

ULI Terwilliger Center  
3rd Annual Workforce Housing Forum  
NYC, 2/10/10

Producing Affordable  
Employer-Assisted Housing:  
*Where the Jobs Go to Sleep at Night*

*One solution:  
Affordable middle-income, market rate, workforce and  
employer-assisted housing on ground leases*



## The Issue

- ❑ Absence of near-employment affordable housing is a roadblock to employee attraction, retention, economic development and community building
  - Middle-income housing at “4X Income”
- ❑ Recovery will make the shortage acute again
- ❑ For many employers the emphasis is on JOD not just TOD
- ❑ Commuting costs are combined with PITIH in qualifying ratios for mortgage underwriting
- ❑ Much to learn by inference from one-off projects



## Smart Use of Land to Produce Affordable Workforce Housing – A Ground Lease Model

- ❑ Desirable outcomes for employers
  - Attracting & retaining quality essential employees
- ❑ Desirable outcomes for municipalities
  - Housing first responders and other employees
  - Enticing the middle class to return to the City
  - Adaptive re-use in redevelopment areas
  - Reduce “vehicle-miles-traveled”
- ❑ Benefits
  - Maximizing land assets - utilizing surplus or underutilized properties
  - Saving cash - Retention of assets with income production
  - Self-financed housing production



## Case Study: 650-Unit Faculty & Staff Housing, Calif. State University, Channel Islands



For-sale ground-leased townhouses

Mixed Use Town Center:  
Ground fl. 30,000 SF retail  
Floors 2-3: 60 rental units



## Elements of the Program for Perpetually Affordable Quality Workforce Housing

- ❑ Reliance on ground leasing mechanism
- ❑ Reduced controllable costs – particularly land cost
- ❑ Essentially a self-financed model with minor or no cash subsidies
- ❑ Suitable for landowners-lessors / employers
  - Governments – state and municipal
  - Institutions – hospitals & medical centers, universities & colleges, school districts, churches
  - Semi-private and private sector foundations, land trusts, MPC and MXD developers, major employers



## Principles of Price / Cost Reduction in Workforce Housing Ground Lease Model

- ❑ Affordability without sacrificing quality
- ❑ The less controllable costs – *about which we can't do much*
  - Horizontal development & vertical construction
- ❑ The more controllable costs – *about which we can do a lot*
  - Raw Land – ground leasing
  - Entitlements
  - Financing – project & buyer
  - Marketing & sales
  - Overhead & profit



## Pricing Workforce Housing for Perpetual Affordability

- Maintain product affordability over time
  - Simple rule of thumb for pricing: 4 X income
  - Capitalized or current ground lease payments
  - Capping the [re]-sale price at end of tenure – variation on the “shared appreciation” model
    - Empirical user receptivity to capped appreciation
    - Perpetual affordability
  - Priority for landowner's workforce – if desired
- Features
  - Shelter without speculation at lower entry and occupancy costs
  - Deductions for mortgage interest & property tax
  - Other homebuyers' financing benefits



## Keys to Success in the Ground Lease Program – Benefits to the Workforce Homeowner

- ❑ Below-market rate purchase price or monthly rent
- ❑ Zero-down financing without a PMI requirement
- ❑ Interest-rate buy-downs built into project financing
- ❑ Mortgage payment assistance program for qualifying purchasers
- ❑ Tax deduction for mortgage interest on primary residence
- ❑ Tax deduction for property / possessory taxes
- ❑ Fixed occupancy cost of the for-sale home vs. ever-increasing rents
- ❑ Reduced monthly transportation costs; lower wear and tear on body and mind from long commutes; more time with family and for integrating with co-workers and in the community

