

**Covell Village
Housing Support Proposal
Addressing Davis's High Cost of Housing**

Introduction

Dwelling subsidized by the Covell Village Affordable Housing Proposal number fully 40% of the market priced homes. This is more than any project ever completed in Davis without taxpayer funding. Covell Village is planned on a parcel of infill land surrounded on three sides by urbanization. It is closer to downtown than any Davis development in many years. This unique parcel is a rare opportunity to fully implement New Urbanist and Smart Growth planning concepts. In recent years, Davis has seen only conventional, mass-production, suburban sprawl. Those projects have jarred the community's image of itself as an urban planning and environmental trendsetter. It is time to set our sights higher.

As one aspect of our goal to re-ignite Davis's reputation for intelligent urban planning, the Covell Village Company has worked to develop a program which maximizes the quantity and durability of housing assistance. We are seeking to help the greatest number of people, from the greatest range of incomes for the greatest period of time. As a result, we are proud to submit this Covell Village Affordable Housing Proposal.

Davis's Affordable Housing requirements are already several times as great as the average inclusionary requirement of other Northern California communities with such ordinances. Our proposal seeks to fulfill this goal in a unique and innovative fashion. Above and beyond that, we are voluntarily providing an additional Middle Income (Workforce) housing component. This will provide 15% of the market priced homes to qualifying buyers who will be subsidized by the Housing Trust program.

1) Apartment Rental Housing

- a) **Very Low Income:** Floor area equal to ten percent of the market rate rental area will be affordable at 50% or below the Yolo County median income.
- b) **Low Income:** Floor area equal to twenty-five percent of the market rate rental area will be affordable at 80% or below the Yolo County median income.
- c) **Ratio of Income:** Affordability shall assume housing costs of 30% of gross income.
 - i) The affordability calculation will consider the real-world savings renters will realize due to energy-saving features used at Covell Village. Credit will be allowed on this calculation for estimated energy savings provided by the building. For instance, if, due to energy features built into the project, energy consumption is estimated to be 25% less than permitted by the State of California Title 24 criteria, then the standard budget amount for utilities may be adjusted downward 25% when calculating rent affordability.

- d) **Rental Square Footage:** In anticipation of city needs and a policy to encourage smaller units, Covell Village will pool rental apartments as a maximum of 236,000 SF total living area not to exceed 450 bedrooms. Thirty-five (35%) of the square footage would be affordable as outlined above. This is intended to facilitate the provision of more one and two bedroom apartments in anticipation of the City adjusting their development impact fee structure to reduce the currently existing penalty against small rental units.
- e) **Term** – Rental units will be managed on these affordable standards for a period of 20 years from completion.

2) For Sale Housing

- a) **Unit Percentage:** To conform with the draft Affordable Housing Ordinance of the Affordable Housing Task Force, for sale homes numbering 25% of the market rate homes (including senior homes) will be affordable housing. These are broken into two halves.
- b) **Land Dedication:** The first half of the for-sale affordable program will be a land dedication to the City or its designee. The number of units will be converted to land area using a rate of 15 units per acre. CVC will complete its obligation for this after making a bona fide offer of dedication. We request these two parcels shown on the project site map be credited towards land dedication:
 - i) The 3.7-acre parcel labeled “Land Dedication” shown along the western property edge immediately north of Picasso.
 - ii) The 5.5-acre parcel labeled “Senior Core Facilities” immediately east of the parcel labeled “Land Dedication”. This parcel will provide the lowest cost senior housing available within the project. We are currently working with the non-profit Eskaton to plan and construct a 130-bed facility including independent living, assisted living and memory care. As a part of the care continuum program for the other senior housing, it will provide a broad range of food, emergency medical, transportation and other senior services not only to the residents of the Core Facility, but also make those services available to owners of the senior restricted housing proposed nearby.
- c) **On Site Affordable Homes:** CVC will provide the other half of for sale affordable dwellings as homes on the Covell Village site that are available to qualified individuals. There will be a range of house sizes similar to that shown on Table 1. An approximately equal portion of these homes will be built in each phase of the project. At the close of escrow for each home, the CVC will endow the Housing Trust with the dollar amount shown for each unit on Table 1. In return, the Davis Housing Trust (DHT) will commit that such funds be immediately loaned to qualified purchasers. Loans are to be made to the buyers of the homes constructed for this program. Each of the units in the proposed 6-

plexes and the co-housing are intended to qualify as satisfying the project's for sale AH obligation.

