



Minutes Affordable Housing Forum February 8, 2008

Minutes of the Affordable Housing Forum held on Friday, February 8, 2008, at Tempe Center for the Arts, Lakeside Room, 700 W. Rio Salado Parkway, Tempe, Arizona.

Councilmembers Present:

Mayor Hugh Hallman
Vice Mayor Hut Hutson
Councilmember Shana Ellis
Councilmember Onnie Shekerjian

Staff Present:

Chris Anaradian, Dev Svcs Manager
Neil Calfee, Comm Dev
Kate Hanley, TCC
Craig Hittie, Housing Services
Jan Hort, City Clerk
Maryna Leyvas, Housing Services
Sheri Wakefield-Saenz, Econ Dev

Guests Present:

Andrea Aah, Avenue Communities
Joanna Allhands, *AZ Republic*
Joe Blackbourn, SARRC
Michael Burke, DMB
Alan Carlson, NewTown
Beth Fiorenza, TCAA
Pam Goronkin, DTC
Bruce Hart, Trammell Crow Residential
Nyla Hunsinger, American Homebuyers
Pen Johnson, NewTown
Zita Johnson, TCAA
Mark Lymer, Marc Architecture
Todd Marshall, Urban Development Partners (UDP)
Doug McQueen, NewTown
Nicholas Miner, NewTown
Stanley Nicpon, NewTown
Patrick Panetta, ASU

Ben Patton, DFD Advisors
Judy Ramos, City of Chandler
Kevin Ransal, Mark Taylor, Inc.
Emily Ryan, AZ Multi-Housing
Erich Schwenker, Cardinal Capital Management
Judy Register, City of Chandler
Ben Sanders, Community Ministries

Registration and breakfast began at 8:30 a.m. and the meeting convened at 9:00 a.m.

Agenda Item #1 – Welcome from Mayor Hallman

- Maricopa County has worked with the private sector to open a campus in central south Phoenix as a first phase to serve the homeless.
- In working that program, it has been recognized that the next step needs to be taken to move from homelessness to housing and to address the social service issues.
- On one end of the spectrum are people who make too much money to qualify for the current programs, but don't make enough money to qualify for the lending for their first home.
- NewTown has been working on educational programs to make the move into first homes.
- On behalf of the community, he thanked the attendees for their commitment to help in designing a method to move forward.
- He introduced Zita Johnson from the Tempe Union High School Board, and Pam Goronkin, President of the Downtown Tempe Committee.

Agenda Item #2 – Introduction of City Council

Mayor Hallman introduced Councilmember Shana Ellis, Chair of the Transportation, Housing, and Environment Committee, who has a passion for social service issues, and Vice Mayor Hut Hutson who brings to the committee the finance aspects from his Finance, Economy and Veterans Affairs Committee. He also introduced Councilmember Onnie Shekerjian.

Mayer Hallman then left the meeting.

Agenda Item #3 – Presentation of current and future City affordable housing programs

Neil Calfee narrated a PowerPoint presentation.

- Affordable housing is housing provided and maintained through some combination of zoning incentives, cost-effective construction techniques, and government assistance that can be rented or purchased by households who cannot afford market rate housing in the community.
- An affordable housing continuum begins with homeless prevention and outreach, and moves through an income spectrum from very low income with assistance, to those able to afford transitional housing, to moderate with permanently affordable rentals and to homeownership (usually at the 80% area median level) assistance. The area of workforce housing (80% to 120% of area median) is often overlooked. We can't help with federal resources, but there is still a need for assistance for homeownership.
- Factors determining affordability

