

ULI Land Use Policy Forum Report

Challenges to Developing Workforce Housing

**Prepared by
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**The ULI Workforce Housing Forum
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**Urban Land
Institute**

About ULI

ULI—the Urban Land Institute is a nonprofit education and research institute that is supported by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment.

ULI sponsors education programs and forums to encourage an open, international exchange of ideas and sharing of experiences; initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on that research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development. Established in 1936, the Institute today has more than 16,500 members and associates from more than 60 countries representing the entire spectrum of land use and development disciplines.

Richard M. Rosan
President

ULI Land Use Policy Forum Reports. ULI is in the forefront of national discussion and debate on the leading land use policy issues of the day. To encourage and enrich that dialogue, ULI holds land use policy forums at which leading experts gather to discuss topics of interest to the land use and real estate community. The findings of these forums serve to guide and enhance ULI's program of work. ULI produces summaries of these forums in its Land Use Policy Forum Reports series, available on the ULI Web site. By holding these forums and publishing summaries of the discussion, the Institute hopes to increase the body of knowledge that contributes to the quality of land use policy and real estate development practice throughout the country.

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Introduction

In December 2001, ULI—the Urban Land Institute convened a panel of experts in Los Angeles for the ULI Workforce Housing Forum to discuss the growing shortage of housing that is affordable to moderate-income households, especially in urban areas. Despite a decade of economic success, the shortage has only intensified, and, though most severe in the largest metropolitan areas, the problem is nationwide and is attaining crisis proportions. The lack of affordable housing in urban areas is leading many households to locate far from their jobs, creating all the problems associated with sprawl, including traffic congestion, air pollution, environmental degradation, and requests for public funds to be used for the construction of new roads, schools, libraries, etc. In some areas, the lack of workforce housing has become an economic development issue as corporations decide not to locate in areas where their employees cannot acquire decent, safe, and affordable housing.

A diverse group of professionals from the real estate industry, including the financial, development, and construction sectors, along with representatives from local government, nonprofit organizations, and academic institutions, gathered to exchange ideas and explore solutions to this vexing problem. Participants considered the following questions:

- What are the three or four most significant barriers to development of workforce housing in urban areas?
- What changes can be made and have been made by governments to encourage the development of workforce housing?
- What can the private sector do to hold down costs when developing housing for the moderate-income market?
- What can be done about the high costs of land assembly and acquisition?
- What financing approaches are available to underwrite workforce housing development in urban areas?
- What are the benefits of and concerns about income-restricted housing?

Policy Forum Summary

The forum began with a welcome from chair Daryl J. Carter and the introduction of forum participants, followed by opening remarks from John K. McIlwain, ULI senior resident fellow for housing. Three case studies then were presented illustrating the real-life challenges of developing workforce housing. The day concluded with a group discussion of the issues involved in such development.

Opening Remarks

McIlwain, in opening remarks to the forum participants, set the context for the discussion by describing seven sea changes he sees occurring in the affordable housing industry nationwide. He addressed the question, “What is workforce housing?” and discussed the federal response to the issue. The sea changes, or paradigm shifts, in the affordable housing industry outlined by McIlwain are the following:

- **Emphasis on housing affordability rather than housing quality.** In the 1950s and 1960s, the affordable housing issue was one of the quality and safety of substandard housing occupied by many poorer Americans, as well as its affordability. Although some substandard housing still exists, the quality of the housing stock has improved and is no longer as important an issue as affordability.
- **Expansion of the group with critical housing needs to include moderate-income households.** The lack of affordable housing now affects a larger group of households, including the group making moderate incomes, referred to as the “workforce households.” The need for moderate-income housing is growing more rapidly than the need for any other type.
- **A “drive to qualify” caused by the lack of affordable housing.** Workers in moderate-income households are forced to drive farther and farther from their jobs in urban areas—to distant suburbs and rural neighborhoods—in order to qualify for a mortgage. Studies have shown that for every mile a person drives outside of a city, housing costs will drop.
- **Political fragmentation on the issue of housing.** Housing has not been in the forefront as a political issue at the federal level for some time now, and McIlwain does not see this political reality changing anytime soon. Federal funding to address housing issues has been declining for decades. After adjusting for inflation, housing as a federal budget item has half the funding today that it had in the

1970s. The budget for the U.S. Department of Housing and Urban Development (HUD) is currently around \$30 billion; if the agency were funded at the rate it was in the 1970s, its budget would be somewhere in the range of \$70 billion to \$85 billion.

