Memorandum

MIAMI-DADE COUNTY

Date: January 25, 2007

Agenda Item No. 14(B)2

To: Honorable Chairman Bruno A. Barreiro
and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Manager's Report Related to the Workforce Housing Development Program

---

The purpose of this report is to update and supplement the June 7, 2006 report providing information on the proposed Ordinance to implement a Workforce Housing Development Program. In addition, this report briefly summarizes the various housing assistance programs currently offered by the County

Background

The initial Ordinance was adopted by the Board of County Commissioners on first reading in November 2005 and received public input at two workshops, one on March 8, 2006 and the other on April 3, 2006. The proposed Ordinance and accompanying resolutions were presented at the May 16, 2006 and June 7, 2006 special meeting of the Infrastructure and Land Use Committee meeting. At that time, the proposed Ordinance and certain companion items were withdrawn to allow for additional Sunshine meetings among members of the Board of County Commissioners. The proposed Ordinance with modifications was adopted for first reading on October 10, 2006. The item was further amended at the December 12, 2006 Infrastructure and Land Use Committee meeting.

Definition of Affordability

According to U.S. Department of Housing and Urban Development (US HUD), a dwelling's housing affordability is generally defined as the capacity of families to afford housing without spending more than 30 percent of the household income on housing related costs. Real Estate Research Consultants (RERC), a firm with extensive national exposure in inclusionary housing programs was tasked with evaluating the affordability of the housing stock within Miami Dade County. RERC's report (see attached), has determined that based on the existing housing affordability gap in Miami-Dade County, "affordable" housing programs should include households up to 140 percent of the area's median income (AMI). In essence, roughly 60 to 64 percent of current households in the County fall within this range of household income. Therefore, target groups for "very low", "low", and "moderate" income and "workforce" housing represent identified subsets of households meeting the "affordable" need criteria. This segmentation provides the ability for identifying different complements of initiatives or programs to meet the needs of these groups. The "workforce" distinction or segmentation appears to allow public officials to recognize affordability issues for discrete households that one might not consider low- or middle-income and are generally excluded from traditional federal, state, and local "affordable" housing initiatives. General public perception might not consider this income range in the context of low- to middle-income; however, current housing prices are generally out of the reach of these households as well.

The proposed Workforce Housing Development Program Ordinance

The proposed legislation presented for Board consideration is designed to mandate that the development community produce moderately priced workforce housing units (WHU), which are considered affordable for families earning between 65 and 140 percent of the County's AMI. Increased density provided to the developer will allow for construction of additional market-rate units which in turn will offset the cost of construction of the WHU's.

While it is not the intent of the Workforce Housing Development Program to further tax the County's existing housing resources, it does not prevent low and moderate income families from participating in the County's existing affordable housing programs. Below are some highlights of the proposed program:

- Allows additional workforce housing to be provided on a percentage basis to families that meet the proposed income levels of 65 to 140 percent of the AMI based on family size.
- Requires that new WHUs be constructed with similar architectural design and amenities as the market rate units within the development.
- Maximum sales price for a WHU under the proposed Ordinance may not exceed an amount affordable at the maximum workforce housing target income range, taking into account (a) family size; (b) an annual fixed interest rate based on a thirty (30) year mortgage term; (c) payment of up to five percent (5) down payment by a qualified household; and (d) an estimation of annual property taxes, assessments, loan insurance and financing fees, allowances for property maintenance and repairs, homeowners insurances. Homeowner association fees, if any, and allowances for utilities. The current maximum sales price under the Surtax Homeownership Program is currently $225,000; however, this maximum price is under staff review.
- Requires developers that are constructing market rate rental units to also provide workforce rentals on a percentage basis.
- Contains a provision for the developer to provide a contribution in lieu of building the required WHUs, which would be deposited into the Affordable Housing Trust Fund.
- Anticipates that approximately 400 WHUs could be produced annually.
- Designed to generate additional affordable housing stock in Miami-Dade without government subsidies. The proposed program does not prevent low and moderate income families from participating in the County's existing affordable housing programs which do offer subsidy towards homeownership.

Substantive modifications to the proposed Ordinance as reintroduced are: (1) reduction of the affordability control period from 30 to 20 years; (2) limiting the use of Trust Fund revenues to benefit households in the 65 to 80 percent range of median income; and (3) the creation of a workforce housing zoning appeals board. RERC conducted a review of these modifications and found that "the current revisions do not result in a material change in the findings and conclusions made [in its May 2006 report]." A copy of this May 2006 report is attached. In addition, RERC found that the modifications positively enhance the objectives of the proposed Program and their analysis of the current proposed Ordinance is also attached.

Attached is a Fact Sheet on Workforce Housing that answers some of the most frequently asked questions on the program.

Affordable Housing Needs in Miami-Dade County

Miami Economic Associates, Inc (MEAI) has performed an analysis of workforce housing within Miami Dade, which indicates the following:

Income percent AMI	**Income**	**Monthly Rent**	**Home Price**
0% to 49%	$0 – 27,949	</=$655	</+$81,048
50% to 79%	$27,950 - 44,719	$656 -1,060	$81,049 - 126,489
80% to 119%	$44,720 - 67,079	$1,061 -1,590	$126,490 - 187,112
120% to 140%	$67,080 - 78,260	$1,560 -1,870	$187,113 - 217,424

The previous table reflects the amount of rent that households within the various income ranges can afford, as well as the price of the homes that they can purchase in today's environment, if they are to keep their housing costs at 30 percent or less of their income.

Based on the report provided by RERC, the following figures illustrate the housing "affordability" calculation at the 30 and 40 percent ratio of housing expense levels for a typical family with four members earning the County's annual AMI of $55,900. Calculating housing affordability based on a 30 and 40 percent ratio of housing expenses can be used to reflect this range of household income affordability relative to fixed housing prices. As demonstrated by comparing both Figure 1 and Figure 2, this 30 to 40 percent range in acceptable housing costs results in a roughly 20 to 30 percentage point variation on targeted household income.

Figure 1 – Housing 'Affordability' Calculation at 30 percent of Household Income

Housing Affordability						
Area Median household income	$	55,900				
Persons per household		4				
Maximum ratio to household income		30%				
Total property tax millage rate		21.7				
Annual insurance premium per $1,000 value	$	3.00				
Utilities and maintenance per person	$	750				
Annual mortgage interest rate		6.3%				
Mortgage term (years)		30				
Affordable Units						
Level of Median Income--->		80%		100%		140%
Household income target --->	$	44,720	$	55,900	$	78,260
Max Income allotted to housing		13,416		16,770		23,478
(less) property taxes and insurance		(2,955)		(3,795)		(5,477)
Net income available for mortgage	$	10,461	$	12,975	$	18,001
Income supported principal	$	141,600	$	175,600	$	243,600

Figure 1 illustrates the maximum housing cost at 30 percent of household income. Households at 80 percent of the area median level of income could 'afford' no more than a $141,600 housing unit to meet the 30 percent affordability criteria.

Figure 2 – Housing 'Affordability' Calculation at 40 percent of Household Income

Housing Affordability						
Area Median household income	$	55,900				
Persons per household		4				
Maximum ratio to household income		40%				
Total property tax millage rate		21.7				
Annual insurance premium per $1,000 value	$	3.00				
Utilities and maintenance per person	$	750				
Annual mortgage interest rate		6.3%				
Mortgage term (years)		30				
Affordable Units						
Level of Median Income--->		60%		80%		100%
Household income target --->	$	33,540	$	44,720	$	55,900
Max Income allotted to housing		13,416		17,888		22,360
(less) property taxes and insurance		(2,955)		(4,076)		(5,195)
Net income available for mortgage	$	10,461	$	13,812	$	17,165
Income supported principal	$	141,600	$	186,900	$	232,300

Increasing the affordability criteria to 40 percent results in a $141,600 housing unit being affordable to households at 60 percent of the AMI as illustrated in Figure 2.

While the Workforce Housing Development Program is designed to serve income ranges of 65 percent through 140 percent, there have been questions raised about mandating household income targets to serve lower income families. As noted in the June 7, 2006 report, County staff requested that RERC provide a brief review of the issue of income targeting or "tiering." RERC found that income-tiering or adopting artificial price controls to target lower income households in the absence of subsidies would adversely impact the financial feasibility of the proposed Program. As stated in their December 7, 2006 analysis, RERC found that the modification to the proposed Ordinance, limiting the use of Trust funds to benefit households between 65 to 80 percent, "enhances a previously identified issue without impacting the financial profitability of development required to meet the requirements of the proposed ordinance."

County staff continues to view the Workforce Housing Development Program as one of many tools to assist in the production of much-needed additional affordable housing stock in Miami-Dade. Households of extremely low and very low income are not precluded from taking advantage of current housing programs offering subsidies to access the housing stock expected to result from the Workforce Housing Development Program.

Additional opportunities to expand housing opportunities to those of lower income have surfaced through the work of the Community Affordable Housing Alliance (CAHSA) Task Force, established by the Board to assist in addressing the housing crisis in Miami-Dade County. CASHA Task Force members established nine committees and agreed upon a fast track schedule of meetings and activities and shared its preliminary recommendations at four CAHSA forums held around the county which attracted over 200 individuals as well as at a county-wide Housing Summit which attracted well over 400 participants. A substantial number of these recommendations are directed at improving and expanding access to programs providing homeownership and rental opportunities to low-income households below 80 percent of median income, including those considered extremely low income (30 percent of AMI or less) and very low income (50 percent of AMI or less).

Furthermore, a Housing Linkage Program Task Force was established by the Board and charged with producing an initial report of its findings and recommendations due on or before February 29, 2007. The Task Force, chaired by Andrew Dolkart, has been formed and is meeting.

Miami-Dade County's Housing Assistance Programs

Since 1968, there have been several County housing assistance programs available to provide homeownership and rental opportunities to low-income households. For instance, Public Housing is designed to primarily serve low-income households earning up to 30 percent of the AMI and the Section 8 Voucher Program serves households earning up to 80 percent of AMI. The Surtax Program created in 1983 serves families earning no more than 140 percent AMI and are often layered and leveraged with private first mortgage financing.

Homeownership Programs

The County's subsidized homeownership program began in 1983 with the creation of the County's local Documentary Surtax Program, which generates revenues from recording fees on commercial real estate transactions ($0.45 per $100 of real estate transactions). Since 1984, the Surtax Program has generated more than $377 million. As administered by the **Miami-Dade Housing Agency (MDHA)**, the County provides low interest loans in the form of second mortgages to qualified families through the Surtax Program.

- These loans provide financing necessary to fund difference between the purchase price of a home and what the bank will loan based on the buyer's income. The County's loan interest rate is fixed and ranges from 0 to 6 percent.
- MDHA provides second mortgage assistance ranging from \$50,000 to \$80,000 for low income families 80 percent and under of the AMI; and from \$30,000 to \$50,000 for moderate-income families over 80 percent up to 140 percent of the AMI. Buyers may purchase a home anywhere in Miami-Dade County with a maximum sales price of \$225,000 per home.

For over 20 years, the **Miami-Dade Housing Finance Authority (HFA)** has been issuing single family mortgage bonds for use by local lenders to provide low-interest first mortgage financing for low to moderate-income homebuyers (up to 140 percent AMI).

Through the use of its American Dream Down payment Initiative (ADDI) and HOME Program funds from the Office of Community and Economic Development (OCED), HFA provides down payment assistance of up to 6 percent of the sales price or \$10,000 maximum and mortgage subsidy for low-income homebuyers earning no more than 80 percent of the AMI. Through the Affordable Housing Foundation homebuyer counseling is provided to potential homebuyers as well.

- Since its inception, the Authority has generated over \$1.2 billion through the sale of their bonds to assist over 10,182 buyers in Miami-Dade County.

Eight percent of the County's Documentary Surtax revenue has been allocated to the **Metro-Miami Action Plan (MMAP)** since 1995 to provide down payment and closing cost assistance.

- MMAP's housing program provides down payment and closing costs assistance of up to 6 percent of the sales price. This program works in coordination with the other County housing assistance programs.

- MMAP's latest initiative will utilize a lottery process to offer first time very low (50 percent and below AMI) and low (80 percent and below) income homebuyers up to seventy five percent of the purchase price in the form of a forgivable, zero percent interest, non amortized, second mortgage. Very-low and even some low-income families who are unable to purchase due to insufficient income, poor credit, or insufficient savings can benefit from numerous income-restricted rental properties throughout the County which provide housing to families and individuals earning no more than 60 percent of AMI.

<u>Rehabilitation Programs for Homeownership</u>
MDHA also makes funding available for existing homeowners to maintain their homes by providing low interest and deferred loans for owner-occupied units. This program provides maximum assistance of \$30,000 per family to make the necessary repairs to their homes and positively impact their quality of life.

<u>Rental/Multifamily and Construction Lending</u>
There is an ever increasing need for rental housing assistance in Miami-Dade County. Based on the present income "gap" as it relates to housing costs, not everyone can or wants to own a home but is more inclined to rent instead. The increase in condominium conversions has also had a substantial impact on the housing market. To insure that rental housing is produced in our community, the County provides funding assistance to developers that seek Low Income Housing Tax Credit (LIHTC) assistance from the Florida Housing Finance Corporation (FHFC) and the US HUD 202 Rental Housing Program, among others.

- As part of the County's Annual Consolidated Planning requirements, MDHA utilizes this competitive process as its mechanism for allocating housing funds to developers.

