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# Affordable Workforce Housing – Practical Solutions

*Market quality, middle income workforce housing at  
below-market prices*

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## Is the affordability crisis over?

- ❑ Not by a long shot
  - Newly affordable housing in the wrong place for employment
  - Coastal California housing is still beyond the reach of workforce families
  - The end of liars' loans and Stricter underwriting
- ❑ Several solutions
  - Financing programs
  - Production programs
    - Projects and communities



## For-Sale Affordability Perspectives – How Bad Is the Disconnect in Your Community

- ❑ Statistical affordability at 4.0 X HH Income
  - A ~\$400K home requires ~\$110K income
  - AMI of ~\$60K dictates ~\$240K home price
- ❑ How many decent-quality homes in your community are priced at or below 4X AMI?
- ❑ What's the distance from these homes to jobs?
- ❑ Extreme Median house price comparisons (2/09)
  - Riverside – \$190K (72 miles to:) Santa Monica - \$760K / West Los Angeles - \$650K
  - Stockton – \$113K (82 miles to:) San Francisco - \$640



**IF A MAN'S HOME  
IS HIS CASTLE...**

**THEN THIS MUST  
BE THE *MOAT*.**



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

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



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

- ❑ Reliance on ground leasing mechanism
- ❑ Reduced controllable costs
- ❑ Self-financed model with little 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