■ **Growing involvement of state and local governments with the issue of affordable housing.** With the decline of federal participation in housing issues, state and local governments are being asked to address the issue through innovative and affordable programs.

■ **Reduced inventory of federally subsidized housing units.** Due to opt-outs through HUD's Mark to Market program and the continuing trend toward replacing the failed high-density public housing projects of the past with lower-density, mixed-income HOPE VI communities, fewer subsidized housing units are available to low-income households. At the same time, the number of vouchers and low-income housing tax credit projects has increased significantly.

■ **Transformation of public housing by the HOPE VI program.** Public housing traditionally created blight on a community and trapped its residents in poverty. HOPE VI neighborhoods show promise for creating vibrant mixed-income communities that provide opportunities for lower-income households to succeed.

McIlwain recommended for the purpose of discussion that households be aggregated into three basic income groups. At the lower end are households with incomes at 50 percent of the area median income (AMI) and below; many of these households receive direct government assistance with their housing costs. At the higher end are households that are able to buy at market value a home close to their jobs and to retail space; these households—for whom the market works well—include what is commonly called the middle class, as well as upper-income households. The group between the top and the bottom groups is what ULI defines as the “workforce.” This group includes some households that may qualify for government subsidies, but many that will not. These households have incomes between 50 and 120 percent of AMI and include teachers, firefighters, police officers, and nurses. Workers in this group are finding themselves priced out of the market as housing costs increase at a greater rate than their incomes.

McIlwain quoted from *Housing America's Working Families*, a recent report by the Center for Housing Policy, a non-profit research affiliate of the National Housing Conference (NHC). The report looks at households with critical hous-

ing needs, which it defines as those that are paying more than 50 percent of their income for housing. It highlights the fact that in 1999, about 13 million families had critical housing needs, actually a slight decline from 1997 levels. However, further analysis of the data reveals that while there were fewer elderly, nonworking households and low-income households with no jobs among those with critical housing needs, the number of moderate-income households in those ranks actually increased. The number of working families with critical housing needs rose from 3 million to 3.7 million, a 23 percent increase in just two years, and that segment of the population represented 28 percent of the whole group, up from 23 percent two years earlier.

McIlwain reported that prospects are poor for additional federal money to address housing issues; further cuts are more likely, especially in light of the increased federal funding for the military and homeland security in the wake of the September 11 terrorist attacks. Likewise, there is little interest at the federal level in workforce housing; advocacy groups for low-income housing fight over the ever-dwindling federal dollars and are not necessarily inclined to champion the cause of workforce housing.

McIlwain believes that the Millennial Housing Commission, appointed by Congress and nearing completion of its report on the state of housing in America, will make many excellent recommendations regarding improving the Federal Housing Administration process, providing tax relief for low-income housing properties, granting the states more authority, etc. However, it is unlikely that it will address workforce housing or recommend additional federal funding, he said. That will leave the state and local governments with the task of creating innovative and affordable means of encouraging the production of workforce housing. One technique that local jurisdictions have used with varying degrees of success, McIlwain said, is inclusionary zoning—requiring that a certain number of housing units in new developments be affordable.

McIlwain then challenged the forum participants to offer their opinions on workforce housing and opened up the floor to questions.

Asked by one participant how much of the void left by the declining HUD funding was being filled by the low-income housing tax credit program, McIlwain said that although the program is popular and effective, it does not come close to filling the funding gap.

Another participant asked if environmental and government regulations are playing a part in increasing the costs to construct housing and thereby exacerbating the affordability problem. McIlwain replied that market demand for larger, more luxurious housing has had more of an impact on costs than additional environmental or governmental regulations. Part of the problem is that the concept of what constitutes basic housing has changed. What was considered acceptable, even desirable, housing 40 to 50 years ago would now be considered small and inefficient. An 800-square-foot brick box once was considered fulfillment of the American dream; many families lived their entire lives in such homes. Today, standards have changed, and most families will not accept a home that size. Many will drive to distant suburbs just to acquire more housing space.

Case Study: Vista Del Rio, Commerce and Bell Gardens, California

Jeffrey Lee, president of the Marina del Rey, California-based Lee Group, presented the forum's first case study—Vista Del Rio, a 10-acre, 102-home development straddling two cities, Commerce and Bell Gardens, California. The two-story, three- and four-bedroom houses have 1,400 to 1,700 square feet of space built on approximately 3,000-square-foot lots. Lee's organization has been specializing in infill development for about 17 years and has been working on this site for seven years, five of which were spent negotiating with the two cities on approvals and acquiring funding to make the project financially feasible. The site, located in southeast Los Angeles, previously was used as a freight terminal, and the portion of the site in Commerce had been the site of a dump. The freight terminal owner spent \$18 million over several years on environmental remediation of the site.