- On average, more than $30 million is allocated annually through this process by the Board. In 2007, Surtax and SHIP Plan allocations for the construction of affordable units are approximately $42.6 million. The total commitment to Rental housing is approximately 48 percent of that amount. Low-interest loans are provided to developers of LIHTC rental properties, new construction of condominium/townhouse units, rehabilitation of existing rental properties and those housing units recommended by the Homeless Trust.
- An additional mid-year RFA with a funding allocation of $15 million is anticipated for advertisement in January 2007. This mid-year allocation is providing funding for developments seeking tax credits, as well as gap funding for projects near completion that had received previous public funding in prior years (2004, 2005 and 2006).
- FHFC mandates that families served under their Rental assistance programs cannot exceed 60 percent of the AMI based on the family size. As part of the construction loan closing process, the developer records a rental regulatory agreement to assure the long term affordability of the units. MDHA conducts annual compliance monitoring for all funded rental properties.

The County also provides rental housing assistance under the Public Housing program and the Section 8 Voucher program.

Attachments

Cynthia W. Curry
Cynthia W. Curry
Senior Advisor to the County Manager

Workforce Housing: Just the FAQs
(frequently asked questions)

1. What areas are impacted by this ordinance?
The County's proposed workforce housing ordinance will impact housing developments within the unincorporated areas of Miami-Dade County.

2. What are the primary determinants of housing affordability?
Four factors are primary determinants of housing affordability. They are household income, housing prices, mortgage rates and property taxes/insurance.

3. What's the difference between affordable housing and workforce?
The proposed ordinance provides a density bonus to housing developers in unincorporated Miami-Dade County and includes a requirement that the developments include a workforce housing within their proposed development. These workforce housing units would blend in with the market rate housing product but would be priced lower, for purchase by households earning between 65% and 140% of the area median income.

Affordable housing is being produced by developers who receive low interest construction financing from the County as an incentive for the housing units. The affordable homeownership units have available subsidies for use by low to moderate income households.

4. Without adjusting for family size, how many families Miami-Dade are between 65 percent to 140 percent of the County's area median income (AMI)?
The number of families within this income range is 212,000 (source: the 2004 American Housing Survey)

5. How Much of a House You Can Afford?
The amount of house you can afford depends on your income, down payment and credit. Banks will loan you up to three times your gross income to purchase. If the bank's loan plus your down payment isn't enough to purchase a home, there may be other resources available to you through government subsidized programs. The first mortgage you qualify for and the amount of the County second mortgage subsidy you can obtain, plus the amount of down payment you have available (minimum 1% of the sales price, preferably 3% or more) tells you how much house you can afford. There are several County homebuyer assistance programs, each of which has a maximum sales price.

6. What are taxes and insurance on an average workforce housing unit?

The average taxes and insurance costs would be the same for similarly priced homes within unincorporated Miami-Dade County. Insurance costs will vary depending on a number of factors such as location of the home, whether or not the home is in a flood zone or not, the value of the home, etc. On average homebuyers can expect to pay 1.25% to 1.5% of the purchase price for insurance. The County's Property Appraiser's Office has an online tax estimator to assist you. This online service may be accessed at http://www.miamidade.gov/pa. Generally, the annual property taxes on a home priced at $200,000 with homestead exemption would be $3,732. The cost breakout for the taxes on such a home is as follows:

Countywide Taxes	$1,622
UMSA (unincorporated municipal service area)	$428
State taxes	$129
School Board	$1,477
Children's Trust	$76

The table below illustrates the buying power of households **without** County subsidy.

Sales Price	3% Down	Mortgage	Principal and Interest at 6.5 Percent	Monthly Property Taxes*	Insurance	Monthly Paments	Gross Annual Income	Gross Annual Income
140,000	4,200	135,800	853.72	204	210	1,267.72	45,179	34%
160,000	4,800	155,200	975.68	240	245	1,460.68	51,119	34%
180,000	5,400	174,600	1,097.65	275	260	1,632.65	57,059	34%
200,000	6,000	194,000	1,219.61	311	285	1,815.61	62,999	35%
225,000	6,750	218,250	1,372.06	355	316	2,043.06	70,425	35%

7. Does the Workforce Housing Ordinance as proposed, include a financing subsidy component?

While the proposed workforce housing ordinance does not include a financing subsidy component, it does not prohibit the use of subsidy for home buying by eligible households. It is hoped that the ordinance will seed its own housing trust fund from developer payments.

8. Can a person qualify for housing subsidy and purchase a workforce housing unit?

Yes

9. Does this take away from the existing housing programs?

No. The production of workforce housing units adds to the availability of housing units for working families in communities where they might otherwise be priced out.

The table below illustrates the buying power of households **with** County subsidy.

Sales Price	3% Down	County Subsidy	Mortgage Amount	1st Mortgage Payment	2nd Mortgage Payment	Monthly Property Taxes	Monthly Insurance	Total Montly Payments	Gross Annual Income	Gross Annual Income
140,000	4,200	45,000	90,800	571	167	204	210	1,152	45,179	30%
160,000	4,800	45,000	110,200	693	167	240	245	1,345	51,119	30%
180,000	5,400	45,000	129,600	821	167	275	260	1,523	57,059	31%
200,000	6,000	45,000	149,000	937	167	311	285	1,700	62,999	31%
225,000	6,750	45,000	173,250	1,089	167	355	316	1,927	70,425	32%

10. What is the affordability period of the workforce housing?

Each workforce housing unit requires occupancy by each home buyer as their primary residence for a period of 20 years (control period). The control period begins anew for any subsequent buyer of a workforce housing unit, until the unit has been occupied by the same homeowner for the 20 year control period.

11. If I buy a workforce housing unit, when can I sell it?

The unit can be sold at any time, but during the 20 year control period *must first be offered for sale to another qualified household*. If a contract for sale to a qualified household is not executed within 6 months, the County has the right of first refusal. If the County does not elect to purchase the WHU, it may be sold at market rate.

The home can be sold for the maximum workforce housing sales price in effect at the time of sale and retain all accrued equity.

For example, if you purchase a workforce housing unit (WHU) for $200,000 in 2006 and five years later you decide to sell it when the maximum WHU sales price is $320,000. The transaction might go as follows:

Appraised value of your Property [sales price]	$320,000
Initial purchase price	($200,000)
Equity retained upon sale	**$120,000**

12. What size house can I buy? How many bedrooms must it have?

As a homebuyer, the number of bedrooms and the square footage of the house is a personal choice which is generally influenced by two factors. First the needs of your household and secondly, what you can qualify for based on your income. The ordinance imposes no restrictions on what you can purchase.

13. What are the fees that are charged to applicants seeking approval of residential developments?

Questions were asked as it relates to the type of fees charged to applicants seeking approval of residential developments. Attached are detailed listings of typical fees charged. These listings are separated into those fees assessed to the residential development as a whole (the "Land Fees") (Exhibit A) and those fees charged specifically to individual residential units at the time that permits are sought for said units (the "Permitting Fees") (Exhibit B). It should be noted that in the case of Land Fees many of the permitting departments assess their fees based on the size of development and/or the infrastructure needs of a development, resulting in such fees varying from one development to another. Examples of Land Fees are fees for platting review and recording, fees associated with the review and approval of on-site lake excavations and fees associated with various departments' reviews of infrastructure needs. Exhibit A illustrates that a pro-rated fee of approximately $300 per unit is typical.

Furthermore many of the Permitting Fees are determined on a square footage basis and therefore these fees will vary from one residential unit to the next depending on the size of the unit.

Nevertheless, the Exhibits provide valuable information on typical fees associated with the review of residential developments.

The following summary of these fees is as follows:

For a 1844 square foot townhouse:

$14,722.46	Total Permitting Fees
+ 300.00	Average Pro-rated Land Fees
$15,022.46	Total Fees for the unit

For a 2278 square foot single family detached residence:

$16,538.96	Total Permitting Fees
+ 300.00	Average Pro-rated Land Fees
$16,838.96	Total Fees for the unit

MIAMI-DADE COUNTY

REVIEW OF INCLUSIONARY ZONING REQUIREMENTS

Prepared by:

Real Estate RESEARCH
C O N S U L T A N T S

May 2006

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

Executive Summary

The following Executive Summary provides significant findings, opinions, and recommendations from our analysis and review of the proposed Miami-Dade Inclusionary Workforce Zoning Ordinance (the Ordinance). These findings, opinions, and recommendations are provided in the context of an overall policy initiative to provide more affordable housing that is in the public interests of Miami-Dade County. Any one finding, opinion, or recommendation considered outside of this context may be perceived to have a significantly negative impact as it stands alone. However, it is entirely possible that the finding, opinion, or recommendation is a more efficient policy option that can be mitigated with other programs or policies that together attempt to meet housing needs.

For example, the requirement for the *supply* of more affordable housing that may have a negative financial impact on development *could* be potentially offset with funds generated by a linkage fee that targets the *demand* for more affordable units. The scope of our analysis was to specifically evaluate the financial impacts of the Ordinance and did not include other potential programs or policies. However, while the findings, opinions, and recommendations are not contingent on these other potential programs or polices, they are provided with an understanding that potentially negative impacts can be mitigated through these other programs or policies.

Findings, Opinions, and Recommendations

- *Definition of Required Workforce Units.* The national debate on affordable or workforce housing has tended to focus on income affordability and not what is a reasonable expectation of housing. Inclusionary or bonus density programs nationally have been adopted requiring nearly identical housing with artificial price controls to meet affordability standards[1]. *The proposed Ordinance is allowing the provision of workforce units that meet income criteria based on alternative residential products (i.e. attached, smaller living area); this approach is more efficient because it potentially delivers reasonable housing without significant economic loss resulting from extreme gaps between market prices and imposed price controls.*

  Recommendation: None. It is our opinion that more affordable housing options targeting specific income groups can be achieved with minimally acceptable living standards; specifically construction standards, total living

[1] Many inclusionary zoning programs require "affordable" units to be provided that are indistinguishable from market rate units but meet "affordable" income targets. This requirement implies that units are of same size, quality, and have access to identical amenities.

area, and development intensity. Allowing development to provide higher density, smaller multi-family units that can be priced closer to affordability is more efficient than requiring units to be provided equivalent to larger, detached single-family market rate options. The presumption that *all* households should be able to afford the average single-family market rate housing option tends to overstate the reasonable need for housing.

- *Household Income Targets.* Adopted inclusionary or bonus density programs nationally target a range of household incomes depending on program goals (very low- or low-income or 'workforce'). For programs with requirements strictly based on price controls, targeting specific income groups can be more precise. Programs allowing development to meet requirements with alternative housing products are only guaranteed to achieve minimally affordable housing at the upper range of the income target. Units affordable to the lower range of income needs, however, are not expected to be completely excluded by development. *The proposed Ordinance is more likely to result in units generally priced to meet upper ranges of median income; there is no specific control or incentive for providing units for lower median income household levels.*

  Recommendation: None. An attempt to artificially control the price of units to meet lower-income households mitigates the positive benefits identified in the previous finding. Mandating lower-income affordable units forces inclusionary requirements using price controls in the event that the development industry is not able to provide a product that can be profitably priced to meet lower-income targets. In addition, the national debate on affordable housing centers on an average measure of affordability relative to income at all levels[2]. This ignores the reality that some households with incomes at or below the median range can afford housing as a result of equity from prior ownership, savings, and trade-offs in levels of other household consumption. Households with the most significant financial limitations are at the lowest range (less than 65%) and are eligible for other housing assistance programs. Households in the 80-120% range of median are not entirely unable to afford a house defined as meeting a 140% median income level.

- *Definition of Household Income Targets.* Inclusionary or bonus density programs that target the *supply* of housing affordable at a specific level of household income result in a unit that is too narrowly defined in terms of household affordability. Specific price points to meet affordability requirements are generally established using an accepted standard of no more than 30% of household income. As a result, only households making exactly the targeted amount of income meet the standard definition of affordability. Minimum price points should be established slightly lower than the upper range of acceptable household income

[2] Typically identified as 30% of household income.

thresholds. *Under the Ordinance, the County shall administratively define the unit prices that fall within the target income group between 65% and 140% of median household income. If applied literally, a unit supplied at a price point to meet 140% of median household income is only affordable by definition to households earning 140% of more.*

Recommendation: A more flexible definition of the price points as a standard of meeting the requirements of the Ordinance should be considered. Either 'affordability' should recognize the ability to afford housing at some level greater than 30% or if the goal of the proposed program, for example, is to target households earning 140% of median income, the price point of housing to meet this requirement should be set at no more than what is affordable to households earning 120% of median income. Thus, the qualifying standard of earning *no more than* 140% would result in housing that is affordable to households earning between 120% up to 140%. In the current proposal, housing priced at 'affordable' for the 140% target is by definition 'unaffordable' to a household earning 139% because it would consume more than 30% of household income. This applies to all ranges of targeted 'affordability'. The proposed program should establish a minimum level of price that is affordable up to a maximum level of household income.

- *Alternative Provision of Required Units*. Options for alternatives to meet inclusionary zoning requirements are among the common elements of national adopted programs. The commonly available alternatives include: 1) off-site provision of required units, 2) a cash payment in lieu of providing required units, and 3) a donation of land. There is a wide range of provisions for both off-site development and cash contributions in lieu of providing on-site units. *The proposed Ordinance provides for either off-site development of required workforce units with County approval or a payment in lieu of $110,000 per required unit, also with County approval.*

  Recommendation: Notwithstanding the fact that the process of obtaining approval for off-site units or a payment in-lieu might be considered too arduous and therefore discouraging, the proposed in-lieu payment of $110,000 is reasonable on the merits of providing sufficient funds to allow the County to supply equivalent units. The $110,000 payment in-lieu per unit is based on a minimally affordable unit at the 65% of median household income excluding gross profit. A fee less than $110,000 would not provide sufficient funds for the County or a third party developer to construct an equivalent number of required units.