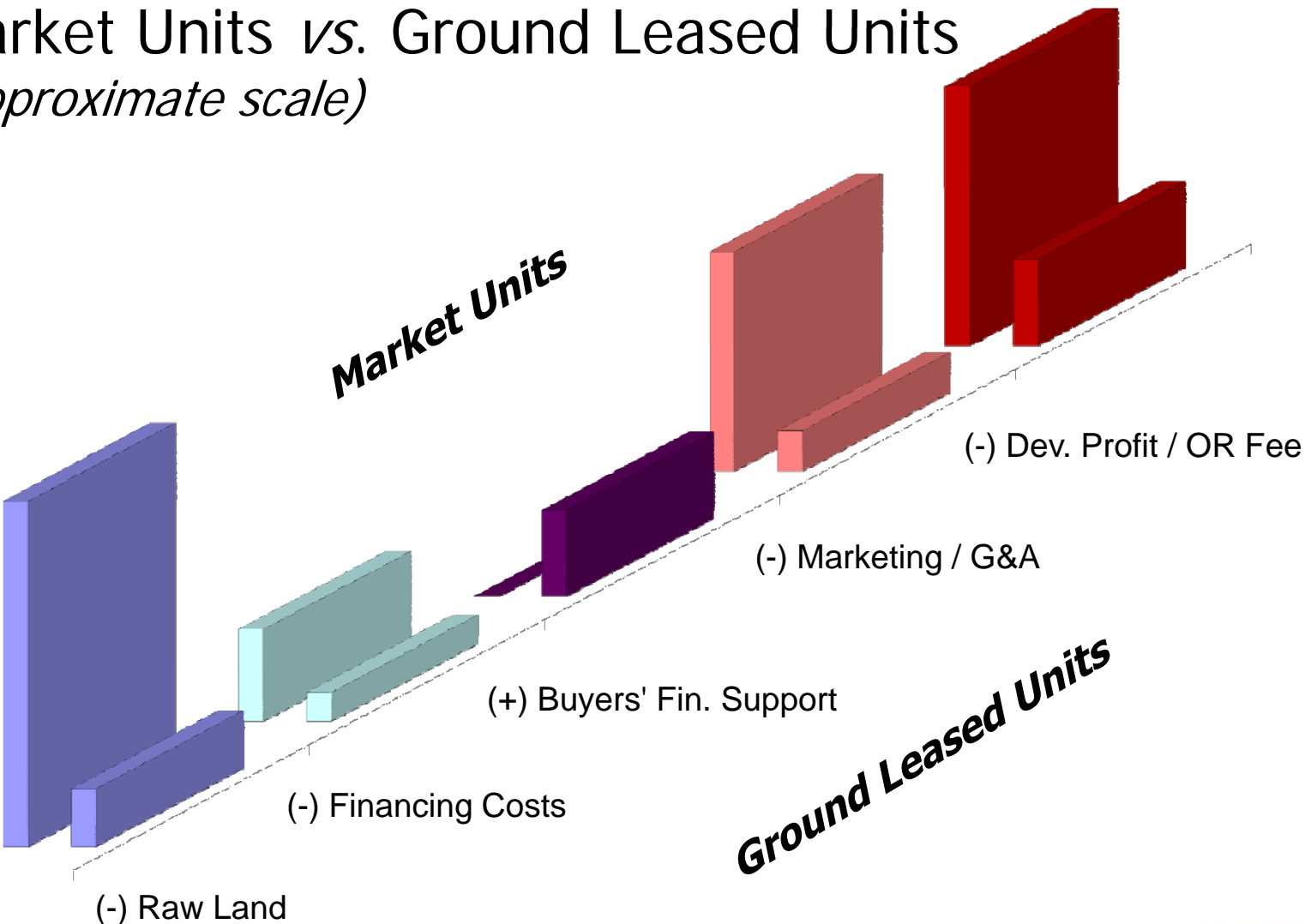


## Principles of Price / Cost Reduction in Workforce Housing Ground Lease Model

- ❑ Affordability without sacrificing quality
- ❑ The less controllable costs – *about which we can't do much*
  - Permitting / horizontal development & vertical construction
- ❑ The more controllable costs – *about which we can do a lot*
  - Raw Land – ground leasing
  - Financing – project & buyer
  - Marketing & sales
  - Overhead & profit: developer / owner's rep fee



# Controllable Development Cost Components Market Units vs. Ground Leased Units *(approximate scale)*





# Pricing Workforce Housing for Perpetual Affordability

- Maintain product affordability over time
  - Simple rule of thumb for pricing: 4 X income
  - Capitalizing ground lease payments
  - Capping the [re]-sale price at end of tenure
    - 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



# Workforce Housing Production: Lessons Learned - I

## □ Entitlements

- Fast tracking
- Density bonuses for inclusionary housing compliance
- Joint-use facilities / amenities
- Mixed-use developments – air rights development

## □ Economic planning and design

- Importance of mixed-income community
- Product type variables
  - Unit sizing
  - Parking needs / regulations:  
de-coupling / un-bundling parking from residences



## Workforce Housing Production: Lessons Learned - II

- ❑ Construction costs – economic tradeoffs
  - Type V/III construction at grade – 12-18 / ac. vs. higher densities with Type I or II
  - Prevailing wage – exemptions
  - Manufactured (modular/panelized) housing
- ❑ Underwriting
  - Appraisals – homes on ground leases
  - '08-'09 Qualifying ratios: PITI + HOA + transportation
  - Energy efficient (green) / location efficient (“smart commute”) mortgages
- ❑ Project financing – public purpose
  - Tax-exempt and taxable bonds
  - CRA-driven construction financing



