

**COVELL VILLAGE
AFFORDABLE HOUSING PROPOSAL**

INTRODUCTION

Covell Village is planned on a parcel of infill land surrounded on three sides by urbanization and on most of the fourth side by the City's former landfill. It is closer to downtown than any Davis development for many years. This unique parcel is a rare opportunity to fully implement cutting edge New Urbanist and Smart Growth concepts. Recently, 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.

As part of its goal of re-kindling Davis's reputation for quality urban planning, Covell Village has worked hard to develop a program to maximize the quantity and sustainability of affordable housing. The Covell Village Affordable Housing Program is designed to help a greater number of people, from the greatest range of incomes for the greatest period of time that has ever been attempted before in Davis, or for that matter, in any private project of which we are aware in the United States. Therefore, Covell Village is proud to submit this Affordable Housing Proposal.

Many cities have only recently begun requiring builders or developers to provide a percentage of rental and for-sale housing specifically priced for low income residents. By contrast, Davis has had such a requirement for some 15 years. While those jurisdictions with such mandates have affordable housing requirements which are generally around 5% and sometimes as high as 10% of the units, Davis has a requirement which, with density bonus, results in affordable units numbering 25% of market rate units on for-sale development and a remarkable 35% of market rate units for rental housing.

As might be expected under basic economic theory, lowering prices for some dwellings has the effect of raising the prices for others. The long term effects of this can be seen in SACOG's¹ current Fair Share allocation proportions for Davis. Davis's laudable early focus upon housing for very low income residents has resulted in a greater proportional need for Moderate Income housing than for Very Low and Low Income

¹ Sacramento Area Council of Governments

housing today.² This fact has been sensed by community leaders and responded to by the City of Davis's current efforts to explore Middle-Income housing opportunities³. These factors all played a part in the formulation of a comprehensive Affordable Housing Program (AHP) for Covell Village.

The City of Davis Affordable Housing Ordinance (the "Ordinance") divides the developer's obligation into two major categories – rental and for-sale dwellings. Within rental dwellings, there is an obligation to provide for two distinct income groups – Very Low income (50% of Yolo County median income and below) and Low income (50% to 80% of median). Within for-sale housing, developers are to provide a certain number of dwellings; half in the form of dedicated land and the other half built on-site and sold to qualified buyers⁴.

On the following pages are the details of how Covell Village plans to fulfill these obligations. In addition, this narrative details how Covell Village proposes to go beyond the City's stringent obligations and even solve several other challenging affordable housing problems, as well.

² Final Regional Housing Needs Plan for the SACOG Region, September 20, 2001, page 19 – Davis Housing Needs for 2000-2007: Very Low - 4.03%; Low - 19.57%; Moderate - 31.65%; Above Moderate - 44.75%.

³ Middle Income Housing Analysis, Staff Report, October 1, 2004 for October 12, 2004 City Council Meeting.

⁴ Current ordinance as of this writing calls for 40% to be built on site; the new draft ordinance, which as of this writing had been reviewed by the Planning Commission, calls for 50% on site and 50% land dedication.

RENTAL HOUSING

There will be multi-family rental apartments built as part of the project. The Ordinance allows the option of either the dedication of bare land at a rate of 20 units per acre or the provision of affordable units by the apartment owners. In the case of Covell Village, the units will be provided. This prevents a bare parcel from languishing in wait of funding and makes the units available much sooner than if the land were simply dedicated.

Very Low Income: Units numbering 10% of the market rate rental units⁵ (to the nearest whole dwelling unit) shall be rented to residents earning incomes at or below 50% of the then current Yolo County median income. After construction, these units will be owned and operated by CHOC⁶ and leased to YCCC⁷ clients.

Low Income: Units numbering 25% of the market rate units shall be rented at rates affordable to residents earning between 50% and 80% of the then Yolo County median income.

Amount of Income for Housing: Affordability calculations for rental units will assume housing costs of 30% of gross income. Housing costs will include rent and utilities. Credit shall 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.

⁵ To date, all calculations for the number of units under the Ordinance have been applied to the proposed total units. Then a one for one density bonus was applied, giving one additional dwelling for each affordable dwelling provided. The draft Ordinance is designed to simplify and clarify this historical methodology while producing the same result by using a unit number of 25% of the market rate units assuming the density bonus has been applied.

⁶ Community Housing Opportunities Corporation

⁷ Yolo County Care Continuum

Pooling of Rental Square Footage: Uniquely, the Covell Village project proposal pools rental apartments as a maximum of 236,000 SF total living area not to exceed 450 bedrooms. This pooling approach 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.

FOR SALE HOUSING

When homes are built for sale in Davis, the City requires that provisions be made for some of these to be affordable. The draft Ordinance recently reviewed by the Planning Commission calls for the same 25% of market rate units as the existing Ordinance after density bonus. The draft Ordinance also calls for one half of these affordable units to be provided by a parcel of dedicated land at a rate of 15 units per acre. It requires the other half to be built on the site and sold to qualified buyers⁸.