- i) This on-site component of our affordable housing program will conform to the terms of the Davis Housing Trust as outlined in Attachment A and Table 1.
- ii) Adjustment to Table 1: CVC's endowment and the respective security documents issued by the DHT will reflect the assumptions shown on Table 1. In order to adjust for market changes while providing budget certainty, these numbers will be adjusted to reflect current values as of the date of the successful passage of Measure J vote for Covell Village. Thereafter, the Table numbers will be fixed for the duration of the project phasing.

3) MIDDLE INCOME (WORKFORCE) HOUSING

Above and beyond the affordable housing provided above, we will provide housing to serve middle-income homebuyers working in Davis. Fifteen percent of the homes will be sold middle-income residents who already work in Davis.¹ This so-called "workforce" housing is targeted towards people who spend their workday in Davis, but are now unable to purchase a Davis home due to high cost. This group is assumed to be able to buy homes in other cities because they have good credit and adequate income.

In order for this program to be successful, buyers must be attracted by the benefits of homeownership similar to what they can enjoy elsewhere. Providing these workers a home they can buy in Davis is a benefit to our community as much as it helps the buyers. When our workforce lives in Davis, traffic congestion and air pollution are both reduced. In addition, the fabric of our community is strengthened when they can spend their free time and shopping dollars here. This builds a commitment to Davis unlike an inbound commuter. While somewhat intangible, this holistic interaction with Davis reaps gains for all.

To achieve this goal, we propose to provide a wide range of small and medium sized homes to the target group and endow the Davis Housing Trust with the funds required to make Davis homes affordable to them. These homes will be sold under the same criteria as outlined in

¹ A delicate financial balance exists between market rate housing and workforce housing. Because many of the project's benefits and amenities, including the workforce housing, are made possible by the sale of market rate homes, it is projected that an increase in the number of workforce housing numbers would have the adverse result of increasing the sale prices of market-rate housing. As the plan is currently configured, the average home in Covell Village, at market rate, will be approximately \$100,000 less than the current Davis average home price of \$449,000. Since market home prices in Davis are already much higher than surrounding communities, increasing project expense with higher home subsidies increases the market prices, creating an artificial bulge in housing prices. In effect, this becomes a tax on the market priced homes to finance those that are subsidized. Exacting larger subsidies for some income groups, makes homes more expensive for others. Davis's affordability targets are many times the requirements of any known community in the United States. They are far more than any non-governmental project would normally be able to provide. Increasing this ratio further still makes the market priced homes affordable by only those with very high incomes. The result would be a two-tiered community, the wealthy and the subsidized, which is not in Davis's best interests. Our goal is to balance the equities and provide house sizes and prices that span a complete spectrum.

Attachment A for Low and Moderate income homebuyers. The proposed prices and loan amounts are detailed in Table 1 as “Middle Income”; shown in the three right-hand shaded columns of the table.

4) RESIDENTIAL EXEMPTION

One type of small dwelling is requested to be exempt from the requirements of the affordable housing program. These are approximately 40 lofts planned above commercial buildings to integrate mixed-uses into the project’s Village Center. This request is made due to the intrinsically lower costs of these dwellings compared to duplexes or single-family housing. They are also encouragement for our goal to provide a vibrant, walkable semi-urban Village environment. Our success in this purpose will improve air quality and reduce traffic in this area of town by providing a broad range of basic needs to surrounding neighborhoods, thus encouraging bicycle use and walking while building our sense of community.