## Market Rate vs. Ground Leased Workforce Unit Illustration of Homeowner's Perspective

**Los Angeles County (HUD) '08 AMI = \$58.9K / Median House 12/2008 = \$320K**

	Market Unit	Ground Leased Unit
Initial Purchase Price	\$320,000	\$240,000
First Mortgage - 90% / 0%	288,000	240,000
Down Payment	\$32,000	\$0
Mortgage Loan Fees & Other Closing Costs	6,000	5,000
<b>Cash at closing</b>	<b>\$38,000</b>	<b>\$5,000</b>
Annual Housing Costs	\$26,000	\$16,000
<b>Required Annual Income by 33% Qualifying Ratio</b>	<b>\$80,000</b>	<b>\$48,000</b>
Price/income Multiplier	4.0	5.0
<b>Resale Price in Year 7</b>	<b>\$394,000</b>	<b>\$276,000</b>
<b>Pre-tax Cash Proceeds From Home Sale</b>	<b>\$121,000</b>	<b>\$63,000</b>
<b>Equity Multiplier of Cash at Closing</b>	<b>3 : 1</b>	<b>13 : 1</b>
Compounded Annual Growth Rate of Cash at Closing	18%	44%
<b>After-tax Cash Gain Including Homeownership Benefits</b>	<b>\$153,000</b>	<b>\$83,000</b>
<b>After Tax Equity Multiplier of Cash at Closing</b>	<b>4 : 1</b>	<b>17 : 1</b>
Compounded Annual Growth Rate of Cash at Closing	22%	50%

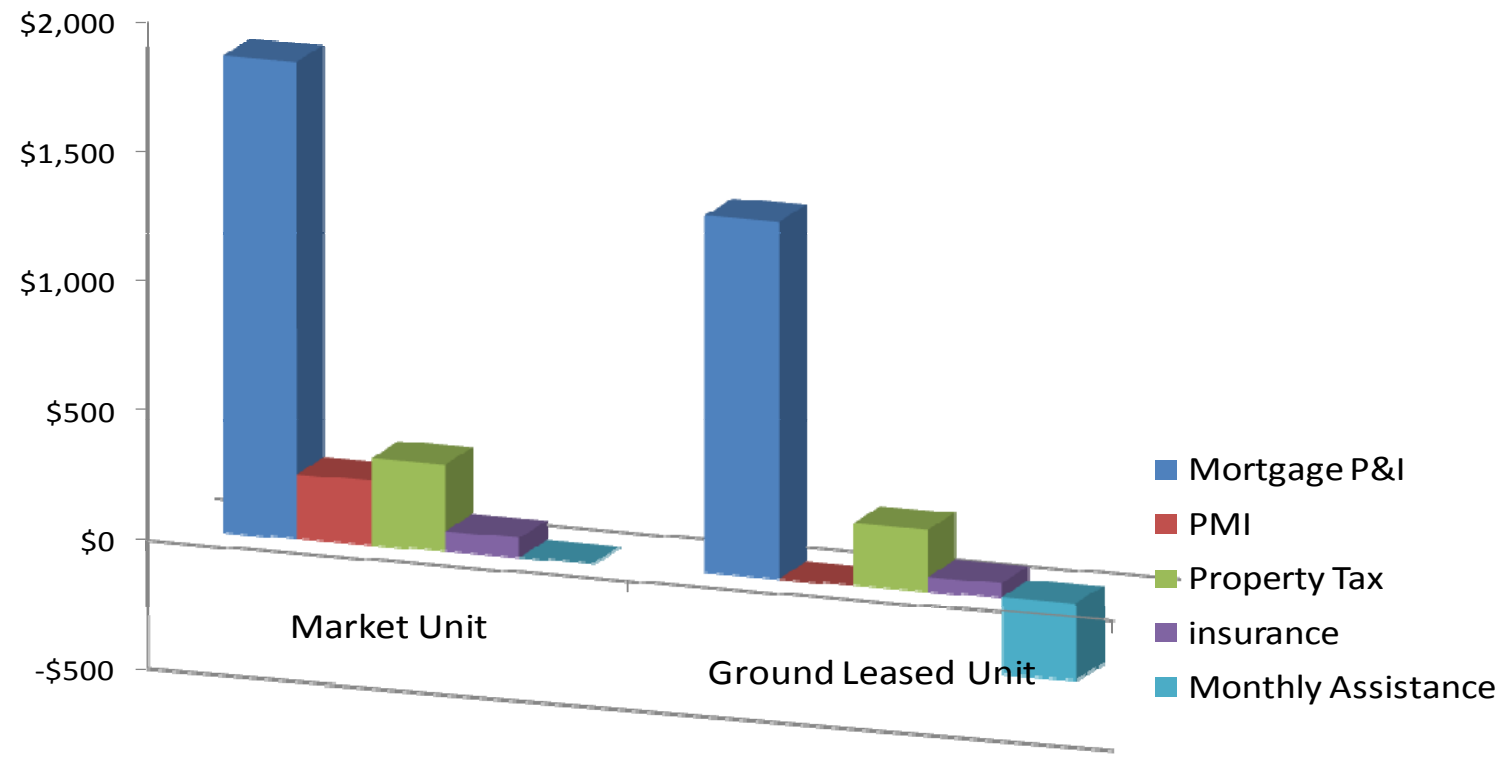
Total [CPI-escalated] \$1,360 / month rent (HUD FY2008 Fair Market Rent) over 7 years (avg. \$17,333 annually). No gain at end of tenure