The Covell Village proposal for the for-sale part of the development tracks very closely to the new Ordinance. It adds several important enhancements. First, it addresses the difficult problem of recapturing the “windfall” to the buyers without reducing them to mere renters. Secondly, it voluntarily expands the subsidy program up the income ladder into a new “middle” income level, which – despite a growing need - has not yet been served in Davis.

In conformance with the draft Affordable Housing Ordinance by the Affordable Housing Task Force, for-sale homes numbering 25% of the market rate homes will be provided as affordable housing. These shall be split into two halves – those provided in the form of land dedication and those built on-site.

LAND DEDICATION COMPONENT

The first half of the 25% will be provided in the form of land dedication made to the City or its designee. The number of units⁹ will be converted to a land area measurement at a rate of 15 units per acre. The currently proposed locations are two sites

⁸ The current Ordinance is different only in that it only requires 40% of the for-sale housing affordable obligation to be built on site.

⁹ 12.5% of the market rate units, divided by 15 units per acre, equaling the required acreage of land dedication.

labeled on the site plan. The value of the sites and the needed total acreage based upon the number of units are detailed on **Table 1**.

The ultimate locations and exact acreages will be determined prior to the finalization of the first final map. After making a bona fide offer of dedication, Covell Village will have no further obligation for this part of the affordable housing.

PHASED AFFORDABLE APARTMENTS - An Alternative to Land Dedication - The draft Ordinance calls for the affordable units later built on the land dedication sites granted as a result of for-sale housing to be affordable, on average, to residents with 65% of median income. However, most of these land dedication sites in Davis sit vacant for many years. They often must await government funding which takes great effort to assemble. Usually, by the time funding is available, surrounding homes have been built and occupied. At that point, the construction of low-income housing becomes a source of serious controversy leading to divisions in the community.

Rather than have this land experience a similar fate, Covell Village proposes an alternative. Since the entire project is phased over at least 7 years, it is fair to expect the affordable housing be available in proportion with the market rate housing. If a privately owned affordable apartment project could provide apartments at the 65% income target at a pace which matched the pace of the overall project, and if it could do so without any taxpayer funding, then the affordable housing funds normally needed to build on the dedicated land could instead be used for other projects. If this were possible, the community would have the ability to generate more affordable housing in the long run.

As an alternative to conventional land dedication, Covell Village is offering to provide low-income apartments uniformly over the course of the overall project's build out; and to do so without any taxpayer subsidy. This would be done as follows:

Firstly, these apartments would be given permission to build at the outset of the project, without penalty to other project phasing. Construction would begin as soon as possible. Ownership would remain with Covell Village or its assignee. During the first full year of apartment occupancy, the entire project would be rented at market rates. During the second year, a portion of the units would be converted to low-income tenants

earning an average of 65% of median income. The next year an additional portion of the units would become low-income units, and so on until the entire project had been converted to such low-income tenants. The amount of the conversion would be in proportion to the length of the overall project phasing. For instance, if the project were phased over seven years, then one seventh of the units would convert each year after the first full year at market rate.

Rents for market units would rise at market rate, until there were no more such units. Rents for low-income units would rise at the rate of the Yolo County median income. The result would be that affordable housing would be provided at the conclusion of each year for which the market rate units they mitigate are built. The property owners would be obligated to maintain this rental pricing for 25 years from the date the last unit converts to low-income rental. The City funds that would have been used to develop the parcel would instead be available for entirely different affordable housing projects, significantly leveraging community housing money.

ON SITE COMPONENT

Covell Village will provide the other half of its for-sale affordable obligation by arranging for the construction of dwellings at Covell Village that are sold 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 shall be built in each allocated phase of the project. The approximate number of homes available for each income bracket is also shown in **Table 1**.

MIDDLE INCOME ENHANCEMENT

In addition to the Low and Moderate housing required by the City under its current ordinance, Covell Village is also providing opportunities for Middle Income workforce members to obtain housing¹⁰. The project will make available units

¹⁰ Middle Income is defined here as households with income between 120% and 160% of Davis median income, estimated for Table 1 at \$75,000.

numbering 25% of the market rate units as for-sale affordable homes to Middle Income buyers in the quantities and prices as outlined in Table 1¹¹.

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 real estate costs. This group is assumed to be able to buy homes elsewhere because they have good credit and adequate income. Therefore, in order for a program to be successful, buyers must be attracted by a program which provides benefits of homeownership similar to what they can enjoy elsewhere.

Providing these workers a home in Davis is a benefit to the Davis community as much as it helps the buyers. This is because having its workforce live in Davis reduces traffic congestion and air pollution while strengthening the fabric of the community when they spend their free time and shopping dollars in Davis instead of elsewhere, thus bringing a commitment to Davis which is unlike that of a commuter. While somewhat intangible, this positive interaction with the town in which they both live and work yields gains for all.