5) CONCLUSIONS – The Covell Village Affordable Housing Program Includes the following major components:

- a) Thirty five percent of all apartment housing floor area designated as affordable - 10% to residents at Very Low Income and 25% to residents at Low Income.
- b) As to for-sale housing, dwellings numbering 25% of the market rate homes will be sold to low and moderate income Davis employees using Davis Housing Trust (DHT) loans.
- c) Additional units totaling 15% of the market rate dwellings will be sold to middle income Davis employees.
- d) All housing under the Trust – Low, Moderate and Middle Incomes - will be offered first to income-qualified buyers who work in Davis.
- e) One or more parcels of land will be dedicated to the City. The total acreage of land will be calculated using 15 units per acre. One half of the affordable housing will be provided this way.
- f) Subsidizing the purchase of homes targeted at homebuyers earning specific maximum incomes will provide the other half. The attached table is provided to detail the components of the Covell Village Housing Support Program.
- g) Dwelling units that are intrinsically lower cost and foster denser, “New Urbanist” growth, are requested to be exempt from affordable housing.

The details of the DHT follow.

ATTACHMENT A

DAVIS HOUSING TRUST

Introduction

The Davis Housing Trust (DHT) is intended as a framework within which various housing resources for Davis are held in trust for community benefit. Covell Village jumpstarts this Trust which can also hold and manage funds from other sources, hold title to land which is leased back to qualifying persons and other permissible tasks in support of housing for Davis.

Concepts and Goals

DHT will help finance the purchase of local homes for people working locally – workforce housing; housing for people the community wishes to encourage to be part of Davis but who otherwise would remain renters in Davis or buy in outlying areas where housing is less expensive. The program is intended for three SACOG income categories: Low, Moderate and the lowest part of Above Moderate (also referred to in Davis as “Middle Income”).

Goals of the program include: reductions in air pollution and traffic congestion, as well as the building of a strong sense of community by increasing the number of low to middle income local employees who can also be residents. It is an effective and tested approach to the problems of “windfall” and “permanent affordability” for subsidized ownership housing. Windfalls are eliminated by the secured recapture of the DHT endowment. “Portable Affordability” results because later generations of buyers are empowered to purchase homes with DHT loans anywhere in town. They are effectively given the buying power of wealthier buyers in the marketplace to shop and buy throughout Davis.

The DHT proposal is a part of Covell Village’s larger Affordable Housing responsibilities under Davis ordinance. In keeping with the draft ordinance criteria of the Affordable Housing Task Force, CV will provide affordable rental units. It will also make significant land dedications, which will satisfy one half of the for-sale requirement.

The DHT loans will fulfill the remainder of Covell Village’s affordable housing obligation under local ordinance. The loans will be available on units numbering 12.5 % of the market rate dwellings of the project.

In addition to the Low and Moderate cost homes called for under Davis’s affordable housing ordinance, Covell Village Company is further committed to providing access to Davis housing for middle-income buyers. This will be accomplished by the voluntary extension of the DHT program to homes numbering an additional 15% of the market rate homes. These homes will be sized and priced to be affordable – with investment by DHT – to qualifying households earning between 140% and 180% of median income.

In each income range, the commitment to assist the individuals is coupled with a commitment to build a range of appropriately sized homes. In addition to the loans to individuals, the Davis housing stock will be infused with a permanent diversity in relative pricing. That is, smaller homes will always be less expensive than larger ones. Greater housing diversity means intrinsic affordability. In these ways, Covell Village provides an unprecedented range of housing opportunities to those most in need of assistance to enjoy the Davis Lifestyle. The Trust framework starts an ever-growing housing fund to perpetually support housing access for all.

Program Outline

The Trust's basic service is to provide a sizable contribution to the downpayment on homes. Covell Village Company will cover the start up administration and costs for the formation of the Trust entity.