Development Challenges

According to Lee, the political instability and inconsistency of local decision makers was an ongoing problem with the development. He reported that during the development process, there were several changes at the position of city manager, and previous agreements were altered due to changing personnel. One thing that was constant, though, was the city's desire for affordable housing. The median income in the area was \$28,000, and it would be almost impossible to build a new home affordable for people making that income, Lee said. Even when the land is acquired almost for free, Lee said his

company is unable to produce a home for much less than \$200,000, which pointed to a housing crisis in the area.

Also, despite the previous cleanup efforts, an active methane barrier was required on site to account for contamination on adjacent sites. Also, old storm drains had to be replaced because they no longer met county requirements.

Affordability and Financing

The Lee Group purchased the property from the freight terminal company for about \$5 million. Bell Gardens subsidized the land costs on its side by about \$2 million, and Commerce did the same for the property on its side by \$2.9 million, so, in effect, the Lee Group purchased the property for roughly \$100,000. The low land cost was required to make the site feasible for residential development, due to the extensive and expensive site work required, Lee said.

In 1997, the Lee Group determined that for the development to be feasible, the houses should be priced at \$175,000 to \$195,000, so it entered into price agreements with the cities at those price points. However, between 1997 and when the houses went on the market in July 2001, housing construction costs rose from \$42 per square foot to \$50 per square foot. Lee then went back to the cities requesting that the sales price be raised by \$18,000 to \$20,000 to account for the increase in construction costs.

The cities stated that if the home prices were raised by that amount, they would no longer be affordable to the group that the cities were hoping to serve. The cities asked that 53 of the units be affordable to families with incomes below 120 percent of AMI. Lee responded that his group had acquired \$700,000 in funds to be used for silent second mortgages of \$35,000 each for 20 families. He also stated that his firm would make available \$250,000 in silent third and fourth mortgage money; this money had been allocated for another affordable project, but was never used. In addition, falling interest rates made the more expensive housing units more affordable to the buyer.

Through the combination of lower interest rates and affordable second, third, and even fourth mortgages, Lee was able to demonstrate that a family with an income of \$40,000 could afford to buy a home originally offered at \$175,000 for the updated sales price of \$190,000. After a year of negotiations with the cities, agreements eventually were reached on the updated sales prices.

The income and sales price restrictions placed on the homes differ between the two jurisdictions. In Bell Gardens, the restrictions will be in place for 30 years; in Commerce,

they will be in place for 10 years. The Lee Group offered to make the restrictions valid for 30 years in Commerce, too, if the city allowed the company to offer a buydown in which a lower interest rate is offered in years one and two of the loan, making it easier for potential buyers to qualify. However, the city rejected the offer.

Lee said that in Los Angeles, there is almost limitless demand for affordable urban infill units: he could build community of 1,000 units and sell them all quickly if he could put together the package to qualify buyers, he said.

Case Study: Noji Gardens, Seattle, Washington

Tony To, assistant director of HomeSight, a nonprofit community development corporation operating in Seattle, presented the second case study—Noji Gardens, a 75-unit housing development being constructed on 6.5 acres in southeast Seattle. The development consists of 11 townhouses and 64 single-family homes; all units are two stories. According to To, it is almost impossible to build affordable single-family homes in Seattle. Noji Gardens is located in the Rainier Valley, a diverse and integrated area with equal populations of Asians, African Americans, and whites.

Twenty-four of the units are being constructed completely on site, and 51 are manufactured homes that are being assembled there, making this the first manufactured income-restricted housing development in Seattle or anywhere in the Pacific Northwest. Noji also includes the first attached, manufactured home constructed in the country under the strict, nationally recognized HUD Code. To date, 50 units have been completed, and 48 have been sold. Eleven additional units are under construction, and four of those sold after the first open house. HomeSight, in addition to being a developer, also offers homebuyer services and programs, To said. The corporation raises money for and offers and services second mortgage loans for first-time homebuyers with incomes below 80 percent of AMI.

The demographics of the homebuyers in Noji Gardens reflect the overall Rainier Valley population: roughly 26 percent of the buyers are African American, 37 percent are Asian-Pacific Islander, 3 percent are Hispanic, 9 percent are mixed race, and 25 percent are white.

