

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 17, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: PROPOSED POLICY CHANGES FOR DEVELOPER AFFORDABLE HOUSING CONTRIBUTIONS

ISSUE: Report on proposed changes in policy guidelines for affordable housing contributions from developers of residential and commercial projects.

RECOMMENDATION: That City Council:

- (1) Receive this report;
- (2) Instruct staff to disseminate the report over the summer to interested parties, particularly members of the development community, and to discuss and receive comments on the report;
- (3) Set the report for public hearing by Council at its September 18 public hearing meeting; and
- (4) Following the public hearing, approve the proposed policy changes, or those changes as they might be revised by Council, and instruct staff to prepare and process any amendments to the Zoning Ordinance that are needed to implement the approved policy changes.

DISCUSSION:

The attached staff report (Attachment II) proposes changes to the City's policy governing affordable housing contributions by developers of new residential and commercial projects. Since June 2002, the City's Affordable Housing Policy has called for voluntary contributions of \$1 per gross square foot to the Housing Trust Fund, or the provision of affordable housing on-site through subsidies of an equivalent monetary amount. This contribution level, approved in June 2002, was an increase from the previous level of \$0.50 per square foot which had been in effect since 1993.

Given the sales prices and rents of recent new development in Alexandria, the \$1 per gross square foot contribution level does not translate into substantial numbers of affordable housing

units. In many instances, the dollar amount is insufficient to subsidize even one sales unit down to the City’s current maximum affordable sales price of \$225,000. For example, the 24-unit West Glebe Road Townhouse project (on West Glebe Rd. near Valley Dr.) had a total of 65,544 gross square feet, but with sales prices anticipated to start above \$400,000, the minimum required subsidy for a single townhouse unit (i.e., the subsidy needed to bring its price down to \$225,000) would have been over \$175,000, more than twice the “\$1/foot” formula contribution of \$65,544.

In recent months, staff has begun negotiating higher contributions with developers who are receiving additional density or other benefits from the City. The proposed changes to the Affordable Housing Policy are designed to avoid the need for protracted negotiations, and to provide a predictable level of affordable housing contributions based on the level of economic benefit a developer receives from the City through the land use approval process. This predictability will enable developers to know early on the level of affordable housing they will need to provide, and to factor the cost of providing such housing into their calculation of the price they are able to pay for land.

The proposed affordable housing policy changes establish four categories of development (to include redevelopment) projects that are distinguished by the level of added benefit (e.g., in density, floor area ratio (FAR) or height) provided by the City, and, for each category, defines a target affordable housing contribution level. The four project categories, as shown below, represent increasing levels of economic benefit provided by the City. Using the new authority the City obtained this year from the General Assembly, the Zoning Ordinance would be amended to provide for the provision of affordable housing as a condition of projects in Tiers 3 and 4 receiving additional density by SUP or other means (e.g., a rezoning, the 20% affordable housing bonus).

- Tier 1: Projects not seeking a Special Use Permit, and authorized by base zoning (i.e., by-right projects).
- Tier 2: Projects seeking an SUP for benefits other than additional density, FAR or height (e.g., reduced parking, authorization of certain uses).
- Tier 3: Projects seeking an SUP for density, FAR or height that is greater than the level allowed in the base (or by-right) zoning, but does not exceed the level allowed by the Zoning Ordinance with an SUP, and also projects with CDD or CO zoning that are seeking an SUP.
- Tier 4: Projects seeking additional density, FAR or height through a rezoning, a zoning text amendment, the 20% affordable housing bonus provision or, possibly, the vacation of a public right-of-way.

For each tier, and for different types of projects in each tier (i.e., “commercial” or “residential/mixed use” projects), the proposed policy changes establish a level of affordable housing

contributions to be provided by the developer, either in the form of a cash payment to the Housing Trust Fund or the provision of subsidized ownership or rental housing units which usually are to be provided on-site but, with City approval, could be delivered off-site. (The proposed contribution levels are shown in detail on the chart attached as Attachment I, which is also set out on page 4 of Attachment II; affordable sales prices and affordable rent levels are shown in Attachment IV.)

For “commercial” projects, the proposed policy changes call for contributions to the Housing Trust Fund ranging from \$2.00 (projects in Tier 1) to \$5.00 (projects in Tier 4) per square foot of gross floor area. As earlier noted, current policy calls for \$1.00 per gross square foot contributions from all commercial projects.

For “residential and mixed use” projects, the proposed changes have a number of provisions.

First, they call for the delivery of on-site affordable housing based upon a percentage of a project’s overall square footage of gross floor area, with the percentage being 3% for projects in Tier 1, 5% for projects in Tier 2, 7% for projects in Tier 3, and 12.5% for projects in Tier 4. The Tier 3 and 4 percentages are based upon a density or FAR increase of 20%. Thus, the proposed changes provide that, where the increase in density or FAR actually approved for a project is less than 20%, the Tier 3 and 4 contribution percentages are to be proportionally reduced.¹ These percentages will result in more, and in many cases significantly more, units of affordable housing than are produced by the current “\$1.00/square foot” contribution.²

Second, for projects in Tiers 2, 3 and 4, the proposed changes provide that, with City approval, the developer may be allowed to build the policy-defined amount of affordable housing square footage off-site.

Third, for projects in Tiers 3 and 4, the proposed changes provide for cash contributions to the Housing Trust Fund in the event the City determines to forego the delivery of actual affordable housing units. Where that City determination is based on the project’s high unit sales prices, the cash contribution is to be 3% (Tier 3) or 5% (Tier 4) of the average price that the project’s units are commanding on the market. Where the City determination is based on other reasons,

¹ For instance, if a Tier 3 project received permission, through an SUP, to build an additional housing unit density of 15% (i.e., 15% more units than the number allowed in the base, or by-right, zoning), the Tier 3 7% affordable housing square footage requirement would be reduced to 75% (15%/20%) of 7%, or 5.25%.

² For instance, if the Tier 4’s “12.5% of gross floor area” contribution (under the proposed changes) had been applied to the previously mentioned West Glebe Road project, approximately 8,200 square feet of affordable housing would have been required, which, at the project’s 2,700 square foot average unit size, would have translated into three affordable housing units, rather than the cash contribution that was insufficient to deliver any units.

including the level of non-housing community benefits provided by the developer, the cash contribution is to be \$3.50 (Tier 3) or \$4.00 (Tier 4) for each square foot of gross floor area in the project. For the reasons given two paragraphs above, the proposed changes provide that these cash contribution percentages and dollar amounts are to be proportionally reduced when the actual increase in project density or FAR approved is less than 20%.

Attachment II includes a just-completed financial analysis by Bay Area Economics (BAE), which reviews the effect of the proposed policy changes and proposed affordable housing contributions on the financial viability of commercial and residential projects in the different tiers. The analysis suggests that the proposed contributions, when applied to high-rise rental apartment projects in Tiers 3 and 4, would make these projects not viable, given the other public benefits that are commonly requested of such projects by the City. In the coming weeks, staff will seek to address this issue through a revision of the affordable housing rental guidelines (Attachment III) and, of course, in our discussions with the development community.

Arlington County has just approved new affordable housing guidelines. Under those guidelines, developers of residential projects in Metro corridors are to provide 10% of their gross floor area as affordable housing. Outside of these areas, developers of residential projects are to provide \$4.00 for each square foot of gross floor area, or \$4,500 per unit, whichever is greater. Developers of commercial projects, regardless of location, are to provide \$4.00 for each square foot of gross floor area. These guidelines are currently being challenged in a lawsuit by the Northern Virginia Apartment Association, the Apartment and Office Building Association, and a local developer. Staff will monitor the lawsuit and inform Council of any implications it may have for the City's Affordable Housing Policy.

The above-described proposed changes in the City's affordable housing contribution guidelines are, at this stage, a staff proposal which has yet to be discussed with the general Alexandria community or the development community. Staff believe that this discussion should occur over the summer, followed by a public hearing before Council on September 18. If the summer's discussions demonstrate a need for staff to revise the currently proposed policy and guideline changes, we will submit those revisions to Council at your September 14 meeting. In that case, the proposed changes, as revised, would be the subject of the September 18 public hearing.

ATTACHMENTS:

- I. Chart, "Proposed Affordable Housing Policy Guidelines"
- II. Proposed Policy Changes for Developer Affordable Housing Contributions
- III. Financial Analysis of the Impact of Alexandria's Proposed Guidelines for Developer Housing Contributions (Bay Area Economics)
- IV. Maximum Sales Prices and Rent Levels for Affordable Set-Aside Units

STAFF:

Mildrilyn Stephens Davis, Director, Office of Housing
Eileen Fogarty, Director, Department of Planning and Zoning
Bob Eiffert, Deputy Director, Office of Housing
P. Patrick Mann, Urban Planner III, Department of Planning and Zoning

PROPOSED AFFORDABLE HOUSING POLICY GUIDELINES

Type of Project	<u>Tier 1</u> Permitted Use, No SUP Required	<u>Tier 2</u> SUP for Items Other than Greater Density, FAR or Height	<u>Tier 3</u> SUP for Greater Density, FAR, Height FAR, or CDD or CO SUP	<u>Tier 4</u> Additional Density from Rezoning, Text Amendment, Vacation, 20% Bonus Provision, Height above Master Plan
Commercial Projects	Cash contribution: \$2/square foot of project gross floor area (gfa) Voluntary	Cash contribution: \$2.50/square foot of project gfa Voluntary	Cash contribution: \$3.50/square foot of project gfa Voluntary	Cash contribution: \$5/square foot of project gfa Voluntary
Residential or Mixed/Use Projects (providing affordable housing) 5	Affordable housing contri-bution: square footage equal to 3% of project's gfa Voluntary	Affordable housing contri-bution: square footage equal to 5% of project's gfa Voluntary Developer may build off-site w/City approval ¹	Affordable housing contri-bution: square footage equal to 7% of project's gfa, based on 20% additional density; contribution percen-tage reduced proportionally when actual density increase is less than 20% Guideline in Zoning Ordinance Developer may build off-site w/City approval	Affordable housing contri-bution: square footage equal to 12.5% of project's gfa, based on 20% additional density; contribution percentage reduced proportionally when actual density increase is less than 20% Guideline in Zoning Ordinance Developer may build off-site w/City approval
Residential or Mixed/Use Projects (providing cash contribution in lieu of housing, based on City waiver)	Cash contribution: \$2/gfa square foot Voluntary	Cash contribution: \$2.50/square foot of project gfa Voluntary	Cash contribution: 3% of average project sales price where housing waived because of expensive/luxury units; \$3.50/square foot of project gfa where housing waived for other reasons Guideline in Zoning Ordinance	Cash contribution: 5% of average project sales price where housing waived because of expensive/luxury units; \$4/square foot of project gfa where housing waived for other reasons Guideline in Zoning Ordinance

¹ This refers to the actual provision of affordable units by the developer at another site the developer owns or controls.