The initial Board of the Trust will consist of 7 people. Until the final Trust-funded home is sold, the Board will include three members appointed by CVC. A fourth Boardmember will be a member of City staff with experience in administration of affordable housing. A fifth boardmember will be an experienced member of the local banking community. A sixth Boardmember will be an at-large community representative with knowledge of affordable housing issues, but without any direct relationship with a business (profit or non-profit) which participates in affordable housing. The seventh and final boardmember will be selected to represent the affordable housing industry. The CVC and City Staff will select the other members by mutual agreement.

After the final sale of Covell Village homes, the three CVC appointees will end their terms and board membership shall drop to 5. The position remaining will be selected by majority vote of the 7-member board as its final act prior to resignation of the CVC appointed members.

Designated dwelling units within Covell Village will be eligible under the program. Those will be sized and priced for low to middle income buyers (condos, townhomes, attached homes and Aggie Village-type). As part of the escrow for each full price sale of designated dwellings, Covell Village Company will grant an endowment to DHT. DHT will simultaneously loan the endowment funds to the homebuyer in the purchase escrow. There will be designated homes in each allocation phase. No phase will require more than a proportional amount of the buyers to be eligible. In other words, DHT buyers will be distributed uniformly over the entire multi-year construction phase of the project.

All endowment funds will be counted as a portion of CVC's Affordable Housing commitment or towards its voluntary Middle Income program, depending upon the income of the buyers served. Borrowers will pay an administration fee at the time of purchase and another at time their loan is paid off. No payments to DHT for endowment loans are due during time each buyer owns their home. Owners shall be responsible for all usual and normal home ownership costs including: mortgage, taxes, utilities and insurance.

The pool of eligible buyers is defined as households with at least one:

- a. Local public sector Davis employees (including at least City of Davis, School District, non-profits and UCD). They must be employed in Davis as of the close of escrow on their purchase. They must have held their job for at least 3 months. Their office must physically be in Davis (zip code area of 95616) or on the campus of the University of California here.
- b. Private sector employee who has worked for a business at its Davis office (zip code area of 95616) for at least one-year.

Income limits for applicants shall be as detailed in Table 1.

Homebuyers receive no windfall of DHT funds because the funds are loaned at the purchase and repaid at the sale through a formal escrow process. Home sale escrow documents will show the purchase price at market rates. The loan made by DHT at the close of escrow - with endowment funds granted by CVC – will only be made in exchange for a promissory note and deed of trust. The transaction results in no gift to the buyer. Every dollar of endowment funds is ultimately repaid, with all accrued interest. City property tax revenues are not reduced by below-market home sales.

Buyers retain all rights and duties of homeownership, including any maintenance, utilities and taxes. They will be entitled to share capital gains upon sale. The optional formulas for capital gains or fixed interest are discussed below. Permanent and portable affordability is achieved without the community sharing the burdens of building maintenance, administration costs or the policing of subsequent below market sales.

Initial Trust Purchase Procedure (Sales of Homes in Covell Village)

- 1) CVC will provide homes in the quantities and sizes detailed on Table 1 of the Covell Village Affordable Housing proposal.
- 2) Under penalty of perjury, buyers seeking loans will apply to CVC using DHT approved forms in order to be added to the lottery pool. Buyers must qualify for the necessary mortgages or be excluded from the lottery pool.
- 3) Anytime after the final map is issued for a group of appropriate homes, CVC may hold a lottery of eligible applicants for the specific units available. After public notice within Davis, the lottery will be held in a public place. Each household may have only one lottery entry.
- 4) The lottery will prioritize the applicants on the eligibility list. The list establishes the order in which buyers may select from the available group of homes. Homes may become available again either if lottery winners do not choose them or if they later return to CVC because a buyer is unable to complete the transaction under its terms for any reason.