Development Challenges

The major barriers to construction of this infill project were government regulations, required infrastructure improvements, and land and construction costs. The per-

mitting process was slow, To said, but HomeSight was able to help the Seattle permitting department streamline some of its procedures. The real delays came from the public works department, specifically involving reviews of sidewalks, underground utilities, and storm drains. The extended review of these items delayed the project by about two years, To said. Despite the support of the mayor and the agency chiefs, the project was significantly delayed by the department staffs, some of whom To described as obstructionist.

Another regulatory barrier has been the HUD Code, To said. Although there was nothing in the code that restricted manufactured housing, the fact that such construction hadn't been used anywhere else in the region caused delays and confusion, including reconciling the requirements of the local code with HUD requirements. To mentioned that there is a HUD publication due out soon that explains the process of building affordable manufactured housing.

The required infrastructure improvements also were a barrier. Roughly 1.5 acres of the total 6.5-acre site were returned to the city as right-of-way. More than a mile of underground pipe was required for the water mains, sewer mains, and stormwater mains, representing significant upfront expenses for the development.

Land and construction costs also have been a problem. Fortunately, HomeSight purchased the land for a reasonable amount before prices began accelerated appreciation. During the two years of negotiation for permit approvals, however, construction and infrastructure costs rose significantly—construction by 15 percent and infrastructure by 17 percent—throwing off the original pro forma significantly, To reported.

Another barrier was the fact that while Seattle's AMI rose significantly in the 1990s with the influx of highly paid workers at Microsoft and other high-tech employers, the lower-income groups did not see parallel pay increases. Since HUD and local housing agencies use AMI to set income restrictions and housing costs, the maximum sales prices and the rents that could be charged to home purchasers and tenants increased as well, exacerbating the affordability problem. The disparity between the increase in the income of the lower-income households and the increase in the housing sales prices reduced the number of low-income households that could qualify for mortgages at Noji Gardens.

A greenhouse previously located on the Noji Gardens site required environmental remediation: residual herbicides

and pesticides had to be cleaned up from the soil and asbestos had to be removed from the greenhouse structures. Anyone doing infill development must factor environmental remediation into development costs, To said. Seattle also recently enacted stricter stormwater management requirements, and To advised that these costs be considered in any development pro forma, too.

Insurance for infill projects also represented a barrier to development: liability insurance costs have risen due to lawsuits concerning construction defects.

Affordability and Financing

Under conditions of the community development block grant (CDBG) loan used to buy the land, roughly 11 percent of the units sold at Noji Gardens were sold to families with incomes below 50 percent of AMI, 67 percent were sold to families with incomes between 51 and 80 percent of AMI, and 22 percent were sold to families with incomes between 81 and 115 percent of AMI. Roughly \$500,000 in federal funds was appropriated for second mortgages for homebuyers, including families with incomes between 80 and 120 percent of AMI. Fourteen of the units must remain as income-restricted units. HomeSight reserves the right to buy back the units to preserve their affordability.

For many of the homeowners, purchasing units at Noji Gardens equates to having rent-controlled housing for 30 years, To said. In addition, of course, the homeowners develop equity and are able to write off their mortgage interest on their income tax returns.

Due to the constrained revenue created by the affordability requirements, costs have had to be reduced to make the project financially feasible. HomeSight estimates that \$10,000 to \$15,000 per unit was saved by using manufactured housing components, To said, and he believes savings could reach \$25,000 per unit on HomeSight's next project due to its increased knowledge of the product type. Because of the savings, HomeSight will now build all of its townhouse and single-family detached housing units with manufactured components. Another financial advantage of manufactured housing is that the federal Davis-Bacon Act—which requires that prevailing wages be paid to workers on public construction projects—does not apply because manufactured housing assembly is considered product assembly rather than construction activity, To reported.

The housing units built by HomeSight have been getting smaller over the years as part of the cost-cutting efforts: those at Noji Gardens are roughly 200 square feet smaller

than other HomeSight projects due to increasing construction costs. Two-bedroom units average 900 to 1,000 square feet, three-bedroom units average 1,300 to 1,350 square feet, and four-bedroom units average 1,400 to 1,450 square feet. In addition to reducing unit size, HomeSight also is making its projects more feasible by increasing density: it is now considering mid-rise condominium units in addition to the low-rise units.

