

Durham County

Financial Feasibility Findings

Redevelopment of 300 & 500 E. Main Street
June 14th, 2018

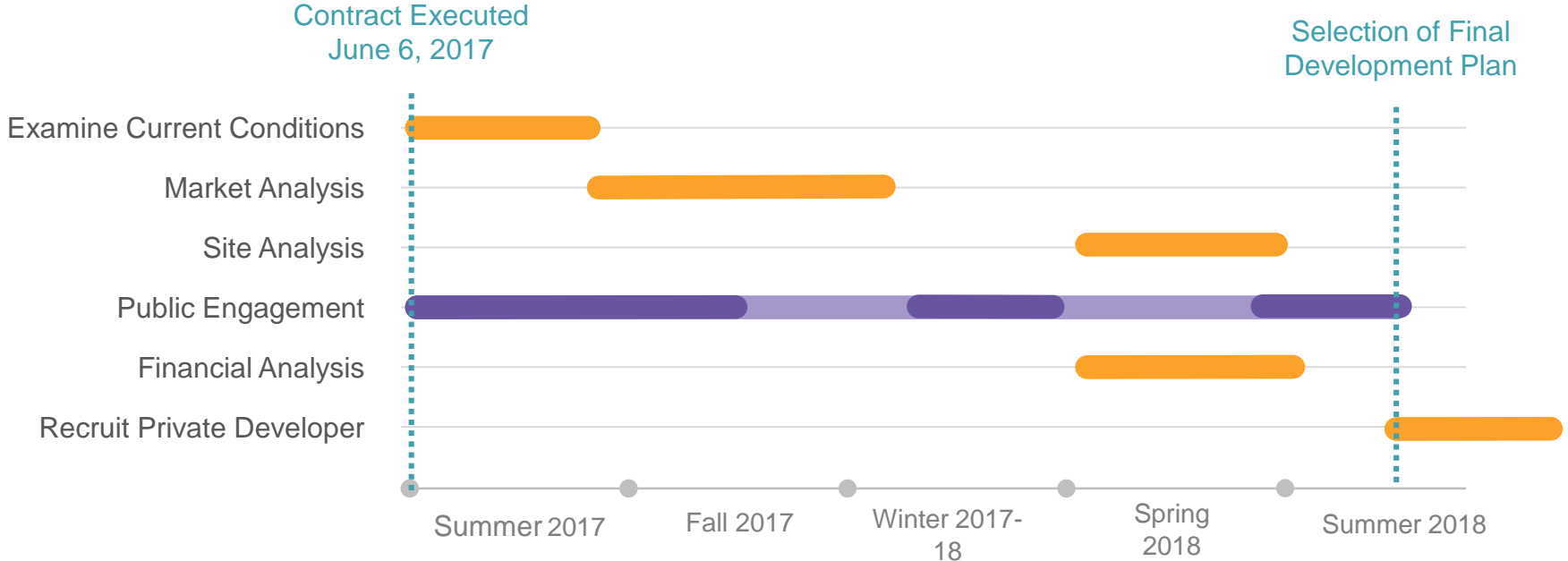


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Agenda

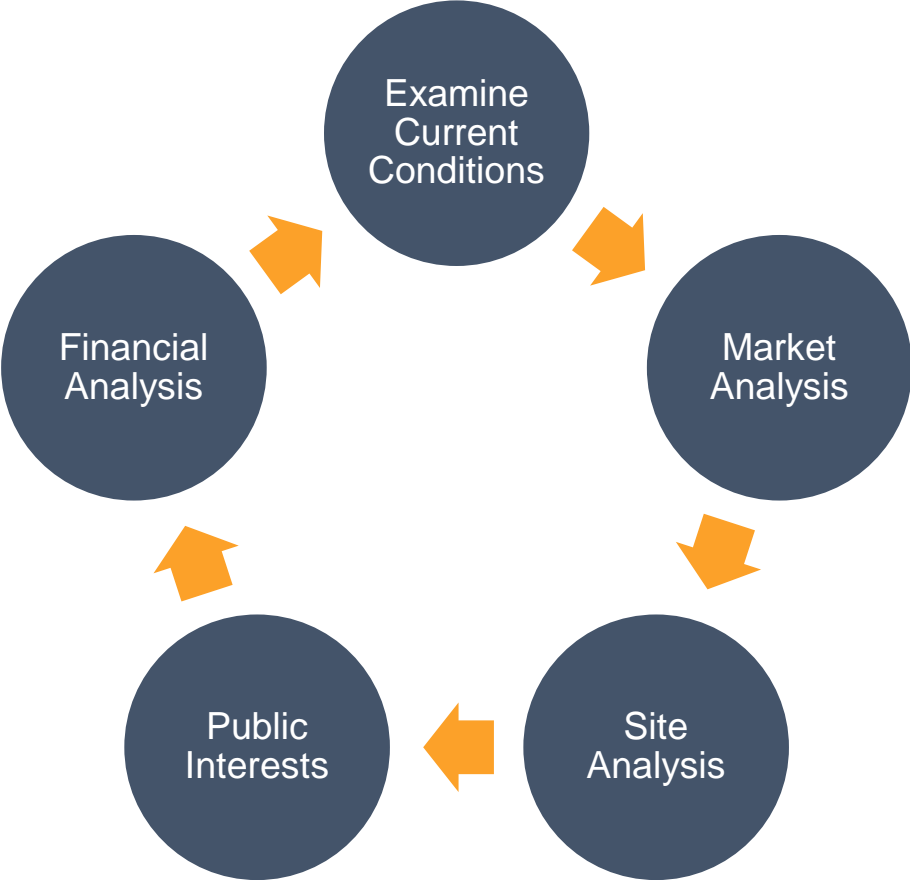
- Project to Date
- Public Parking Deck: Assumptions & Development Plan
- Private Development Plans
 - Context for Development
 - Overview of Financial Feasibility Analysis Process
 - Alignment of Plans with Public Interests
 - Recommended Development Plans
- Discussion & Next Steps

Pre-Development Project Timeline



Note: Timeline subject to change due to market conditions, timing, type and scale of public interest process desired, as well as response during private developer outreach.

DFI Pre-Development Process



Parking


Decision-making around County Parking Needs

- The number of County (employee + customer) parking spaces can be adjusted by adding or removing a floor.
- Private development plans remain the same regardless of the number of floors on the deck.
- Therefore, a development plan can be selected without the County making an immediate decision regarding the number of parking spaces for County employees.