(\$121,000)



# Illustrative Components of Monthly Ownership Costs

## Market Units vs. Ground Leased Units *(approx. scale)*



## 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

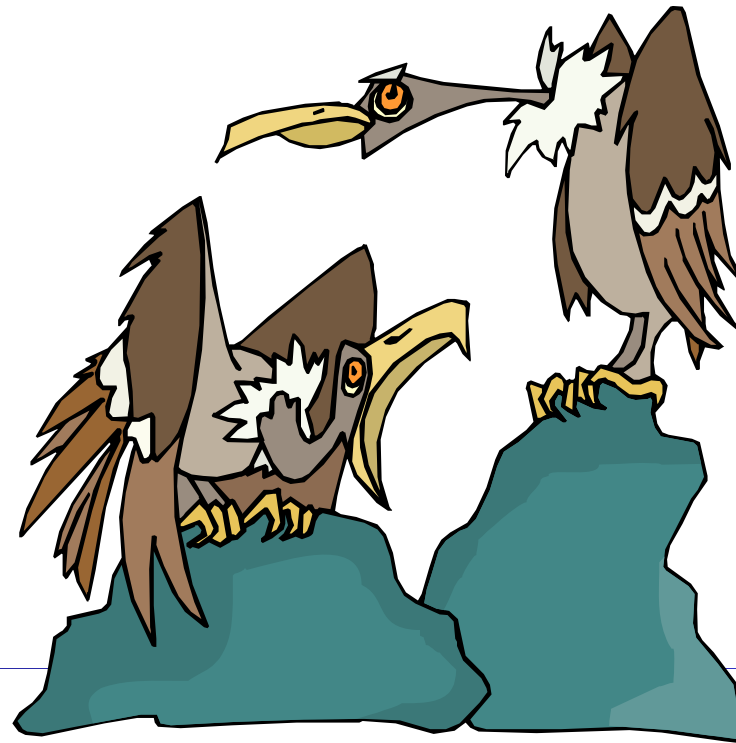


## Keys to Success in the Ground Lease Program – Benefits to the Land Owner

- ❑ 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



# Thank You. Now Let's Get to Work.



**“Patience? My !@# \$!  
I’m going to kill something!”**

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Ehud Mouchly, owner of READI, LLC was until recently General Manager of UniDev, LLC's West Coast Office. UniDev has focused on design, development, financing and management of middle-class, middle-income workforce housing communities. He is a real estate industry veteran, with over 30 years' experience in development, management 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 as Affiliate of SunCal Cos.; General Manager of Anaverde / City Ranch, a major KB Home MPC in Palmdale, CA; Co-Developer and principal investor of the Landmark at Lathrop, a large-scale commercial MXD project in Northern California; Managing Director in the Real Estate Group of Price Waterhouse; co-founder and President of Kotin Mouchly Group. Ehud has served in several leadership positions in the Urban Land Institute (ULI); he has been 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), fellow of the Royal Institution of Chartered Surveyors (RICS), and he is an adjunct professor in the Master of Real Estate Development (MRED) program at the University of So. California (USC). He holds bachelors and masters degrees from Columbia University.