- *Financial Impact of Proposed Ordinance*. Nationally adopted inclusionary zoning or bonus density programs recognize the potential financial impact of providing more affordable housing. These potentially negative financial impacts are more significant in programs where applied price control is the mechanism for achieving these requirements. In either case of price controlled programs, mandatory programs utilizing alternative residential products, or bonus density programs, the provision of additional units (more density than would otherwise be allowed) is used in order to compensate for the impact of provide incentives to provide units. Other mechanisms to encourage the development of affordable units or compensate for potential financial impacts include changes to land development regulations[3]. *The proposed Ordinance provides a 25% bonus density for development meeting a 12.5% workforce housing requirement and an increase in density equal to the number of required units for development meeting a 5% workforce housing requirement.*

Recommendation: None. The bonus densities provided by the proposed Ordinance plus the ability of the development industry to meet workforce housing requirements with alternative residential products result in minimal financial impacts. The dynamics of this impact are complicated by 1) the ability to achieve current and bonus densities, 2) the increase in land prices that result from an implied increase in residential density, and 3) the ability of the market rate units to absorb an overall price increase to mitigate the financial impacts. The proposed Ordinance could result in a negative financial impact on residential development resulting from practical and political limitations on increased densities. The County should consider provisions in the administration and implementation of the Ordinance that enforce the increased densities to offset potential negative financial impacts. The strict provision of increased density should, however, be considered with the fact the potential negative impacts could potentially be correct by the housing market. It is highly likely that a potentially negative financial impact from meeting workforce housing requirements could be passed through to market rate units in terms of price increases. Depending on prototypical development and workforce housing requirements, the required price increase ranges from 0.5% to 2.7%.

---

[3] Granting more density or intensity of development is generally a modification to existing land development regulations. Other modifications can include expedited permitting or repeal of other requirements.

Table 1 – Financial Performance Summary

Summary by product	Estate Homes	Single-family	Duplex	Townhome	Row House	Villa
Base Financial Performance						
Profit margin	5.8%	4.3%	4.3%	4.3%	4.2%	3.9%
Net income per unit	$ 45,417	$ 18,252	15,050	13,360	12,133	8,606
Total net Income (000's)	$ 2,180	$ 2,610	3,040	3,340	3,470	3,890
Meet 5% Requirement without additional density						
Profit margin	4.6%	3.6%	3.9%	3.9%	3.5%	3.5%
Net income per unit	$ 34,750	$ 14,944	13,406	11,904	9,986	7,648
Total net Income (000's)	$ 1,668	$ 2,137	2,708	2,976	2,856	3,454
Total profit gain/(loss)	$ (512)	$ (473)	$ (332)	$ (364)	$ (614)	$ (436)
Gain/(loss) per unit	$ (10,667)	$ (2,938)	$ (1,463)	$ (1,295)	$ (1,907)	$ (857)
% of per unit sales price	-1.4%	-0.7%	-0.4%	-0.4%	-0.7%	-0.4%
Meet 12.5% Requirement without additional density						
Profit margin	3.4%	2.7%	3.3%	3.3%	2.6%	3.0%
Net income per unit	$ 24,271	$ 10,944	11,020	9,924	7,070	6,325
Total net Income (000's)	$ 1,165	$ 1,565	2,226	2,481	2,022	2,859
Total profit gain/(loss)	$ (1,015)	$ (1,045)	$ (814)	$ (859)	$ (1,448)	$ (1,031)
Gain/(loss) per unit	$ (21,146)	$ (6,491)	$ (3,586)	$ (3,057)	$ (4,497)	$ (2,026)
% of per unit sales price	-2.7%	-1.6%	-1.1%	-1.0%	-1.7%	-1.0%
Meet 12.5% Requirement with additional density						
Profit margin	3.8%	4.5%	4.7%	4.8%	4.2%	4.4%
Net income per unit	$ 26,204	$ 18,106	16,106	14,523	11,497	9,409
Total net Income (000's)	$ 1,415	$ 2,915	3,656	4,081	3,702	4,789
Total profit gain/(loss)	$ (765)	$ 305	$ 616	$ 741	$ 232	$ 899
Gain/(loss) per unit	$ (15,938)	$ 1,894	$ 2,714	$ 2,637	$ 720	$ 1,766
% of per unit sales price	-2.0%	0.5%	0.8%	0.9%	0.3%	0.8%

1 Introduction

Significant growth in lower- and middle-income households and the rapidly rising costs of housing together are generating policy pressure to develop potential mitigation initiatives that narrow the gap between housing affordability and market prices. Miami-Dade County (County) is currently considering the adoption of requirements for the provision of housing units targeting a specific household income group. Residential development under certain conditions would be required to include housing units that are more affordable to a household income range of 60% to 140% of the area median level of household income.

The primary objective of this analysis is to provide the County with a general estimate of the potential financial impact of proposed inclusionary zoning requirements. This analysis also provides a review of general elements of the proposed ordinance and includes findings, opinions, or recommendations that might be considered in its adoption.

2 Affordable Housing Programs

There are two common policy approaches targeting the supply of "affordable" or "workforce"[4] housing in the United States. These approaches include 1) inclusionary and 2) mitigation development requirements. The proposed Ordinance is consistent with nationally recognized inclusionary zoning policy approaches. Thus, this analysis provides a review only of the proposed Ordnance and its comparison with national programs. Inclusionary and mitigation policy approaches be implemented exclusively and independently to meet affordable or workforce housing needs or in parallel, thereby more equitably distributing the burden of meeting affordable or workforce housing demand.

2.1 *Inclusionary Policy Approaches*

Inclusionary policy initiatives are generally imposed on residential development in the form of a requirement for some percentage of total units meeting established qualified income targets and can include voluntary or mandatory programs. Both the voluntary and mandatory programs can and often

[4] "Affordable" and "workforce" housing are common references for these types of programs and sometimes are intended to convey comparable meanings.

do include the opportunity for 'bonus'[5] development through greater intensity than would otherwise be available with existing land use and zoning regulations. This type of provision is intended to mitigate the potential loss of income from providing lower than market priced units that bear construction cost at least comparable to market rate units. These programs further target both owner- and renter-occupied housing and generally provide the development community with options to build on- or off-site or make a payment in lieu to meet these inclusionary requirements.

An additional perceived benefit of inclusionary programs, aside from simply increasing the supply of affordable or workforce units, is the residential integration of economic and racial groups that are sometimes currently segregated due to housing costs[6]. Inclusionary programs are believed to 1) ameliorate existing economic and racial imbalances, 2) provide access to better employment and educational opportunities to lower income households, and 3) potentially end cycles of poverty. As a result, these types of programs also generally have no empirical bases for establishment of the percentage of affordable units. They are frequently adopted in the context of public policy and comprehensive planning initiatives.

2.2 Mitigation Policy Approaches

Mitigation policy initiatives are generally imposed on non-residential development as a condition of approval. This policy approach requires these types of projects to mitigate their creation of demand for affordable or workforce housing based on accommodating new employment that meet affordable housing needs based on income levels. The premise of mitigation extends from the perceived relationship among non-residential development, population growth, employment, household incomes and demand for housing, both affordable and market rate. Mitigation requirements should be based on an empirical analysis to establish a 'nexus' between new non-residential development and the need for affordable housing.

2.3 Defining Affordable Housing

What is affordable housing? The term "affordable" describes a relationship between household income and housing costs[7]. In economic terms,

[5] "Inclusionary Zoning" and "Bonus Density" are common references for these types of programs and sometimes are intended to convey comparable meanings.
[6] Hence why these programs are referred to as "inclusionary".
[7] Including the cost of financing long-term debt.

it is the condition of being "able" in the standard definition of demand and supply at every level of income. If changes in either income or costs are not equivalent, housing becomes unaffordable. Demand and supply are only equal when both buyer and seller are *willing* and *able* to consume a product at some price. While not guaranteed, an increase in willing consumers and the more willing existing consumers become, suppliers are able to utilize new technologies, new materials, and new processes to produce more at lower costs thereby selling more at a lower price.

The production of housing, however, has one significant input that is not entirely variable – land. As a result, diminishing land supplies in a rapidly growing economy plus political constraints in terms of housing density and intensity of development leads to escalating land costs per unit of production. Other significant factors such as new building technologies, new materials, production processes, and low financing rates are not able to, or at least have not in the current environment offset the pressure applied by rising land costs. For low- to moderate density residential development, land cost accounts for nearly one-third (33%) of market price. As the supply of land continues to diminish and new development and redevelopment continues at less than optimal densities, housing costs are expected to continue to diverge from the growth of household incomes.

The national debate on "affordable" housing has therefore focused on how the supply side can be encourage or controlled in order to meet the needs of households based on income resources. Both inclusionary and mitigation policies are based on controlling market forces in order to supply housing to an area that is affordable to a specific income group. Clearly identifying or at least properly communicating the targeted income group in both inclusionary and mitigation policy initiatives is critical. In some cases among these types of programs that have recently become popular in Florida, identifying the targeted group sometimes remains an issue. Clarifying this issue requires a review of lending standards, household expenditures, and discussing the difference between "affordable" and "workforce" housing.

2.4 Affordability and Lending Standards

How is "affordability" measured? In the process of conventional[8] new mortgage lending or refinancing, two debt ratios are generally applied to determine the likelihood of a potential borrower being able to meet their current

[8] Not including programs targeting qualified households meeting affordable housing standards.

and future debt obligations, including the proposed mortgage. These debt ratios include 1) Top Debt Ratio and 2) Bottom Debt Ratio.

The "top" debt ratio is defined as the Monthly Housing Expense divided by Gross Monthly Income[9]. An individual's "monthly housing expense" is either the borrower's monthly rent payments or the total of the following owner expenses:

1. 1st mortgage payment on home,
2. Real estate taxes,
3. Fire insurance,
4. Homeowner's association dues,
5. Second mortgage payment, and
6. Third mortgage payment.

These owner expenses are typically referred to as PITI (Principal, Interest, Taxes, and Insurance). While PITI is not exactly the same as Monthly Housing Expense because it does not include homeowner's association dues, the two terms are often used interchangeably.

The "bottom" debt ratio is defined as Monthly Housing Expense plus Debt Payments divided by Gross Monthly Income. An individual's "debt payments" include the following:

1. Car payments,
2. Charge card payments (revolving credit),
3. Payments on installment loans, and
4. Payments on personal loans.

Liabilities not included are utilities and payments on other real estate loans. Other real estate loan liability is typically reflected in net rental income. If the borrower has a net positive cash flow from rental property, the net income is usually added to Gross Monthly Income. If the borrower has a net negative cash flow from rental properties, then the amount of the negative cash flow is usually added as if it were a monthly expense.

The lending industry has determined that a borrower's Top Debt and Bottom Debt Ratio's should generally not exceed 25% and 33.3%, respectively. The application of these rules is not absolute and lenders will allow Top Debt Ratios to reach 28% and Bottom Debt Ratios to go as high as 36%. The ceiling of Top Debt and Bottom Debt Ratios in theory reflects the level of housing and other debt expenses after which individuals have a higher likelihood of developing budget problems thus representing higher risk of delinquency or default.

[9] Income before taxes and deductions.

How do lending standards relate to “affordability”? Standard debt ratios only reflect a measure of potential risk and not actual housing expenditures. Based on 2004 consumer expenditures, households in the U.S. at roughly the level of median household income spend roughly 25% of income on housing[10]. Households below the median income level spend more on housing. The percentage grows progressively larger as income levels decline, reaching nearly 70% at low-income levels. Conversely, households above the median income level spend significantly less; the percentage declines progressively as income increase. The primary reason for this relationship reflects the relatively high fixed, base cost component of housing. Households with higher income levels do spend relatively more on housing as a result of more discretionary income; however, lower income households are not able to reduce housing expenses proportionally and have little discretionary spending to off-set these costs.

Table 2 – 2004 US Consumer Expenditures by Income

	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 to $49,999
Persons per houshold	1.6	1.8	2.0	2.2	2.4	2.6
Cumulative share of households	10%	18%	25%	37%	48%	58%
Income before taxes	$ 7,812	$ 12,499	$ 17,417	$ 24,767	$ 34,739	$ 44,645
Average earners	0.4	0.5	0.7	1.0	1.3	1.4
Average income per earner	19,530	24,998	24,881	24,767	26,722	31,889
Marginal ncome per additional earner						
Average annual expenditures						
Food						
Food at home	$ 1,695	$ 2,105	$ 2,435	$ 2,591	$ 3,056	$ 3,263
Food away from home	714	876	1,132	1,485	1,930	2,189
Alcoholic beverages	156	207	193	262	323	449
Housing						
Shelter	3,379	4,245	4,783	5,538	6,371	7,074
Utilities	1,506	1,988	2,148	2,425	2,645	2,935
Operations and supplies	374	736	716	833	966	1,029
Furnishings and equipment	386	544	724	843	1,161	1,345
Apparel and services	722	809	915	1,047	1,384	1,490
Transportation	2,052	3,000	3,758	5,114	6,288	7,031
Healthcare	1,171	1,806	2,010	2,157	2,383	2,552
Entertainment	582	852	901	1,512	1,525	1,756
Personal insurance and pensions	282	533	951	1,594	2,692	3,656
Cash contributions	213	414	828	738	844	1,284
Education	637	494	383	316	316	417
Other	727	835	1,146	1,286	1,389	1,734
Total	$ 14,596	$ 19,444	$ 23,023	$ 27,741	$ 33,273	$ 38,204
Major expenses share of income:						
Housing	67%	56%	44%	36%	29%	25%
Transportation	26%	24%	22%	21%	18%	16%
Food	33%	26%	22%	18%	15%	13%
Healthcare, insurance, pensions	19%	19%	17%	15%	15%	14%
Total	145%	124%	104%	89%	77%	68%

[10] Total housing expense includes shelter (owned or rented), taxes insurance; PITI.