Source of County Employee Parking Assumptions

- BoCC endorsed Facilities Master Plan Update (2016)
- Feedback from April small group meetings

Durham County, North Carolina
Facilities Master Plan Update



DURHAM COUNTY

The 2011 Kimley-Horn parking study identified that peak parking occupancies greater than 85% to 90% are a cause for concern. Based on their projections, between 2015 and 2020 the parking occupancy would reach 95%-100%

Employee Growth

With the completion of the renovation of the Former Judicial Building, the renovation of the Judicial Annex and the expected growth of the employee population in the Social Services department, the need for more parking in the eastern downtown area will become an issue in the 2019-2020 time frame.

• 2015 – Downtown County Employee parking spaces	-> 1298
• Current Downtown County Employees	-> 1182 [91% occupancy rate]
• 2025 - Downtown County Employee parking spaces	-> 1727 (Increase of 429 spaces)
• Downtown County Employees	-> 1468 (Increase of 286) [85% occupancy rate]
• 2035 –Downtown County Employee parking spaces	-> 2120 (Increase of 822 spaces)
• Downtown County Employees	-> 1802 (Increase of 620) [85% occupancy rate]

The numbers above reflect keeping the occupancy rate at or about 85%. The number of required spaces could be reduced but the occupancy rate would be higher and more frustrating to the employees.

Parking Deck Development Costs

	Low Estimate			High Estimate		
	Spaces*	Total Cost**	Per Space	Spaces*	Total Cost**	Per Space
Plan A	1,574	\$42.3M	\$24,800	1,970	\$50.9M	\$24,300
Plan B	1,533	\$39.0M	\$22,400	2,087	\$51.1M	\$22,300
Plan C	1,537	\$36.6M	\$21,800	1,933	\$45.3M	\$21,800

*The actual number of spaces in the development plans are within the range of the 2025 and 2035 targets, but not exact due to constraints of each site.

**Total development costs include the development of commercial space on the ground floor (per UDO). Per space costs are limited to parking development.

Impact of Automation

A parking space detection system would reduce the time it takes a user to find a space, allowing the deck to operate efficiently at 95% occupancy.

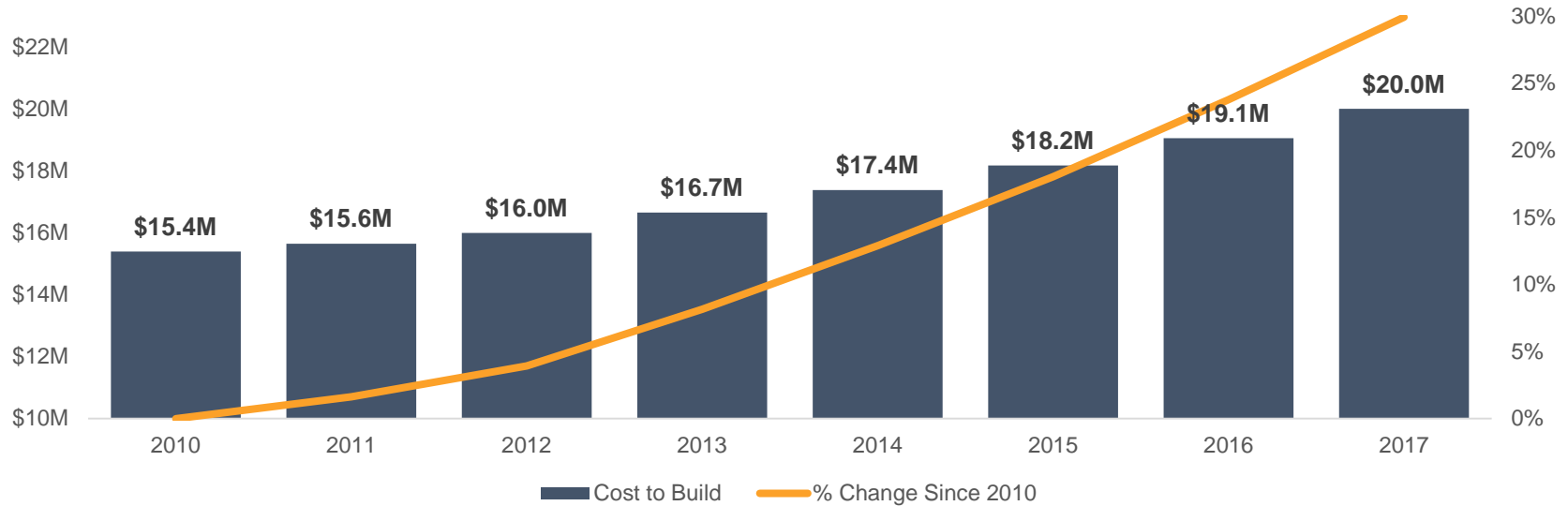
Example:

Occupancy	85%	95% (with Automation)	Change
Spaces	1,670	1,420	-175 spaces
Cost per Space	\$24,800	\$25,300	+\$500 per space
Total Cost	\$41.4M	\$37.8M	-\$3.6M Total