- 5) DHT qualified buyers selected by the lottery must close escrow within one month of completion of the unit. Thereafter, rights of the first buyer to that home will lapse and it may be sold to the next eligible buyer on the list of prioritized applicants.
- 6) If, after good faith efforts by CVC and the respective buyers, a home has not sold by 3 months after completion, CVC may sell the home to any third party but must transfer the funds defined in Table One to DHT at the close of escrow as an endowment for use as a loan to other qualified buyers.
- 7) In the unlikely event that, after good faith efforts by CVC and DHT, the pool of eligible applicants is smaller than the number of units available, CVC may sell the unsold homes to any third party but must transfer the funds defined in Table One to DHT at the close of escrow as an endowment for use as a loan to other qualified buyers.
- 8) Additional Provisions of DHT Financing:
 - a) Upon sale or refinance (to remove DHT interest), capital gains will be distributed between DHT and the Homeowner in accordance with the terms agreed to at the time of the initial loan.
 - b) Capital gains are defined as net sales proceeds minus original home cost at purchase. No adjustments will be made for maintenance, remodels or expansions.
 - c) Homeowners will receive all reduction in principal on the first mortgage.
 - d) No payments are due to DHT during loan.
 - e) All endowment funds are to be secured by a promissory note and recorded deed of trust.
 - f) There will be a requirement for homeowner occupancy with exception of a single 364-day period (e.g. sabbatical) each seven (7) years.
 - g) DHT may sub-contract loan administration to real estate loan brokers or non-profit housing corporations via competitive contract. A fee may be charged to the homebuyer at the purchase and at the sale of a home under the program to cover costs.
 - h) Returned endowment funds plus the Trust's capital gains will be re-invested using similar loans to assist later purchases by future eligible homebuyers. Future homebuyers may choose homes located anywhere in Davis. The result will be the long-term dispersal of buyers having qualifying incomes throughout the City.

Options for DHT Investments Loans Versus Shared Equity?

Buyers in the Trust program must receive a large enough return on their investment to allow them to later buy a similar home elsewhere in Davis. If they can't, buyers will more likely buy in outlying cities and not participate in the program at all. True, they will have to drive to work – effecting traffic, air quality and their social connection to Davis. But they understand Fannie Mae's refrain that "homeownership is the most powerful economic force in America" and that they need to be a part of it to assure their economic future.

At the same time, the Trust must earn enough of a return on its loans that it can help the same number of buyers in future generations. The challenge is to balance the conflicting needs of the Trust and the homebuyers.

To find this balance, we must determine how much return DHT and the buyer should each receive as their share of the funds when the property is sold. We have analyzed a variety of ways the Davis Housing Trust can assure its endowments from Covell Village will appreciate adequately over time. The results of this analysis are below.

There are two basic models for the terms of the loan by DHT to assure that the Trust remains able to help future homebuyers. They are:

- A "silent second" like the Massachusetts Housing Partnership model (<http://www.mhp.net/homeownership/softsecond.php>), or
- Shared appreciation model in which DHT shares in appreciation (or depreciation) of equity.

1) Advantages of the Silent Second model include:

- a) Simple calculation & administration.
- b) Understandable to Buyers.
- c) All incentive to maintain the home remains with Homeowner.
- d) Trust endowment grows over time.

2) Disadvantages of the Silent Second include:

- a) If, in the long term, the real estate market experiences more than about 2% difference between increases of homes in relation to rises in income, the interest rate needed by DHT to fund a similar second-generation buyer must rise above 12% per year. This appears onerous to most potential buyers and will discourage their participation.

3) Advantages of the shared appreciation model include:

- a) DHT always has enough return to make another home affordable to a low to middle income Davis resident.
- b) The return for both DHT and the homeowner adapts to the rise or fall in the real estate market. If prices go down, DHT does not take a fixed amount of interest on its loan. Instead, the loan interest effectively rises or falls with home values. In the event of loss of value due to a poor real estate market, even the Trust endowment may suffer a loss. However, in that event, since home prices have presumably dropped, DHT will still have adequate funds to help a second-generation buyer.
- c) The high effective loan interest for DHT's share (16% in Table examples) provides a strong incentive for the buyer to payoff the loan early by re-finance or other means. This frees funds for the next generation of buyers.
- d) Asset rich, but low-income buyers (i.e. wealthy retirees) have incentive to forego the DHP investment, leaving the loan money for another qualifying buyer who enjoys fewer assets. This is the real proof that there is no windfall in the Trust approach. Those with assets will use them to make a larger downpayment because it is cheaper than making the Trust a partner in the purchase. The Trust should not be helping those who have assets anyway. Only those who need the Trust's financial boost will use it.