Current expenditures actually understate the current gap between *existing* market prices and what households can afford since some equity is built into existing home ownership and housing expenses. Some portion of existing households have little or no mortgage or have fixed debt service expenses based on purchases from prior years. As a result, income growth is greater than the growth in current housing expenses since the majority of households don't repurchase annually. However, the pace of current market prices has exceeded income growth thereby pushing housing affordability even beyond the median level of income and creating the pressing gap today that significantly impacts household mobility and new ownership[11].

According to the U.S. Department of Housing and Urban Development (HUD), a dwelling is considered affordable if no more than 30% of a household's income is needed to cover housing costs[12]. The similarities with lending debt ratios and HUD's definition should not be interpreted as representing the same measure. HUD's generalized definition of housing costs appears to include shelter (rent or mortgage), taxes, insurance, *and* utilities. It is a concept that implies tradeoffs in consumer expenditures are required to meet housing expenses at 30% of household income versus a standard that would not allow an individual to secure funding at that same level. In fact, affordable housing lending programs include targeting low- to middle-income households, alternate mortgage products, *and relaxing debt ratios*. Affordable lending efforts typically allow debt ratios up to 40-42% to allow low-income households to qualify for home ownership.

Thus, the HUD standard of no more than 30% of household income is a reasonable standard or policy objective for "affordable" housing expenses. It does not restrict, however, households from qualifying and meeting household expenses in excess of 30%. This analysis calculates the financial impacts of the Ordinance based on affordability using the 30% ratio to household income.

2.5 Defining Workforce Housing

The economic condition that is potentially to be corrected with inclusionary or mitigation public policies is simply the gap between the market rate for housing and what certain households can afford to pay by definition. As a result, there is a difference between the group of households that are targeted to benefit from

[11] The median single-family sales price in the Miami-Dade grew 42% in 2005; outpacing income growth more than ten-fold.

[12] U.S. Department of Housing and Urban Development. The generally accepted definition of affordability is for a household to pay no more than 30 percent of its annual income on housing. Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care.

these programs and targeted affordable housing costs[13]. In effect, there should be a ceiling recognized for the maximum housing unit price and a ceiling for the maximum household income. This results in a defined housing unit cost for a targeted range of households that can minimally afford that housing up to some maximum level of household income that can more readily afford the same unit. Thus, the targeted housing is generally related in terms of household income, specifically to *median household income*. This relationship to a single reference point is reasonably clear and understandable because it establishes a precise benchmark. There is much less clarity with terms such as "affordable", "workforce", or "low-income" to reference targeted housing, sometimes used interchangeably but not necessarily intended to mean the same concept.

The term *median* reflects the reference point where 50% of the population is below and 50% of the population is above some measure. It is a reference point that is stratified with equal proportions below and above the point of reference. Thus, targeting a group 'below' median household income would represent one-half of households; targeting a group 'above' median household income would represent an equivalent one-half of households.

Therefore, policy initiatives targeting housing affordability to relieve the constraints on household mobility for both existing and new households and improve the opportunity for home ownership should include households with greater than median levels of income up to an area's affordability gap. Thus, "affordable" housing becomes the umbrella term to represent policies targeting some existing affordability gap. Further, this term represents a complement of many policies and programs beyond inclusionary and mitigation policies.

Based on the existing housing affordability gap in Miami-Dade County, "affordable" housing programs should include households up to 140% of the area's median income. Roughly 60-64% of current households in the County fall within this range of household income. Target groups for "Very low", "Low", and "Moderate" income and "Workforce" housing therefore represent identified subsets of households meeting the "affordable" need criteria. This segmentation provides the ability for identifying different complements of initiatives or programs to meet the needs of these groups. The "workforce" distinction or segmentation appears to allow public officials to recognize affordability issues for discrete households that one might not consider low- or middle-income and are generally excluded from traditional Federal, State, and Local "affordable" housing initiatives. General public perception might not consider this income range in the context of low- to middle-income; however, current housing prices are generally out of reach of these households as well.

[13] Defined maximum housing prices developers must provide units at in order to meet affordable unit requirements.

The delineation between groups is best accomplished with a combination of relative makeup of total households and how current housing expenses impact these households. Households with up to $28,000 in income roughly represent the bottom quartile of total households and are dramatically impacted by housing costs (>25% to 50% of total income). This group clearly has significant need for housing assistance and is consistent with a "very low" income category.

The delineation between "low" income begins at the top range of "very low" and simply helps define usually smaller amounts of assistance that recognize the higher household incomes compared to the preceding groups. The "workforce" delineation is not income defined as much as it relates to a significant deviation in the number of workers per household. One reason for households to fall in "very low" or "low" income levels results from a portion of those households with no income earners. Generally, the $36,000 and above household income groups reflect a larger number of multiple earners per household. Thus, those households generally reflect a condition of the type of occupation that drives lower earnings, not a lack of workers in the household. Those occupations are reasonably synonymous with "working class" households (e.g. "workforce"). Table 3 provides an illustration of these income segments.

Table 3 – Target groups by 2006 Household Income

Target group	Household Income (% of median)			
	from...		up to...	
Very low	<50%	n/a	50%	28,000
Low	50%	28,000	65%	36,300
Workforce	65%	36,300	135%	75,500

We recommend a ceiling be established for both the maximum housing unit price and the maximum household income. This ceiling results in a defined housing unit cost for a targeted range of households that can minimally afford that housing up to some maximum level of household income that can more ably afford the same unit. For example, "low" income housing units should be provided at a price no more than can be supported by a $28,000 annual income allowing "low" income households with annual income of no more than $36,300 (see Table 3). It is erroneous to simply require units at some percentage of median household income and presume it is targeting a group of households (which have to be qualified). It would only, in fact, be targeting those households making that specific amount of income.

Calculating housing affordability based on a 30% and 40% ratio of housing expenses can be used to reflect this range of household income affordability relative to fixed housing prices. This 30-40% range in acceptable housing costs results in a roughly 20-30 percentage point variation on targeted household income.

Figure 1 – Housing 'Affordability' Calculation at 30%

Housing Affordability						
Area Median household income	$	55,900				
Persons per household		4				
Maximum ratio to household income		30%				
Total property tax millage rate		21.7				
Annual insurance premium per $1,000 value	$	3.00				
Utilities and maintenance per person	$	750				
Annual mortgage interest rate		6.3%				
Mortgage term (years)		30				
Affordable Units						
Level of Median Income--->		80%		100%		140%
Household income target --->	$	44,720	$	55,900	$	78,260
Max Income allotted to housing		13,416		16,770		23,478
(less) property taxes and insurance		(2,955)		(3,795)		(5,477)
Net income available for mortgage	$	10,461	$	12,975	$	18,001
Income supported principal	$	141,600	$	175,600	$	243,600

Figure 1 illustrates the maximum housing cost at 30% of household income. Households at 80% of the area median level of income could 'afford' no more than a $141,600 housing unit to meet the 30% affordability criteria.

Figure 2 – Housing 'Affordability' Calculation at 40%

Housing Affordability						
Area Median household income	$	55,900				
Persons per household		4				
Maximum ratio to household income		40%				
Total property tax millage rate		21.7				
Annual insurance premium per $1,000 value	$	3.00				
Utilities and maintenance per person	$	750				
Annual mortgage interest rate		6.3%				
Mortgage term (years)		30				
Affordable Units						
Level of Median Income--->		60%		80%		100%
Household income target --->	$	33,540	$	44,720	$	55,900
Max Income allotted to housing		13,416		17,888		22,360
(less) property taxes and insurance		(2,955)		(4,076)		(5,195)
Net income available for mortgage	$	10,461	$	13,812	$	17,165
Income supported principal	$	141,600	$	186,900	$	232,300

Increasing the affordability criteria to 40% results in a $141,600 housing unit being affordable to households at 60% of the area median level of income (see Figure 2).

3 Summary of Financial Analysis

3.1 Base Financial Modeling

The assessment of the financial impact of meeting proposed requirements of the Ordinance were based on the results of financial pro formas for a variety of prototypical residential development. The prototypical residential development models were selected to reflect a specific product type to allow for reasonably accurate cost and price estimates plus a range of densities. The following residential prototypical developments were evaluated:

1. Estate homes at 2.0 per acre gross density,
2. Single-family detached homes at 6.0 per acre,
3. Duplex units at 8.5 per acres,
4. Row house units at 10.5 per acre,
5. Town homes at 12.0 per acre, and
6. Villas units at 19.0 per acre.

Each prototypical development was modeled under existing conditions, meeting minimum workforce requirements at 5% with no additional density, meeting maximum workforce requirements at 12.5% with no additional density, and meeting the 12.5% requirement with a 25% bonus density.

In each model other than Estate and Single-family homes, workforce units were available within the same product type with living area at 67% of market rate units. Meeting workforce unit requirements within the Estate and Single-family home prototypical development was accomplished with workforce rated Duplex units. All other workforce requirements were met workforce rated units of the same product type. Financial impacts of meeting requirement of the proposed Ordinance are expressed as variances from the base prototypical residential development models.

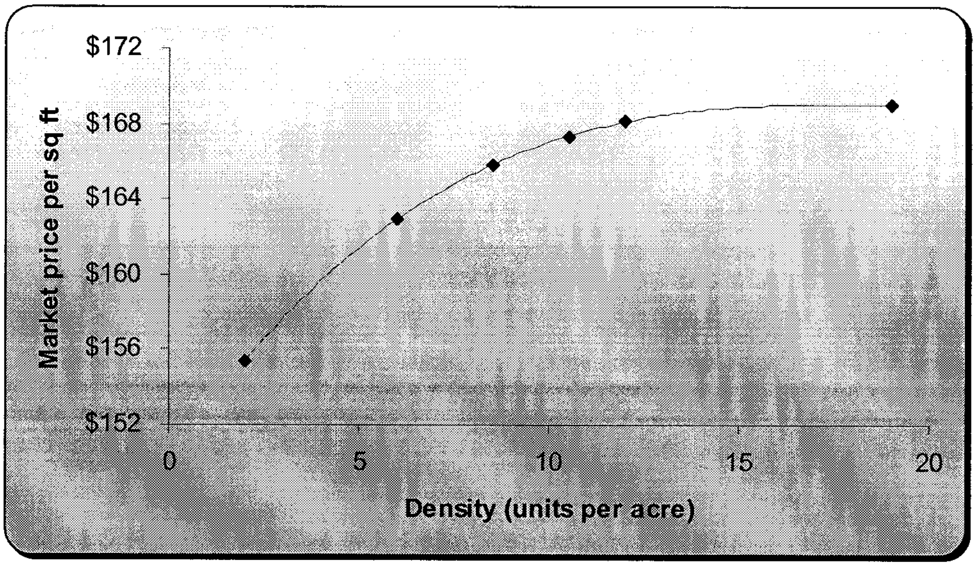
3.2 Model Calculations and Assumptions

The following provides detail on the calculations and assumptions used to create the financial pro formas for each prototypical development.

- *Project Acres* – All financial models are based on a land size of 23.8 acres. Staff and the development industry provided development plans based on a 23.8 acre site.

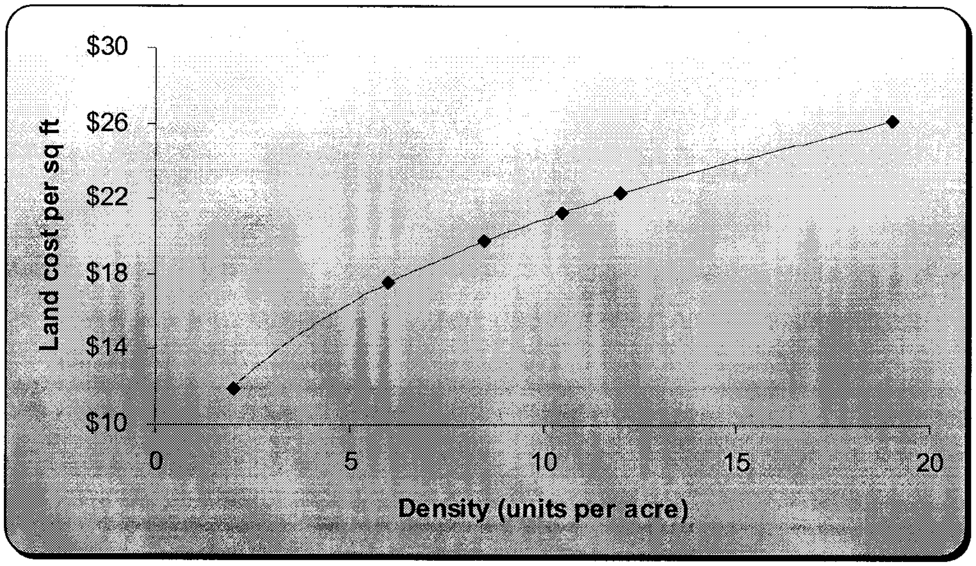
- *Gross Revenues* – Project revenues for both market and workforce units were estimated based on a formula derived from industry estimates of prices for prototypical residential development. The market price data was related in terms of density to reflect typical average unit sizes and product types generally observed within low- to moderate-density categories (see Figure 3).

Figure 3 – Price per Square Foot



- *Land Costs* – Land costs were based on residual land value (see Figure 4). The financial pro formas developed for this analysis were validated in a time-based financial model for reasonable Internal Rates of Return (IRR). In each case, a 20% gross margin resulted in an IRR of 16-19%, reflecting reasonable industry averages. Thus, residual land values were estimated based on achieving a 20% gross margin in each base scenario. Land cost were allowed to increase in scenarios with higher densities.