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- Funds available for housing (including utilities) = 30-40% of income
 - Family size
 - For 2007/2008, family of 4 would be considered:
 - Low income at \$30,050 per year (\$1,000 per month)
 - Moderate income at \$48,000 per year (\$1,600 per month)
 - Workforce at \$72,200 per year (\$2,400 per month)
 - Ownership vs. Rental Housing – The Need for Housing Choice
 - Not everybody is ready for homeownership.
 - Need for affordable rental units (through Section 8)
 - Diversity in housing stock = expanded opportunities for affordable and workforce housing
 - Period of affordability – HUD mandates vs. perpetual
 - City of Tempe programs – primarily from HUD (07/08 Funding)
 - Section 8 Rental Assistance - \$8,343,221
 - HOME Entitlement Grant - \$487,711
 - Community Development Block Grant - \$1,635,822
 - American Dream Down Payment Initiative - \$12,919
 - Steady decrease in federal funding
 - How is HUD Funding used
 - Section 8 Rental Assistance – for low income individuals using a HUD formula and Section 8 makes up difference to a market rent.
 - Home Rehabilitation (full and emergency aid to qualifying individuals)
 - Rental Rehabilitation
 - CAMP (Community Assisted Mortgage Program)
 - FSS (Family Self Sufficiency looks to transition out of Section 8 housing.)
 - Annual Social Service Funding (15%)
 - Fair Housing
 - City In-Lieu Downtown Housing Fees
 - Centerpoint - \$25K per tower
 - University Square - \$100K on DDA
 - Lumina - \$200K plus 5% affordable
 - 100 Mill - \$500 per unit
 - On Mill - \$500 per unit
 - City of Tempe Partnerships
 - Newtown/Land Trust
 - Habitat for Humanity
 - Chicanos Por La Causa
 - Tempe Community Council
 - City of Tempe Affordable Housing Initiatives
 - Community Development Reorganization consolidated affordable housing efforts into the Affordable Housing Section
 - In-Lieu Fee Study to determine an appropriate fee
 - TOD Density Bonus Program, specifically on Apache Boulevard where the idea would be to provide some baseline density and height level and if the developer chose to go above that, it would come with the idea that a certain amount of units should be affordable.
 - Adopted Affordable Housing Strategy guides all efforts in affordable housing
 - Ad-Hoc Affordable Housing Creation

- Future of Affordable Housing in Tempe
 - Land cost / construction cost escalation
 - Per unit subsidy basis
 - Unit vs. Buyer Subsidy
 - Concentration vs. Dispersion of Affordable Housing
 - Jobs/Housing Balance – concept of concentrating affordable housing where people work
 - The role of density in affordable housing
 - Looking for new models for achieving affordability

There was a question concerning the number of Section 8 units currently in Tempe.

Mr. Calfee responded that Tempe has 1100 units.

There was a question if there was concern whether family income was comprised of one wage-earner or two.

Mr. Calfee responded that family size and total household income are the two factors considered.

Agenda Item #4 – Break for 5 minutes

Agenda Item #5 – Present 3-5 questions to developers for discussion

Agenda Item #6 – Breakout sessions

Agenda Item #7 – Open discussion and review of developer solutions and next steps

Mr. Calfee introduced Erich Schwenker from Cardinal Capital Management who is spearheading the deaf senior project on Apache Boulevard. He has a tremendous amount of experience with this type of project.

Erich Schwenker summarized his experience and credentials. Cardinal Capital Management plans to build a project on Apache Boulevard of 135 units divided into two projects, the first with tax credits with 75 units renting for \$500-800, with incomes of up to about \$28K. Then they will create some market rate housing and hope to build a co-op model. They think they can build from a HUD program with about 15% to 20% below standard pricing. They hope to do the co-op within the next 12 months. He presented the first question:

Of the barriers you perceive that exist, which are local and which are state barriers?

(Public comments indicated with “bullets.”)

- The tax credit environment model no longer works for development for a profitable company. With the construction costs, there is no incentive to do any affordable housing projects. That’s a new construction statement.

Mr. Schwenker asked if there is a reason why no one has done the 4% acquisition rehab?

- The acquisition developer is a different developer. It's a small entrepreneur with low overhead, and that model doesn't work for a production developer.
- The problem with the acquisition rehab is that you still have properties you are trading in the 5 and 6 cap range, and the small guy might be depending on the market up-ticks to carry him through the times. You aren't going to do that in a tax credit deal.

Mr. Schwenker asked, for purposes of the Tempe officials, with the subsidy or help you need to do the 4%, do you think they have a better opportunity trying to support the 4%?

- 4% is clearly the issue.

Mr. Schwenker asked whether the playing field is different for the for-profit and the non-profit.