Besides addressing construction costs, layers of public and private financing have been used to make the project feasible. A \$3.4 million CDBG float loan with a 2 percent interest rate was issued to buy the land. A letter of credit was required for the loan. If these funds had been used for construction, Davis-Bacon prevailing wage rates would have been required, To said. HomeSight also received a \$500,000 Fannie Mae loan with a three-year term, which was used for infrastructure improvements, and a congressional grant was received and used for construction. HomeSight works with Local Initiatives Support Corporation (LISC) on most projects, To said, and for Noji Gardens, LISC funds were acquired with a 5.8 percent interest rate. Since some of the infrastructure improvements benefited areas outside of Noji Gardens, a \$500,000 grant was received from the city to offset some of the infrastructure costs. Additional grant money was acquired from the Fannie Mae Foundation and the Seattle SuperSonics NBA team as part of their Home Team initiative, through which HomeSight takes part in volunteer activities in the Seattle region. HomeSight also has begun originating some first mortgages itself at a 5.5 percent interest rate, and it is considering setting up its own revolving loan fund for second mortgage financing.

On the takeout side, second mortgage financing using city money and state Housing Trust Fund money is available, with a \$35,000 maximum limit per household. There also is a 10-year property tax abatement for Noji Gardens units that have the density of a fourplex or higher, which equates to \$18,000 to \$20,000 of additional affordability for the homebuyer. Noji Gardens was designed with that rule in mind so that more units would qualify for tax abatements. Even with all of the cost savings from the manufactured components, the low-interest-rate financing, and the tax abatements, the units still had to be sold for \$175,000 to \$200,000 for the project to be feasible. Although that price may not sound affordable, the median price of a house in Seattle is \$303,000, so these units are considered affordable in that market.

Case Study: Stapleton Airport Redevelopment, Denver, Colorado

Greg Vilkin, president of the western division of Forest City Development, the Los Angeles-based regional office of Cleveland-based Forest City Enterprises, Inc., presented the third case study—his company’s mixed-income housing development at the former site of Stapleton Airport in Denver. The site is a 7.5-square-mile property vacated when the airport moved farther from the urban core where there was room for an expansion. Denver created the Stapleton redevelopment plan in 1995 and in 1998 began the search for a developer.

Forest City was chosen and purchased the land on a 15-year takedown, so the company technically owns the land without a significant outlay of money. It purchased the first 275 acres, with a takedown for the remaining 3,000 net developable acres. The company has the option not to purchase future acreage, which reduces the risk to the initial financing. Another advantage of the takedown is that the market value of the future acreage was set at the time of the sale of the initial acreage.

Development at Stapleton is guided by a document known as the “green book,” named for its green cover, which calls for a walkable, new urbanist community providing economic opportunity and social equity and created with environmental responsibility. The book represents a segment of the work of more than 1,000 community members who engaged in an eight-year planning process that led to approval of a comprehensive plan for Stapleton in 1995.

Forest City proposes to develop more than 12,000 units of market-rate and affordable housing at Stapleton, consisting of 12 widely varied product types and prices that will range from the low \$100,000s to \$600,000. One unit type will be a 1,400-to-1,800-square-foot single-family detached home called the Greenport, offered for sale for \$170,000 to \$220,000. The homes will have alleys, garages, and a frontyard; a communal backyard will be shared by 15 homes. This product type will be built at 15 dwelling units per acre.

Another product to be offered will be the Mansion Home, similar to the “big house” apartment projects offered throughout the United States. Each unit will include four to six units but will appear from the exterior to be one big home similar to many of the older historic houses seen throughout Denver. The units within each Mansion Home will have 1,200 to 1,500 square feet of space and

will be priced at \$150,000 to \$195,000. This product type is being developed at 22 dwelling units per acre.

Traditional rowhouses also will be built at Stapleton. The townhouses will vary from 1,600 to 1,800 square feet of space, and some will have backyards. Townhouses over apartments also will be offered with a variety of unit types and sizes ranging from 600 square feet to 1,400 square feet.

The commercial component of Stapleton will include 10 million square feet of office space and 3 million square feet of retail, and roughly 1,100 acres of open space is proposed. Forest City saw Stapleton as an opportunity to do everything it does well, Vilkin said—to develop office and retail space, apartments, and land to sell to single-family homebuilders.

The zoning on the property uses floor/area ratios (FAR) to determine density, with the commercial zones having a two-to-one FAR and the residential zones having a one-to-one FAR. The mixed-use zone will allow most uses.