Context for Development

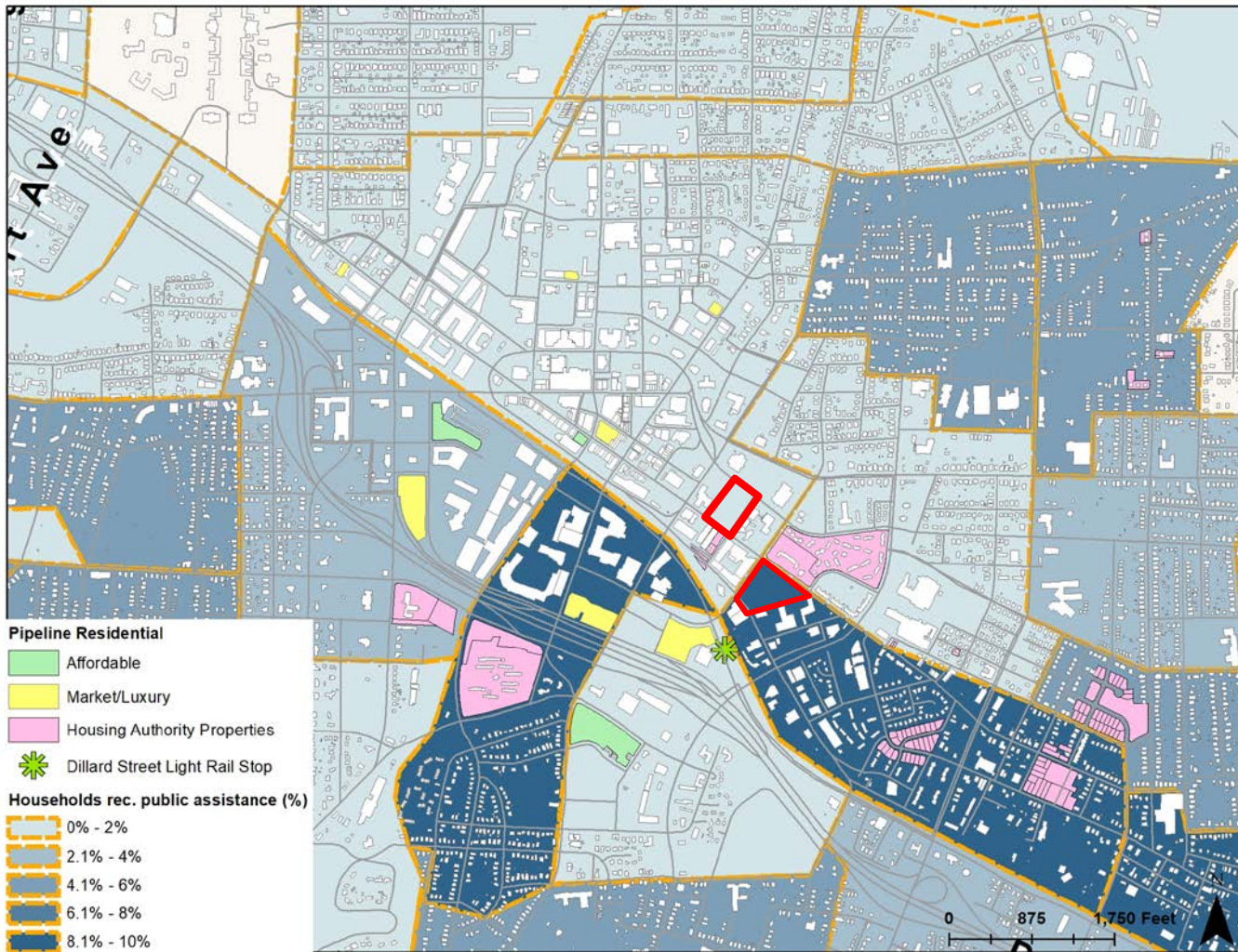
Construction Costs

Building Costs with Annual % Increases Since 2010



Source: U.S. Bureau of Labor Statistics

Between 2009 and 2017, the increase in building costs resulted in a roughly \$370 difference in rent for a 900 SF unit.



Imposing Conditions for Development

Mechanisms for preserving long-term affordability:

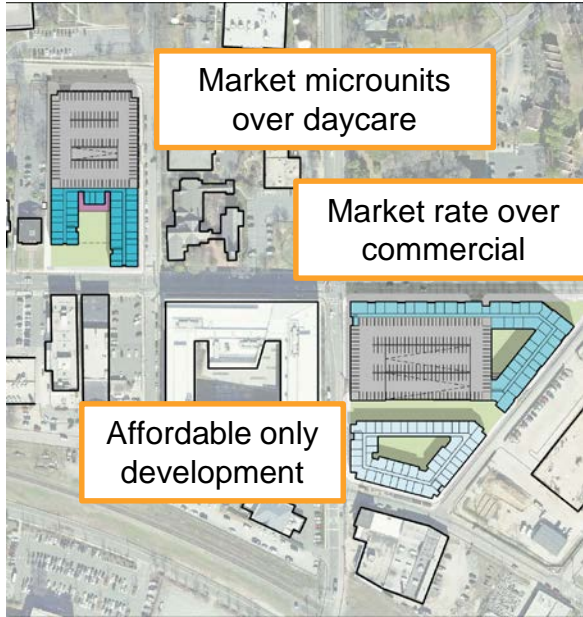
- Affordability preserved through ground lease or restrictive covenants
- Low- and moderate-income housing “covenants and conditions” authorized (G.S. 153A-378)
- Projections assume ground lease requiring affordability for life of project or 99 years

Mechanisms for imposing other development requirements:

- Impose conditions on conveyance for development of commercial space (G.S. 158-7.1)
- Impose conditions as part of public-private partnership for parking construction (G.S. 143-128.1C)

Development Plans & Feasibility

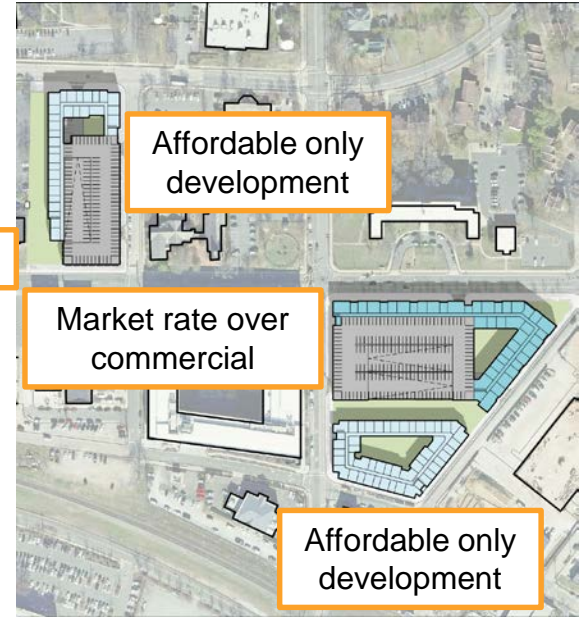
Development Plans Considered



Plan A:
U-Shape &
South Outparcel



Plan B:
L-Shape &
North Outparcel





Plan C(AN):
L-Shape & South
Outparcel

Development Plan Updates

- Reduced unit sizes in response to rising construction costs and market demand.
- Incorporated micro units into 300 block plan.
- Developed plan to evaluate financial feasibility of CAN proposal.