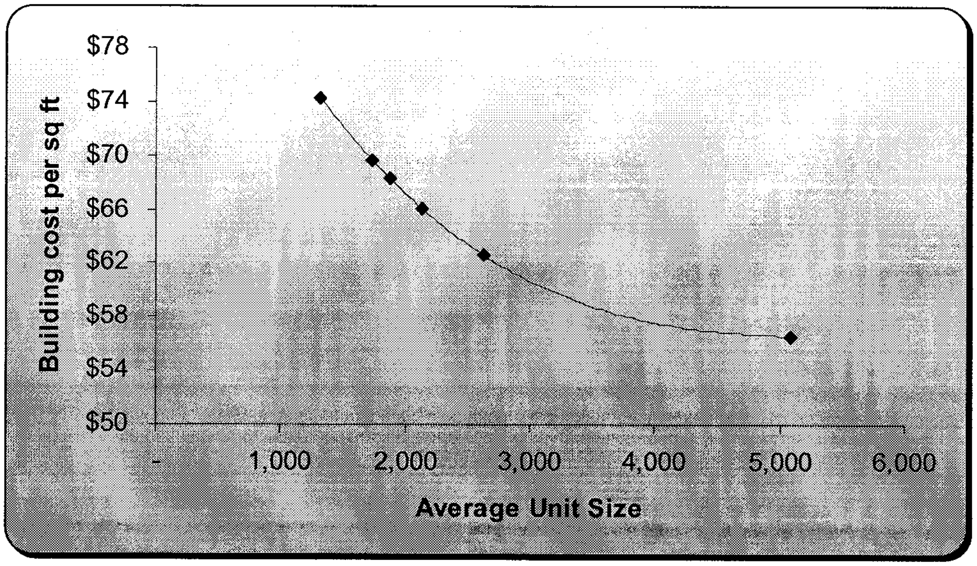
Figure 4 – Land Cost per Square Foot



- *Site Development* – Site development costs were based on $27,500 per site for a typical single-family development at 6 units per acre. The cost per site was pro rated based on densities relative to the 6 unit per acre standard resulting in a fixed total site development cost for each prototypical development.

- *Direct Construction* – Project construction costs for market units were estimated based on a formula derived from industry estimates of costs for prototypical residential development (see Figure 4-3). Average construction costs per square foot for workforce units were adjusted by $2 per foot to account for the relative smaller unit size (67% of market rate units).

Figure 5 – Construction Cost per Square Foot



- *Soft Costs* – Development soft costs ranged from 17.5 to 10.5% of site and construction costs for low- to moderate density development, respectively.

- *Developer Overhead* – Development overhead costs ranged from 12.5% to 16% of site and construction costs for low- to moderate density development, respectively.

- *Interest Expense* – Cost of project financing was estimated at 6.5% of total project costs. As referenced previously, the financial pro formas developed for this analysis were validated in a time-based financial model. The 6.5% interest expense was consistent with a reasonable absorption schedule and a loan-to-value (LTV) ratio of 75-80%.

- *Federal Tax Provision* – A provision for Federal Taxes was estimated at 40% of net margin for each prototypical development.

3.3 Land Value Residual

What is land? Land is space and location; land provides the physical space necessary to live or produce and its location determines accessibility to employment, consumers, and other attractors of demand. Together, space and location influence land value.

The value of land, like any other economic good, is based on supply and demand. Demand for land is a derived demand and land only has value because it enables the production or consumption of goods and services. Land provides space and location for:

1. Living (residential land uses)
2. industrial production of goods (industrial uses)
3. storage and distribution (warehousing and retail uses)
4. administration and control (office uses)
5. provision of services (office and retail uses)
6. recreation and entertainment (retail and services use)

Residual theory of land value is the difference between the value of what is produced on a site and the cost of producing it. Land represents a fixed, non-mobile factor of production and therefore receives the residual, what is left over after the more mobile factors of production have been paid their market values.

In a perfectly competitive market, equilibrium will result in the maximum total value for all land as potential land users compete against each other for available sites; and available sites compete against each other for users. This will result in Pareto optimality.

When additional densities are given as a means of compensating for the potential costs of complying with inclusionary zoning requirements, the market will account for this bonus density in the perceived residual value of land (i.e. the market will react so that land prices achieve pareto optimality). As a result, bonus density provisions, particularly mandatory requirements will have the potential impact of raising market land prices. Each prototypical residential model accounted for increased land costs based on the presumption that buyers and sellers will respond to the perceived increase in residual land value.

3.4 Financial Summary

Figure 6 provides a summary of prototypical development units by living area, market price per square foot, and direct construction cost per square foot. Based on industry estimates, workforce units ranging from $235,000 to $148,000 could potentially meet requirements of the proposed Ordinance.

Figure 6 – Financial Model Assumptions; Size, price, and cost

Product Type	Gross Density	Average Size (sq ft) MU	Average Size (sq ft) WU	Sales Price MU	Sales Price WU	Price per sq ft	Cost MU	Cost WU	Cost per sq ft
Estate	2.0	5,080		789,400		155.40	287,500		56.60
Single-family	6.0	2,628		428,200		162.95	164,600		62.63
Duplex	8.5	2,132	1,422	353,600	235,800	165.85	140,900	96,800	66.09
Rowhouse	10.5	1,878	1,253	314,300	209,700	167.37	128,300	88,100	68.30
Townhome	12.0	1,734	1,157	291,500	194,500	168.13	120,800	82,900	69.69
Villas	19.0	1,316	878	222,400	148,400	169.02	97,800	67,000	74.35

Achieving density, using both existing and potential bonuses plays a critical role in the financial impact of the proposed Ordinance. Depending on density, land costs account for 27-33% of gross revenues (see Figure 7). Meeting workforce housing requirements with bonus densities provides the opportunity to reduce per unit land costs sufficiently to offset lower margins per unit. However, political constraints relative to project approvals have been expressed as a limitation in meeting the requirements of the proposed Ordinance.

Figure 7 – Financial Model Assumptions; Cost ratios and land prices

Product Type	Gross Density	Cost/Sales MU	Cost/Sales WU	Land price/sq ft	Land Cost per unit	Land share of price	Direct cost per unit	Direct share of price
Estate	2.0	36.4%		$ 11.96	$ 260,540	33.0%	548,040	69.4%
Single-family	6.0	38.4%		17.53	127,261	29.7%	291,861	68.2%
Duplex	8.5	39.8%	41.1%	19.79	101,400	28.7%	242,300	68.5%
Rowhouse	10.5	40.8%	42.0%	21.30	88,346	28.1%	216,646	68.9%
Townhome	12.0	41.4%	42.6%	22.31	80,978	27.8%	201,778	69.2%
Villas	19.0	44.0%	45.1%	26.17	60,007	27.0%	157,807	71.0%

The bonus densities provided by the proposed Ordinance plus the ability of the development industry to meet workforce housing requirements with alternative residential products result in minimal financial impacts. The dynamics of this impact are complicated by 1) the ability to achieve existing densities, 2) the increase in land prices that result from an implied increase in residential density, and 3) the ability of the market rate units to absorb an overall price increase to mitigate the financial impacts. The proposed Ordinance could result in a negative financial impact on residential development resulting from practical and political limitations on increased densities. However, the impact is likely to be passed through to market rate units in terms of price increases. Depending on prototypical development and workforce housing requirements, the required price increase ranges from 0.5% to 2.7%.

35

Table 4 – Financial Model Summary

Summary by product	Estate Homes	Single-family	Duplex	Townhome	Row House	Villa
Base Financial Performance						
Profit margin	5.8%	4.3%	4.3%	4.3%	4.2%	3.9%
Net income per unit	$ 45,417	$ 18,252	15,050	13,360	12,133	8,606
Total net Income (000's)	$ 2,180	$ 2,610	3,040	3,340	3,470	3,890
Meet 5% Requirement without additional density						
Profit margin	4.6%	3.6%	3.9%	3.9%	3.5%	3.5%
Net income per unit	$ 34,750	$ 14,944	13,406	11,904	9,986	7,648
Total net Income (000's)	$ 1,668	$ 2,137	2,708	2,976	2,856	3,454
Total profit gain/(loss)	$ (512)	$ (473)	$ (332)	$ (364)	$ (614)	$ (436)
Gain/(loss) per unit	$ (10,667)	$ (2,938)	$ (1,463)	$ (1,295)	$ (1,907)	$ (857)
% of per unit sales price	-1.4%	-0.7%	-0.4%	-0.4%	-0.7%	-0.4%
Meet 12.5% Requirement without additional density						
Profit margin	3.4%	2.7%	3.3%	3.3%	2.6%	3.0%
Net income per unit	$ 24,271	$ 10,944	11,020	9,924	7,070	6,325
Total net Income (000's)	$ 1,165	$ 1,565	2,226	2,481	2,022	2,859
Total profit gain/(loss)	$ (1,015)	$ (1,045)	$ (814)	$ (859)	$ (1,448)	$ (1,031)
Gain/(loss) per unit	$ (21,146)	$ (6,491)	$ (3,586)	$ (3,057)	$ (4,497)	$ (2,026)
% of per unit sales price	-2.7%	-1.6%	-1.1%	-1.0%	-1.7%	-1.0%
Meet 12.5% Requirement with additional density						
Profit margin	3.8%	4.5%	4.7%	4.8%	4.2%	4.4%
Net income per unit	$ 26,204	$ 18,106	16,106	14,523	11,497	9,409
Total net Income (000's)	$ 1,415	$ 2,915	3,656	4,081	3,702	4,789
Total profit gain/(loss)	$ (765)	$ 305	$ 616	$ 741	$ 232	$ 899
Gain/(loss) per unit	$ (15,938)	$ 1,894	$ 2,714	$ 2,637	$ 720	$ 1,766
% of per unit sales price	-2.0%	0.5%	0.8%	0.9%	0.3%	0.8%

3.5 *Payment In Lieu*

Options for alternatives to meeting inclusionary zoning requirements among communities with existing programs are common and arguably necessary to minimize potential hardships created by meeting these requirements. Many common alternatives include: 1) off-site provision of required dwelling units, 2) a cash payment in lieu of providing required units, and 3) donation of vacant land. The latter option requires someone else, presumably the County to develop the required units.

The stated goal of many existing inclusionary programs is to increase the supply of 'affordable'[14] housing plus providing several potential social benefits to include: 1) ameliorating existing economic and racial imbalances, 2) providing access to better employment and educational opportunities to lower- and middle-income households, and 3) potentially ending cycles of poverty. The set of potential social benefits is contingent on the supply of affordable units being included within developments that are otherwise inaccessible to lower- and middle-income households because of housing affordability. As a result, either potentially available option does not entirely meet the set of social benefits aside from increasing the supply of housing.

Three alternative methods of calculating a payment in lieu surfaced based on our analysis of the financial impacts of the inclusionary zoning requirements. These alternatives include: 1) Gap funding, 2) Supply funding, and 3) Social pricing.

The principal of Gap funding to calculate payment in lieu is based on development meeting the requirements of closing the gap between market priced housing and income affordability. The minimum gap is equivalent to the difference between the average sales price of units and the maximum sales price target established by inclusionary zoning requirements[15]. Based on financial models of prototypical development, the total amount of required gap funding can be converted to a share of direct development costs[16] based on gross density (see Table 5).

Table 5 – Payment in Lieu as a % of Direct Development Costs

Density	6.0	8.5	10.5	12.0
% of Development Costs	11.8%	8.7%	6.7%	5.4%

[14] The distinction between 'low-income' and 'workforce' simply relating to targeted households by income level. In either case, the primary goal remains making residential housing more affordable than would otherwise be the case.
[15] Currently $225,000 based on 140% of median household income.
[16] Total direct development costs include site development, building construction, and project soft costs. Excluded costs include land, developer overhead, interest costs, and provision for taxes.

The principal of Supply funding to calculate payment in lieu is based on development providing the funds necessary to supply the required units by a third party in an alternative location. Since this third party is most likely the County or a non-profit entity specializing in public housing projects, the actual cost of each unit should at minimum be based on a net cost excluding, profit, provisions for taxes, and the carrying cost of financing. Thus, based on a gross margin of 20%, an affordable unit of $140,000 could be supplied at $110,000. Thus, payment in lieu based on providing the funds necessary to supply required units would be the number of required units multiplied by $110,000.

Finally, the principal of Social pricing extends the supply funding payment to include a premium to account for the objective of integrating required workforce units with market rate residential development. A payment in lieu only based on supplying units at the minimally affordable price does not allow the County to overcome the barriers of affordable home ownership based on location that are currently contributing to the lack of supply and the segregation of development based on economic and social status.

Because the Gap funding and Supply funding result in a wide range of potential liabilities, the County could adopt a provision that the payment in lieu would be the *smaller* amount of the two methods. The Gap funding method works well be creating a system that self-corrects inclusionary zoning requirements based on average market pricing and density. In other words, it recognizes that units tend to become more affordable with higher density based on housing product[17]. Thus, all things being equal, a development providing a Villa product meets more affordable housing than a single-family detached product at ¼ of the density. The resulting fee would be commensurate with average unit pricing and income affordability.

However, a workforce unit remains a workforce unit regardless of the density of the project that is required to meet inclusionary zoning provisions. Thus, if the County is going to be required to become a workforce housing developer in one form or another, gap funding would not immediately provide sufficient funds to meet equivalent supply based on provisions of the inclusionary ordinance.

[17] For low- to moderate-densities.

4 Conclusions

The following section provides significant findings, opinions, and recommendations from our analysis and review of the proposed Miami-Dade Inclusionary Workforce Zoning Ordinance (the Ordinance). It is important to note that these findings, opinions, and recommendations are provided in the context of an overall policy initiative to provide more affordable housing that is in the public interests of Miami-Dade County. Any one finding, opinion, or recommendation considered outside of this context may be perceived to have a significantly negative impact as it stands alone. However, it is entirely possible that the finding, opinion, or recommendation is a more efficient policy option that can be mitigated with other programs or policies that together attempt to meet housing needs.