PROPOSED POLICY CHANGES FOR
DEVELOPER AFFORDABLE HOUSING CONTRIBUTIONS

Background

The City of Alexandria’s current Affordable Housing Policy calls for developers to contribute \$1 per gross square foot to the Housing Trust Fund, or to provide affordable housing on-site in at least an equivalent amount. This contribution level was approved in June 2002, and was an increase from the previous level of \$0.50 per square foot which had been in effect since 1993.

Given the sales prices and rents of recent new development in Alexandria, the \$1 per gross square foot contribution level does not translate into substantial numbers of affordable housing units. In many instances, this dollar amount is insufficient to subsidize even one sales unit down to the City’s current maximum affordable sales price of \$225,000. For example, the 24-unit West Glebe Road Townhouse project had a total of 65,544 gross square feet, but with prices anticipated to start above \$400,000, the minimum required subsidy for a single townhouse unit would have been at least \$175,000, more than twice the formula contribution of \$65,544.

In recent months, staff has begun negotiating higher contributions with developers who are receiving additional density or other benefits from the City. For example, at the recently approved Park Tower development, which received approval for two floors above the height limit, resulting in 23 additional units, staff negotiated a contribution of 30% of the bonus units (7 units) in addition to the 2 units initially proposed by the developer to meet the \$1 per gross square foot contribution. The table below shows the approved on-site housing contributions since FY 2002. All but The Preston were approved after the standard contribution was increased to \$1.00 per square foot.

	Use	Units	Affordable Units	Percent of Project	Value of contribution	Contributi on Per S.F.	Percent of Standard Contribution
Mill Race	sales	326	13	4%	\$1,229,600	\$2.01	201%
Mill Race	rental	369	15	4%	*	*	*
Preston	sales	63	6	9.5%	\$100,435	\$1.04	104%
Cameron Station Condo. Bldg.	sales	148	7	4.7%	\$975,000	\$2.07	207%
Northampton	rental	572	25	4.4%	\$1,605,680**	\$2.73	273%
Park Tower	sales	173	9	5.2%	\$720,000	\$3.48	348%

* figures not available, but the \$2.01 per gross square foot contribution value applies to the entire Mill Race project, including the office building.

**total value of subsidies over 15 years

This proposal is designed to provide a predictable and consistent level of affordable housing contribution based on the level of benefit a developer is receiving from the City through the zoning approval process. This predictability will enable developers to factor the cost of providing affordable housing into their calculations of an appropriate price to pay for land.

Need

The table on the following page shows the contrast between the number of households at various levels (up to \$100,000 household income), and the housing units affordable to such households. It does not, however, address the numbers of those affordable units that may actually be available at any given time. The table shows a shortage of affordable units (more households in the category than the total of rental and sales units affordable to them with or without City assistance) in the \$0 - \$24,999 and \$50,000 - \$100,000 income categories. This does not mean that the difference represents people who are not housed. Households may simply be paying more than 35% of their incomes for housing costs (the affordability standard used in the table), or, in the case of homeowners, may have paid off their mortgages or may have mortgage payments based on a purchase price much lower than the current assessed value. Affordability is an issue that needs to be addressed for the first group, but the others should be considered affordably housed.

Proposed Policy

The City’s Affordable Housing Policy would establish a target affordable housing contribution level for projects in various categories, depending on the level of benefit provided by the City. As shown on page 4, there would be different levels of target percentages, (and different levels of cash contribution for projects allowed to opt out of providing units, as well as non-residential projects) based on the four tiers shown below, which represent increasing levels of economic benefit provided by the City. The City’s Zoning Ordinance would be amended to call for the provision of affordable housing as a condition of receiving the additional density in Tiers 3 and 4.

- Tier 1: Permitted uses not requiring Special Use Permits, also known as by-right projects. Because such projects do not involve benefits from the City, the developer would retain the option to elect either on-site units or a monetary contribution to the Housing Trust Fund.
- Tier 2: Projects seeking an SUP for benefits not resulting in additional density/FAR, e.g., parking, use, outlot.
- Tier 3: Projects seeking an SUP w/Greater Density, FAR, Height FAR than allowed in base zoning but not exceeding the level allowed with an SUP, or projects with CDD or CO Zoning.
- Tier 4: Projects seeking additional density from rezoning, zoning text amendments, vacation, 20% bonus provision, or height above the level allowed in the Master Plan.

Estimated Number of Affordable Housing Units Available in Alexandria to Households in Specified Income Ranges

		Income Ranges			
		\$0 - \$24,999	\$25,000 - \$49,999	\$50,000 - \$74,999	\$75,000 - \$100,000
# of Alexandria Households¹		10,111	16,873	13,244	8,091
# of Family Households (2 or more related persons)		4,193	6,275	4,972	3,700
HOMEOWNERSHIP					
Affordable Price Range (rounded up to nearest \$100)²		Single-Family (SF): \$0 - \$149,500 Condo: \$0 - \$136,700	SF: \$89,200 - \$245,600 Condo: \$77,300 - \$219,900	SF: \$178,300 - \$327,100 Condo: \$154,500 - \$290,400	SF: \$267,500 - \$356,600 Condo: \$231,800 - \$309,000
Single-Family Units					
# Affordable Without City Assistance³		5 [valued at up to \$99,999]	111 [valued from \$100,000- \$174,999]	2,936 [valued from \$175,000- \$274,999]	3,864 [valued from \$275,000-\$349,999]
# of Alexandria Units Affordable With all City Assistance for HAP-Eligible Household³		57 [valued at up to \$149,999]	1,795 [valued from \$150,000- \$249,999]	2,358 [valued from \$250,000- \$299,999]	Not Applicable - This income range is not HAP-eligible
# Affordable With all City Assistance for MIHP-Eligible Household³		Not Applicable - All households in this income range are eligible for higher HAP levels of assistance.	1,181 [valued from \$150,000- \$224,999]	4,217 valued from \$225,000- \$324,999]	1,461 [valued from \$325,000-\$349,999]
Condominium Units					
# Affordable Without City Assistance³		1,223 [valued at up to \$99,999]	3,632 [valued from \$100,000- \$149,999]	5,434 [valued from \$150,000- \$224,999]	3,375 [valued from \$225,000-\$299,999]
# of Alexandria Units Affordable With all City Assistance for HAP-Eligible Household³		4,855 [valued at up to \$149,999]	5,434 [valued from \$150,000- \$224,999]	3,375 [valued from \$225,000- \$299,999]	Not Applicable - This income range is not HAP-eligible
# Affordable With all City Assistance for MIHP-Eligible Household³		Not Applicable - All households in this income range are eligible for higher HAP levels of assistance.	3,986 [valued from \$150,000- \$199,999]	4,823 [valued from \$200,000- \$299,999]	Included in prior category [valued at up to \$299,999]
# of City Homeowner Households¹		1,768	4,009	4,877	3,937
MARKET RATE RENTAL⁵					
Affordable Monthly Rent (rounded up to nearest \$10)²		\$0 - \$730	\$730 - \$1,460	\$1,460 - \$2,190	\$2,190 - \$2,920
# of Affordable Market Rate Efficiency Units⁴		195	2,703	0	Not Applicable - Rent levels utilized for the purposes of the Landlord-Tenant Division Survey generally fall below \$2,020.
# of Affordable Market Rate 1-BR Units⁴		314	12,766	632	
# of Affordable Market Rate 2-BR Units⁴		126	6,564	2,702	
# of Affordable Market Rate 3-BR Units⁴		22	726	674	
RENTAL UNITS WITH PROJECT-BASED SUBSIDIES					
# of Rental Units with Project-Based Subsidies		3,196			Assistance currently limited to households earning at or below \$75,900

1 Source: 2000 U.S. Census. Of 61,968 Alexandria households, 28,153 are family households (2 or more related persons). 26,880 are single person households and 6,935 are non-family households of 2 or more persons.

2 Assumes that an affordable unit is one for which the housing payment (mortgage/property taxes/homeowner's insurance/mortgage insurance or rent) does not exceed 35% of gross income.

3 Based on 2004 real estate assessments. City assistance includes Homeownership Assistance/Moderate Income Homeownership Program (HAP/MIHP) monies, Virginia Housing Development Authority(VHDA) Home Sride loan (\$20,000) and VHDA SP ARC 1st trust mortgage financing with a 5.25% interest rate.

4 Based on 2003 Market-Rate Rent data prepared by the City's Office of Housing - Landlord-Tenant Division. Includes only market rate rental units in complexes with 10 or more units.

PROPOSED AFFORDABLE HOUSING POLICY GUIDELINES

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>	<u>Tier 4</u>
Type of Project	Permitted Use, No SUP Required	SUP for Items Other than Greater Density, FAR or Height	SUP for Greater Density, FAR, Height FAR, or CDD or CO SUP	Additional Density from Rezoning, Text Amendment, Vacation, 20% Bonus Provision, Height above Master Plan
Commercial Projects	Cash contribution: \$2/square foot of project gross floor area (gfa) Voluntary	Cash contribution: \$2.50/square foot of project gfa Voluntary	Cash contribution: \$3.50/square foot of project gfa Voluntary	Cash contribution: \$5/square foot of project gfa Voluntary
Residential or Mixed/Use Projects (providing affordable housing)	Affordable housing contribution: square footage equal to 3% of project's gfa Voluntary	Affordable housing contribution: square footage equal to 5% of project's gfa Voluntary Developer may build off-site w/City approval ¹	Affordable housing contribution: square footage equal to 7% of project's gfa, based on 20% additional density; contribution percentage reduced proportionally when actual density increase is less than 20% Guideline in Zoning Ordinance Developer may build off-site w/City approval	Affordable housing contribution: square footage equal to 12.5% of project's gfa, based on 20% additional density; contribution percentage reduced proportionally when actual density increase is less than 20% Guideline in Zoning Ordinance Developer may build off-site w/City approval
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¹ This refers to the actual provision of affordable units by the developer at another site the developer owns or controls.

Affordable sales units would be priced no higher than \$175,000 for a one-bedroom unit, \$225,000 for a two-bedroom unit, and \$250,000 for a three-bedroom unit. Affordable rents are the Low Income Housing Tax Credit rents for households at 60% of median income (Attachment II.. The current policy applies to projects of five or more units, but the Planning Commission has recommended that the threshold be lowered to three units. Staff supports this recommendation.