Financial Feasibility Approach Underway

Private-Sector Led Development

- 
- 
1. Identify program
 2. Estimate development costs
 3. Forecast project income
 4. Size supportable loan
 5. Fill gap with equity and other funds
 6. Model base case returns
 7. Test project assumptions
 8. Layer in public participation as needed

Guiding Public Interests


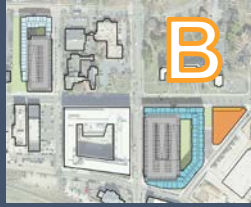

New development on these sites should:

- provide a parking solution that will address Durham County employee and Health & Human Service facility customer needs and meet new demand created by the project, recognizing the proximity of the future light rail station and incorporating options for multiples modes of transportation;
- increase the availability of affordable housing in downtown Durham for households earning 80% Area Median Income (AMI) and below in a mixed income and multi-generational setting;
- provide ground-floor commercial and service offerings for tenants and workers in and around the sites and increase activity along E. Main Street;
- efficiently use public investment to maximize public benefits and attract private investment; and
- focus on pedestrian-scale design that creates a vibrant, urban streetscape along E. Main Street.

Alignment with Public Interests

	Plan A	Plan B	Plan C(AN)
Parking Solution	✓	✓	✓
Affordable Housing	✓	✓	✓
Commercial & Service Offerings	✓	✓	✓
Public-Private Investment	✓	✓	
Design	✓	✓	✓

Plan Comparison

			
Parking Spaces	1,574 – 1,970	1,533 – 2,087	1,537 – 1,933
Total Residential Units	492 units	395 units	480 units
Total Affordable Units (<80% AMI)	180 units (37%)	140 units (35%)	320 units (67%)
Total Commercial SF	55,000 SF (incl. daycare space)	74,000 SF (incl. Grocery)	34,700 SF
Total Public Investment*	\$46.9M - \$53.5M	\$44.6M - \$56.7M	\$50.6M - \$59.3M
Total Public Investment per Affordable Unit (Loan/Grant)	\$25,500	\$40,300	\$44,000
Net Upfront Cash (Land, Loan/Grant)	(\$2.0M)	(\$1.9M)	(\$12.4M)

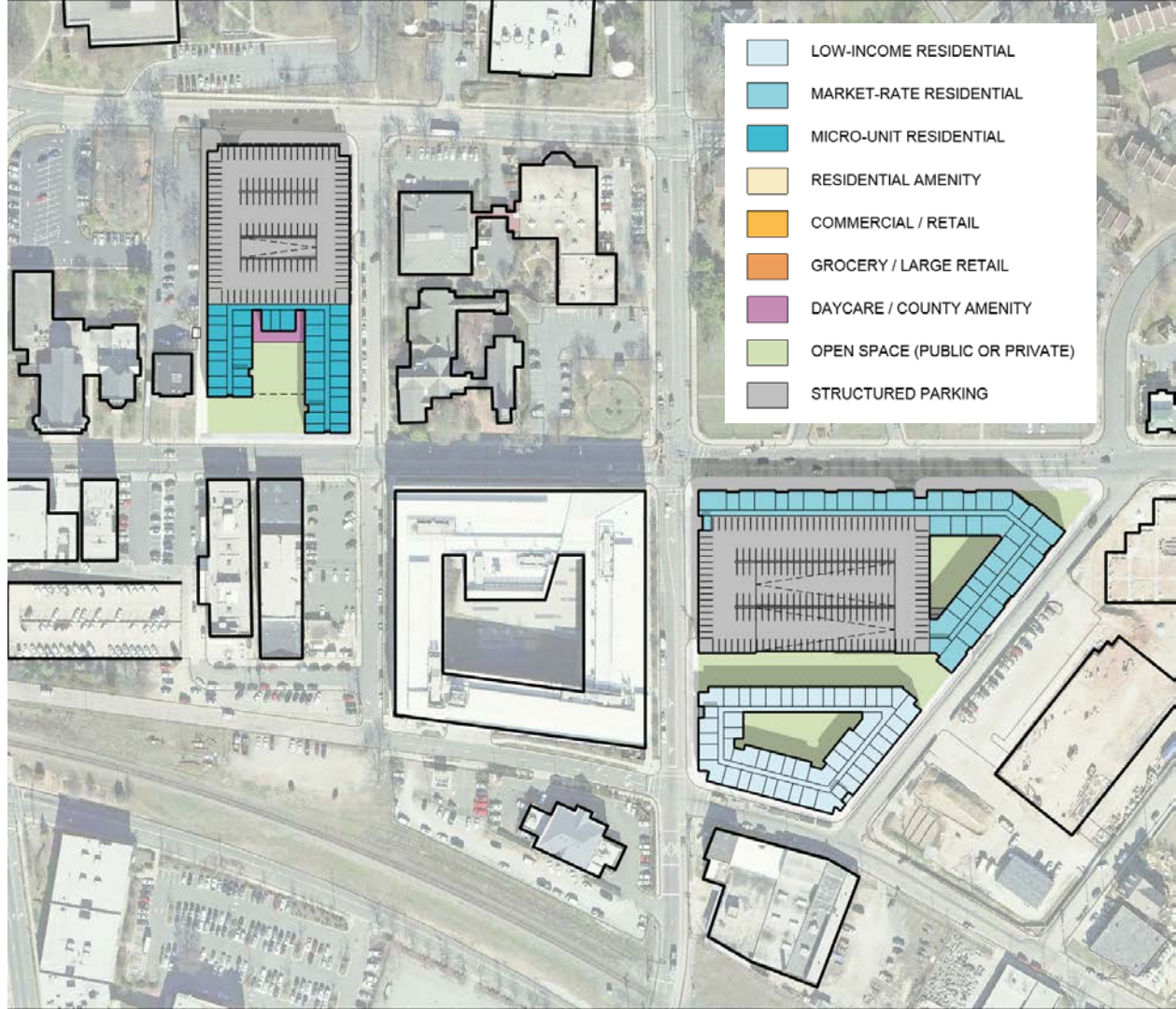
Plan A: U-Shape & Double Parcel

Plan A: U-Shape and Double Parcel

- Minimizes public investment per affordable housing unit.
 - LIHTC units are in Qualified Census Tract (500 Block) and receive tax credit boost.
- Units meet market demand for studio and 1-bedroom.
- Market rate (micro) units can be naturally affordable to moderate income households (80% - 105% AMI) due to reduced unit size. However, the County would not restrict rents.
- Accommodates daycare or pre-K program.
- Allows for phasing of parking construction and includes convertible speed ramp on 300 block.
- Potentially requires three development partners (increases complexity).