For example, the requirement for the *supply* of more affordable housing that has a negative financial impact on development *could* be potentially offset with funds generated by a linkage fee that targets the *demand* for more affordable units. The scope of our analysis was to specifically evaluate the financial impacts of the Ordinance and did not include other potential programs or policies. However, while the findings, opinions, and recommendations are not contingent on these other potential programs or polices, they are provided with an understanding that potentially negative impacts can be mitigated through these other programs or policies.

4.1 Findings, opinions, and recommendations

- <u>Definition of Required Workforce Units.</u> The national debate on affordable or workforce housing has tended to focus on income affordability and not what is a reasonable expectation of housing. Inclusionary or bonus density programs nationally have been adopted requiring nearly identical housing with artificial price controls to meet affordability standards[18]. *The proposed Ordinance is allowing the provision of workforce units that meet income criteria based on alternative residential products (i.e. attached, smaller living area); this approach is more efficient because it potentially delivers reasonable housing without significant economic loss resulting from extreme gaps between market prices and imposed price controls.*

[18] Many inclusionary zoning programs require "affordable" units to be provided that are indistinguishable from market rate units but meet "affordable" income targets. This requirement implies that units are of same size, quality, and have access to identical amenities.

Recommendation: None. It is our opinion that more affordable housing options targeting specific income groups can be achieved with minimally acceptable living standards; specifically construction standards, total living area, and development intensity. Allowing development to provide higher density, smaller multi-family units that can be priced closer to affordability is more efficient than requiring units to be provided equivalent to larger, detached single-family market rate options. The presumption that *all* households should be able to afford the average single-family market rate housing option tends to overstate the reasonable need for housing.

- <u>*Household Income Targets.*</u> Adopted inclusionary or bonus density programs nationally target a range of household incomes depending on program goals (very low- or low-income or 'workforce'). For programs with requirements strictly based on price controls, targeting specific income groups can be more precise. Programs allowing development to meet requirements with alternative housing products are only guaranteed to achieve minimally affordable housing at the upper range of the income target. Units affordable to the lower range of income needs, however, are not expected to be completely excluded by development. *The proposed Ordinance is more likely to result in units generally priced to meet upper ranges of median income; there is no specific control or incentive for providing units for lower median income household levels.*

  Recommendation: None. An attempt to artificially control the price of units to meet lower-income households mitigates the positive benefits identified in the previous finding. Mandating lower-income affordable units forces inclusionary requirements using price controls in the event that the development industry is not able to provide a product that can be profitably priced to meet lower-income targets. In addition, the national debate on affordable housing centers on an average measure of affordability relative to income at all levels[19]. This ignores the reality that some households with incomes at or below the median range can afford housing as a result of equity from prior ownership, savings, and trade-offs in levels of other household consumption. Households with the most significant financial limitations are at the lowest range (less than 65%) and are eligible for other housing assistance programs. Households in the 80-120% range of median are not entirely unable to afford a house defined as meeting a 140% median income level.

- <u>*Definition of Household Income Targets*</u>. Inclusionary or bonus density programs that target the *supply* of housing affordable at a specific level of household income result in a unit that is too narrowly defined in terms of household affordability. Specific price points to meet affordability requirements are generally established using an accepted standard of no more than 30% of household income. As a result, only households

[19] Typically identified as 30% of household income.

making exactly the targeted amount of income meet the standard definition of affordability. Minimum price points should be established slightly lower than the upper range of acceptable household income thresholds. *Under the Ordinance, the County shall administratively define the unit prices that fall within the target income group between 65% and 140% of median household income. If applied literally, a unit supplied at a price point to meet 140% of median household income is only affordable by definition to households earning 140% of more.*

Recommendation: A more flexible definition of the price points as a standard of meeting the requirements of the Ordinance should be considered. Either 'affordability' should recognize the ability to afford housing at some level greater than 30% or if the goal of the proposed program, for example, is to target households earning 140% of median income, the price point of housing to meet this requirement should be set at no more than what is affordable to households earning 120% of median income. Thus, the qualifying standard of earning *no more than* 140% would result in housing that is affordable to households earning between 120% up to 140%. In the current proposal, housing priced at 'affordable' for the 140% target is by definition 'unaffordable' to a household earning 139% because it would consume more than 30% of household income. This applies to all ranges of targeted 'affordability'. The proposed program should establish a minimum level of price that is affordable up to a maximum level of household income.

- <u>Alternative Provision of Required Units</u>. Options for alternatives to meet inclusionary zoning requirements are among the common elements of national adopted programs. The commonly available alternatives include: 1) off-site provision of required units, 2) a cash payment in lieu of providing required units, and 3) a donation of land. There is a wide range of provisions for both off-site development and cash contributions in lieu of providing on-site units. *The proposed Ordinance provides for either off-site development of required workforce units with County approval or a payment in lieu of $110,000 per required unit, also with County approval.*

  Recommendation: Notwithstanding the fact that the process of obtaining approval for off-site units or a payment in-lieu might be considered too arduous and therefore discouraging, the proposed in-lieu payment of $110,000 is reasonable on the merits of providing sufficient funds to allow the County to supply equivalent units. The $110,000 payment in-lieu per unit is based on a minimally affordable unit at the 65% of median household income excluding gross profit. A fee less than $110,000 would not provide sufficient funds for the County or a third party developer to construct an equivalent number of required units.

- *Financial Impact of Proposed Ordinance*. Nationally adopted inclusionary zoning or bonus density programs recognize the potential financial impact of providing more affordable housing. These potentially negative financial impacts are more significant in programs where applied price control is the mechanism for achieving these requirements. In either case of price controlled programs, mandatory programs utilizing alternative residential products, or bonus density programs, the provision of additional units (more density than would otherwise be allowed) is used in order to compensate for the impact of provide incentives to provide units. Other mechanisms to encourage the development of affordable units or compensate for potential financial impacts include changes to land development regulations[20]. *The proposed Ordinance provides a 25% bonus density for development meeting a 12.5% workforce housing requirement and an increase in density equal to the number of required units for development meeting a 5% workforce housing requirement.*

  Recommendation: None. The bonus densities provided by the proposed Ordinance plus the ability of the development industry to meet workforce housing requirements with alternative residential products result in minimal financial impacts. The dynamics of this impact are complicated by 1) the ability to achieve current and bonus densities, 2) the increase in land prices that result from an implied increase in residential density, and 3) the ability of the market rate units to absorb an overall price increase to mitigate the financial impacts. The proposed Ordinance could result in a negative financial impact on residential development resulting from practical and political limitations on increased densities. The County should consider provisions in the administration and implementation of the Ordinance that enforce the increased densities to offset potential negative financial impacts. The strict provision of increased density should, however, be considered with the fact the potential negative impacts could potentially be correct by the housing market. It is highly likely that a potentially negative financial impact from meeting workforce housing requirements could be passed through to market rate units in terms of price increases. Depending on prototypical development and workforce housing requirements, the required price increase ranges from 0.5% to 2.7%.

[20] Granting more density or intensity of development is generally a modification to existing land development regulations. Other modifications can include expedited permitting or repeal of other requirements.

5 Appendix A – Detailed Pro Forma Tables

Table 6 – Base Estate Home Pro Forma

	Units	Acres	Rate per unit
Land uses			
Base market units	48	19.0	2.5 net density
Workforce units	-	-	- net density
Bonus market units	-	-	- net density
Streets/other		4.8	20% of total acres
Total	48	23.8	2.0 gross density
Gross Revenues (000's)			
Market units	$	37,890	$ 1,997 per acre (000's)
Workforce units		-	- per acre (000's)
Total	$	37,890	$ 789 per unit (000's)
Direct Project Costs (000's)			
Land	$	12,500	$ 12.06 per sf
Site		1,320	27.5 per unit (000's)
Subtotal	$	13,820	
Construction		13,800	$ 56.59 per sq ft
Soft		2,650	17.5% of site and construction
Total	$	30,270	631 per ERU (000's)
Gross Margin		20.1%	
Non-operating Project Costs (000's)			
Developer overhead	$	1,890	12.5% of site and construction
Interest Expense		2,090	6.5% of total project costs
Subtotal	$	3,980	
Net Margin		3,640	
Provision for federal taxes		1,460	40.0% of net margin
Net Income	$	2,180	
Profit Margin		5.8%	
Net Income per Unit	$	45,417	

Table 7 – 5% Inclusionary Estate Home Pro Forma

Land uses	Units		Acres		Rate per unit
Base market units	45		17.8		2.5 net density
Workforce units	3		0.3		9.0 net density
Bonus market units			-		- net density
Streets/other			5.7		24% of total acres
Total	48		23.8		2.0 gross density
Gross Revenues (000's)					
Market units		$	35,520	$	1,997 per acre (000's)
Workforce units			708		2,133 per acre (000's)
Total		$	36,228	$	755 per unit (000's)
Direct Project Costs (000's)					
Land		$	12,500	$	12.06 per sf
Site			1,320		27.5 per unit (000's)
Subtotal		$	13,820		
Construction			13,220	$	54.22 per sq ft
Soft			2,540		17.5% of site and construction
Total		$	29,580		616 per ERU (000's)
Gross Margin			18.4%		
Non-operating Project Costs (000's)					
Developer overhead		$	1,820		12.5% of site and construction
Interest Expense			2,040		6.5% of total project costs
Subtotal		$	3,860		
Net Margin			2,788		
Provision for federal taxes			1,120		40.0% of net margin
Net Income		$	1,668		
Profit Margin			4.6%		
Net Income per Unit		$	34,750		

Table 8 – 12.5% Inclusionary Estate Home Pro Forma

Land uses	Units	Acres		Rate per unit	
Base market units	42	16.6		2.5	net density
Workforce units	6	0.7		9.0	net density
Bonus market units		-		-	net density
Streets/other		6.5		27%	of total acres
Total	48	23.8		2.0	gross density
Gross Revenues (000's)					
Market units	$	33,160	$	1,997	per acre (000's)
Workforce units		1,415		2,131	per acre (000's)
Total	$	34,575	$	720	per unit (000's)
Direct Project Costs (000's)					
Land	$	12,500	$	12.06	per sf
Site		1,320		27.5	per unit (000's)
Subtotal	$	13,820			
Construction		12,640	$	51.84	per sq ft
Soft		2,440		17.5%	of site and construction
Total	$	28,900		602	per ERU (000's)
Gross Margin		16.4%			
Non-operating Project Costs (000's)					
Developer overhead	$	1,750		12.5%	of site and construction
Interest Expense		1,990		6.5%	of total project costs
Subtotal	$	3,740			
Net Margin		1,935			
Provision for federal taxes		770		40.0%	of net margin
Net Income	$	1,165			
Profit Margin		3.4%			
Net Income per Unit	$	24,271			

Table 9 – 12.5% Inclusionary with Bonus Estate Home Pro Forma

Land uses	Units	Acres		Rate per unit
Base market units	42	16.6		2.5 net density
Workforce units	6	0.7		9.0 net density
Bonus market units	6	1.2		4.9 net density
Streets/other		5.3		22% of total acres
Total	54	23.8		2.3 gross density
Gross Revenues (000's)				
Market units	$	35,720	$	2,003 per acre (000's)
Workforce units		1,415		2,131 per acre (000's)
Total	$	37,135	$	688 per unit (000's)
Direct Project Costs (000's)				
Land	$	13,000	$	12.57 per sf
Site		1,490		27.5 per unit (000's)
Subtotal	$	14,490		
Construction		13,630	$	49.69 per sq ft
Soft		2,650		17.5% of site and construction
Total	$	30,770		570 per ERU (000's)
Gross Margin		17.1%		
Non-operating Project Costs (000's)				
Developer overhead	$	1,890		12.5% of site and construction
Interest Expense		2,120		6.5% of total project costs
Subtotal	$	4,010		
Net Margin		2,355		
Provision for federal taxes		940		40.0% of net margin
Net Income	$	1,415		
Profit Margin		3.8%		
Net Income per Unit	$	26,204		

Table 10 – Base Single-family Pro Forma

Land uses	Units	Acres	Rate per unit	
Base market units	143	16.4	8.7	net density
Workforce units	-	-	-	net density
Bonus market units	-	-	-	net density
Streets/other		7.4	31%	of total acres
Total	143	23.8	6.0	gross density
Gross Revenues (000's)				
Market units	$	61,240	$ 3,723	per acre (000's)
Workforce units		-	-	per acre (000's)
Total	$	61,240	$ 428	per unit (000's)
Direct Project Costs (000's)				
Land	$	18,400	$ 17.72	per sf
Site		3,930	27.5	per unit (000's)
Subtotal	$	22,330		
Construction		23,540	$ 62.64	per sq ft
Soft		3,430	12.5%	of site and construction
Total	$	49,300	345	per ERU (000's)
Gross Margin		19.5%		
Non-operating Project Costs (000's)				
Developer overhead	$	4,120	15.0%	of site and construction
Interest Expense		3,470	6.5%	of total project costs
Subtotal	$	7,590		
Net Margin		4,350		
Provision for federal taxes		1,740	40.0%	of net margin
Net Income	$	2,610		
Profit Margin		4.3%		
Net Income per Unit	$	18,252		