- \$1,000 was considered to be low income and moderate income was \$1500. We have a community in Tempe that is considered luxury apartments, and the average rent is \$1200 per month. The qualifying criteria is different. The average income is closer to \$50-70,000. That is the distinction. From a rent perspective, you're not far off. It's just that low income folks are using a greater portion of their income to qualify. There is no doubt that affordable housing is something that the greater society should care about. When affordable housing comes up and they talk to the development community, it seems the developers are brought into the conversation because they produce what's needed. Affordable housing is a community-wide problem and it takes community-wide solutions. I look at the greater community to solve the issue. We have the technical know-how of what works and what make the projects affordable for us. Cheaper land, financing, less fees, less entitlement process, etc, makes it affordable. In Tempe's perspective, I want to build as much as possible here. There's a progression where the citizenry that will enjoy living in our luxury houses will move up to that from the older stock, and it's the older stock that becomes the level playing field. Through time, the market dynamics allow for affordable housing with the inventory from the migration to the newest and latest. There are also market dynamics in play that will also allow for affordable housing if the right incentives are present.

Mr. Calfee added that from a staff standpoint, it was said to Council at one time that there is giving and taking. If you are taking a piece of land that has a high cap of 50 feet and a density of 40, and now you turn it into a piece of land with a high cap of 100 and density of 200, is there some value that's created and should there be some give-back? Yes, the development community creates the housing and we are granting these densities, but things are getting so big, should there be some return to the community for granting this value and profit. There is economic return to the community because of the enhancement in the overall value to the underlying real estate.

What do you think it means to the cost of a unit in the difference between getting plans approved in 12 months and 24 months?

- It's hard to generalize. If I am forced to buy a piece of land and I have to assume all the carrying costs on \$10M right after I'm zoned, typically we won't buy something without

the zoning, so now you have to project out the approval processes. In a recent project, it took four months longer than we expected to get through the permit process. From a percentage basis, you take \$10M plus all of presumed costs with the expected preferred rate of return at 8 to 10% and cost of the loan. Sometimes it's not material, but sometimes it is.

- If resources are flat, there are trades to help both sides. Sometimes it's time, and to the extent time can be saved, there's a trade where the City can win. That would be meaningful.
- As an architect, we are always under pressure to produce. There's the macro view and the grassroots view. I am on the grassroots side. In my neighborhood, we have a church that was a habitat for the homeless. We tore it down, Newtown built three new units there, and they have become good citizens of the community. My only problem with those units is that they are not nicer. When you do that in a neighborhood, if you come in at the same level, you keep it at that level. If you come in better, it gives that neighborhood some hope. I prefer things to be nicer. I've asked every candidate whether they will vote to approve the Northwest Tempe Plan. This has been developed over about ten years. It is not a regulation that impresses or takes away options, but it says this neighborhood would like this to be taken into account. One option for affordable housing is to get more input from the neighborhood. Talk to the people. Downtown is it's own animal now. Those tradeoffs don't work anywhere else.

Mr. Schwenker asked, from the officials view, whether the planning process allows flexibility.

Mr. Calfee responded that it's always the balance of neighborhood concerns, economic development concerns. That's a perpetual problem.

Mr. Schwenker asked if the State overlay problems are difficult or require different political process.

Mr. Calfee responded that the State is of no help with the housing issue.

Mr. Schwenker asked if there is a demand for a certain amount of affordable housing units over the next five years.

- Neighborhood associations are loosely formed, and neighborhoods rally around something that's happening, but it's much harder to get moving forward on positive things. Negative things take away positive energy.

Sheri Wakefield-Saenz noted that fees were raised to a median, higher level, primarily because the City wasn't keeping up on cost delivery. That's a cost of business, and is that a serious deterrent?

- Fees in Tempe are reasonable. Some of the problems we have is where decisions are made to bump them up without notice to the development community. It's important to have consistency. We put in hundreds of thousands of dollars to just decide if we want to do a project and assembling the pool of funds, and then if a municipality changes

something drastically, it can wreck havoc. It's good to get the perspective from the outside.

Ms. Wakefield-Saenz asked whether that is a decision-making pro-forma.

- Yes.

Chris Anaradian stated that in Tempe, we up-zone everything. From a staff perspective, every week we have cases come in and 85% of new construction cases are PAD's, which are negotiations for extra height and density. Very few come in with zoning in place. We are in a continuous discussion about value. We give away value. For us, time and again, it's the entitlement, so we look at a density bonus program because that's the only way for us to get value. I also hear about fees, time, clarity of process, and consistency. They are all hallmarks of our service delivery. We have to have those things right. We don't see a lot of other tools. Parking and water restrict every development. We reduced parking requirements in the TOD. One project is looking at no parking, and that's a new philosophy. Did we reduce it enough? We give away and add to the developer's bottom line with some specific regulatory action. We used to give away incentives to get projects and now it's ad hoc case by case, and that's just the embryonic stage of having a program. Something is coming and we will justify it by the entitlement we're giving away.