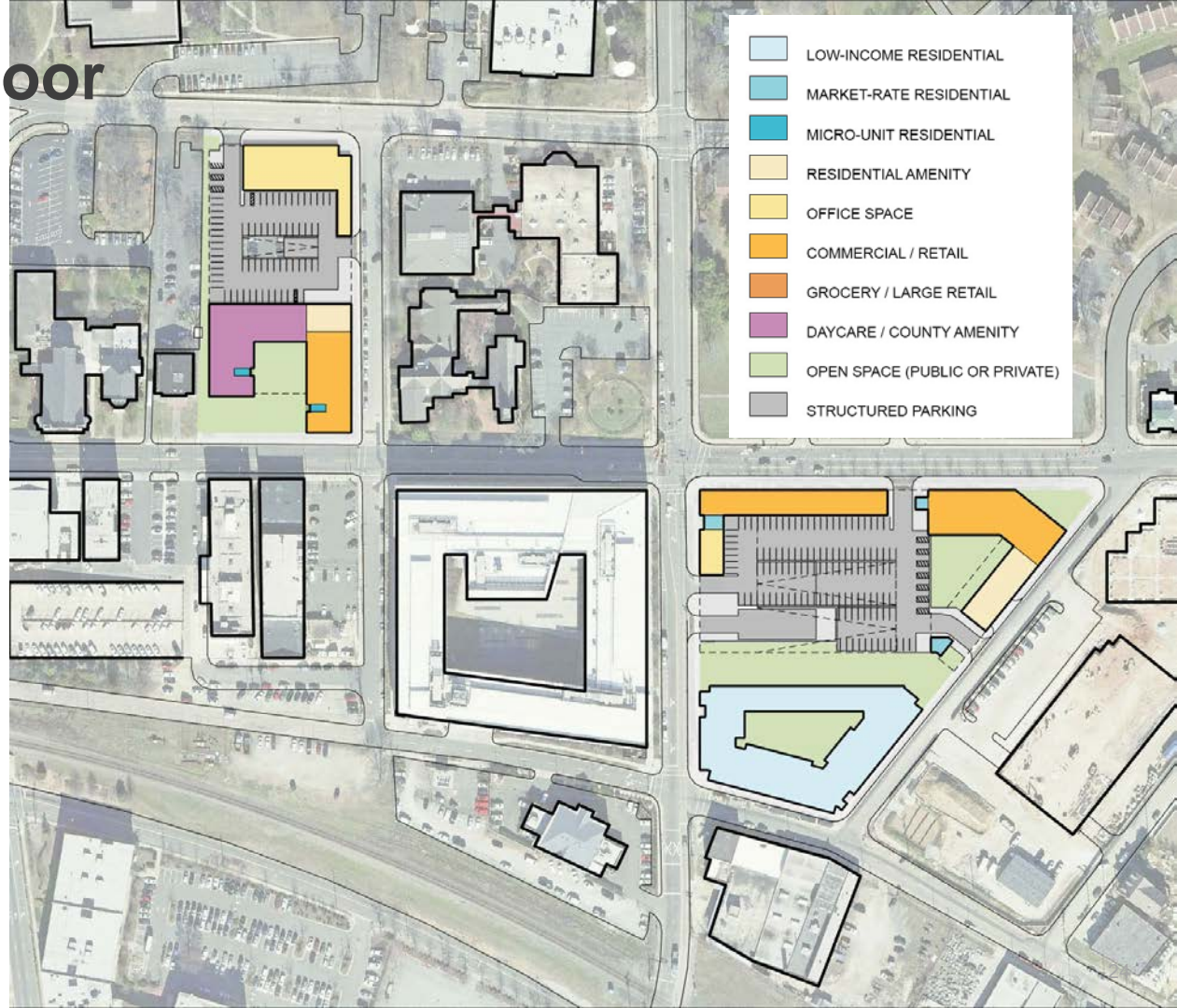
Plan A

Parking	1574 - 2087
Residential Units	492 units
Units 80% AMI and Below	180 units
Commercial SF	55K SF (including daycare/pre-K space)



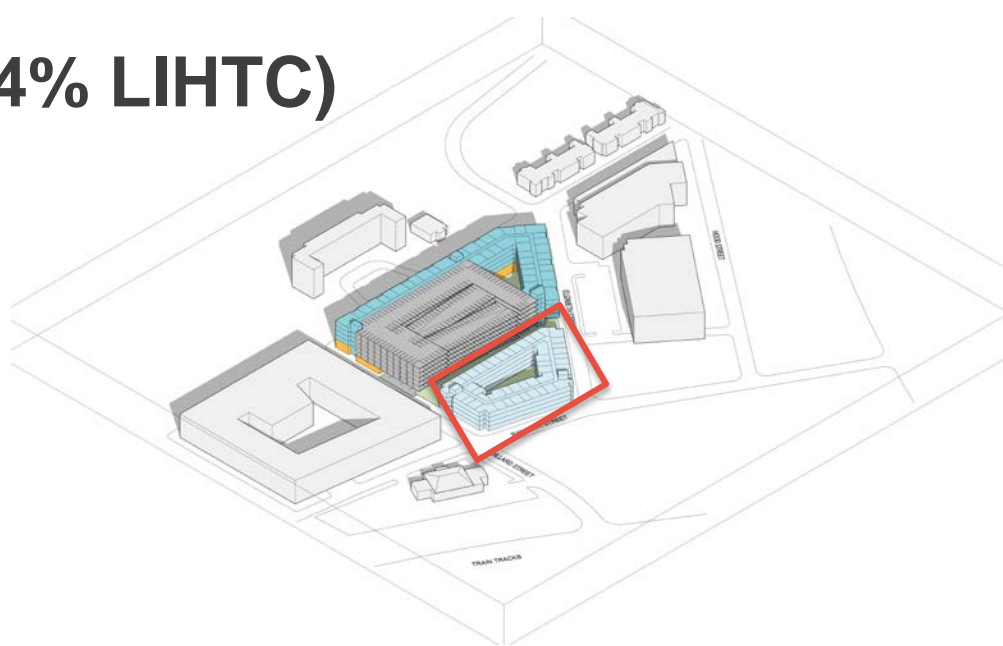
Plan A: Ground Floor

- County-Owned Commercial Space in Parking Decks:
 - 14,000 SF
- Commercial Space in Private Development:
 - 42,000 SF (including potential 12,200 daycare/pre-K space)