Financial Analysis

The City engaged the economic market analysis firm of Bay Area Economics, Inc. (BAE) to review the proposed guidelines and determine whether developers would be able to achieve their expected rate of return with the level of housing contribution contained in this proposal. In the attached report, BAE used prototype commercial, townhouse, condominium, and rental projects in Tiers 1, 3, and 4, and analyzed the developer’s cash on cash return using typical building costs, rents, and sales prices for this area. Tier 2 was not analyzed because the variation in projects of this nature makes it extremely difficult to come up with a prototype project for meaningful analysis.

In its analysis (Attachment IA), BAE used the following target rates of cash-on-cash return, measured as net operating income (before debt service and taxes) divided by total development costs:

- Commercial 10 percent
- Condominiums 15 percent
- Rental Apartments 9 percent
- Townhouses 15 percent

For the prototype projects, BAE’s analysis shows that developers can achieve these target rates of return, with the proposed affordable housing contributions, for condominium and townhouse projects. The analysis shows that the target rate of return is not likely to be reached for commercial projects, either with or without the affordable housing contribution, based on current rental rates for commercial space, but that once commercial rents reach a supportable level, the target rate of return can be reached with the proposed housing contribution.

BAE’s analysis shows the rental apartment scenario to be problematic. For the prototype project with additional density allowed under an SUP (Tier 3), BAE found that moving the parking underground, as would likely be required under an SUP for this type of project, imposes a cost burden that is not completely offset by the additional density. In other words, for this particular prototype project, the density allowed with an SUP does not yield additional economic benefit that can be devoted to affordable housing. Although the prototype bonus density (Tier 4) project also proved problematic with the recommended housing contribution, BAE found that the developer can achieve the same return as under the base (by-right) scenario (Tier 1) if the percentage of gross floor area devoted to affordable housing is lowered to 5.75%.

Over the next few weeks, staff will review this just-received finding with BAE, re-examine the prototype scenario, and consider revisions to the recommended housing contribution for rental projects.

Attachment: Financial Analysis of the Impact of Alexandria’s Proposed Guidelines for Developer Housing Contributions

Financial Analysis of the Impact of Alexandria's Proposed Guidelines for Developer Housing Contributions

The City of Alexandria is seeking to institute a new affordable housing policy to set forth clear guidelines for commercial, residential and mixed-use developments. In evaluating the specific terms of the policy, the Office of Housing commissioned Bay Area Economics (BAE) to test the financial implications for new development. BAE has prepared financial pro formas for each of four types of development: commercial; residential condominiums; rental apartments; and townhouses. The pro formas test the implications of land value under development under the base zoning with no Special Use Permit and under three different types of zoning relief through Special Use Permits, rezoning, vacation of public alleys and waivers of Master Plan height limits.

Current and Proposed Policy

Alexandria staff currently negotiates with developers for an affordable housing contribution. In recent cases, this contribution has exceeded the standard Affordable Housing Policy contribution of \$1 per square foot (either in cash or discounts in affordable units) when a Special Use Permit is issued or a property rezoned. This policy has generated a fund to support creation of new affordable housing units, but has resulted in only a small fraction of the number of units required to address this difficult problem.

The Office of Housing has proposed a new policy requesting higher contributions for commercial developments and inclusion of affordable housing units in residential and mixed-use developments. Summarized in the following chart, the proposed policy calls for a graduated scale of contributions based on the nature of the zoning action and the additional density received as a result of that action. Commercial developers building according to the base zoning with no Special Use Permit (often called by-right zoning) are asked to contribute \$2.00 per gross square foot of building space above ground, while residential or mixed-use developers are asked to set aside three percent of gross floor area for units offered at affordable rents or prices. Special Use Permits are sometimes required when a particular site constraint inhibits the developer's ability to provide the number of parking spaces or the amount of public space required by the zoning code on site or to allow the developer to vary from another element of the code. In those situations where no additional density is made possible by the Special Use Permit, the recommended contribution would be \$2.50 per gross square foot for commercial development or five percent of gross floor area for affordable housing in residential or mixed-use developments.

This analysis does not model the impact of the affordable housing contribution on these Special Use Permit projects without additional density because the variations are so specific to the individual property's situation. It is difficult to identify a prototype project that would represent typical projects in this category.

In the event that a Special Use Permit allows for greater density as provided in the zoning code, the recommended voluntary cash contributions for commercial development would increase to \$3.50 per gross square foot. In the CD and CD-X zones, the Floor Area Ratio (FAR) for a nonresidential development can increase from 1.5 to 2.5 with a Special Use Permit. A Special Use Permit allows similar FAR increases in the OCH, I and UT zones as well. Special Use Permits for residential and mixed-use developments can allow a 56-percent increase from 35 to 54.45 dwelling units per acre under RCX and CD zoning. In CD-X zones, allowed density almost triples with a Special Use Permit, increasing from 35 to 100 dwelling units per acre. In

PROPOSED AFFORDABLE HOUSING POLICY GUIDELINES

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Residential or Mixed/Use Projects (providing cash contribution in lieu of housing, based on City waiver)	Cash contribution: \$2/gfa square foot Voluntary	Cash contribution: \$2.50/square foot of project gfa Voluntary	Cash contribution: 3% of average project sales price where housing waived because of expensive/luxury units; \$3.50/square foot of project gfa where housing waived for other reasons Guideline in Zoning Ordinance	Cash contribution: 5% of average project sales price where housing waived because of expensive/luxury units; \$4/square foot of project gfa where housing waived for other reasons Guideline in Zoning Ordinance

¹ This refers to the actual provision of affordable units by the developer at another site the developer owns or controls.

CDD zones, the increase in intensity and range of uses permitted with a Special Use Permit varies and depends on the specific Small Area Plan in which the CDD zone is located. The increase is typically similar to that permitted by Special Use Permit in other commercial and mixed-use zones in the City. For residential or mixed-use projects, the policy recommends a required set-aside of affordable units equaling seven percent of gross floor area.

The zoning code further provides for up to a 20-percent density bonus for the inclusion of affordable housing units. The final category also includes properties rezoned for a different use, with vacation of a public alley or other public land or for an increase in height above that allowed in the Master Plan. In those cases, the proposed policy recommends a \$5.00 per square foot voluntary contribution for commercial development or a required inclusion of 12.5 percent of gross floor area for affordable housing units in residential or mixed-use developments. In each case, the City would maintain the option of approving development of the affordable housing off site.

In the event that the City Council waives the affordable housing requirement in residential or mixed-use developments due to cost, size or other factors, the developers would be asked to contribute \$2.00 per gross square foot for development with no Special Use Permit or \$2.50 for development with a Special Use Permit and no additional density. When a Special Use Permit would allow additional development, the policy would require the developer to contribute three percent of the sales price if waived due to the expensive/luxury nature of the development or \$3.50 per gross square foot otherwise. When a rezoning or height waiver allowed a larger residential or mixed-use development, the developer would be required to contribute five percent of the sales price if the waiver resulted from the price of the units or \$4.00 per gross square foot otherwise.

Overview of the Model

The financial pro formas profile each development under alternative zoning requirements and development size. They compare the project's potential operating revenues to its cost of development to calculate the project **rate of return**. That return on investment is a key measure used by private investors and developers to determine whether the potential returns are worth the investment and the associated risks. Development carries a number of inherent risks that the project will perform differently than anticipated. These risks include:

- construction cost overruns;
- development approval and construction delays;
- development approvals at a lower density than anticipated;
- higher financing costs;
- lower rents/prices;
- slower absorption/leasing;
- higher vacancies; and
- higher operating costs.

To compensate for these risks, developers and investors set target rates of return. If a planned project has a potential return below that target return, it typically will not receive financing or proceed to development.

Current market economics and returns that can be achieved from other less risky, safer types of investments require that developments in good markets such as Alexandria meet the following target rates of return, measured as net operating income (before debt service and taxes) divided by total development costs:

- Commercial 10 percent
- Condominiums 15 percent
- Rental Apartments 9 percent
- Townhouses 15 percent

(This **cash-on-cash return** is different from Internal Rate of Return, which is typically after debt service and takes into account the timing of when dollars are spent and received.)

Supportable land value is the price a developer can afford to pay for the land and still achieve the target rate of return. Its calculation reflects the balance of operating revenues and costs relative to development costs. If supportable land value is significantly below market prices, developers may not be able to purchase land at an appropriate price and therefore will not proceed with development. This disparity between supportable land value and market prices can happen for many reasons, including 1) better returns from other land uses, 2) unrealistic expectations on the part of land sellers, 3) different expectations on the part of the land sellers and developers as to the likely amount of development that will be allowed, and 4) changes in market conditions.

In economic theory, land values adjust to reflect the income that can be earned from its development. This generally happens over the long term of about 10 years. In the short term of one to three years, what happens most often is a significant slowing in land transactions. Landowners have value expectations based on other recent transactions. When changes in market and/or regulation significantly reduce the supportable land value, many landowners will decide to hold their properties off the market until they get an offer commensurate with those expectations.

One of the key issues is the extent to which market land prices reflect an assumption that the developer will be able to achieve the higher density made possible by a Special Use Permit. This assumption of higher density is likely to be somewhat tempered by the probable cost of complying with special conditions including density limits that may be placed on the permit and the risk of denial of the Special Use Permit. If the land price is set based on that level of expected density, the developer may have already paid for that density in his land purchase, so that the additional density does not create more value with which to subsidize the affordable housing.

Limitations on Development Assumptions

The models reflect the development economics typically associated with the higher value and higher density portions of the City. They are representative of the types of projects that Alexandria has seen in these areas in the last three to five years. However, the City has a wide variation in conditions between waterfront properties in Old Town, street frontages on Mount Vernon Avenue or Van Dorn Street, larger sites on Eisenhower Avenue, and transit-oriented properties near the King Street or Braddock Road Metro stations. Even if considering adjacent blocks within the same area of Alexandria, there are few “typical” development projects – each project has unique features such as:

- Size and shape of parcels, which may be either well or poorly related to the ideal size and shape for the intended use, access and parking.
- Existing income-producing uses on the property.
- Existing historic structures, high groundwater, or other conditions that limit uses or development potential.
- Questions of title, particularly on waterfront properties.
- Cost of assembling developable sites from separate parcels in separate ownership.
- Specific desires of the owner or prospective tenant for a particular location.
- Tax, income, estate or other situation of the owner that may encourage or discourage sale or development.
- Alternative sites that may be available at the particular time the development is proposed.
- Specific offsite development costs, such as traffic improvements or combined sewer separation requirements.

These unique conditions when applied to a particular project or site may mean that a project not feasible under assumed “typical” conditions becomes feasible, or that a project that would be feasible under typical conditions is not feasible in the specific site conditions. An office development that would not be feasible under normal market conditions becomes a desired project of a national non-profit association that needs a new national headquarters built to its specific requirements of location and image. A family trust being dissolved may choose to sell a property regardless of current market conditions. A corporation seeking a particular image for its project chooses to invest twice the typical per-square-foot construction cost to use specific materials and construction techniques and a building layout that is less efficient but provides the image it seeks.

