Transit Oriented Development and Affordable Housing: Does Life Really Have to be So Hard?

September 10, 2005
MassHousing

- State’s Affordable Housing Bank
  - All 50 states have a housing finance agency
- Created in 1966; financed more than $6 billion in affordable housing
- 93,000+ units of housing under MassHousing management
- FY2004: largest lending year ever; $704 million in lending
- 1997-2002: 85% of multi-family rental developments financed by MassHousing located within ¼ mile of a transit node
Massachusetts Bay Transportation Authority

- The MBTA is the oldest and fourth largest transit system in the country
- Since 1980, the MBTA has invested billions of dollars improving and expanding the light, heavy and commuter rail infrastructure of eastern Massachusetts
- MBTA serves 1.2 million riders per day
- The MBTA district is comprised of 175 cities and towns

Collaboration

- Together, MassHousing and the MBTA introduced the “Take the T Home Mortgage” Program in 2003, offering no-down financing to regular “T” riders
The Market: Skyrocketing Real Estate Prices

Yearly Average Sales Price Comparison
Greater Boston Area
1990 – 2004

Source: Massachusetts Association of Realtors
The Market: A Challenging Rental Market is Further Threatened by Rising Costs

Metro Areas with Worst Declines In Real Effective Rents

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>% Change 02-03</th>
<th>% Change 03-04</th>
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</thead>
<tbody>
<tr>
<td>Boston MA</td>
<td>-3.7%</td>
<td>-12.4%</td>
</tr>
<tr>
<td>Boulder CO</td>
<td>-5.7%</td>
<td>-7.3%</td>
</tr>
<tr>
<td>Detroit MI</td>
<td>-3.2%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>Pittsburgh PA</td>
<td>-1.3%</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Sacramento CA</td>
<td>-1.0%</td>
<td>-3.7%</td>
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Source: Joint Center for Housing Studies of Harvard – State of the Nation’s Housing 2005
The Market: Construction Costs Continue to Climb

Construction Cost Trends: City of Boston

Source: Based on RS Means Statistics, applied to Typical Construction Cost/Sq Ft
The Market: Some Glimmer of Hope

“A significant bump-up in interest rates this year could spell good news for the local rental market, which has suffered as more and more tenants encouraged by the attractive rates have been about to become first-time homeowners”.

Banker & Tradesman, January 3, 2005

“While a recovery of the multifamily market is expected to be felt in the next 12-18 months, property managers are still feeling the effects of prolonged concessions, necessary to attract renters in a fiercely competitive single family market”.

Moody’s Investors Service, 05 Outlook
The Market: Occupancy Rates 2 BR units
Sample Metro Boston Developments

Source: Occupancy Data Tracked by MassHousing Appraisal Staff, select developments
The Market: Monthly Rents, 2-BR Apartments
Sample Developments – Metro Boston

Source: Rental Data Tracked by MassHousing Appraisal Staff, select developments
The Means:
The Priority Development Fund

- $100 million commitment by MassHousing to spur new housing production
- $63m for mixed-income developments
- $12m earmarked for low-income developments
- $22m for TOD Projects
- $3m for planning for municipalities
- Intended as flexible “gap filler” financing
- Typical Structure: Low- or no-interest loans
Affordable Housing Trust Funds Across the Country

[Map showing states with affordable housing trust funds]
And If That’s Not Enough –
Give a Little Help to Your Friends

- Agree to continue to promote “Take the T Home Mortgage Program”
- MassHousing: MBTA’s “housing lender of choice”
- MassHousing to prioritize TOD money in PDF for “T”-owned sites
- MassHousing to provide up to $250K in planning funding to MBTA
Taking Action: Amory Street Residences

Roxbury, Massachusetts
- Population 55,663
- Median household income ~$27,133

Amory Street Residences
- Total property < 1 acre used as warehouse space
- Catalyst for neighborhood revitalization (the first multi-family development in the neighborhood in the last 25 years)
- Complements overall Jackson Square revitalization plan

New Rental Housing Development
- 64 rental units, 1, 2 & 3BRs
  - 100% affordable
    - $826 to $1,138 avg. rent/mo
    - 10 Section 8 PB units
      - $1,295 to 1,519 avg. rent/mo
- Six-story building with townhouse type units on first two floors
- Two, four-story townhouse buildings
- Close proximity to MBTA Orange Line
Taking Action: Amory Street Residences

- TDC of $288,755/unit
- Somewhat high cost due to steel frame construction used in mid-rise building
- Substantial amount of subsidy required to support TDC (seven separate subsidy sources totaling 72% of TDC)
- Low-Income market area supports small first mortgage loan
Taking Action II: ArborPoint at Woodland Station