500 Block: South Parcel (4% LIHTC)

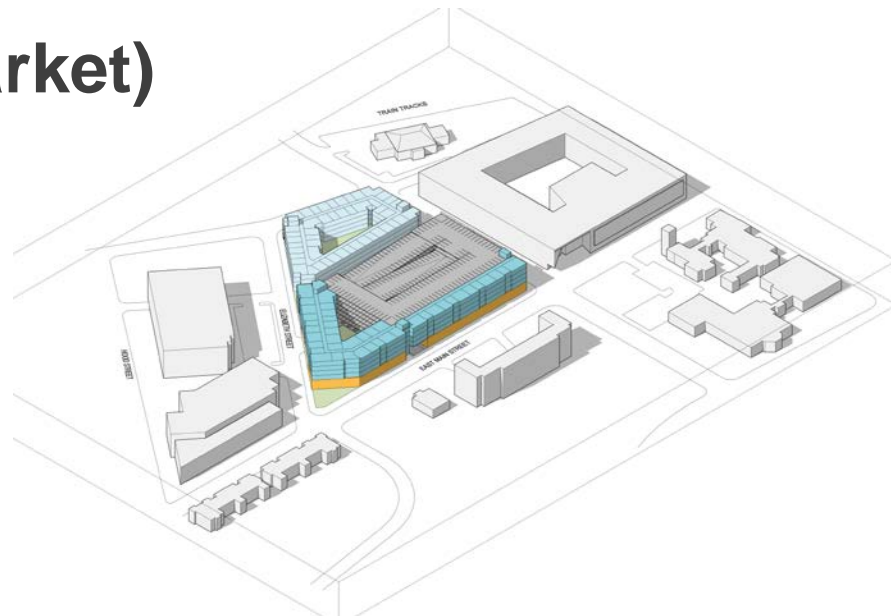
- Rents are set using HUD's new income averaging rule:
 - 18% of units @ 30% AMI
 - 60% of units @ 60% AMI
 - 22% of units @ 80% AMI
- Assumes the units at 30% AMI will serve as replacement units for Durham Housing Authority (DHA)'s RAD conversion and receive Section 8 Project-Based Vouchers.
- An alternative model includes 128 units, primarily 2 & 3-bedrooms. Would be less able to accommodate DHA replacement units.



Unit Type	# of Units	Rents (Restricted)
Studio	60	\$680 - \$950
1-Bedroom	92	\$295 - \$1,015
2-Bedroom	28	\$865 - \$1,209
	180	

500 Block: North Parcel (Market)

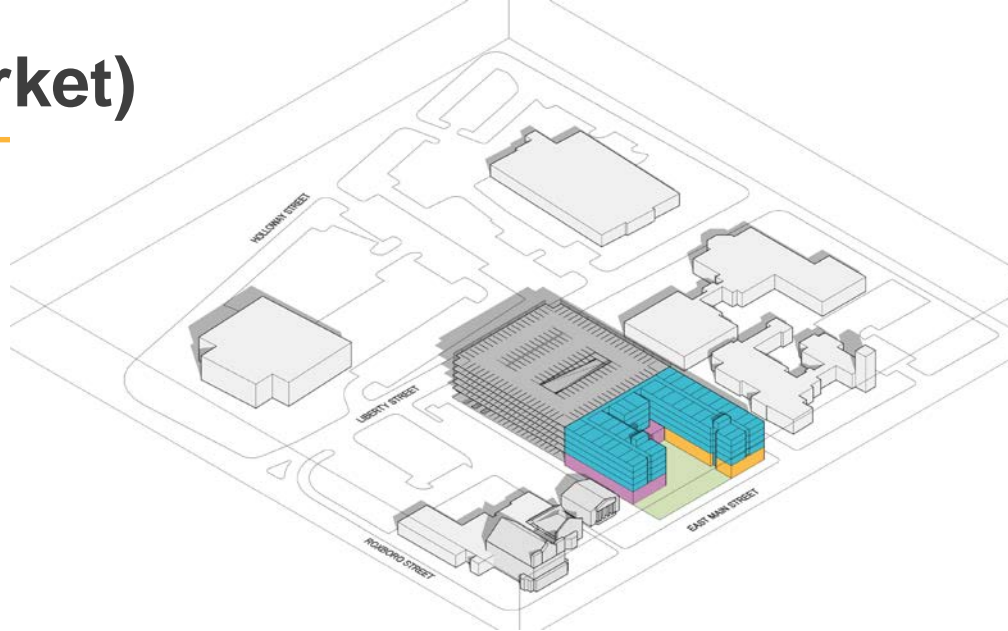
- Units are currently affordable to households >100% AMI. As an unrestricted, market rate project, the County would not have a role in setting rents.
- Includes roughly 21,000 SF of commercial space on the ground floor facing E. Main Street.



Unit Type	# of Units	Assumed Rent
Studio	32	\$1,150
1-Bedroom	64	\$1,450
2-Bedroom	40	\$1,800
3-Bedroom	24	\$2,340
	160	

300 Block: U-Shape (Market)

- Units priced to current costs at a market rate are affordable to households between 80% AMI (Micro-Units) and 105% AMI.
- As an unrestricted, market rate project, the County would not have a role in setting rents. But the reduced unit sizes, could keep the micro and studio units naturally affordable to moderate income households.
- Includes potential to accommodate 12,200 SF space for daycare/pre-K, plus an additional 8,850 SF of commercial space on E. Main and N. Queen Street.



Unit Type	Size	Units	Assumed Rent
Micro Unit	400 SF	48	\$1,000
Studio	480 SF	60	\$1,150
1-Bedroom	660 SF	44	\$1,420
		152	

Plan A: Development Costs

	318 E. Main (Market)	500 E. Main (Market)	500 E. Main (4% LIHTC)	Total
Total Public Development (Parking)	\$20.0M	\$22.3M – 31.0M		\$42.3M - \$51.0M
Total Privately-Owned Development	\$21.5M	\$32.5M	\$25.7M	\$79.7M
Total Development	\$41.5M	\$54.8M - \$63.5M	\$25.7M	\$122M - \$130.7M
<i>Total Public Participation in Private Development*</i>	<i>None</i>	<i>None</i>	<i>\$4.6M</i>	<i>\$4.6M</i>

*Not including value of land, cost of parking and tax deferral. Assumes a percent of development fees will be deferred.