Covell Village Affordable Home Sales

To achieve these goals, Covell Village proposes to provide a wide range of small and medium sized homes to the target income groups. Most important, a sales structure is proposed which will enable the qualified buyers to purchase a more expensive home than they otherwise could afford. Unlike prior programs, however, the Covell Village proposal avoids a number of pitfalls. Key among these is the recapture of the “windfall” value, that is, the difference between the amount the buyer can pay and the true home value.

Sales of homes for all three income categories – Low, Moderate and Middle income – will be subject to the same terms. The program is an adaptation of the City’s current Green Terrace condominium project in south Davis. It has the following major parts:

¹¹ Middle Income units are designed primarily for Davis internal housing needs and thus use a \$75,000 median income, which approximates current Davis median income, which was \$74,057 in 2000. It also assumes 40% of the household’s income is dedicated to housing. The current mortgage marketplace range is 38% to 42% of income allowed to be committed towards housing in the form of mortgage, taxes and insurance costs.

1. In conformance with the Affordable Housing Ordinance, Buyers must be qualified by both income and workplace.
2. Covell Village will provide the number of homes of the approximate sizes and appraised values outlined in **Table 1**.
3. In conformance with City guidelines, Covell Village will hold a lottery of qualified buyers, for the designated homes.
4. Purchase documents will show that Buyers have purchased homes at full-appraised value. However, Covell Village will only receive as payment the bank loan amount the Buyer can afford to pay for the home, plus their downpayment.
5. The difference between the appraised value and the amount the buyer can afford is not paid to Covell Village at escrow. Instead, it is secured as a “silent second” loan payable to the City of Davis, with an interest rate. This loan will not require any payments while the home is owned and occupied by that Buyer.¹²
6. When any owner later sells, they must sell to a qualified buyer approved by the City. The price they can sell the home for will be limited¹³. They must also pay a 1% fee for administration. Finally, they must repay the silent second loan, with interest accrued, to the City.

The funds that are paid into the City at sale can be used at the discretion of the City for various affordable housing programs. The homes remain in the City’s affordable housing portfolio¹⁴.

This affordable housing model has several advantages over prior programs.

These advantages include:

¹² Having the transaction occur at an appraisal or market price, but securing the difference with a loan has the effect of protecting for the community’s benefit what had in the past been lost as a “windfall” when a buyer later resold the home. It also avoids depressing nearby home values and the reduction of property tax revenues to the City.

¹³ As at Green Terrace, the home resale price must be no more than 5.5% per year based upon the appraised value sales price at the time of original sale. The price may be similarly increased for remodeling work that has triggered Yolo County tax re-assessment if the owner can adequately document county re-assessment.

¹⁴ If, after 15 years, the same Buyer remains in the home, they may pay off the “windfall” loan with accrued interest and obtain release of this deed restriction.

- The City retains an interest in a pool of homes through its First Right of Refusal and the related Buyer designation and Price Limitation powers.
- The difference between what a home is worth (appraised value) and what the Buyer beneficiary can pay is protected and grows through the silent second loan program. Loans repaid at the time a home sells can be used at the City's discretion.
- Home purchases made at appraised prices will protect neighborhood real estate values as well as the City's property tax income.
- Buyer designation gives the City the ability to offer the homes to members of the local workforce and others with connection to the community. In this way, the program will be a key tool to address Davis's internally generated housing needs.

EXCLUSIONS

The Co-housing project has been committed to a separate group. It will consist of approximately 30 dwelling units. They will negotiate with the City and provide for affordable housing within their project separate from that of Covell Village. These units are therefore excluded from the relevant calculations on **Table 1**.

The integration of 60 dwelling units into the Village area is a key component of the New Urban planning concept for a mixed-use, walkable neighborhood center. A primary goal of such planning is to assure there are people in the commercial areas at all times, not just during the workday. These residents bring the safety of eyes on the street, act as a customer base for local shops and add general vitality to a pedestrian friendly environment. The Village and the community will be better for having these urban-style dwellings. However, they are difficult to plan for at this stage since they are on the upper floors of as yet undesignated commercial buildings. These 60 units will have their increment of affordable housing addressed individually within the various buildings as they are designed and developed, much in the way modern mixed-use buildings have recently been done in the downtown area of Davis. Therefore, this number of units has also been separated from the overall affordable housing calculations of **Table 1**.

CONCLUSIONS

The Covell Village Affordable Housing Program provides a comprehensive range of housing opportunities for community members from a broad range of income levels. It puts particular emphasis on moderate and middle-income households; areas of demonstrated need within our community. Davis has a requirement for affordable housing that dramatically exceeds those of most communities. By increasing the assistance to middle income households, by innovation in for-sale transaction methodology and by devising a taxpayer-free alternative for affordable rentals, Covell Village, has substantially raised the standards for affordable housing.

Affordable Housing Proposal Final 111904