Mr. Schwenker added that with the deaf senior project, those attitudes were key to getting the project done. The 9% tax credit was not good enough for them to build low income affordable housing. The densities were increased enough so that we could do a moderate and middle income project to get enough units so that we could pull it together. Do you think everyone is doing a good job in quantifying the value of the benefits? Do you think they fully understand the value?

- It is important to bring up the issue whether it's fair to ask developers to make a contribution. We're talking about giving away and getting something back. We have to consider the value of projects being built. Where does that value come from? Part of it comes from the large investment gone into the community as a whole that makes it desirable to come to Tempe. I don't know how you quantify community investment, but it adds value. So is it fair to ask developers to give something back even when they aren't getting density bonuses or other things?

Mr. Schwenker asked if the developers were on the training side, what would you look for to get a better understanding? Is there a need for training for affordable housing program, and if so, what kind?

- None of his mid-level staff have a good knowledge of affordable housing financing options.

Councilmember Ellis asked if there is a will on the market side to do affordable workforce housing? Is there a culture and drive to make this happen?

- Affordable housing isn't even in our marketing segment. Most developers are focused outside affordable housing.

- We filled a niche back in 1990. We were the first luxury apartment group in the Valley to put washers and dryers in the units. Now everyone is chasing the upscale. The true competitive spirit would say to fill a niche that isn't being filled. There are people who wouldn't want to be beating their heads against the wall with developers all trying to build the same thing, but no one can build affordable housing right now. The true market dynamic will fill that niche if the opportunity is there.

Mr. Schwenker asked how much product needs to come down vs. product that needs another investment.

- Three or four years ago there was a big demand for acquisition rehab. Capital was available for that. That was a viable option.

Mr. Schwenker noted that the City has always approached a public/private partnership. If a couple of the private folks got together with some of the City folks, could you put on a one-day seminar on some of the important issues?

- I don't think there would be 20 who would attend.
- The people who own the tax credit properties are not represented here today. Those are the kinds of people to talk to. Talk to the "foot soldiers" - those who actually go out there and do the work.
- The in-lieu is a one-time shot. There is a need to create a self-generating income stream that helps to keep it going.
- How do you tap into the value? The value isn't created until the project gets built, the continuing appreciation in the overall market that you are building. It seems that you would want to tap into that. A modest transfer tax on expensive homes might be an option, but it is important to generate a revenue stream that comes from the entitlements given out.

Mr. Schwenker asked what the best tools are for affordable housing.

- The most effective thing for the City is inclusionary zoning. That will drive affordable housing.

Mr. Calfee asked how to deal with the Homebuilders Association and those who don't want it. The legislature passed a bill that prevented cities from doing inclusionary zoning and the governor vetoed it. It says that if you are going to build a project of a certain size, that a portion of the units have to be affordable, usually 5% at 80% of area median and 5% at 60%. They have to be affordable for a certain period of time. It's mandated. So we talk about the density bonus as a way to get affordable housing. If we had the inclusionary zoning, we wouldn't need that. Another thing is to get the Homebuilders Association and builders groups to let inclusionary zoning take place in the transit corridors where it makes sense to combine transportation and housing. Could we get support to do that?

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- You can use overlay districts where you can target that.
 - I would not be in favor of inclusionary zoning. There are other ways to do it. If you are building a condo project, you take a percentage of units that are affordable, and the rest of the units are effectively subsidizing them. It is a community-wide problem. Why should the owners of those units subsidize others? When you make a \$40M investment, one of the things you worry about is getting it into the hands of those who want it. Who determines who lives there; what regulations are present? It is complicated.
 - In terms of tools, one of the things is the affordability period. We look at permanent affordability rather than a 15 or 20 year period.

Mr. Schwenker asked about the very poor---\$10K or less. In Wisconsin, when we have disability groups to work with, the residents will be recommended by different groups. Even with a Section 8 rent, there is no money for food. Security costs could be equal to the operating cost of the building. At the lower end of supportive housing, many are associated with disability. One problem is that the portion of the governmental group is not the portion that is asked to pay out for the support. There's no way to move the money back and forth. What is the community approach on such things?

- What happened with the trailer home development on Apache when someone bought the land?

Mr. Calfee responded that the City was able to work with the developer and work with the affected individuals.