While the models below have results that are consistent with the development conditions we observe in Alexandria today, there will be exceptions under any conditions, and the feasibility of the “typical” project represented may change from year to year as expectations continually adjust to changing market conditions.

Commercial Development

The commercial development models start with a 150,000 gross-square-foot building on a 2.3-acre site with an FAR of 1.5. With a Special Use Permit in selected zones, that FAR can increase to 2.5, increasing the building size to 250,000 square feet. With the 20-percent bonus density for affordable housing, the building could increase to 300,000 square feet. The basic cost and market inputs to the models are summarized in the following table. They reflect a “hard” construction cost of \$118 per above-ground gross square foot with above-ground structured parking (base zoning) or \$131 per above-ground gross square foot with underground parking (Special Use Permit) and “soft costs” equal to 36 percent of hard costs. The voluntary affordable housing contribution ranges from \$2.00 up to \$5.00 per gross square foot.

Primary Assumptions for Commercial Models

	Development with no SUP	SUP with Higher Density	Additional Density from Height/Density Bonus, Rezoning, Vacation
ASSUMPTIONS			
Target Rate of Return as a Percent of Development Costs	10.0%	10.0%	10.0%
Project Characteristics			
GFA Square Feet	150,000	250,000	300,000
FAR	1.50	2.50	3.00
Site Size	2.3	2.3	2.3
Per Sq. Ft. Office Rent	\$33	\$33	\$33
Development Costs			
Construction Costs (Per Gross Sq. Ft.)	\$118	\$131	\$131
Soft Costs (as a Percent of Hard Costs)	36%	36%	36%
Affordable Housing Contribution per Gross Sq. Ft.	\$2.00	\$3.50	\$5.00
Affordable Housing Contribution	\$300,000	\$875,000	\$1,500,000
Construction Financing			
Interest Rate	4.0%	4.0%	4.0%
Period of Initial Loan (months)	36	36	36
Initial Construction Loan Fee (points)	1.5%	1.5%	1.5%
Average Outstanding Balance	55%	55%	55.0%
Loan to Cost Ratio	75%	75%	75.0%
Permanent Financing			
Permanent Loan Amount	\$24,188,000	\$41,767,000	\$50,472,000
Required Equity	\$8,005,500	\$13,825,200	\$16,705,840
Interest Rate	6.2%	6.2%	6.2%
Term for Amortization (Years)	30	30	30
Loan to Cost Ratio	75%	75%	75%

Currently, the Northern Virginia office market is significantly overbuilt with vacancies of 12.7 percent in the first quarter of 2004 as compared with the 5.0-percent vacancy rate typically expected in a market with supply and demand in balance. This oversupply resulted from substantial new construction followed by the “dot.com bust” with business failures and cutbacks in office space needs. Alexandria’s market is in somewhat better condition with a 9.7-percent vacancy rate, but it is not yet in balance.

When supply exceeds demand so significantly, building owners and developers typically compete for tenants by lowering rental rates, offering a few months of free rent or providing a higher level of tenant finishes than they would in a more balanced market.

Given today’s market economics, new well-located office buildings could expect to achieve gross rents of \$33 per rentable square foot, full-service, including an estimated \$10 per rentable square

foot for office operating expenses. This is well below the rents (high \$30s full service) that justify new construction by providing an adequate return to the developer and investors to warrant their taking on the risks of development.

Referring to Appendix Table A-1, which shows commercial development under the base zoning with no Special Use Permit, the right-hand column shows hard development and tenant improvement costs of \$17,700,000 and \$4,100,000, respectively. Soft costs add another \$6,732,000 along with the \$300,000 affordable housing contribution (\$2.00 per gross square foot). With financing costs, non-land development costs total \$32,193,000 or \$215 per gross square foot. The potential rents of \$33 per rentable square foot for office space and \$30 per rentable square foot for retail space yield a total potential rent of \$4,425,000 per year. Parking revenues estimated at \$95 per space per month less 10 percent for operating costs generate an additional \$266,000 in net revenues. Allowing five percent for vacancy and collection losses and \$10 per rentable square foot for office operating expenses, net operating income is estimated at \$3,220,000. Dividing net operating income (\$3,220,000) by total development costs (\$32,193,000) shows a cash-on-cash return of 10.0 percent. This means that the developer could pay only \$1,762,000 for the land and still achieve the 10.0 percent target return. Below the 10-percent target return, investors and the developer would seek other investments and projects.

This land price of \$11.75 per gross square foot of building area is substantially below the market land price of \$50 to \$60 per gross building square foot. Regardless of the affordable housing contribution, the economics would not support land acquisition for the construction of new speculative office space. However, office development for single-tenant buildings may proceed in spite of high market vacancies. A tenant with specific locational or building configuration requirements or one that wants to own its building may be able to justify new construction in spite of the availability of lower-cost space in existing buildings.

As the market demand catches up with supply and reduces the available inventory of vacant space, rents will again increase to a level, which will support new speculative development. For example, once rents increase from \$33 to \$38 per rentable square foot, the prototype development could support a land price of \$7,800,000 under base zoning. That land value would increase to \$8,187,000 with the Special Use Permit increase from 1.5 to 2.5 FAR. With an additional 20-percent increase in height resulting from rezoning, the land value would increase to \$9,15,000. Thus, the increase in the voluntary contribution for affordable housing would be more than offset by the increased project density and value resulting from the zoning variance. These models are shown as Appendix Tables A-2 through A-4.

Residential Condominium Development

As shown in the following table, the condominium models are based upon a 150-unit building with 186,710 square feet of space on 1.25 acres (44 units per acre). With a Special Use Permit, the density could increase to as high as 100 units per acre in the CD-X zone. This analysis assumes a 60-percent increase to 70 units per acre for a 240-unit building. With a 20-percent affordable housing bonus, the building could expand to 288 units. Sales prices for affordable units are set at \$175,000 for a one-bedroom unit and \$225,000 for a two-bedroom unit. Marketing and closing costs are assumed to average six percent of the sales price. Construction costs are estimated at \$131 per above-ground gross square foot with above-ground structured parking (base zoning) or \$144 per above-ground gross square foot with underground parking (Special Use Permit) and soft costs at 20 percent of hard costs. Parking is provided at a rate of 1.3 spaces for each one-bedroom unit and 1.75 spaces for each two-bedroom unit with the

purchasers receiving one space with their unit and paying an estimated \$32,000 per space for additional spaces. Development of the average 1,000 square-foot condominium is estimated to cost \$233,000 without land costs. The percentage of gross floor area for affordable housing ranges from 3.0 percent in a development without a Special Use Permit up to 7.0 percent for the Special Use Permit density increase and 12.5 percent in a development with the affordable housing bonus density.

Primary Assumptions for Condominium Models

	Development with no SUP	SUP with Higher Density	Additional Density from Height/Density Bonus, Rezoning, Vacation
ASSUMPTIONS			
Target Rate of Return as a Percent of Development Costs	15.0%	15.0%	15.0%
Project Characteristics			
GFA Square Feet	186,710	299,880	359,770
FAR	1.25	2.01	2.41
Number of Units	150	240	288
Site Size	3.43	3.43	3.43
Density (Units/Acre)	44	70	84
Average Unit Size	998	1,000	999
Percent Affordable	3%	7%	12.5%
Sale Prices			
1 BR - Market Sale Price per Sellable Sq. Ft.	\$400	\$400	\$400
2 BR - Market Sale Price per Sellable Sq. Ft.	\$375	\$375	\$375
3 BR - Market Sale Price per Sellable Sq. Ft.	N/A	N/A	N/A
1 BR - Affordable - Sale Price	\$175,000	\$175,000	\$175,000
2 BR - Affordable - Sale Price	\$225,000	\$225,000	\$225,000
3 BR - Affordable - Sale Price	N/A	N/A	N/A
Development Costs			
Mkt Rate Construction Costs (Per Gross Sq. Ft.)	\$131	\$144	\$144
Soft Costs (as Percent of Hard Costs)	30%	30%	30%

The supportable land value for condominium development with no Special Use Permit is estimated at \$16,427,000. With a 60-percent increase in density with a Special Use Permit, the value increases to \$19,672,000 despite an increase in the affordable housing set-aside from three to seven percent. With the 20-percent affordable housing bonus density, the supportable land value increases to \$21,127,000. This analysis demonstrates that the developer is more than compensated for the cost of subsidizing affordable units by the provision of additional density.

The supportable land values exceed market values, indicating that in today’s market the condominium developer could afford to include affordable housing at the proposed levels while still achieving the target rate of return. The models are shown in Appendix Tables A-5 through A-7.

Rental Apartment Development

The prototypical rental apartment development has 200 units in 199,000 square feet on 3.7 acres with a 1.25 FAR and 55 units per acre. With a 60-percent increase in density with a Special Use Permit, it could reach 317,000 square feet and 320 apartments. Adding the affordable housing bonus density would bring it to 382,000 square feet and 384 units. The model assumptions for rental apartment development include market rents ranging from \$1,300 for an efficiency unit to \$2,100 for a two-bedroom unit and \$2,600 for a three-bedroom unit. Set at rents affordable to households at 60 percent of the Area Median Family Income (AMI), the affordable unit monthly rents range from \$807 for one person living in an efficiency to \$915 for a two-person household in a one-bedroom unit to \$1,023 for three persons in a two-bedroom unit to \$1,131 for four persons in a three-bedroom unit. Construction costs average \$126 per gross square foot with above-ground structured parking (base zoning) or \$140 per gross square foot of above-ground building with underground parking (Special Use Permit) and an additional 20 percent in soft costs. This assumes high-rise development with structured parking.

As with condominium development, the voluntary inclusion of affordable units would follow a guideline of three percent of gross floor area in a development with no Special Use Permit, increasing to five percent with a Special Use Permit that provided no additional density, to seven percent with a Special Use Permit and higher density, and to 12.5 percent with a Special Use Permit density increase along with the 20-percent affordable housing bonus density.

The pro formas show a \$0 supportable land value, as with commercial development, indicating that market rents are currently too low to justify new apartment construction with structured parking. Even with no land value, the potential returns would range from 7.57 to 8.92 percent, well below the 9.0-percent target rate of return. The base zoning model is shown in Appendix Table A-8. When mortgage interest rates increase, demand is likely to increase for rental apartments from households priced out of the homeownership market. That increased demand will lead to higher rents and feasible rental development.