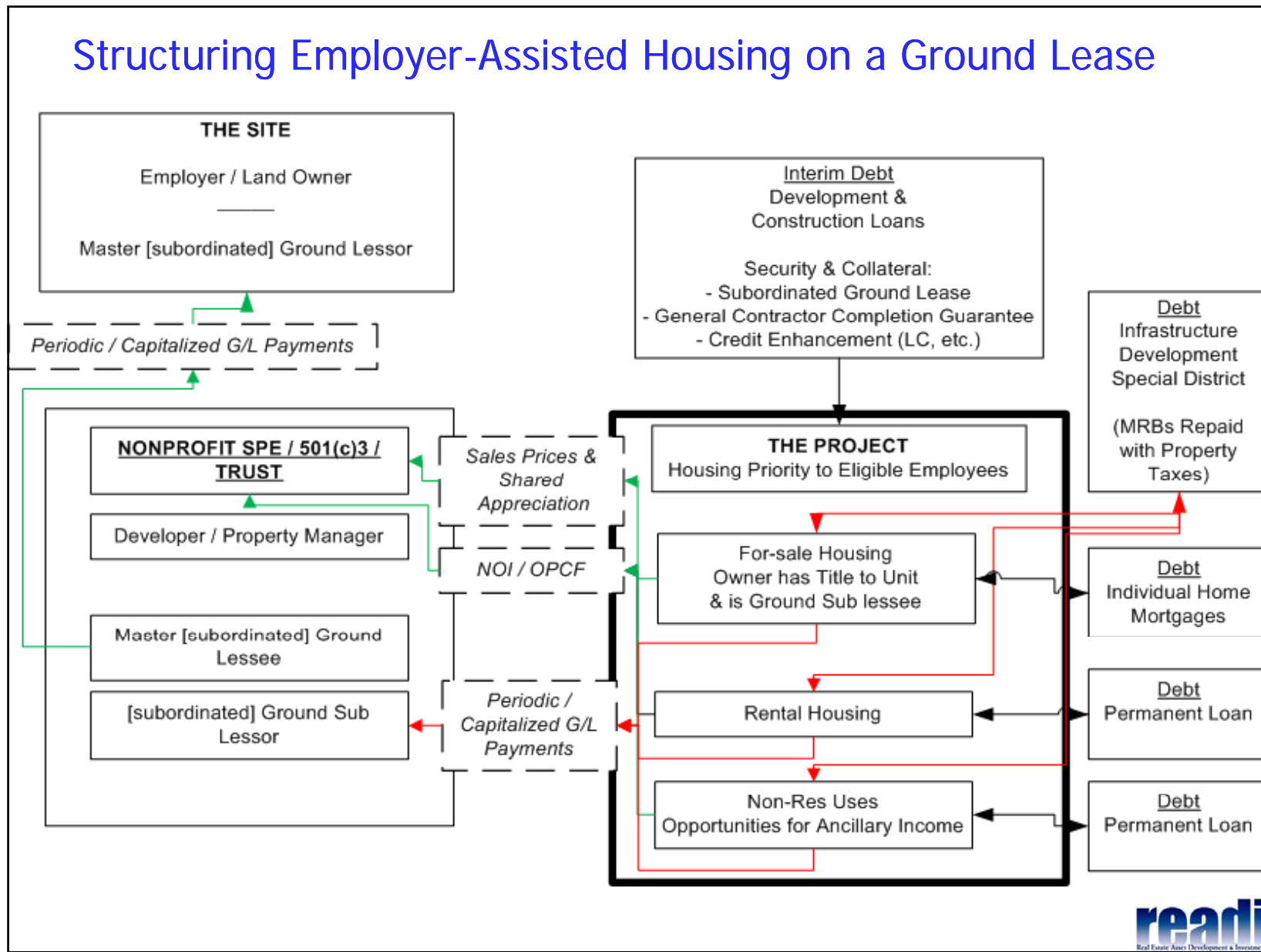




## Keys to Success in the Ground Lease Program – Benefits to the Land Owner

- ❑ Powerful tool to attract and retain valued employees
- ❑ Prioritizing of eligible home buyers
  - Exempt from Fair Housing regulations
- ❑ Control over financing – insulation from operating risks and debt liabilities
- ❑ Access to land proceeds, leveraging income stream
- ❑ Control over development and ownership
- ❑ Control over unit price appreciation and resale process
- ❑ Self-regulated CC&R's and ongoing property management
- ❑ Contribution to well-being of the entire community
  - Return of the middle class and reduced freeway congestion
  - Attracting first responders, educators and other middle-class members
  - Integrating the workforce as stakeholders in the community





## Lessons Learned

**“Those who cannot remember the past are condemned to repeat it.” – Santayana**  
**“History repeats itself, first as tragedy, second as farce” – Marx (paraphrased)**

- ❑ Emphasize JOD vs. TOD
- ❑ Plan a mixed income community
- ❑ Planning & design - unit sizing / parking
- ❑ Have an inside high-level champion. Employers’ real estate controlled by Facilities, not HR
- ❑ Construction costs – economic tradeoffs
  - Density bonus vs. Type V costs
  - Prevailing wage exemptions
  - Manufactured (modular/panelized) housing
- ❑ Underwriting EAH homeownership
  - Appraisals – homes on ground leases – FNMA rider
  - Buyers’ qualifying ratios - PITI + HOA + transportation
  - Energy efficient (green) / location efficient (“smart commute”) mortgages
- ❑ Project financing – public purpose
  - Bond financing and CRA-driven construction financing
- ❑ “Rent to Own” programs as interim measures



Thank you. Let's do it!



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Ehud Mouchly, owner of READI, LLC was until recently General Manager of UniDev, LLC's West Coast Office. UniDev was focused on design, development, financing and management of mixed income workforce housing and employer assisted housing communities. He is a real estate industry veteran, with over 30 years' experience in asset management, development and financing of master planned communities (MPCs), mixed-use development projects (MXDs) and public-private partnerships (PPP's) and ventures. Since forming READI in 1999 he has served – prior to working with UniDev – as Affiliate of SunCal Cos.; General Manager of Anaverde / City Ranch, a 2,000-acre KB Home MPC in Palmdale, CA; Co-Developer and principal investor of the Landmark at Lathrop, a 160-acre commercial MXD project in Northern California. In earlier positions, he was Managing Director in the Real Estate Group of Price Waterhouse; co-founder and President of Kotin Mouchly Group; senior executive with a home builder and active-adult, senior housing developer.

Ehud is a long-time member of the Urban Land Institute (ULI) where he has served in many leadership positions; he is also a member of the National Association of Home Builders (NAHB) and the California Building Industry Association (CBIA), the California Redevelopment Association (CRA), the Counselors of Real Estate (CRE), the National Community Land Trust Network (NLT), Southern California Association of Non-Profit Housing (SCANPH), fellow of the Royal Institution of Chartered Surveyors (RICS). He is an adjunct professor in the Master of Real Estate Development (MRED) program at the University of So. California (USC) and holds bachelors and masters degrees from Columbia University.

