$200	\$200	\$200	\$200
Estimated Hard Construction Costs (/Unit)	\$560,000	\$420,000	\$400,000	\$320,000	\$320,000	\$265,813	\$318,975
Estimated Site Improvements and Intract Infrastructure (/unit)	\$65,000	\$55,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Estimated Soft Costs (% of Const. Costs) (a)	25%	25%	25%	25%	25%	25%	25%
Estimated Soft Costs (/Unit)	\$156,250	\$118,750	\$112,500	\$92,500	\$92,500	\$78,953	\$92,244
Estimated Marketing and Sales Costs (% of Sale Price)	5%	5%	5%	5%	5%	5%	5%
Estimated Marketing and Sales Costs (/unit)	\$65,800	\$49,350	\$47,000	\$24,986	\$37,600	\$31,233	\$37,480
<b>Developer Profit</b>							
Estimated Developer Profit (% of Sales Price)	8%	8%	8%	8%	8%	8%	8%
Estimated Developer Profit (/unit)	\$105,280	\$78,960	\$75,200	\$39,978	\$60,160	\$49,973	\$59,967
<b>Estimated Total Development and Sales Cost (Less Land)</b>	<b>\$952,330</b>	<b>\$722,060</b>	<b>\$684,700</b>	<b>\$527,465</b>	<b>\$560,260</b>	<b>\$475,971</b>	<b>\$558,666</b>
Residual Land Value Per Market Rate Unit	\$363,670 27.6%	\$264,940 26.8%	\$255,300 27.2%	(\$27,737)	\$191,740 25.5%	\$148,688 23.8%	\$190,926 25.5%

Note:

- (a) Adjustments may be necessary for any extraordinary local development costs, such as impact fees, other mitigation requirements, etc.
- (b) Costs for backbone infrastructure, off-site infrastructure upgrades or mitigation costs, and/or extraordinary site improvement costs should deducted from these figures.
- (c) Affordable Apartments Deed Restricted
- (d) These are market rate units that range in product type from apartments to small townhomes, but will depend on the ultimate developer and development plan.