Development Challenges

Addressing the challenges of constructing workforce housing, Vilkin stated that Forest City does a lot of demand-side work with potential buyers, in addition to its work negotiating supply-side issues. It has created a housing office on site that works with Fannie Mae to qualify potential buyers. A one-quarter-point transfer fee will be charged on commercial and residential property sales in Stapleton, with the proceeds used to fund a community foundation responsible for maintaining affordability in the community. This fee will generate a significant amount of money because of the size of the community and the appreciating values of the properties.

All negotiations with the city went through the Stapleton Development Corporation (SDC), a not-for-profit organization formed by the city that reports to a 21-member appointed board. Additional negotiations were required with city officials who didn’t recognize the validity of agreements with the SDC, Vilkin said, and the development agreement took more than a year to negotiate. The project also has a case manager in the Denver mayor’s office who coordinates the approval process.

Affordability and Financing

Forest City is proposing that 10 percent of the 8,000 for-sale units planned at Stapleton, or 800 units, plus 20 percent of the 4,000 proposed rental units—also 800 units—be designated as workforce housing, for a total of 1,600 units. The targeted market for this housing is described

as households with incomes at or below 80 percent of AMI. Forest City also has donated acreage for 200 units of housing designated for people with incomes of 30 to 50 percent of AMI, what traditionally would be called low-income housing, and has initiated a mentoring program that supports minority developers.

In the first phase of development, 660 detached single-family homes are proposed, Vilkin reported. Of these, about 45 percent will be offered to buyers with incomes above 120 percent of AMI, 20 percent are restricted to buyers with incomes at or below 80 percent of AMI, and the remaining 35 percent are restricted to buyers with incomes between 80 and 120 percent of AMI.

Forest City negotiated a minimum square footage requirement for new units: 450 square feet for studios; 600 square feet for one-bedroom units; 750 square feet, two bedrooms; 1,100 square feet, three bedrooms; and 1,400 square feet, four bedrooms. Also negotiated was the default number of people deemed to make up a household for each unit: studios were deemed one-person households; one-bedroom units, two-person households; two-bedroom units, three-person households; three-bedroom units, five-person households; and four-bedroom units, six-person households. These numbers are important because they affect the calculated allowable AMI for the project and raise allowable prices and rents.

The affordable units will be integrated into the overall project so that they can't be distinguished from the market-rate units. Forest City has been working with Fannie Mae to waive private mortgage insurance (PMI) for certain loans, which would allow potential buyers to qualify for an additional \$4,000 in mortgage financing, Vilkin said. The income-restricted housing would be deed restricted for 30 years, requiring all future homeowners to have incomes below the stated parameter, he said.

The income-restricted units at Stapleton will be subject to a shared appreciation formula calculated upon their sale under which a community foundation will capture a portion of the appreciation in repayment for the original reduced sales price. The longer the homeowner stays in the house, the larger the percentage of the appreciation he or she will keep. The seller must first offer the home to the community foundation, which has the option of buying the property or offering it to the next person on the waiting list. If the owner defaults, Fannie Mae can take the unit to market without income restrictions.

The affordability of the product was made feasible by Stapleton's high density—11.7 units per acre, compared with four to five units per acre for a more typical suburban subdivision. Because the community will be developed using new urbanist principles, including walkways and alleyways, Vilkin said infrastructure costs are much higher than a typical suburban subdivision—\$135,000 per acre for roads, streets, sewer, water, etc., compared with about \$55,000 per acre for a suburban subdivision. Per lot, infrastructure costs are comparable to a typical subdivision, but at Stapleton, the homeowner is getting a much smaller lot with more amenities.

More than \$720 million in infrastructure work will be required at the site. Stapleton has a tax increment financing (TIF) district that includes a \$325 million bond for infrastructure improvements, including all road, sewer, and water infrastructure, as well as schools, parks, and open space. Future taxes generated by the new development will be designated to pay off the bond. Forest City is using bonds and secondary financing to cover the upfront infrastructure costs and then is being reimbursed through the TIF bonds. There also is another \$50 million TIF district, known as a metropolitan district, that is funded on top of property taxes and goes to fund an additional \$325 million in infrastructure improvements. Forest City, therefore, is publicly financing everything except the dry utilities and then providing finished lots to builders. Retail space was sold first to generate revenues for repayment of the TIF bonds, Vilkin said, and several big-box retailers preleased at Stapleton. Vilkin said the lots are laid out in a grid so the area can be converted into a new urbanist neighborhood after the retail uses have ended. Repayment of the infrastructure costs begins at 100 percent to Forest City and then declines on a sliding scale.