Table 11 – 5% Inclusionary Single-family Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	135		15.5		8.7	net density
Workforce units	8		0.3		25.4	net density
Bonus market units			-		-	net density
Streets/other			8.0		33%	of total acres
Total	143		23.8		6.0	gross density
Gross Revenues (000's)						
Market units		$	57,810	$	3,723	per acre (000's)
Workforce units			1,887		5,997	per acre (000's)
Total		$	59,697	$	417	per unit (000's)
Direct Project Costs (000's)						
Land		$	18,400	$	17.72	per sf
Site			3,930		27.5	per unit (000's)
Subtotal		$	22,330			
Construction			22,970	$	61.12	per sq ft
Soft			3,360		12.5%	of site and construction
Total		$	48,660		340	per ERU (000's)
Gross Margin			18.5%			
Non-operating Project Costs (000's)						
Developer overhead		$	4,040		15.0%	of site and construction
Interest Expense			3,430		6.5%	of total project costs
Subtotal		$	7,470			
Net Margin			3,567			
Provision for federal taxes			1,430		40.0%	of net margin
Net Income		$	2,137			
Profit Margin			3.6%			
Net Income per Unit		$	14,944			

Table 12 – 12.5% Inclusionary Single-family Pro Forma

<u>*Land uses*</u>	Units		Acres		Rate per unit	
Base market units	125		14.4		8.7	net density
Workforce units	18		0.7		25.4	net density
Bonus market units			-		-	net density
Streets/other			8.7		37%	of total acres
Total	143		23.8		6.0	gross density
Gross Revenues (000's)						
Market units		$	53,530	$	3,723	per acre (000's)
Workforce units			4,245		5,996	per acre (000's)
Total		$	57,775	$	404	per unit (000's)
Direct Project Costs (000's)						
Land		$	18,400	$	17.72	per sf
Site			3,930		27.5	per unit (000's)
Subtotal		$	22,330			
Construction			22,260	$	59.23	per sq ft
Soft			3,270		12.5%	of site and construction
Total		$	47,860		335	per ERU (000's)
Gross Margin			17.2%			
Non-operating Project Costs (000's)						
Developer overhead		$	3,930		15.0%	of site and construction
Interest Expense			3,370		6.5%	of total project costs
Subtotal		$	7,300			
Net Margin			2,615			
Provision for federal taxes			1,050		40.0%	of net margin
Net Income		$	1,565			
Profit Margin			2.7%			
Net Income per Unit		$	10,944			

Table 13 – 12.5% Inclusionary with Bonus Single-family Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	125		14.4		8.7	net density
Workforce units	18		0.7		25.4	net density
Bonus market units	18		1.3		13.8	net density
Streets/other			7.4		31%	of total acres
Total	161		23.8		6.8	gross density
Gross Revenues (000's)						
Market units		$	61,240	$	3,904	per acre (000's)
Workforce units			4,245		5,996	per acre (000's)
Total		$	65,485	$	407	per unit (000's)
Direct Project Costs (000's)						
Land		$	19,100	$	18.47	per sf
Site			4,430		27.5	per unit (000's)
Subtotal		$	23,530			
Construction			25,230	$	59.63	per sq ft
Soft			3,710		12.5%	of site and construction
Total		$	52,470		326	per ERU (000's)
Gross Margin			19.9%			
Non-operating Project Costs (000's)						
Developer overhead		$	4,450		15.0%	of site and construction
Interest Expense			3,700		6.5%	of total project costs
Subtotal		$	8,150			
Net Margin			4,865			
Provision for federal taxes			1,950		40.0%	of net margin
Net Income		$	2,915			
Profit Margin			4.5%			
Net Income per Unit		$	18,106			

Table 14 – Base Duplex Pro Forma

Land uses	Units	Acres		Rate per unit	
Base market units	202	16.5		12.3	net density
Workforce units	-	-		-	net density
Bonus market units	-	-		-	net density
Streets/other		7.3		31%	of total acres
Total	202	23.8		8.5	gross density
Gross Revenues (000's)					
Market units	$	71,430	$	4,342	per acre (000's)
Workforce units		-		-	per acre (000's)
Total	$	71,430	$	354	per unit (000's)
Direct Project Costs (000's)					
Land	$	20,700	$	19.99	per sf
Site		3,930		19.5	per unit (000's)
Subtotal	$	24,630			
Construction		28,460	$	66.08	per sq ft
Soft		4,050		12.5%	of site and construction
Total	$	57,140		283	per ERU (000's)
Gross Margin		20.0%			
Non-operating Project Costs (000's)					
Developer overhead	$	5,180		16.0%	of site and construction
Interest Expense		4,050		6.5%	of total project costs
Subtotal	$	9,230			
Net Margin		5,060			
Provision for federal taxes		2,020		40.0%	of net margin
Net Income	$	3,040			
Profit Margin		4.3%			
Net Income per Unit	$	15,050			

Table 15 – 5% Inclusionary Duplex Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	192		15.6		12.3	net density
Workforce units	10		0.4		25.4	net density
Bonus market units			-		-	net density
Streets/other			7.8		33%	of total acres
Total	202		23.8		8.5	gross density
Gross Revenues (000's)						
Market units		$	67,890	$	4,342	per acre (000's)
Workforce units			2,358		5,995	per acre (000's)
Total		$	70,248	$	348	per unit (000's)
Direct Project Costs (000's)						
Land		$	20,700	$	19.99	per sf
Site			4,430		21.9	per unit (000's)
Subtotal		$	25,130			
Construction			27,990	$	64.99	per sq ft
Soft			4,050		12.5%	of site and construction
Total		$	57,170		283	per ERU (000's)
Gross Margin			18.6%			
Non-operating Project Costs (000's)						
Developer overhead		$	5,190		16.0%	of site and construction
Interest Expense			4,050		6.5%	of total project costs
Subtotal		$	9,240			
Net Margin			3,838			
Provision for federal taxes			1,540		40.0%	of net margin
Net Income		$	2,298			
Profit Margin			3.3%			
Net Income per Unit		$	11,376			

Table 16 – 12.5% Inclusionary Duplex Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	177		14.4		12.3	net density
Workforce units	25		1.0		25.4	net density
Bonus market units			-		-	net density
Streets/other			8.4		35%	of total acres
Total	202		23.8		8.5	gross density
Gross Revenues (000's)						
Market units		$	62,590	$	4,342	per acre (000's)
Workforce units			5,896		5,996	per acre (000's)
Total		$	68,486	$	339	per unit (000's)
Direct Project Costs (000's)						
Land		$	20,700	$	19.99	per sf
Site			4,430		21.9	per unit (000's)
Subtotal		$	25,130			
Construction			27,290	$	63.37	per sq ft
Soft			3,970		12.5%	of site and construction
Total		$	56,390		279	per ERU (000's)
Gross Margin			17.7%			
Non-operating Project Costs (000's)						
Developer overhead		$	5,080		16.0%	of site and construction
Interest Expense			4,000		6.5%	of total project costs
Subtotal		$	9,080			
Net Margin			3,016			
Provision for federal taxes			1,210		40.0%	of net margin
Net Income		$	1,806			
Profit Margin			2.6%			
Net Income per Unit		$	8,941			

Table 17 – 12.5% Inclusionary with Bonus Duplex Pro Forma

Land uses	Units		Acres		Rate per unit
Base market units	177		14.4		12.3 net density
Workforce units	25		1.0		25.4 net density
Bonus market units	25		1.5		17.0 net density
Streets/other			6.9		29% of total acres
Total	227		23.8		9.5 gross density
Gross Revenues (000's)					
Market units		$	71,430	$	4,496 per acre (000's)
Workforce units			5,896		5,996 per acre (000's)
Total		$	77,326	$	341 per unit (000's)
Direct Project Costs (000's)					
Land		$	21,600	$	20.81 per sf
Site			4,430		19.5 per unit (000's)
Subtotal		$	26,030		
Construction			30,810	$	63.66 per sq ft
Soft			4,410		12.5% of site and construction
Total		$	61,250		270 per ERU (000's)
Gross Margin			20.8%		
Non-operating Project Costs (000's)					
Developer overhead		$	5,640		16.0% of site and construction
Interest Expense			4,350		6.5% of total project costs
Subtotal		$	9,990		
Net Margin			6,086		
Provision for federal taxes			2,430		40.0% of net margin
Net Income		$	3,656		
Profit Margin			4.7%		
Net Income per Unit		$	16,106		

Table 18 – Base Row House Pro Forma

Land uses	Units		Acres		Rate per unit
Base market units	250		16.5		15.2 net density
Workforce units	-		-		- net density
Bonus market units	-		-		- net density
Streets/other			7.3		31% of total acres
Total	250		23.8		10.5 gross density
Gross Revenues (000's)					
Market units		$	78,580	$	4,775 per acre (000's)
Workforce units			-		- per acre (000's)
Total		$	78,580	$	314 per unit (000's)
Direct Project Costs (000's)					
Land		$	22,300	$	21.53 per sf
Site			3,930		15.7 per unit (000's)
Subtotal		$	26,230		
Construction			32,070	$	68.31 per sq ft
Soft			4,500		12.5% of site and construction
Total		$	62,800		251 per ERU (000's)
Gross Margin			20.1%		
Non-operating Project Costs (000's)					
Developer overhead		$	5,760		16.0% of site and construction
Interest Expense			4,460		6.5% of total project costs
Subtotal		$	10,220		
Net Margin			5,560		
Provision for federal taxes			2,220		40.0% of net margin
Net Income		$	3,340		
Profit Margin			4.3%		
Net Income per Unit		$	13,360		

Table 19 – 5% Inclusionary Row House Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	237		15.6		15.2	net density
Workforce units	13		0.5		28.9	net density
Bonus market units			-		-	net density
Streets/other			7.7		33%	of total acres
Total	250		23.8		10.5	gross density
Gross Revenues (000's)						
Market units		$	74,490	$	4,775	per acre (000's)
Workforce units			2,726		6,051	per acre (000's)
Total		$	77,216	$	309	per unit (000's)
Direct Project Costs (000's)						
Land		$	22,300	$	21.53	per sf
Site			4,430		17.7	per unit (000's)
Subtotal		$	26,730			
Construction			31,510	$	67.11	per sq ft
Soft			4,490		12.5%	of site and construction
Total		$	62,730		251	per ERU (000's)
Gross Margin			18.8%			
Non-operating Project Costs (000's)						
Developer overhead		$	5,750		16.0%	of site and construction
Interest Expense			4,450		6.5%	of total project costs
Subtotal		$	10,200			
Net Margin			4,286			
Provision for federal taxes			1,710		40.0%	of net margin
Net Income		$	2,576			
Profit Margin			3.3%			
Net Income per Unit		$	10,304			

Table 20 – 12.5% Inclusionary Row House Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	219		14.4		15.2	net density
Workforce units	31		1.1		28.9	net density
Bonus market units					-	net density
Streets/other			8.3		35%	of total acres
Total	250		23.8		10.5	gross density
Gross Revenues (000's)						
Market units		$	68,840	$	4,776	per acre (000's)
Workforce units			6,501		6,051	per acre (000's)
Total		$	75,341	$	301	per unit (000's)
Direct Project Costs (000's)						
Land		$	22,300	$	21.53	per sf
Site			4,430		17.7	per unit (000's)
Subtotal		$	26,730			
Construction			30,740	$	65.47	per sq ft
Soft			4,400		12.5%	of site and construction
Total		$	61,870		247	per ERU (000's)
Gross Margin			17.9%			
Non-operating Project Costs (000's)						
Developer overhead		$	5,630		16.0%	of site and construction
Interest Expense			4,390		6.5%	of total project costs
Subtotal		$	10,020			
Net Margin			3,451			
Provision for federal taxes			1,380		40.0%	of net margin
Net Income		$	2,071			
Profit Margin			2.7%			
Net Income per Unit		$	8,284			

Table 21 – 12.5% Inclusionary with Bonus Row House Pro Forma

Land uses	Units	Acres		Rate per unit	
Base market units	219	14.4		15.2	net density
Workforce units	31	1.1		28.9	net density
Bonus market units	31			-	net density
Streets/other		8.3		35%	of total acres
Total	281	23.8		11.8	gross density
Gross Revenues (000's)					
Market units	$	78,580	$	5,451	per acre (000's)
Workforce units		6,501		6,051	per acre (000's)
Total	$	85,081	$	303	per unit (000's)
Direct Project Costs (000's)					
Land	$	23,200	$	22.42	per sf
Site		4,430		15.8	per unit (000's)
Subtotal	$	27,630			
Construction		34,720	$	65.79	per sq ft
Soft		4,890		12.5%	of site and construction
Total	$	67,240		239	per ERU (000's)
Gross Margin		21.0%			
Non-operating Project Costs (000's)					
Developer overhead	$	6,260		16.0%	of site and construction
Interest Expense		4,780		6.5%	of total project costs
Subtotal	$	11,040			
Net Margin		6,801			
Provision for federal taxes		2,720		40.0%	of net margin
Net Income	$	4,081			
Profit Margin		4.8%			
Net Income per Unit	$	14,523			

Table 22 – Base Town House Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	286		16.5		17.4	net density
Workforce units	-		-		-	net density
Bonus market units	-		-		-	net density
Streets/other			7.3		31%	of total acres
Total	286		23.8		12.0	gross density
Gross Revenues (000's)						
Market units		$	83,380	$	5,068	per acre (000's)
Workforce units			-		-	per acre (000's)
Total		$	83,380	$	292	per unit (000's)
Direct Project Costs (000's)						
Land		$	23,400	$	22.56	per sf
Site			3,930		13.8	per unit (000's)
Subtotal		$	27,330			
Construction			34,560	$	69.69	per sq ft
Soft			4,810		12.5%	of site and construction
Total		$	66,700		233	per ERU (000's)
Gross Margin			20.0%			
Non-operating Project Costs (000's)						
Developer overhead		$	6,160		16.0%	of site and construction
Interest Expense			4,740		6.5%	of total project costs
Subtotal		$	10,900			
Net Margin			5,780			
Provision for federal taxes			2,310		40.0%	of net margin
Net Income		$	3,470			
Profit Margin			4.2%			
Net Income per Unit		$	12,133			