Plan A: Durham County Cash Flows*

	Assumptions	Upfront	Annual
Parking (High Count)			
Construction	5%, 20 Years	(\$475,000)	(\$4,600,000)
Operations	\$0.75 per SF		(\$600,000)
Residential Parking Lease	\$80 per unassigned; \$0 per LIHTC		\$300,000
Commercial Parking Lease	\$80 per unassigned space		\$200,000
Public Parking	\$1.50 an hour		
Total Parking		(\$475,000)	(\$4,700,000)

*These are estimates that represent a range of potential costs.

Plan A: Durham County Cash Flows* (cont.)

	Assumptions	Upfront	Annual
Property			
Sale	\$1.5M per Acre	\$2,600,000	
Ground Lease	\$1/year for LIHTC		\$1
Property Taxes			\$500,000
Commercial			
Retail Income	\$22 psf (Retail) \$25 psf (Office)		\$240,000
Daycare/pre-K Subsidy	Subsidy to \$15 psf		(\$75,000)

*These are estimates that represent a range of potential costs.

Plan A: Durham County Cash Flows* (cont.)

	Assumptions	Upfront	Annual
Affordable Project Financing			
Loan	2%, 30 Years	(\$3,800,000)	\$75,000
Grant		(\$800,000)	
Total (w/o Parking)		(\$2,000,000)	\$740,000
Total (with Parking)		(\$2,475,000)	(\$3,960,000)

*These are estimates that represent a range of potential costs.

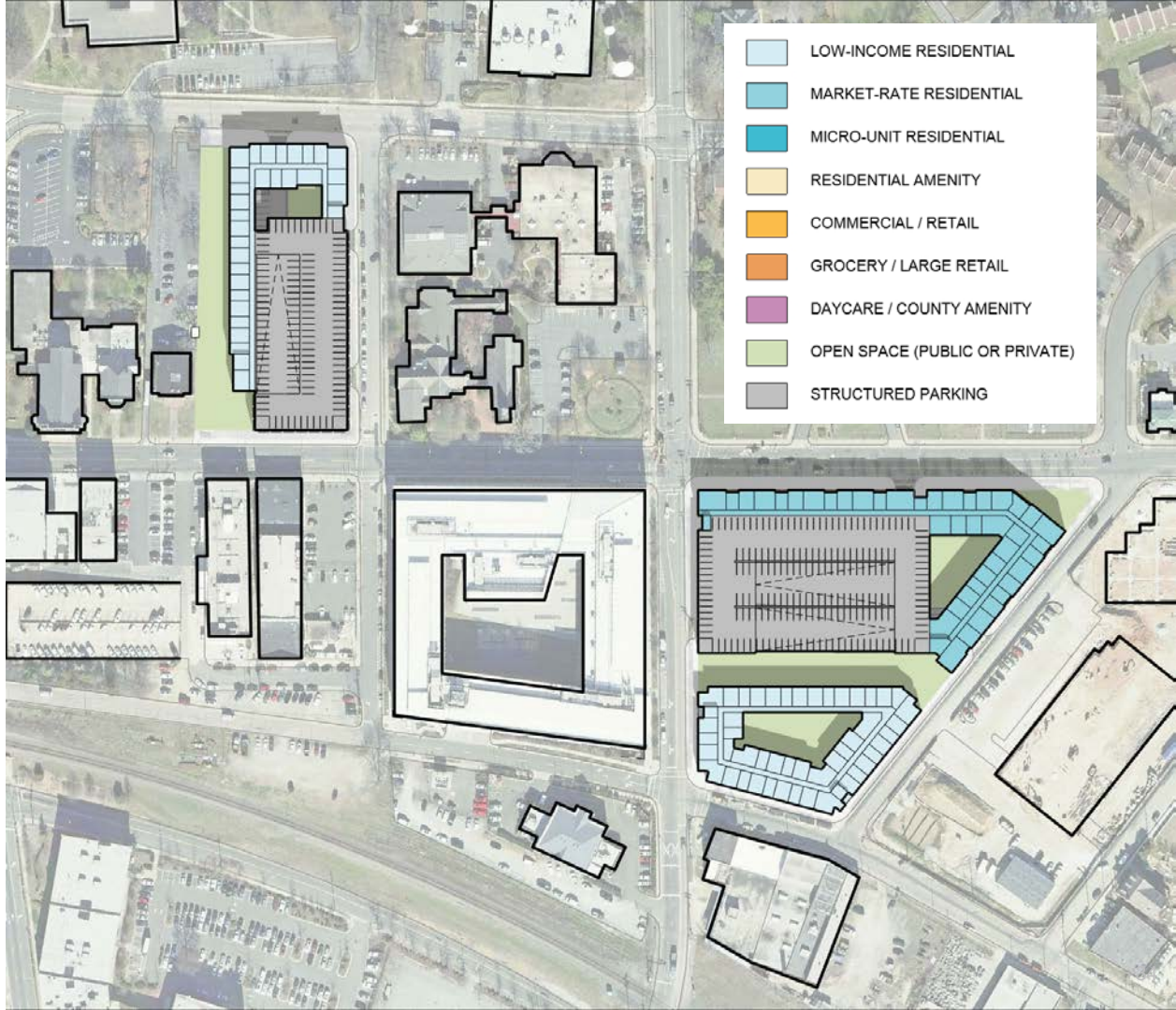
Plan C(AN)

CAN & CAHT Proposal

1. Dedicating $\frac{1}{3}$ of the units for project-based vouchers from the Durham Housing Authority to support households moving from DHA properties and to permanently provide housing for households with income at 30% of AMI or less;
2. An additional $\frac{1}{3}$ of affordable units up to 60% AMI;
3. Providing some retail space for stores with affordable goods and services with special efforts to recruit local minority-owned businesses;
4. Providing some office space at reasonable rents for community groups and nonprofits;
5. Maintain affordability in perpetuity (to guarantee long term income diversity downtown; several different mechanisms to do so).