Vilkin said that the first model homes should be completed by January 2002, and home sales will begin thereafter, with the first move-ins taking place in September.

Moderated Group Discussion

Forum chair Daryl J. Carter, cochair of Capri Capital in Irvine, California, began the discussion by asking how developments like those presented in the case studies can be encouraged.

Forum participants raised the issue of inclusionary zoning and, in particular, whether the income-restricted units must be provided on site. Some thought that paying a fee in lieu of providing the units on site or provid-

ing the units elsewhere in the general area was a more effective technique than always being required to provide income-restricted units on site. Others thought this would continue segregation by income, which might aggravate existing social problems. The idea that the income-restricted units should be provided by district rather than on site was discussed. It was stated that inclusionary zoning tends to lead to be polarization of communities—where luxury units and low-income units are juxtaposed—because it usually requires housing for people with incomes below 50 percent of AMI.

The idea of providing workforce housing on a sliding scale with units designated for people with incomes between 50 and 120 percent of AMI was suggested as a way to reduce the polarization of the homeowners. As an example, it was suggested that the developer be offered several options for satisfying the affordable housing requirements. For instance, the developer could be allowed to designate 15 percent of the housing units for households making 80 percent of AMI, or could designate 9 percent of the units for households making 60 percent of AMI, or could designate 6 percent of the units for households making 50 percent of AMI. The suggestion was that any of these options would satisfy the affordability requirement and would lead to less polarization of communities. One of the problems mentioned was that federal and state funds are available for units for the residents earning 50 to 60 percent of AMI, but nothing is available for units targeted to residents at higher-income levels.

A discussion ensued about whether downtown Los Angeles is an acceptable place for workforce housing. Some participants said that it is not acceptable for such housing and never will be acceptable because workforce housing is family housing, and transportation and education problems make downtown Los Angeles undesirable for families. Others countered that workforce housing is not necessarily family housing, and that there are many workforce households that do not have school-age children and for whom schools are not a major concern. Others said that the quality of schools is an important quality-of-life issue and that for a community to be sustainable, good schools are a necessity. Charter or magnet schools were mentioned as one answer to improving the quality of the urban schools.

Mixed-income and mixed-use communities were highlighted as the prototypes to be emulated, and economic segregation at either end of the spectrum was held up as a polarizing trend with dire social consequences.

The group discussed the relationship between jobs and housing in a region. Participants stated that often there is disparity between the location and affordability of the housing and the location of the jobs. In one area in the Los Angeles region, there are six jobs for every housing unit. In fact, it was stated, the jobs/housing ratio is out of balance in most parts of the country. The Silicon Valley Manufacturing Group was mentioned as a group that recognizes the importance of affordable housing to the economic health of the San Jose region and is working toward correcting the jobs/housing balance.

One participant cited as an example a housing provider who contacted local hospitals and discovered that they were spending \$7,000 per year per nurse on training and retention programs. The housing provider suggested that the hospital instead take the \$7,000 and use it as a subsidy to provide housing near the hospital for the nurses. The hospitals that have participated in such a program have demonstrably higher staff retention rates, the forum participant said.

The argument was made that employers need to realize that the workforce housing issue is already affecting their bottom lines because of lower retention rates and higher recruitment costs. Most employers offer jobs across a broad spectrum of salaries and do not segregate by income, whereas many housing developments do segregate by income, thereby aggravating the jobs/housing balance. One participant noted that two teachers living together would have a combined income too high to qualify for housing assistance programs, and too low to qualify for a mortgage for acceptable market-rate housing.

The question of whether enough of any type of housing is being built was discussed. There was a feeling among participants that construction of any type of housing has become so difficult that there will be housing affordability problems at almost all income levels unless the issue is addressed. The question was raised as to how the next generation will be able to move around Los Angeles; traffic that is slow now will become completely gridlocked in the future as the population grows. Density was held out as the answer to the housing production problem, and a denser downtown was mentioned as a necessity to address the housing crisis.

One participant asked why it is so hard to build workforce housing. In response, it was pointed out that the three projects discussed at the meeting required incredibly complex arrangements to make them work. Having gov-

ernment as a partner in the development process was mentioned as a requirement for addressing the housing crisis.