Table 23 – 5% Inclusionary Town House Pro Forma

Land uses	Units	Acres	Rate per unit	
Base market units	271	15.6	17.4	net density
Workforce units	15	0.4	41.2	net density
Bonus market units		-	-	net density
Streets/other		7.8	33%	of total acres
Total	286	23.8	12.0	gross density
Gross Revenues (000's)				
Market units	$	79,010	$ 5,068	per acre (000's)
Workforce units		2,226	6,111	per acre (000's)
Total	$	81,236	$ 284	per unit (000's)
Direct Project Costs (000's)				
Land	$	23,400	$ 22.56	per sf
Site		4,430	15.5	per unit (000's)
Subtotal	$	27,830		
Construction		33,730	$ 68.01	per sq ft
Soft		4,770	12.5%	of site and construction
Total	$	66,330	232	per ERU (000's)
Gross Margin		18.3%		
Non-operating Project Costs (000's)				
Developer overhead	$	6,110	16.0%	of site and construction
Interest Expense		4,710	6.5%	of total project costs
Subtotal	$	10,820		
Net Margin		4,086		
Provision for federal taxes		1,630	40.0%	of net margin
Net Income	$	2,456		
Profit Margin		3.0%		
Net Income per Unit	$	8,587		

Table 24 – 12.5% Inclusionary Town House Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	250		14.4		17.4	net density
Workforce units	36		0.9		41.2	net density
Bonus market units			-		-	net density
Streets/other			8.5		36%	of total acres
Total	286		23.8		12.0	gross density
Gross Revenues (000's)						
Market units		$	72,880	$	5,068	per acre (000's)
Workforce units			5,342		6,110	per acre (000's)
Total		$	78,222	$	274	per unit (000's)
Direct Project Costs (000's)						
Land		$	23,400	$	22.56	per sf
Site			4,430		15.5	per unit (000's)
Subtotal		$	27,830			
Construction			32,560	$	65.66	per sq ft
Soft			4,620		12.5%	of site and construction
Total		$	65,010		227	per ERU (000's)
Gross Margin			16.9%			
Non-operating Project Costs (000's)						
Developer overhead		$	5,920		16.0%	of site and construction
Interest Expense			4,610		6.5%	of total project costs
Subtotal		$	10,530			
Net Margin			2,682			
Provision for federal taxes			1,070		40.0%	of net margin
Net Income		$	1,612			
Profit Margin			2.1%			
Net Income per Unit		$	5,636			

Table 25 – 12.5% Inclusionary with Bonus Town House Pro Forma

Land uses	Units	Acres		Rate per unit
Base market units	250	14.4		17.4 net density
Workforce units	36	0.9		41.2 net density
Bonus market units	36	1.7		20.9 net density
Streets/other		6.8		29% of total acres
Total	322	23.8		13.5 gross density
Gross Revenues (000's)				
Market units	$	83,380	$	5,176 per acre (000's)
Workforce units		5,342		6,110 per acre (000's)
Total	$	88,722	$	276 per unit (000's)
Direct Project Costs (000's)				
Land	$	24,400	$	23.51 per sf
Site		4,430		13.8 per unit (000's)
Subtotal	$	28,830		
Construction		36,910	$	66.11 per sq ft
Soft		5,170		12.5% of site and construction
Total	$	70,910		220 per ERU (000's)
Gross Margin		20.1%		
Non-operating Project Costs (000's)				
Developer overhead	$	6,610		16.0% of site and construction
Interest Expense		5,040		6.5% of total project costs
Subtotal	$	11,650		
Net Margin		6,162		
Provision for federal taxes		2,460		40.0% of net margin
Net Income	$	3,702		
Profit Margin		4.2%		
Net Income per Unit	$	11,497		

Table 26 – Base Villa Pro Forma

Land uses	**Units**	**Acres**	Rate per unit
Base market units	452	16.5	27.5 net density
Workforce units	-	-	- net density
Bonus market units	-	-	- net density
Streets/other		7.3	31% of total acres
Total	452	23.8	19.0 gross density
Gross Revenues (000's)			
Market units		$ 100,540	$ 6,111 per acre (000's)
Workforce units		-	- per acre (000's)
Total		$ 100,540	$ 222 per unit (000's)
Direct Project Costs (000's)			
Land		$ 27,400	$ 26.45 per sf
Site		3,930	8.7 per unit (000's)
Subtotal		$ 31,330	
Construction		44,220	$ 74.34 per sq ft
Soft		5,060	10.5% of site and construction
Total		$ 80,610	178 per ERU (000's)
Gross Margin		19.8%	
Non-operating Project Costs (000's)			
Developer overhead		$ 7,700	16.0% of site and construction
Interest Expense		5,740	6.5% of total project costs
Subtotal		$ 13,440	
Net Margin		6,490	
Provision for federal taxes		2,600	40.0% of net margin
Net Income		$ 3,890	
Profit Margin		3.9%	
Net Income per Unit		$ 8,606	

Table 27 – 5% Inclusionary Villa Pro Forma

Land uses	Units	Acres	Rate per unit	
Base market units	429	15.6	27.5	net density
Workforce units	23	0.6	41.2	net density
Bonus market units		-	-	net density
Streets/other		7.6	32%	of total acres
Total	452	23.8	19.0	gross density
Gross Revenues (000's)				
Market units	$	95,420	$ 6,111	per acre (000's)
Workforce units		3,413	6,111	per acre (000's)
Total	$	98,833	$ 219	per unit (000's)
Direct Project Costs (000's)				
Land	$	27,400	$ 26.45	per sf
Site		4,430	9.8	per unit (000's)
Subtotal	$	31,830		
Construction		43,470	$ 73.08	per sq ft
Soft		5,030	10.5%	of site and construction
Total	$	80,330	178	per ERU (000's)
Gross Margin		18.7%		
Non-operating Project Costs (000's)				
Developer overhead	$	7,660	16.0%	of site and construction
Interest Expense		5,720	6.5%	of total project costs
Subtotal	$	13,380		
Net Margin		5,123		
Provision for federal taxes		2,050	40.0%	of net margin
Net Income	$	3,073		
Profit Margin		3.1%		
Net Income per Unit	$	6,799		

Table 28 – 12.5% Inclusionary Villa Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	395		14.4		27.5	net density
Workforce units	57		1.4		41.2	net density
Bonus market units			-		-	net density
Streets/other			8.0		34%	of total acres
Total	452		23.8		19.0	gross density
Gross Revenues (000's)						
Market units		$	87,860	$	6,111	per acre (000's)
Workforce units			8,459		6,111	per acre (000's)
Total		$	96,319	$	213	per unit (000's)
Direct Project Costs (000's)						
Land		$	27,400	$	26.45	per sf
Site			4,430		9.8	per unit (000's)
Subtotal		$	31,830			
Construction			42,370	$	71.23	per sq ft
Soft			4,910		10.5%	of site and construction
Total		$	79,110		175	per ERU (000's)
Gross Margin			17.9%			
Non-operating Project Costs (000's)						
Developer overhead		$	7,490		16.0%	of site and construction
Interest Expense			5,630		6.5%	of total project costs
Subtotal		$	13,120			
Net Margin			4,089			
Provision for federal taxes			1,640		40.0%	of net margin
Net Income		$	2,449			
Profit Margin			2.5%			
Net Income per Unit		$	5,418			

Table 29 – 12.5% Inclusionary with Bonus Villa Pro Forma

Land uses	Units		Acres		Rate per unit	
Base market units	395		14.4		27.5	net density
Workforce units	57		1.4		41.2	net density
Bonus market units	57		2.1		27.5	net density
Streets/other			6.0		25%	of total acres
Total	509		23.8		21.4	gross density
Gross Revenues (000's)						
Market units		$	100,540	$	6,111	per acre (000's)
Workforce units			8,459		6,111	per acre (000's)
Total		$	108,999	$	214	per unit (000's)
Direct Project Costs (000's)						
Land		$	28,600	$	27.56	per sf
Site			4,430		8.7	per unit (000's)
Subtotal		$	33,030			
Construction			47,940	$	71.57	per sq ft
Soft			5,500		10.5%	of site and construction
Total		$	86,470		170	per ERU (000's)
Gross Margin			20.7%			
Non-operating Project Costs (000's)						
Developer overhead		$	8,380		16.0%	of site and construction
Interest Expense			6,170		6.5%	of total project costs
Subtotal		$	14,550			
Net Margin			7,979			
Provision for federal taxes			3,190		40.0%	of net margin
Net Income		$	4,789			
Profit Margin			4.4%			
Net Income per Unit		$	9,409			

Real Estate RESEARCH
CONSULTANTS

December 7, 2006

John McInnis
Assistant County Attorney
Miami-Dade County
111 N.W. 1st Street
Miami, Florida 33128-1993

RE: Miami-Dade County's Workforce Housing Ordinance

Dear John:

We have completed a review of the current workforce housing ordinance. As you are aware, the purpose of our review was to provide an opinion as to whether the program as revised in the current ordinance remains consistent with our original analysis. We specifically reviewed the following sections of the current ordinance: (1) reduction of the control period from 30 to 20 years §17-140(5), (2) creation of a new §17-145 limiting the use of trust fund revenues to benefit households in the 65-80% range of median income, and (3) the creation of a workforce housing zoning appeals board (beginning on page 47 of the ordinance).

Based on our current review of the revised ordinance and previous analysis, we believe that the current revisions ***do not*** result in a material change in the findings and conclusions made previously. Specifically, the change of the ownership period (§17-140(5)) has no direct impact on the financial analysis conducted within the earlier study since our analysis was conducted from the point of land acquisition, development, and final purchase[1]. The length of "affordable" homeownership was not directly considered as an element of development profitability. In addition, based on discounting cash flow in the future to represent a present value, any administrative costs that could be associated with managing this requirement of "affordable" ownership are negligible beyond 20 years.

Additionally, several findings and recommendations that are impacted by the remaining proposed changes in our opinion are positively enhanced by the current proposed modifications. Based on our previous analysis dated May 2006, we concluded the following:

[1] Development of rental properties was presumed to be sufficiently accounted for with a for-purchase residential financial pro forma. The present value of net rental income is theoretically equivalent to the purchase price of identical units.

> *"The proposed Ordinance is more likely to result in units generally priced to meet upper ranges of median income; there is no specific control or incentive for providing units for lower median income household levels."*[2]

Our report further recommended that the proposed program not include artificial price controls in an attempt to alleviate this potential issue. The current revision regarding the use of trust fund revenues (§17-145) does partially mitigate the potential shortfall of housing units targeting lower income groups. It is our opinion that this provision enhances a previously identified issue without impacting the financial profitability of development required to meet the requirements of the proposed ordinance.

Further, our finding of minimal financial impact from the previous analysis was contingent on actual development of market and affordable units as envision by the proposed ordinance. Based on our previous analysis dated May 2006, we concluded the following:

> *"The bonus densities provided by the proposed Ordinance plus the ability of the development industry to meet workforce housing requirements with alternative residential products result in minimal financial impacts."*[3]

However, this finding was qualified based on our analysis of development under a "no bonus density" situation and from comments provided by the development community during review of our financial models. Without additional market units granted from bonus density provisions within the proposed ordinance, the preceding finding could not be entirely supported. Specifically, our previous analysis included the following qualification:

> *"The dynamics of this [financial] impact are complicated by 1) the ability to achieve current and bonus densities, 2) the increase in land prices that result from an implied increase in residential density, and 3) the ability of the market rate units to absorb an overall price increase to mitigate the financial impacts. The proposed Ordinance could result in a negative financial impact on residential development resulting from practical and political limitations on increased densities. The County should consider provisions in the administration and implementation of the Ordinance that enforce the increased densities to offset potential negative financial impacts. The strict provision of increased density should, however, be considered with the fact the potential negative impacts could potentially be corrected by the housing market."*[4]

---

[2] Review of Inclusionary Zoning Requirements, RERC, May 2006, page 4
[3] ibid, page 6
[4] Ibid, page 6

It is our opinion that the creation of the Workforce Housing Zoning Appeals Board, having jurisdiction over zoning applications pertaining in whole or in part to the provision of the proposed ordinance enhances the probability of development obtaining the required bonus units as envisioned by the proposed ordinance. As such, this revision does not result in a material change in the findings and conclusions made previously as they relate to the financial impact of the provisions the proposed ordinance.

Our current review of the proposed changes can not conclude that additional market units or bonus density is more or less guaranteed by the creation of the Workforce Housing Zoning Appeals Board, only that they are more likely. The prototypical financial models developed to support the conclusion of minimal financial impact were based on exact implementation of the provision of the proposed ordinance as envisioned. Thus, if the process of approval and appeal does not grant bonus density and market rate units even with a designated Workforce Housing Zoning Appeals Board, the financial impacts of the proposed ordinance would be more than minimal. However, consistent with previous findings, this condition may not entirely result in a negative financial impact. Based on our previous analysis dated May 2006, we also concluded the following:

> *"It is highly likely that a potentially negative financial impact from meeting workforce housing requirements could be passed through to market rate units in terms of price increases. Depending on prototypical development and workforce housing requirements, the required price increase [of retail units] ranges from 0.5% to 2.7%."*[5]

Thus, it is our opinion that the Workforce Housing Zoning Appeals Board enhances the intent of the proposed program to provide the necessary financial offset of providing affordable units with additional market. Additionally, while it does not guarantee bonus density, it also does not change the original findings and conclusions.

Please let me know if you have any questions or comments.

Warmest regards,

Steven McDonald
Vice President

---

[5] Review of Inclusionary Zoning Requirements, RERC, May 2006, page 6