Assuming that rents were 20 percent higher allows evaluation of the impact of the different levels of affordable housing. The resulting supportable land values are as follows:

Development with No SUP	\$8,239,000
SUP with Higher Density	\$6,340,000
Additional Density from Height/Density	
Bonus, Rezoning, Vacation	\$4,393,000

This analysis demonstrates that the Special Use Permit requirement of underground parking coupled with the proposed affordable housing contribution would reduce the supportable land value by 47 percent from \$8,239,000 under the base zoning and 3.0 percent affordable housing to \$4,393,000 with the additional density provided by the Special Use Permit and the affordable housing bonus density and 12.5 percent affordable housing. With a reduction of the affordable housing contribution from 12.5 percent to 5.75 percent for the development with the affordable housing bonus density, the land value would be maintained at \$8,303,000. In the case of the Special Use Permit project without the bonus density, moving the parking underground imposes a cost burden that is not completely offset by the additional density. With a 3-percent affordable housing contribution, this option yields a supportable land value of \$7,855,000 – 5 percent below the base zoning option land value.

Primary Assumptions for Rental Apartment Models			
	Development with no SUP	SUP with Higher Density	Additional Density from Height/Density Bonus, Rezoning, Vacation
ASSUMPTIONS			
Target Rate of Return as a Percent of Development Costs	9.0%	9.0%	9.0%
Project Characteristics			
GFA Square Feet	199,000	317,000	382,000
FAR	1.25	1.99	2.40
Number of Units	200	320	384
Site Size	3.7	3.7	3.7
Density (Units/Acre)	55	88	105
Average Unit Size	814	813	814
Percent Affordable	3.0%	7.0%	12.5%
Sale Prices/Rents			
Efficiency- Market Rent	\$1,300	\$1,300	\$1,300
1 BR- Market Rent	\$1,500	\$1,500	\$1,500
2 BR- Market Rent	\$2,100	\$2,100	\$2,100
3 BR- Market Rent	\$2,600	\$2,600	\$2,600
Efficiency- Affordable	\$807	\$807	\$807
1 BR- Affordable	\$915	\$915	\$915
2 BR- Affordable	\$1,023	\$1,023	\$1,023
3 BR- Affordable	\$1,131	\$1,131	\$1,131
Development Costs			
Mkt Rate Construction Costs (Per Gross Sq. Ft.)	\$126	\$140	\$140
Soft Costs (as Percent of Hard Costs)	20%	20%	20%
Permanent Financing			
Permanent Loan Amount	\$21,062,160	\$37,241,921	\$44,878,277
Required Equity	\$9,026,640	\$32,140,584	\$43,049,664
Interest Rate	6.0%	6.0%	6.0%
Term for Amortization	30	30	30
Loan to Cost Ratio	70%	70%	70%

Townhouse Development

The base zoning prototype assumes a 25-unit townhouse development at 20 units per acre on 1.25 acres. Higher density with a Special Use Permit could yield 25 units per acre for 31 units. With an affordable housing bonus density, the project could expand to 38 townhouses at a density of 30 units per acre. This higher density implies a different townhouse product, probably one built as a two-story townhouse built over another two-story townhouse. The townhouses developed without a Special Use Permit are assumed to be a mix of two-bedroom units with 1,500 square

feet of space and three-bedroom units with 1,700 square feet of space. Current market economics support prices of \$340 to \$345 per square foot or \$517,500 to \$578,000. City policy has set the price of affordable units at \$225,000 for two-bedroom units and \$250,000 for three-bedroom units.

At the higher densities, the townhouses are likely to have a somewhat lower value. No comparable sales of stacked townhouses were available in Alexandria. BAE estimates the price difference at five percent, yielding prices at \$492,000 and \$549,000.

Development without a Special Use Permit would support a land value of \$3,799,000 or \$152,000 per unit. With an increased density resulting from the Special Use Permit, the land value is basically even at \$3,802,000. The additional affordable housing bonus density would bring the supportable land value to \$4,025,000. Thus, the value of additional townhouses would be sufficient to offset the lost income associated with selling 12.5 percent of the townhouses at affordable rather than market prices. (See Appendix Tables A-12 through A-14.)

Primary Assumptions for Townhouse Models			
	Development with no SUP	SUP with Higher Density	Additional Density from Height/Density Bonus, Rezoning, Vacation
ASSUMPTIONS			
Target Rate of Return as a Percent of Development Costs	15.0%	15.0%	15.0%
Project Characteristics			
Number of Units	25	31	38
Site Size	1.3	1.3	1.3
Density (Units/Acre)	20	25	30
Average Unit Size	1,630	1,630	1,630
Percent Affordable	3%	7%	12.5%
Market Sale Prices Per Square Foot			
2 BR- Market Sale Price/Rent	\$345	\$328	\$328
3 BR- Market Sale Price, per SF	\$340	\$323	\$323
Affordable Sale Prices			
2 BR- Affordable	\$225,000	\$225,000	\$225,000
3 BR- Affordable	\$250,000	\$250,000	\$250,000
Development Costs			
Mkt Rate Construction Costs (Per Gross Sq. Ft.)	\$134	\$134	\$134
Soft Costs (as Percent of Hard Costs)	33%	33%	33%

Summary Results

The following table summarizes the supportable land values associated with each of the types of development and zoning density assumptions.

Supportable Land Values Associated with Alternative Levels of Affordable Housing			
	Development with no SUP	SUP with Higher Density	Additional Density from Height/Density Bonus, Rezoning, Vacation
Commercial Development			
Recommended Affordable Housing Contribution per Gross Floor Area Square Foot	\$2.00	\$3.50	\$5.00
Total Building Above-Ground Square Feet	150,000	250,000	300,000
Supportable Land Value			
Total Value	\$1,762,500	\$0	\$0
Per Gross Floor Area Square Foot	\$11.75	\$0.00	\$0.00
Project Return as Percent of Development Costs	10.00%	9.56%	9.48%
Target Rate of Return	10.00%	10.00%	10.00%
Supportable Land Value if Office Rents Increased from \$33 to \$38 per Square Foot			
Total Value	\$7,800,000	\$8,187,500	\$9,225,000
Per Gross Floor Area Square Foot	\$52.00	\$32.75	\$30.75
Condominium Development			
Recommended Affordable Housing Percent of Total Units	3%	7%	12.5%
Number of Condominiums	150	240	288
Total Building Above-Ground Square Feet	186,710	299,880	359,770
Supportable Land Value			
Total Supportable Value	\$16,427,000	\$19,672,000	\$21,172,000
Value per Unit	\$109,513	\$81,967	\$73,514
Project Return as Percent of Development Costs	15.00%	15.00%	15.00%
Target Rate of Return	15.00%	15.00%	15.00%

Supportable Land Values Associated with Alternative Levels of Affordable Housing (Continued)

	Development with no SUP	SUP with Higher Density	Additional Density from Height/Density Bonus, Rezoning, Vacation
Rental Apartment Development			
Recommended Affordable Housing Percent of Total Units	3%	7%	12.5%
Number of Apartments	200	320	384
Total Building Above-Ground Square Feet	199,000	317,000	382,000
Supportable Land Value			
Total Supportable Value	\$0	\$0	\$0
Value per Unit	\$0	\$0	\$0
Project Return as Percent of Development Costs	8.92%	7.88%	7.57%
Target Rate of Return	9.00%	9.00%	9.00%
Supportable Land Value if Rents Increased 20 Percent			
Total Supportable Value	\$8,239,000	\$6,340,000	\$4,393,000
Value per Unit	\$41,195	\$19,813	\$11,440
Townhouse Development			
Recommended Affordable Housing Percent of Total Units	3%	7%	12.5%
Number of Townhouses	25	31	38
Supportable Land Value			
Total Supportable Value	\$3,799,000	\$3,802,000	\$4,025,000
Value per Unit	\$151,960	\$122,645	\$105,921
Project Return as Percent of Development Costs	15.00%	15.00%	15.00%
Target Rate of Return	15.00%	15.00%	15.00%
Source: Bay Area Economics, 2004.			

Table A-1: Commercial: Development at Current Market Rents with No Special Use Permit

Major Assumptions		Pro Forma Analysis	
Characteristics of Project		Development Pro-Forma	
FAR	1.50	Land	\$1,762,500
Site Size	2.30	Base Construction Cost	\$17,700,000
GFA Square Footage	150,000	Tenant Improvements	\$4,100,000
Net Square Footage	135,000	Soft Costs	\$6,372,000
Office	125,000	Affordable Housing Contribution	\$300,000
Retail	10,000		
		Finance Costs:	
Parking Ratio per 1,000 Gross S.F.	1.72	Interest on Construction Loan	\$1,596,000
Parking Spaces	259	Points on Construction Loan	\$363,000
<i>Market Rate Rents (1):</i>		<i>Total Development Costs</i>	\$32,193,500
Office Rent per Rentable Sq Ft (Full Service)	\$33	<i>Total Development Costs/per Square Foot</i>	\$215
Retail Rent per Rentable Sq Ft (Triple Net)	\$30		
Parking (Monthly Rate per Space)	\$95	Development Feasibility	
		Gross Potential Rent (100% Occupancy)	\$4,425,000
Development Costs		Vacancy Rate	5.0%
Land/GFA (2)	\$11.75	Gross Collected Rent	\$4,204,000
Construction Costs (per Gross Sq. Ft.) (3)	\$118		
Soft Costs as Percent of Base Hard Costs (4)	36%	Net Parking Income	\$266,000
Office Tenant Improvements per Rentable Sq Ft (3)	\$30.00	Operating Expenses	\$1,250,000
Retail Tenant Improvements per Rentable Sq Ft (3)	\$35.00	Net Operating Income	\$3,220,000
Construction Financing Costs (5)		Annual Debt Service	\$1,778,000
Construction Loan	\$24,188,000	Net Cash Flow Before Taxes	\$1,442,000
Interest Rate	4.0%		
Period of Initial Loan (months)	36	Annual Return as % of Development Cost	10.00%
Initial Construction Loan Fee (points)	1.5%	Annual Return as % of Equity	18.01%
Average Outstanding Balance	55%		
Mortgage Financing			
Permanent Loan	\$24,188,000		
Interest Rate	6.2%		
Term	30		
Annual Debt Service	\$1,778,000		
Required Equity	\$8,005,500		

NOTES:

- 1) Based on conversations with local developers and analysis of local market conditions.
- 2) Based on conversations with local developers and appraisers.
- 3) Based on conversations with local developers.
- 4) Estimates based on interviews with developers of similar projects in the area.
- 5) Construction financing costs based on following assumptions:

Total Non-Financing Development Costs	\$30,234,500
Loan to Cost Ratio	80%
Amount of Loan	\$24,188,000
Developer Equity	\$8,005,500

Source: BAE, 2004.

