Apartment for Rent Development Incentives

Thanks for the opportunity to contribute to the discussion since there was not a MFR Build and Hold apartment developer at the stakeholders meeting. As noted, I have over a million square feet of apartment, commercial and mix use development experience. The new ordinance amendment as written was based on meetings with the Single Family Residential or SFR sector and the obligations for affordable housing in their developments. The grants and incentives were considerations within the ordinance to the SFR and middle housing construction sector. By reducing the impacts of construction cost and financing factors for that sector, it didn't consider the "For Rent housing / Multi Family Residential" products. There are incentives needed and the profiled problem of the SFR sector is much different.

A MFR for rent product sector is more cost burdened than the SFR sector because it doesn't have the opportunity to recapture overruns from construction cost and financing changes as does the SFR and middle housing sector. Although both the SFR and MFR are subject to the affordable housing requirements, where applicable, the greater burden is on MFR apartment rental housing developments.

While the most critical need in the community is rental housing, i.e., workforce and affordable housing, it is the most cost prohibitive sector. If no incentives are given to Multi Family development of For Rent housing the excessive cost burden already experienced will cause more "for Sale products" of Condo's, SFR's, cottage housing and ARU's. Rental housing will remain stagnant and the same. The benefit will remain tilted toward the construction of SFR's and a greater loss of land through the use of less units per acre.

Currently the cost of construction is going up. According to NAHB analysis since mid-April 2020, lumber costs for the average single-family home have climbed more than 170%., which has resulted in an increase of more than $16,000 in the price of a new single-family home and $6,107 for a new multifamily unit. These sharp increases threaten the affordability of all housing. Although interest rates are a historic low the cost of building materials have eaten up the interest savings. Most all building materials have hit high levels including cement, another high cost commodity.

With Multifamily rental housing, rents can't be increased to absorb increased cost, and this is especially true in the production of workforce and affordable subsidized housing where rents cannot move any greater than the CPI which is historically stuck at and around 2-3%. Or, the rents can be increased to such levels where they become un-affordable to the area's median income levels where a household becomes severely rent burdened or just un-affordable because the rent exceeds income levels that absorb most of the income.

There are only 496 Affordable Units in Ashland of which, (265 units) are Federal Regulated and (231) were built by private developers via various regulated conditions. Half of these have a sunset period (the end of the 30 to 60 year affordability period ends and the units are brought back to market rate rents) . There are 10,759 housing units in Ashland of which 4,569 are renter occupied. Ashland's Population is 21,621, and 20.1% of the population or 4,400 people, are in the poverty level, earning a minimum of $13,700 annual income. The threshold rent for affordability is 30% of Annual Median Income. At the lower poverty level, which is $13,700 annually, a renter is not rent burdened when the rent is 30% of the annual income, which at the income level of $13,700 per year, calculates at $342.00 per month. Conversely the average medium rent in Ashland is $1,003. At the average household size of 2.06, and with 4,400 people in poverty, 2,300 units are needed but with only 496 we have a shortage of 1804 units.

Ashland's per capita average income is approximately $39,000. The medium household income is $50,613. The average rent in this group is approximately $1,000.00 to $1300.00 per month. No significant number of apartments have been built to meet this need and we have a practical vacancy rate of 0% and facing a loss in accommodating communities for our essential workers of nearly 3,000 units after the Almeda fire. That equates to over 6,000 people at 2.00 people per household. Over the last decade the population, AO 2020, has grown on an average of 1%, adding 1039 people to the population. If 43% of these statistically were renters, the number of rentable units needed is 446 units. The City has built only 77 apartments in the last decade! OSF has built 34 units but these are Privately Owned and subsidized for a portion of the community employed by OSF (private housing). Jackson County Housing Authority is building another 60 units near Clay Street and Columbia Care has 39 planned near Rogue Credit Union. Still these are only making a-dent and can't fill the void or keep up with demand and soon, even those affordable units will sunset out. There is a drastic need for workforce and affordable level rental units now in Ashland. None of this addresses the declining household size, aging, and the environmental impact that continues with more of the same SFR construction, which on average has 5-6 households per acre whereas high density MFR housing can facilitate 27 households per acre on a R-2 zone after bonus incentives. At an R-3 zone we can get even much higher. The ARU's and cottages are presumably facilitating some but at a higher rental un-affordable rate.