Participants mentioned development of dense nodes in urban areas connected by mass transit as one solution, and pointed out that cities such as Los Angeles have naturally occurring nodes that could absorb additional density. Dense mixed-use and mixed-income development was mentioned as the answer to providing the required housing. Government can help the situation through creative measures to change the market and to drive it to a place where sufficient housing can be built. The question of whether state mandates for housing would be an effective way to stimulate housing production was discussed.

Public education about the problem and potential solutions is important to the success of the drive to build more workforce housing, participants said. Many of the solutions, such as higher density and distribution of income-restricted units throughout a city, tend to be unpopular with the public, so an education process outlining the options and the cost of doing nothing should be pursued, participants said. Spreading the costs of the solutions evenly among all groups seems like the only fair option. The point was made that the public education process should include an effort to improve the image of the development community; many of the developers said the profession's image has been damaged by the few who have produced inferior products or have been insensitive to the needs of the community.

Removing surface parking lots as a permitted use in urban areas would encourage landowners either to construct parking structures on the lots or to develop the lots, participants said; currently, surface parking lots can generate enough money to keep the properties from being developed into the housing that is so desperately needed. Also suggested was removing some of the open-space requirements on urban projects, since most cities have publicly owned open space near most development. These two changes were given as two examples of how local government could encourage the development of workforce housing without laying out government funds, which are scarce and more likely to be targeted to low-income housing. Increasing densities and permitting more mixed-use development were also listed as ways that government could make a real difference in the amount of housing available to working families.

One participant commented that many state comprehensive plans include housing elements that set housing production and affordability goals for municipalities, but that

the elements have no enforcement provisions—incentives for production or penalties for not achieving the goals. Adding “teeth” to the enforcement provisions of the housing plans would go a long way toward increasing housing production and, consequently, affordability.

Daryl Carter wrapped up the discussion portion of the forum by highlighting some of the positive developments occurring in American cities, including the return of retail to urban markets, which helps to stimulate the entire community. He also mentioned that Fannie Mae and Freddie Mac have invested more than \$20 billion in urban housing. Carter said he is optimistic about the trends of revitalization of urban areas and the return of housing to the cities.

Next Steps

Marta V. Goldsmith, ULI vice president, land use policy, offered an assessment of the value and purpose of the forum and the next steps that should be taken. She said that many valuable ideas, programs, techniques, and projects, as well as frustrations, were discussed at the meeting. All of the input provides ULI with fertile ground for the development of the future agenda of workforce housing research, outreach, technical assistance, and education, she said. Topics discussed at the forum that will be further analyzed and developed by ULI include: workforce housing market demographics, land costs and availability, infrastructure costs, production and design issues, community acceptance of workforce housing, land use regulations, financing issues, affordability retention, and development of workforce housing using smart growth principles. The ideas generated at the forum will form the basis of ULI's body of work on this topic, she said.

Policy Forum Agenda

WEDNESDAY, DECEMBER 5, 2001

6:30 p.m. **Reception and Dinner**
City Club on Bunker Hill

THURSDAY, DECEMBER 6, 2001

8:00 a.m. **Continental Breakfast**

8:30 a.m. **Welcome and Introductions**
Forum Chair: Daryl J. Carter, Cochair, *Capri Capital*

9:00 a.m. **Opening Remarks: The Workforce Housing Crisis in America**
John K. McIlwain, *ULI Senior Resident Fellow for Housing, Washington, D.C.*
Discussion

9:30 a.m. **Case Study I: Vista Del Rio, Cities of Commerce and Bell Gardens, California**
Jeffrey Lee, *President, The Lee Group, Los Angeles, California*
Discussion

10:45 a.m. **Break**

11:00 a.m. **Case Study II: Noji Gardens, Seattle, Washington**
Tony To, *Assistant Director, HomeSight, Seattle, Washington*
Discussion

12:15 p.m. **Lunch**

1:15 p.m. **Case Study III: Stapleton Airport Redevelopment, Denver, Colorado**
Greg Vilkin, *President, Forest City Development West, Los Angeles, California*
Discussion

2:30 p.m. **Discussion**

- What are the three or four most significant barriers to the development of workforce housing in urban areas?
- What changes can be made and have been made by governments to encourage the development of workforce housing?
- What can the private sector do to hold down costs when developing housing for the moderate-income market?
- What can be done about the high costs of land assembly and acquisition?
- What financing approaches are available to underwrite workforce housing development in urban areas?
- What are the benefits of and concerns about income-restricted housing?

3:15 p.m. **Summary**
Marta V. Goldsmith, Vice President, Land Use Policy, ULI

3:30 p.m. **Adjourn**

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