4) Disadvantages of the shared appreciation model include:

- a) Incentive for homeowner to maintain or improve the property is reduced.
- b) Limited growth in their equity traps homebuyers with "Golden Handcuffs". Since a buyer's equity does not grow as it would if they bought a home elsewhere, buyers will be discouraged from participating in the program. If they do participate, they can never sell to move to a larger home within Davis since there is not enough cash remaining at sale for them to make a comparable downpayment on a similarly sized Davis home; such as when their family grows or their needs otherwise change. This dilemma has been cited in recent news articles about residents of UCD's Aggie Village project. After buying there, owners are either forced to stay and watch their equity share grow slower than the rest of Davis or to sell and buy in another city because their cash upon sale is not enough for a downpayment in Davis.

Both silent second and shared appreciation programs can be adjusted somewhat to limit some of these problems. Silent seconds can use higher or variable interest rates. Shared appreciation can be made proportional or disproportional to the investment.

The ultimate choice will be made by the DHT board and should be decided in light of all the goals and circumstances at the point in time when the loans are made. We believe that the chosen program needs to be successful for both the Trust and the Buyers. If not, it will reflect poorly on all parties and not accomplish its goals.

After a thorough analysis and careful balancing the various interests, we recommend that the Trust and the Homeowners share in the capital gains equally – that is, split the capital gain 50/50. After giving the homeowner the loan principal they have paid during their ownership, the net gain (sales price, minus original first mortgage amount, minus Trust loan, minus costs of sale) would be divided in two halves. One half paid at escrow to DHT (along with DHT’s original loan principal) and the other to the homeowner. The effect of this on the Trust’s ability to help a second-generation of buyers is shown on Table 2.

The 50/50 option under the assumptions of Table 2 will generate an average annual return for the Trust of over 16%. This is sufficient to enable give the Trust to help new, similarly qualified homebuyers buy second-generation homes throughout Davis. It also provides a large enough return on the investment by the first group of homebuyers that, in our opinion, provides adequate incentive for them to participate in the program and to properly maintain or improve their homes.

Trust assisted homebuyers will not realize as large of return on their investment as market priced buyers in Davis will enjoy. However, their return will be only slightly less than they would have received if they had used their downpayment to buy a less expensive home in another city. The purchase assistance is in the form of a loan and not tied to a specific home. When the funds are re-cycled by the Trust for the next generation of homebuyer, the new buyers are empowered to shop for homes throughout Davis. In this way, most of the pitfalls of a price-restricted home described above are avoided.

If the 50/50 formula is used, Table 3 illustrates the growth of the Trust endowments over time. Even after discounting for present value at the conservative rate of 5%, the endowment grows significantly to over \$20 million in 20 years; nearly doubling, in real terms, from the \$10 million endowments by Covell Village.

For these reasons, we feel the 50/50 sharing option will come closest to satisfying the needs of all parties.

Other Possible DHT Activities

After its formation to administer the Covell Village Affordable Housing Trust, DHT is a structure under which a variety of other housing programs could be administered. These include the ability to:

1. Hold title and receive lease payments on donated real estate for qualifying projects.

2. Make large loans to qualifying multi-family projects including: co-housing, limited equity cooperatives or apartments.

3. Loan out funds from private investors to qualified buyers, for which the investors would receive interest, invest in the quality of their community and increase the number of qualified buyers the Trust is able to assist (see Massachusetts Housing Partnership example <http://www.mhp.net/homeownership/softsecond.php>). Like the DHT concept, these private funds could be used to help qualified buyers purchase houses and neighborhoods throughout Davis.

3/30/04

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