The cost burden in the construction of SFR vs MFR rental units are very different. Single family housing, (SFR's, condos, cottage housing, ARU's) can in most cases absorb the increased cost because they are typically built as a build and flip so the selling price usually includes the higher cost and is sold and passed onto the end users. Of course, there is a limit in the market but the ability to absorb the increase are greater in the for-sale market than they are in the rental market. One other point is Lending Institutions will not finance rental property based on the future rental value estimates and will only lend on the historical average market rents, this is an "As Is" appraisal and a Federal requirement. Lending institutions are very conservative on this valuation. On a for sale property, the lender will loan if the buyer can meet the Loan to Value estimate of the lender, and the buyer can afford the 10-20% down payment required by the lenders ratio which is typically 80-90% of loan to value. In Ashland there are many out of staters with the ability to do this and purchase for the investment to rent out again at higher unaffordable rent levels and maybe as a place holder for later retirement.

How can rental housing be helped?

1. Multi Family, for rent developments should be granted a height limit of 3 three stories. This will decrease construction and land cost, encourage for rent development and cause lower rental rates. All levels from the first through third floors should include residential apartments or parking at the lower level. <u>The additional story will reduce the cost of construction, reduce land use by 35% and therefore reduce the carbon footprint.</u> The excess land can be used in many ways such as food production used on site, water retention and reuse, solar, and open space.
2. Jurisdictions should incentivize the Rental Development by building all Offsite development of infrastructure, streets, sidewalks, curbs, pathways, parkways and bike ways where lacking. This should be done by a <u>City, either outright or through a LID (Local improvement development) bond</u>. This should be made available for annexation and in city boundary developments because development within the City boundary of multifamily housing is already leveraged off the existing infrastructure. Annexation rental housing developments should have the same leverage as inner city developments do or the project will become unbuildable or developed at a For Sale product. This is not fair or equitable to burden and single out a development.
3. Multi Family development on transit districts should not be required to have Mixed use (residential over commercial). For one, mixed use requires platform buildings and this high cost of construction will make any attempt at market rate rental units impossible and the units will

likely be sold as condos. Of most importance is financing a mixed-use building. Lenders will not finance a development of mixed use if the commercial portion is greater than 10-20% of the total overall square footage of the gross space that includes residential and commercial space. Commercial space is also an expense burden to the end user because insurance companies frown on a mixed use, especially if the commercial space is at a high ratio of total space insured of the building area, and the insurance premium is much higher.

4. Parking should be reduced and transit, bicycle and walking be fully adapted to the project, carbon footprints reduced, sustainability increased, solar, wind, and climate changing materials introduced i.e. fire-resistant materials, mandatory.
5. Concentrate High density on transit corridors and reduce parking and encourage public transportation.

If there are no incentives and the cost burden remain the same, the benefit to development is tilted away from For Rental Housing and toward the construction of Condo's, SFR's, cottage housing, and ARU's. The decision by the developer will be to construct For Sale developments and the opportunity to get For Rent housing developed reduces, especially at workforce and affordable rates. As noted above, if we continue to do the same type of development, we will never get the rental housing the community needs. Renters as they are now, will be driven out of the community and continue to create the consequences of more commute traffic, spend 30% of household incomes on car expense vs only 9% in urban areas with accessible use of public transportation and shopping. These cost savings will likely revert to the community through higher spending on local goods and health care and increased personal savings that can be applied to the purchase of a home within in the community. As larger household sizes reduce and homeowners grow older and need to downsize, in this case, the smaller units will be available.

Thank you

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