Theresa James added that one of the main resources are HUD grants. Every community is part of a continuum of care and on an annual basis they contribute money for supportive housing for chronically homeless people. A lot of Maricopa County agencies work for those dollars.

Mr. Schwenker stated that there is an issue for those on the edge of affordable housing. What about those folks who have no realistic chance of making more than \$10K.

Zita Johnson stated that the TCAA provides an array of services except for housing. They serve the majority of the community of working poor. Looking at renters, almost 54% are paying more than 30%. For the homeless with no income, we've been studying Housing First. With the working poor, you need that affordability factor and we have nowhere to place them.

Mr. Calfee responded that there is a gap. The 50% to 80% percent is do-able, but further down the line we struggle to do anything. We don't have the answer.

Mr. Schwenker asked if there is any aspect the developers could help with.

- The opportunity to see how we look at project and costs. We can give everyone a better understanding of the decisions. Tempe has that dynamic that existed in downtown San Diego.

Mr. Schwenker added, as a general rule, if their construction person looks at what a non-profit has looked at, he knows we can build in better for 25% less. That's just decision-making.

Mr. Calfee added that this is part of what we're looking for in this process. Are there things we could start to do by putting our heads together with an advisory group?

Mr. Schwenker asked how the developers feel about the in-lieu fee. Do you feel Tempe is competitive?

- Tempe is very competitive.

Mr. Calfee asked how the developers would feel if the City implemented the in-lieu fee city-wide for \$500 to \$1K per unit.

- There is the challenge of the economics. The complexity is more challenging. You've got the land, the soft cost, and the financing cost. You have the hard cost of construction. On top of that you have some profit opportunity. The only way that will come to bear is what the market will provide you. That's when you value what the entitlements are worth. What is the end result of the rent structure or the for-sale dollars? There are great amenities in Tempe. We have made an effort to build a pedestrian-friendly lifestyle. All of those things cost more money to build. Combine higher land cost and construction cost to get that customized approach and it is more. To say that we can bear more depends on the project, but we're trying to go the other way.
- Developers adding to the housing stock bring down the cost of housing, so adding more fees to the cost to the development contributes to the problem of affordable housing.
- Consistency and predictability. Let's say there's a spectrum of ideas. It is public notice and implementation, for example, next year. Those acquiring land today are doing it on assumptions from planning staff. We need at least a year. The land seller is the one who can drive up the value. If we know there is a \$1K fee coming, it impacts what we can pay.

Councilmember Shekerjian added that there is a delicate balance to achieve. In terms of WIFI service, the City negotiated deals so that the City could benefit from a company putting boxes on buildings, etc. The company went under. In order for the City to push forward an affordable housing agenda, we don't kill the goose, which is the development in Tempe. We have to be cognizant that there has to be a balance. Council has to weigh out those decisions with how far to push and how much to ask.

Mr. Calfee thanked Mr. Schwenker for his help.

Councilmember Ellis summarized that this is the second in a series of forums. The first forum was held last October and focused on the providers of affordable housing. In that discussion, the developer piece came up. This time the provider piece came up. We hope to have another forum in May. The food today was not paid for by Tempe, but by a private development company. She appreciated all the attendees and the great feedback. When she was on the

campaign trail, affordable housing kept coming up over and over. It became her passion. The residents paid for the Lake and the Arts Center that new residents will piggyback on. If there is some way the new people could invest to help the people already here, we are for that. Chris Anaradian noted that we try to keep fees at a level that are competitive. They go up because they are benchmarked. We aren't talking about putting the burden on the developers; we just wanted to get the dialogue started.

- We are looking at a lot of the issue from the front-end point of view. Maybe there are some innovative ideas from the back-end. Maybe someone in the private sector can buy some of that stock and partner with homebuyers over a 10 or 15 year period. The value will go up with all the rest of the stock. It can be a way to share at the end that increase in value as some of that comes out of affordable housing. Maybe there's a way to have sharing at the ownership end.

Councilmember Ellis added that all of the providers are willing to partner with the for-profits. If there are any models from other communities, we will be happy to get that information out there.

There was a suggestion to bring the lenders and the financial community in for a future forum.

Councilmember Ellis asked anyone with ideas to contact any of staff.

Agenda Item #8 - Meeting adjourned at 11:15 a.m.

Prepared by: Connie Krosschell

Reviewed by: Jan Hort

Jan Hort
City Clerk