CmDv Affordable Single Family Housing Development RFP #2104

#2104.02 – CmDv Affordable Single Family Housing Development RFP #2104 published 10/22/2021

The following question was submitted:

I am looking to magnify our modest capital by partnering with the right programs to add more affordable housing. There's a mutual benefit potential to "do well by doing good". The local partner is a real dynamo who is doing excellent construction work on 2 projects right now. What would you do with maybe $300k?

One of the things that struck me in your presentation is the focus on $200,000 retail value property. From what I've seen in Alexandria is that's not where the primary need is. The areas the City is targeting are way below that value. More like $30-50k. That matches the $20k annual income in those poorer neighborhoods. Those that have stayed in Alexandria have migrated to the southwest corner. I'm thinking we focus on the fringe of the better neighborhoods, looking for lots suitable for maybe newer mobile homes or older homes to rehab. Targeting a $60k exit, maybe on seller finance until borrowers can improve credit and income enough for traditional financing. I just don't see how someone making $15/hour can ever manage a $100,000+ mortgage given the depressed economy there.

That's the view from my seat with no knowledge of how your world works.

Feedback? Direction?

Answer given by Stephen Lathom, HOME Consultant:

Thank you for reaching out and for your interest in Alexandria's RFP for single-family development. In the interest of transparency, this email exchange will be treated as a question under the RFP and made available to other potential respondents.

For the presentation, my focus was on helping people understand the conceptual flow of the dollars. When training on this, I deliberately use "round numbers" so as not to get lost in trying to follow the specific arithmetic. I sometimes modify them a bit depending on the regional audience (i.e. higher cost markets like the NYC/NJ/Philly region, for example) but the goal is that they're "familiar enough" to make sense. However, to be clear, I wasn't trying to suggest that the topline numbers of $200K for total cost, $125K value, and $110K first mortgage) are the specific targets we would expect in Alexandria.

I do think your observation is correct – that in general the City's "target neighborhoods" will have lower valuations than in some other neighborhoods. For a whole slew of reasons, it is not uncommon for the neighborhoods on the outer edges of a City to be seen by "the market" as more valuable, leading to both higher appraised values and, potentially, a deeper pool of potential buyers.

This is where I think the City realizes that its various goals for this program are not in 100% alignment. In a "perfect" world, we'd find ways to build in distressed neighborhoods (with the goal of helping spur further reinvestment and revitalization) while simultaneously maximizing the ratio of market value to cost. But it's also unlikely the stars will align in every case.

In the "most distressed" locations, it's likely we'd see very high appraisal gaps (for example, $200K to build the house but valuation of only $50K) but would have relatively small "affordability gaps" (on paper, someone making $20,000 could probably afford a $50K mortgage, though finding folks who are credit worthy may be a challenge). In the more "desirable" neighborhoods, there's a good chance we'd be more likely to see lesser need for appraisal gap (the development might cost $225K, the increase being due to lot cost not construction per se, with an as-completed value of $150K, still a sizeable need for development subsidy, but proportionately not as extreme) but then higher affordability gaps.

The challenge for you as a potential developer it to identify projects that you think are a) achievable (you have to be able to make the economics work) but also b) represent the greatest "bang for the buck" in terms of the various competing outcomes the City is after – including both producing affordable housing opportunities but also having other redevelopment impacts.

My personal opinion is that, at least initially while the City and its potential partners get a feel for doing this, getting viable achievable projects will be "enough" and that it's likely those will not be centered in the target neighborhoods. That said, we also just don't know what the development community will be able to put together and by creating some potential for competition, the City increases its chances of having proposals that can check off multiple goals at once.

Finally, in response to your mention of seller financing. That's not really what HOME generally expects. We recognize that buyers may not be able to amortize the full purchase price of the home, and that's why there's built in second mortgage assistance. But we would still expect buyers to get a "reasonably conventional" loan (not conventional in the non-FHA sense, but in the 30 year, fixed rate within a reasonable +/- of average interest rate, from an established lender sense… FHA, VA, USDA-RD are all totally fine). That factors back to the specific sites that eventually get picked. The houses produced need to be marketable to buyers who, while perhaps of limited means, still are financeable and have some choices.

All other information in the original bid packet is applicable. Should you have any questions, please contact Yvette Botts at 318-449-5074 or email yvette.botts@cityofalex.com.