Table A-2: Commercial: Development at Higher Rents with No Special Use Permit

Major Assumptions		Pro Forma Analysis	
Characteristics of Project		Development Pro-Forma	
FAR	1.50	Land	\$7,800,000
Site Size	2.30	Base Construction Cost	\$17,700,000
GFA Square Footage	150,000	Tenant Improvements	\$4,100,000
Net Square Footage	135,000	Soft Costs	\$6,372,000
Office	125,000	Affordable Housing Contribution	\$300,000
Retail	10,000		
		<u>Finance Costs:</u>	
Parking Ratio per 1,000 Gross S.F.	1.72	Interest on Construction Loan	\$1,915,000
Parking Spaces	259	Points on Construction Loan	\$435,000
<i>Market Rate Rents (1):</i>		<i>Total Development Costs</i>	\$38,622,000
Office Rent per Rentable Sq Ft (Full Service)	\$38	<i>Total Development Costs/per Square Foot</i>	\$257
Retail Rent per Rentable Sq Ft (Triple Net)	\$35		
Parking (Monthly Rate per Space)	\$95	Development Feasibility	
		Gross Potential Rent (100% Occupancy)	\$5,100,000
Development Costs		Vacancy Rate	5.0%
Land/GFA (2)	\$52.00	Gross Collected Rent	\$4,845,000
Construction Costs (per Gross Sq. Ft.) (3)	\$118		
Soft Costs as Percent of Base Hard Costs (4)	36%	Net Parking Income	\$266,000
Office Tenant Improvements per Rentable Sq Ft (3)	\$30.00	Operating Expenses	\$1,250,000
Retail Tenant Improvements per Rentable Sq Ft (3)	\$35.00	Net Operating Income	\$3,861,000
Construction Financing Costs (5)		Annual Debt Service	\$2,133,000
Construction Loan	\$29,018,000	Net Cash Flow Before Taxes	\$1,728,000
Interest Rate	4.0%		
Period of Initial Loan (months)	36	Annual Return as % of Development Cost	10.00%
Initial Construction Loan Fee (points)	1.5%	Annual Return as % of Equity	17.99%
Average Outstanding Balance	55%		
Mortgage Financing			
Permanent Loan	\$29,018,000		
Interest Rate	6.2%		
Term	30		
Annual Debt Service	\$2,133,000		
Required Equity	\$9,604,000		

NOTES:

- 1) Based on conversations with local developers and analysis of local market conditions.
2) Based on conversations with local developers and appraisers.
3) Based on conversations with local developers.
4) Estimates based on interviews with developers of similar projects in the area.
5) Construction financing costs based on following assumptions:

Total Non-Financing Development Costs	\$36,272,000
Loan to Cost Ratio	80%
Amount of Loan	\$29,018,000
Developer Equity	\$9,604,000

Source: BAE, 2004.

Table A-3: Commercial: Special Use Permit for Higher SUP Density and Higher Rents

Major Assumptions		Pro Forma Analysis	
Characteristics of Project		Development Pro-Forma	
FAR	2.50	Land	\$8,187,500
Site Size	2.3	Base Construction Cost	\$32,450,000
GFA Square Footage	250,000	Tenant Improvements	\$6,800,000
Net Square Footage	225,000	Soft Costs	\$11,682,000
Office	215,000	Affordable Housing Contribution	\$875,000
Retail	10,000		
		Finance Costs:	
Parking Ratio per 1,000 Gross S.F.	1.72	Interest on Construction Loan	\$3,168,000
Parking Spaces	431	Points on Construction Loan	\$720,000
Market Rate Rents (1):		<i>Total Development Costs</i>	\$63,882,500
Office Rent per Rentable Sq Ft (Full Service)	\$38	<i>Total Development Costs/per Square Foot</i>	\$256
Retail Rent per Rentable Sq Ft (Triple Net)	\$35		
Parking (Monthly Rate per Space)	\$95	Development Feasibility	
		Gross Potential Rent (100% Occupancy)	\$8,520,000
Development Costs		Vacancy Rate	5.0%
Land/GFA (2)	\$32.75	Gross Collected Rent	\$8,094,000
Construction Costs (per Gross Sq. Ft.) (3)	\$130		
Soft Costs as Percent of Base Hard Costs (4)	36%	Net Parking Income	\$442,000
Office Tenant Improvements per Rentable Sq Ft (3)	\$30.00	Operating Expenses	\$2,150,000
Retail Tenant Improvements per Rentable Sq Ft (3)	\$35.00	Net Operating Income	\$6,386,000
Construction Financing Costs (5)		Annual Debt Service	\$3,528,000
Construction Loan	\$47,996,000	Net Cash Flow Before Taxes	\$2,858,000
Interest Rate	4.0%		
Period of Initial Loan (months)	36	Annual Return as % of Development Cost	10.00%
Initial Construction Loan Fee (points)	1.5%	Annual Return as % of Equity	17.99%
Average Outstanding Balance	55%		
Mortgage Financing			
Permanent Loan	\$47,996,000		
Interest Rate	6.2%		
Term	30		
Annual Debt Service	\$3,528,000		
Required Equity	\$15,886,500		

NOTES:

- 1) Based on conversations with local developers and analysis of local market conditions.
- 2) Based on target rate of return required by developers to justify investment.
- 3) Based on conversations with local developers.
- 4) Estimates based on interviews with developers of similar projects in the area.
- 5) Construction financing costs based on following assumptions:
- Total Non-Financing Development Costs

\$59,994,500
- Loan to Cost Ratio

80%
- Amount of Loan

\$47,996,000
- Developer Equity

\$15,886,500

Source: BAE, 2004.

Table A-4: Commercial: Additional Density from Height/Density Bonus, Rezoning, Vacation

Major Assumptions		Pro Forma Analysis	
Characteristics of Project		Development Pro-Forma	
FAR	3.00	Land	\$9,225,000
Site Size	2.3	Base Construction Cost	\$38,940,000
GFA Square Footage	300,000	Tenant Improvements	\$8,150,000
Net Square Footage	270,000	Soft Costs	\$14,018,400
Office	260,000	Affordable Housing Contribution	\$1,500,000
Retail	10,000		
		<u>Finance Costs:</u>	
Parking Ratio per 1,000 Gross S.F.	1.72	Interest on Construction Loan	\$3,793,000
Parking Spaces	517	Points on Construction Loan	\$862,000
<i>Market Rate Rents (1):</i>		<i>Total Development Costs</i>	\$76,488,400
Office Rent per Rentable Sq Ft (Full Service)	\$38	<i>Total Development Costs/per Square Foot</i>	\$255
Retail Rent per Rentable Sq Ft (Triple Net)	\$35		
Parking (Monthly Rate per Space)	\$95	Development Feasibility	
		Gross Potential Rent (100% Occupancy)	\$10,230,000
Development Costs		Vacancy Rate	5.0%
Land/GFA (2)	\$30.75	Gross Collected Rent	\$9,719,000
Construction Costs (per Gross Sq. Ft.) (3)	\$130		
Soft Costs as Percent of Base Hard Costs (4)	36%	Net Parking Income	\$530,000
Office Tenant Improvements per Rentable Sq Ft (3)	\$30.00	Operating Expenses	\$2,600,000
Retail Tenant Improvements per Rentable Sq Ft (3)	\$35.00	Net Operating Income	\$7,649,000
Construction Financing Costs (5)		Annual Debt Service	\$4,224,000
Construction Loan	\$57,467,000	Net Cash Flow Before Taxes	\$3,425,000
Interest Rate	4.0%		
Period of Initial Loan (months)	36	Annual Return as % of Development Cost	10.00%
Initial Construction Loan Fee (points)	1.5%	Annual Return as % of Equity	18.01%
Average Outstanding Balance	55%		
Mortgage Financing			
Permanent Loan	\$57,467,000		
Interest Rate	6.2%		
Term	30		
Annual Debt Service	\$4,224,000		
Required Equity	\$19,021,400		

NOTES:

- 1) Based on conversations with local developers and analysis of local market conditions.
- 2) Based on target rate of return required by developers to justify investment.
- 3) Based on conversations with local developers.
- 4) Estimates based on interviews with developers of similar projects in the area.
- 5) Construction financing costs based on following assumptions:
- Total Non-Financing Development Costs

\$71,833,400
- Loan to Cost Ratio

80%
- Amount of Loan

\$57,467,000
- Developer Equity

\$19,021,400

Source: BAE, 2004.

Table A-5: Condominium: Development with No Special Use Permit

Major Assumptions					Pro Forma Analysis	
Characteristics of Project					Development Cost Survey	
Base Project Size (Units)				150	Land	\$16,427,000
Site Size (acres)				3.43	Unit Construction Cost	\$24,459,000
FAR				1.25	Soft Costs	\$7,337,700
Market Rate Units				145	Total Development Costs	\$48,223,700
Below Market Rate Units				5	Total Development Costs/Unit	\$321,491
Product Mix:					Development Feasibility	
1 BR		Size	%	51	Net Sales Revenue	\$58,996,100
2 BR		720	35%	94	Less Cost of Sales (6.0%)	\$3,540,000
1 BR Affordable Unit		1,150	65%	2	Less Development Costs	\$48,223,700
2 BR Affordable Unit		720	35%	3	Project Return (Net Rev - Dev Costs)	\$7,232,400
		1,150	65%		Assumed Equity	\$12,056,000
Unit Size (Rentable Sq. Ft.)				998	Return as % of Development Cost	15.00%
Parking Spaces				236	Return Per Unit	\$48,216
Project Size (Gross Sq. Ft.):						
Unit Total				149,710		
Common Area				37,000		
Total Residential				186,710		
Project Density (DU/AC)				44		
Sale Prices (1):						
1 BR				\$288,000		
2 BR				\$431,250		
1 BR Affordable Unit (2)				\$175,000		
2 BR Affordable Unit (2)				\$225,000		
Surplus Parking Spaces				\$32,000		
Development Costs						
Land/GFA Required to Achieve 15% Return on Cost (3)				\$87.98		
Construction Costs (per Gross Sq. Ft.) (4)				\$131		
Soft Costs (5)				30%		

- NOTES:
- 1) Based on conversations with local developers and analysis of local housing market conditions.
 - 2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing
 - 3) Based on target rate of return required by developers to justify investment.
 - 4) Based on conversations with local developers and BAE analysis. This number includes underground parking
 - 5) Estimate based on developer discussions. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead, financing and cost of sales. Percentage of hard costs.
 - 6) Equity assumed to equal 25 percent of hard costs.

Source: BAE, 2004.