From Park N’ Ride Lot to Live and Ride Community
Arbor Point at Woodland Station, Newton

Newton, Massachusetts
- Population: 83,829
- Median household income $86,052,
- High priced housing market

Arbor Point
- Transforms “sea of asphalt” into vertical garage + rental housing
- 180 units on 3.86 acres (46.6 units per acre)
- 548-space MBTA garage (100 space increase over current conditions)
New Rental Housing Development

- 180 rental units w. 1-3 brs each
  - 36 affordable units (20%)
    - $711-1,186 avg. rent/mo
  - 141 market rate units
    - $1,987-3,200 avg. rent/mo
- 295 spaces of parking underneath
- Amenities: business center, lounge, fitness center, Pool, patio, picnic area and tot lot.

MBTA Parking Facility

- 3-level, 548-space commuter parking facility
- Handicap accessibility improvements, shared access drive and utilities connections.
Residential Housing
- TDC of $293,549/unit; somewhat high due to garage; typical cost components for high-end suburban product.

- High Rental Market Area, supports large first mortgage loan

- Higher than typical cash equity, since owner’s return comes from substantial cash flow
MBTA Garage
- TDC of $13,788/space;
- Parking revenue available to support ~45% of TDC
- Rental Development up front ground lease provides equity to support ~55% of TDC
Impact of Increased Affordability on Net Operating Income

<table>
<thead>
<tr>
<th></th>
<th>All Market</th>
<th>10% Affordable</th>
<th>20% Affordable</th>
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<tbody>
<tr>
<td>1st Year NOI</td>
<td>$3,680,799</td>
<td>$3,370,859</td>
<td>$3,072,986</td>
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Dorchester, Massachusetts
- Population: 92,862
- Median household income ~$38,590
- Inner city urban neighborhood in process of revitalization

Ashmont Station
- Total property < 1 acre currently used as surface parking for MBTA employees
- Re-utilizes an existing underutilized and poorly maintained parcel directly adjacent to a MBTA Transit Station
- Promotes the ongoing revitalization of the Ashmont Peabody Square neighborhood
New Rental Housing Development

- 105 rental units w. 1-2 brs
  - 74 affordable units (25%)
    - $938 - $1,124 avg. rent/mo
  - 26 market rate units
    - $1,245 - $1,402 avg. rent/mo
- 80 spaces of parking underneath
- 20,000 square feet of neighborhood retail

MBTA Ashmont Peabody Station

- Provides intermodal bus, trolley and rapid transit services to nearly 17,000 daily commuters.
- MBTA is currently constructing a complete replacement of the station as part of a modernization program focused on the four Dorchester Red Line stations.
- TDC of $458,614/unit
- Uncharacteristically high costs (even for Boston) due to commercial space, underground parking, difficult site conditions and steel frame construction.
- Substantial amount of subsidy required to support TDC (eight separate subsidy sources totaling 73% of TDC)
- Low Rental Market Area, with limited demand for market rate units results in relatively small first mortgage loan

Uses
- Direct Construction
- Acquisition
- State Tax Credits
- City Funds
- Deferred Developer Fee

Sources
- Soft Costs
- MassHousing Loan (Res)
- MassHousing Loan (Retail)
- Fed. Tax Credits
- PDF Loans
- State TOD Funds
- State Home Funds
What Have We Learned, Dorothy?

- **Amory**: High affordability, lots of subsidy sources can solve relatively high TDC (Amory) ($288,755/unit)

- **Arbor Point**: High finish, mixed-income approach will allow you to tackle special obstacles (parking) in a high-cost, high-rent area ($293,549/unit)

- **Ashmont**: High affordability/special obstacles mixture may be too much to tackle ($458,614/unit)

* Possible solution: Market-based, partial condominium project on top two floors?
Words to the Wise

- Find your HFA, marry it.
- Expect the unexpected.
- Transit agencies reach can exceed grasp:
  - Requirements for success are (1) focus (remember, development is not their primary responsibility), and (2) realistic market expectations.
- Political pressure can come into play to counter-balance.
- Organizational synergies are as yet unrealized
  - Rail~Volution
  - NCSHA
MBTA Garage Flow of Funds

- Garage Revenue
- Operating Fund
  (Funds Operations and Maintenance of Garage)
  - Debt Service
  - Debt Service Reserve Fund
  - Operating Reserve (May not be Necessary)
- MassHousing Cash Flow Repayment
- Surplus Revenue
  (To MBTA for systemwide O&M)