Table A-6: Condominium: Special Use Permit for Higher SUP Density

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)			240	Land	\$19,672,000
Site Size (acres)			3.43	Unit Construction Cost	\$43,183,000
FAR			2.01	Soft Costs	\$12,955,000
Market Rate Units			223	Total Development Costs	\$75,810,000
Below Market Rate Units			17	Total Development Costs/Unit	\$315,875
Product Mix:	Size	%		Development Feasibility	
1 BR	720	35%	78	Net Sales Revenue	\$92,749,050
2 BR	1,150	65%	145	Less Cost of Sales (6.0%)	\$5,565,000
1 BR Affordable Unit	720	35%	6	Less Development Costs	\$75,810,000
2 BR Affordable Unit	1,150	65%	11	Project Return (Net Rev - Dev Costs)	\$11,374,050
Unit Size (Rentable Sq. Ft.)			1,000	Assumed Equity	\$18,953,000
Parking Spaces			372	Return as % of Development Cost	15.00%
Project Size (Gross Sq. Ft.):				Return Per Unit	\$47,392
Unit Total			239,880		
Common Area			60,000		
Total Residential			299,880		
Project Density (DU/AC)			70		
Sale Prices (1):					
1 BR			\$288,000		
2 BR			\$431,250		
1 BR Affordable Unit (2)			\$175,000		
2 BR Affordable Unit (2)			\$225,000		
Surplus Parking Spaces			\$32,000		
Development Costs					
Land/GFA Required to Achieve 15% Return on Cost (3)			\$65.60		
Construction Costs (per Gross Sq. Ft.) (4)			\$144		
Soft Costs (5)			30%		

- NOTES:
- 1) Based on conversations with local developers and analysis of local housing market conditions.
 - 2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing
 - 3) Based on target rate of return required by developers to justify investment.
 - 4) Based on conversations with local developers and BAE analysis. This number includes underground parking
 - 5) Estimate based on developer discussions. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead, financing and cost of sales. Percentage of hard costs.
 - 6) Equity assumed to equal 25 percent of hard costs.

Source: BAE, 2004.

Table A-7: Condominium: Additional Density from Height/Density Bonus, Rezoning, Vacation

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)			288	Land	\$21,172,000
Site Size (acres)			3.43	Unit Construction Cost	\$51,807,000
FAR			2.41	Soft Costs	\$15,542,000
Market Rate Units			252		
Below Market Rate Units			36	Total Development Costs	\$88,521,000
				Total Development Costs/Unit	\$307,365
Product Mix:			Size	%	
1 BR			720	35%	88
2 BR			1,150	65%	164
1 BR Affordable Unit			720	35%	13
2 BR Affordable Unit			1,150	65%	23
Unit Size (Rentable Sq. Ft.)			999		
Parking Spaces			437		
Project Size (Gross Sq. Ft.):					
Unit Total			287,770		
Common Area			72,000		
Total Residential			359,770		
Project Density (DU/AC)			84		
Sale Prices (1):					
1 BR			\$288,000		
2 BR			\$431,250		
1 BR Affordable Unit (2)			\$175,000		
2 BR Affordable Unit (2)			\$225,000		
Surplus Parking Spaces			\$32,000		
Development Costs					
Land/GFA Required to Achieve 15% Return on Cost (3)			\$58.85		
Construction Costs (per Gross Sq. Ft.) (4)			\$144		
Soft Costs (5)			30%		
				Development Feasibility	
				Net Sales Revenue	\$108,299,800
				Less Cost of Sales (6.0%)	\$6,498,000
				Less Development Costs	\$88,521,000
				Project Return (Net Rev - Dev Costs)	\$13,280,800
				Assumed Equity	\$22,130,000
				Return as % of Development Cost	15.00%
				Return Per Unit	\$46,114

- NOTES:
- 1) Based on conversations with local developers and analysis of local housing market conditions.
 - 2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing
 - 3) Based on target rate of return required by developers to justify investment.
 - 4) Based on conversations with local developers and BAE analysis. This number includes underground parking
 - 5) Estimate based on developer discussions. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead, financing and cost of sales. Percentage of hard costs.
 - 6) Equity assumed to equal 25 percent of hard costs.

Source: BAE, 2004.

Table A-8: Rental Apartments: Development at Current Market Rents with No Special Use Permit

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)			200	Land	\$0
Site Size (acres)			159,200	Unit Construction Cost	\$25,074,000
FAR			1.25	Soft Costs	\$5,014,800
Market Rate Units			194		
Below Market Rate Units			6	<i>Total Development Costs</i>	\$30,088,800
				<i>Total Development Costs/Unit</i>	\$150,444
<i>Product Mix:</i>	<i>Size</i>	<i>%</i>		Development Feasibility	
Efficiency	600	3%	6	Gross Potential Rent (100% Occupancy)	\$4,089,192
1 BR	700	60%	116	Vacancy Rate	5.0%
2 BR	1,000	35%	68	Gross Scheduled Rent	\$3,884,732
3 BR	1,300	2%	4	Operating Expenses	\$1,200,000
Efficiency Affordable Units	600	3%	0	Net Operating Income	\$2,684,732
1 BR Affordable Units	700	60%	4		
2 BR Affordable Units	1,000	35%	2	Annual Debt Service	\$1,517,000
3 BR Affordable Units	1,300	2%	0		
Average Unit Size (Rentable Sq. Ft.)			814	Net Cash Flow Before Taxes	\$1,167,732
				Equity	\$9,026,640
Parking Spaces			203		
				Annual Return as % of Development Cost	8.92%
<i>Project Size (Gross Sq. Ft.):</i>				Annual Return as % of Equity	12.94%
Unit Net Square Footage			163,000		
Common Area			36,000		
Total Residential			199,000		
Project Density (DU/AC)			55		
Operating Expense per unit			\$6,000		
<i>Rent Schedule (1):</i>					
Efficiency			\$1,300		
1 BR			\$1,500		
2 BR			\$2,100		
3 BR			\$2,600		
Efficiency Affordable Units (2)			\$807		
1 BR Affordable Units (2)			\$915		
2 BR Affordable Units (2)			\$1,023		
3 BR Affordable Units (2)			\$1,131		
Monthly Parking Rate for Surplus Spaces			\$80		
Development Costs					
Land/GFA Required to Achieve 9% Return on Cost (3)			\$0		
Construction Costs (per Gross Sq. Ft.) (4)			\$126		
Soft Costs (5)			20%		
Permanent Loan					
Interest Rate			6.0%		
Term			30		
Amount of Loan			\$21,062,160		
Annual Debt Service			\$1,517,000		

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing

3) Based on target rate of return required by developers to justify investment.

4) Based on conversations with local developers.

5) Estimate based on recent comparable projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead and financing. Percentage of hard costs.

6) 180 basis points over the 10-year Treasury bond rate.

Source: BAE, 2004.

Table A-9: Rental Apartments: Development at Higher Rents with No Special Use Permit

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)			200	Land	\$8,238,600
Site Size (acres)			159,200	Unit Construction Cost	\$25,074,000
FAR			1.25	Soft Costs	\$5,014,800
Market Rate Units			194		
Below Market Rate Units			6	Total Development Costs	\$38,327,400
				Total Development Costs/Unit	\$191,637
Product Mix:	Size	%		Development Feasibility	
Efficiency	600	3%	6	Gross Potential Rent (100% Occupancy)	\$4,892,818
1 BR	700	60%	116	Vacancy Rate	5.0%
2 BR	1,000	35%	68	Gross Scheduled Rent	\$4,648,177
3 BR	1,300	2%	4	Operating Expenses	\$1,200,000
Efficiency Affordable Units	600	3%	0	Net Operating Income	\$3,448,177
1 BR Affordable Units	700	60%	4		
2 BR Affordable Units	1,000	35%	2	Annual Debt Service	\$1,932,000
3 BR Affordable Units	1,300	2%	0		
Average Unit Size (Rentable Sq. Ft.)			814	Net Cash Flow Before Taxes	\$1,516,177
Parking Spaces			203	Equity	\$11,498,220
Project Size (Gross Sq. Ft.):				Annual Return as % of Development Cost	9.00%
Unit Net Square Footage			163,000	Annual Return as % of Equity	13.19%
Common Area			36,000		
Total Residential			199,000		
Project Density (DU/AC)			55		
Operating Expense per unit			\$6,000		
Rent Schedule (1):					
Efficiency			\$1,560		
1 BR			\$1,800		
2 BR			\$2,520		
3 BR			\$3,120		
Efficiency Affordable Units (2)			\$807		
1 BR Affordable Units (2)			\$915		
2 BR Affordable Units (2)			\$1,023		
3 BR Affordable Units (2)			\$1,131		
Monthly Parking Rate for Surplus Spaces			\$80		
Development Costs					
Land/GFA Required to Achieve 9% Return on Cost (3)			\$41.40		
Construction Costs (per Gross Sq. Ft.) (4)			\$126		
Soft Costs (5)			20%		
Permanent Loan					
Interest Rate			6.0%		
Term			30		
Amount of Loan			\$26,829,180		
Annual Debt Service			\$1,932,000		

NOTES:

- 1) Based on conversations with local developers and analysis of local housing market conditions.
- 2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing
- 3) Based on target rate of return required by developers to justify investment.
- 4) Based on conversations with local developers.
- 5) Estimate based on recent comparable projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead and financing. Percentage of hard costs.
- 6) 180 basis points over the 10-year Treasury bond rate.

Source: BAE, 2004.

Table A-10: Rental Apartments: Special Use Permit with Higher SUP Density and Higher Rents

Major Assumptions			Pro Forma Analysis	
Characteristics of Project			Development Cost Survey	
Base Project Size (Units)		320	Land	\$6,340,000
Site Size (acres)	159,200		Unit Construction Cost	\$44,380,000
FAR		1.99	Soft Costs	\$8,876,000
Market Rate Units		298		
Below Market Rate Units		22	Total Development Costs	\$59,596,000
			Total Development Costs/Unit	\$186,238
Product Mix:	Size	%	Development Feasibility	
Efficiency	600	3%	9	
1 BR	700	60%	179	Gross Potential Rent (100% Occupancy)
2 BR	1,000	35%	104	Vacancy Rate
3 BR	1,300	2%	6	Gross Scheduled Rent
Efficiency Affordable Units (2)	600	3%	1	Operating Expenses
1 BR Affordable Units (2)	700	60%	13	Net Operating Income
2 BR Affordable Units (2)	1,000	35%	8	
3 BR Affordable Units (2)	1,300	2%	0	Annual Debt Service
Average Unit Size (Rentable Sq. Ft.)		813		
			Net Cash Flow Before Taxes	\$2,358,683
Parking Spaces		330	Equity	\$17,878,800
			Annual Return as % of Development Cost	9.00%
Project Size (Gross Sq. Ft.):			Annual Return as % of Equity	13.19%
Unit Net Square Footage	260,000			
Common Area	57,000			
Total Residential	317,000			
Project Density (DU/AC)		88		
Operating Expense per unit		\$6,000		
Rent Schedule (1):				
Efficiency		\$1,560		
1 BR		\$1,800		
2 BR		\$2,520		
3 BR		\$3,120		
Efficiency Affordable Units @ 60% AMI (2)		\$807		
1 BR Affordable Units @ 60% AMI (2)		\$915		
2 BR Affordable Units @ 60% AMI (2)		\$1,023		
3 BR Affordable Units @ 60% AMI (2)		\$1,131		
Monthly Parking Rate for Surplus Spaces		\$80		
Development Costs				
Land/GFA Required to Achieve 9% Return on Cost (3)		\$20.00		
Construction Costs (per Gross Sq. Ft.) (4)		\$140		
Soft Costs (5)		20%		
Permanent Loan				
Interest Rate		6.0%		
Term		30		
Amount of Loan		\$41,717,200		
Annual Debt Service		\$3,005,000		

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing

3) Based on target rate of return required by developers to justify investment.

4) Based on conversations with local developers.

5) Estimate based on recent comparable projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead and financing. Percentage of hard costs.

6) 180 basis points over the 10-year Treasury bond rate.

Source: BAE, 2004.

Table A-11: Rental Apartments: Additional Density from Height/Density Bonus, Rezoning, Vacation

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)			384	Land	\$4,393,000
Site Size (acres)			159,200	Unit Construction Cost	\$53,480,000
FAR			2.40	Soft Costs	\$10,696,000
Market Rate Units			336		
Below Market Rate Units			48	<i>Total Development Costs</i>	\$68,569,000
				<i>Total Development Costs/Unit</i>	\$178,565
<i>Product Mix:</i>	<i>Size</i>	<i>%</i>		Development Feasibility	
Efficiency	600	3%	10	Gross Potential Rent (100% Occupancy)	\$8,923,478
1 BR	700	60%	202	Vacancy Rate	5.0%
2 BR	1,000	35%	118	Gross Scheduled Rent	\$8,477,304
3 BR	1,300	2%	7	Operating Expenses	\$2,304,000
Efficiency Affordable Units (2)	600	3%	1	Net Operating Income	\$6,173,304
1 BR Affordable Units (2)	700	60%	29		
2 BR Affordable Units (2)	1,000	35%	17	Annual Debt Service	\$3,457,000
3 BR Affordable Units (2)	1,300	2%	1		
Average Unit Size (Rentable Sq. Ft.)			814	Net Cash Flow Before Taxes	\$2,716,304
				Equity	\$20,570,700
Parking Spaces			407		
<i>Project Size (Gross Sq. Ft.):</i>				Annual Return as % of Development Cost	9.00%
Unit Net Square Footage			313,000	Annual Return as % of Equity	13.20%
Common Area			69,000		
Total Residential			382,000		
Project Density (DU/AC)			105		
Operating Expense per unit			\$6,000		
<i>Rent Schedule (1):</i>					
Efficiency			\$1,560		
1 BR			\$1,800		
2 BR			\$2,520		
3 BR			\$3,120		
Efficiency Affordable Units (2)			\$807		
1 BR Affordable Units (2)			\$915		
2 BR Affordable Units (2)			\$1,023		
3 BR Affordable Units (2)			\$1,131		
Monthly Parking Rate for Surplus Spaces			\$80		
Development Costs					
Land/GFA Required to Achieve 9% Return on Cost (3)			\$11.50		
Construction Costs (per Gross Sq. Ft.) (4)			\$140		
Soft Costs (5)			20%		
Permanent Loan					
Interest Rate			6.0%		
Term			30		
Amount of Loan			\$47,998,300		
Annual Debt Service			\$3,457,000		

NOTES:

1) Based on conversations with local developers and analysis of local housing market conditions.

2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing

3) Based on target rate of return required by developers to justify investment.

4) Based on conversations with local developers.

5) Estimate based on recent comparable projects. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead and financing. Percentage of hard costs.

6) 180 basis points over the 10-year Treasury bond rate.

Source: BAE, 2004.

Table A-12: Townhouses: Development with No Special Use Permit

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)				Land	\$3,799,000
Site Size (acres)				Unit Construction Cost	\$5,462,000
Market Rate Units					
Below Market Rate Units				Other Soft Costs	\$1,802,460
Product Mix:				Total Development Costs	\$11,063,460
2 BR Market				Total Development Costs/Unit	\$442,538
3 BR Market				Development Feasibility	
2 BR Affordable				Gross Sales Revenue	\$13,605,050
3 BR Affordable				Less Cost of Sales	\$882,500
Unit Size (Gross Sq. Ft.)				Net Sales Revenue	\$12,722,550
Parking Spaces				Less Development Costs	\$11,063,460
Project Size (Gross Sq. Ft.):				Project Return (Net Rev - Dev Costs)	\$1,659,090
Unit Total				Assumed Equity	\$2,766,000
Common Area				Return as % of Development Cost	15.00%
Total Residential				Return Per Unit	\$66,364
Project Density (DU/AC)					
Sale Prices:					
2 BR Market					
3 BR Market					
2 BR Affordable (2)					
3 BR Affordable (2)					
Development Costs					
Land/GFA Required to Achieve 15% Return on Costs (3)					
Construction Costs (per Gross Sq. Ft.) (4)					
Soft Costs (5)					

- NOTES:
- 1) Based on conversations with local developers and analysis of local housing market conditions.
 - 2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing.
 - 3) Based on target rate of return required by developers to justify investment.
 - 4) Based on conversations with local developers and BAE analysis.
 - 5) Estimate based on developer discussions. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead, and financing. Percentage of hard costs.
 - 6) Equity assumed to equal 25 percent of hard costs.

Source: BAE, 2004.

Table A-13: Townhouses: Special Use Permit with Higher SUP Density

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)			31	Land	\$3,802,000
Site Size (acres)			1.3	Unit Construction Cost	\$6,772,000
Market Rate Units			29	Other Soft Costs	\$2,235,000
Below Market Rate Units			2		
Product Mix:		Size	%	Total Development Costs	\$12,809,000
2 BR Market		1,500	35%	Total Development Costs/Unit	\$413,194
3 BR Market		1,700	65%		
2 BR Affordable		1,500	35%	Development Feasibility	
3 BR Affordable		1,700	65%	Gross Sales Revenue	\$15,824,950
Unit Size (Gross Sq. Ft.)			1,630	Less Cost of Sales	\$1,094,300
Parking Spaces			62	Net Sales Revenue	\$14,730,650
Project Size (Gross Sq. Ft.):				Less Development Costs	\$12,809,000
Unit Total			50,540	Project Return (Net Rev - Dev Costs)	\$1,921,650
Common Area			-	Assumed Equity	\$3,202,000
Total Residential			50,540		
Project Density (DU/AC)			25	Return as % of Development Cost	15.00%
Sale Prices:				Return Per Unit	\$61,989
2 BR Market			\$492,000		
3 BR Market			\$549,000		
2 BR Affordable (2)			\$225,000		
3 BR Affordable (2)			\$250,000		
Development Costs					
Land/GFA Required to Achieve 15%					
Return on Costs (3)			\$75.23		
Construction Costs (per Gross Sq. Ft.) (4)			\$134		
Soft Costs (5)			33%		

- NOTES:
- 1) Based on conversations with local developers and analysis of local housing market conditions.
 - 2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing.
 - 3) Based on target rate of return required by developers to justify investment.
 - 4) Based on conversations with local developers and BAE analysis.
 - 5) Estimate based on developer discussions. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead, and financing. Percentage of hard costs.
 - 6) Equity assumed to equal 25 percent of hard costs.

Source: BAE, 2004.

Table A-14: Townhouses: Additional Density from Height/Density Bonus, Rezoning, Vacation

Major Assumptions				Pro Forma Analysis	
Characteristics of Project				Development Cost Survey	
Base Project Size (Units)			38	Land	\$4,025,000
Site Size (acres)			1.3	Unit Construction Cost	\$8,300,000
Market Rate Units			33	Other Soft Costs	\$2,739,000
Below Market Rate Units			5		
				Total Development Costs	\$15,064,000
Product Mix:	Size	%		Total Development Costs/Unit	\$396,421
2 BR Market	1,500	35%	12		
3 BR Market	1,700	65%	21	Development Feasibility	
2 BR Affordable	1,500	35%	2	Gross Sales Revenue	\$18,664,900
3 BR Affordable	1,700	65%	3	Less Cost of Sales	\$1,341,400
				Net Sales Revenue	\$17,323,500
Unit Size (Gross Sq. Ft.)			1,630	Less Development Costs	\$15,064,000
Parking Spaces			76	Project Return (Net Rev - Dev Costs)	\$2,259,500
				Assumed Equity	\$3,766,000
Project Size (Gross Sq. Ft.):					
Unit Total			61,940	Return as % of Development Cost	15.00%
Common Area			-	Return Per Unit	\$59,461
Total Residential			61,940		
Project Density (DU/AC)			30		
Sale Prices:					
2 BR Market			\$492,000		
3 BR Market			\$549,000		
2 BR Affordable (2)			\$225,000		
3 BR Affordable (2)			\$250,000		
Development Costs					
Land/GFA Required to Achieve 15% Return on Costs (3)			\$64.98		
Construction Costs (per Gross Sq. Ft.) (4)			\$134		
Soft Costs (5)			33%		

- NOTES:
- 1) Based on conversations with local developers and analysis of local housing market conditions.
 - 2) Based on 2004 limits for the City of Alexandria established by the Alexandria Office of Housing.
 - 3) Based on target rate of return required by developers to justify investment.
 - 4) Based on conversations with local developers and BAE analysis.
 - 5) Estimate based on developer discussions. Includes A&E, legal, general conditions, taxes, closing costs, contingency, portion of overhead, and financing. Percentage of hard costs.
 - 6) Equity assumed to equal 25 percent of hard costs.

Source: BAE, 2004.

MAXIMUM SALES PRICES AND RENT LEVELS
FOR AFFORDABLE SET-ASIDE UNITS

Proposed June 2004

Sales Prices (Proposed change from current \$225,000 limit, which is commonly applied to 2-bedroom units, with \$173,200 commonly applied to 1-bedroom units)

1 bedroom	\$175,000
2 bedroom	\$225,000
3 bedroom	\$250,000

Rent Levels (Unchanged from current policy)
Rents are based on the federal Low Income Housing Tax Credit Program rents for households at 60% of Area Median Income, as published by the Virginia Housing Development Authority.

<u>Unit Size</u>	<u>Gross Rent Limit</u>
Efficiency	\$913
1-Bedroom	\$978
2-Bedroom	\$1174
3-Bedroom	\$1357
4-Bedroom	\$1513
5-Bedroom	\$1670