Plan C(AN)

Parking	1,537 – 1,933
Residential Units	480
Units 80% AMI and Below	320 (all below 60% AMI)
Commercial	34,700 SF



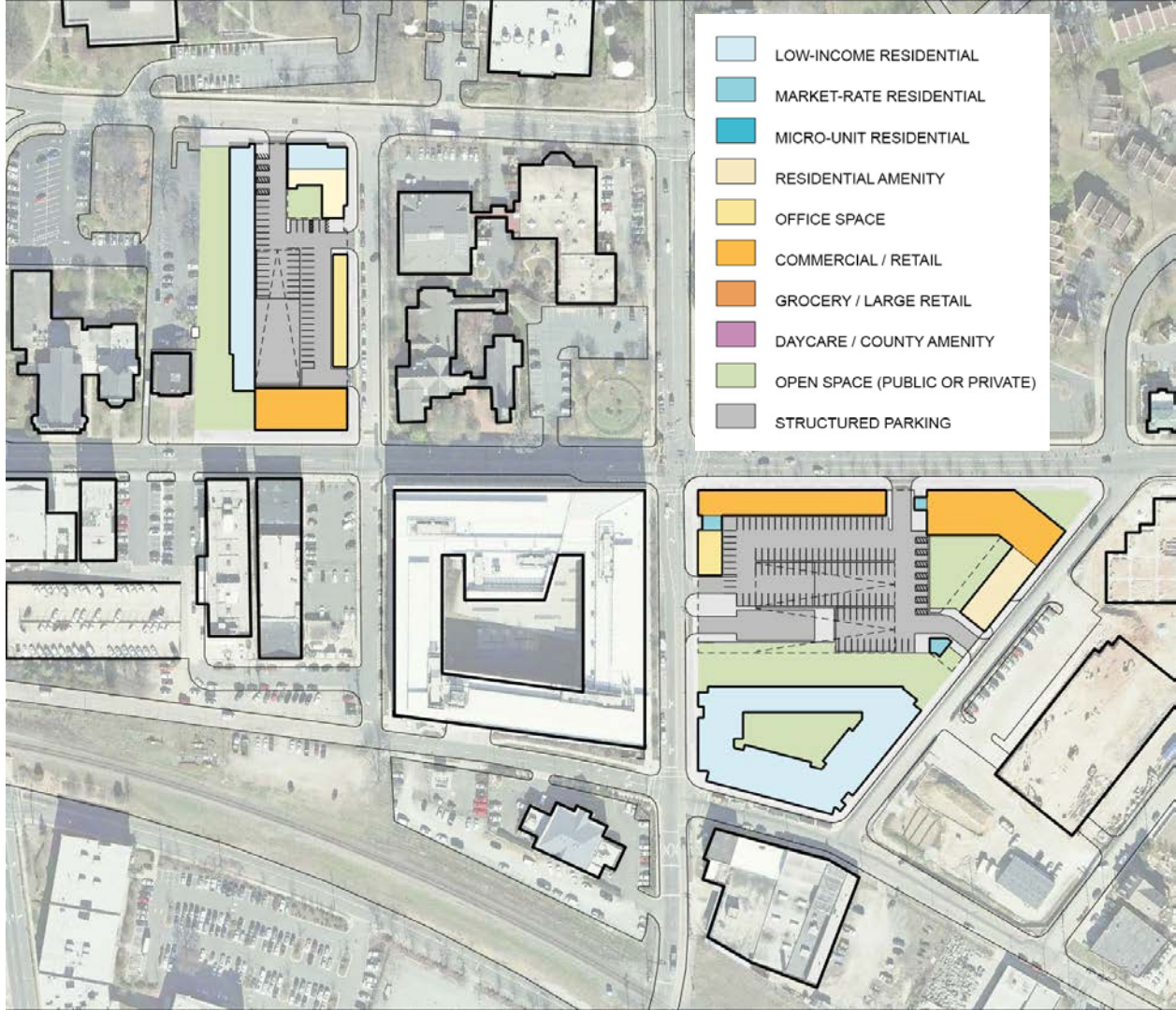
Plan C(AN)

County-Owned Commercial Space in Parking Decks:

- 13,800 SF

Commercial Space in Private Development:

- 20,900 SF



Plan C(AN): Development Costs

	318 E. Main (4% LIHTC)	500 E. Main (Market)	500 E. Main (4% LIHTC)	Total
Total Public Development (Parking)	\$17.0M	\$22.3M – 31.0M		\$39.3M - \$48.0M
Total Privately-Owned Development	\$21.3M	\$32.5M	\$25.7M	\$79.5M
Total Development	\$38.3M	\$54.8M - \$63.5M	\$25.7M	\$118.8M - \$127.4M
<i>Total Public Participation in Private Development*</i>	\$7.3M	None	\$6.7M	\$14.0M

*Not including value of land, cost of parking and tax deferral. Assumes a percent of development fees will be deferred.

Plan C(AN): Durham County Cash Flows*

Assumptions compared to Plan A:

- Lower revenue from parking leases
- Lower property tax collections
- Lower operating income from retail/office space
- Significantly higher loan (\$5.7M) and grant (\$8.3M) to LIHTC projects
- Higher annual interest payments to the County
- No daycare/pre-K subsidy

	Upfront	Annual
Total (w/o Parking)	(\$12,400,000)	\$620,000
Total (with Parking)	(\$12,900,000)	(\$4,230,000)

*These are estimates that represent a range of potential costs.

Plan C(AN) Evaluation




The CAN & CAHT plan arguably does not meet the following public interest:

Any development on these sites should efficiently use public investment to maximize public benefits and attract private investment.

- Less efficient use of public investment per affordable housing unit compared to alternative plans.
- Concern about whether DHA will be able to move 160 households (more than a third of total replacement households) and provide Section 8 Project-Based Vouchers within the development timeline. In the absence of the vouchers, public investment would be significantly higher.
- Limits ability to attract private investment for market rate development which is necessary to offset public investment.

In addition, it falls short on the public interest to increase availability of affordable housing for households with income up to 80% AMI (providing no units between 60% and 80% AMI).

Plan Comparison

			
Parking Spaces	1,574 – 1,970	1,537 – 1,933	1,537 – 1,933
Total Residential Units	492 units	480 units	437 units
Total Affordable Units (<80% AMI)	180 units (37%)	320 units (67%)	277 units (63%)
Total Commercial SF	55,000 SF (incl. daycare space)	34,700 SF	34,700 SF
Total Public Participation	\$46.9M - \$53.5M	\$50.6M - \$59.3M	\$45.2M – \$56.5M
Total Public Investment per Affordable Unit (Loan/Grant)	\$25,500	\$44,000	\$30,900
Net Upfront Cash (Land, Loan/Grant)	(\$2.0M)	(\$12.4M)	(\$7.0M)

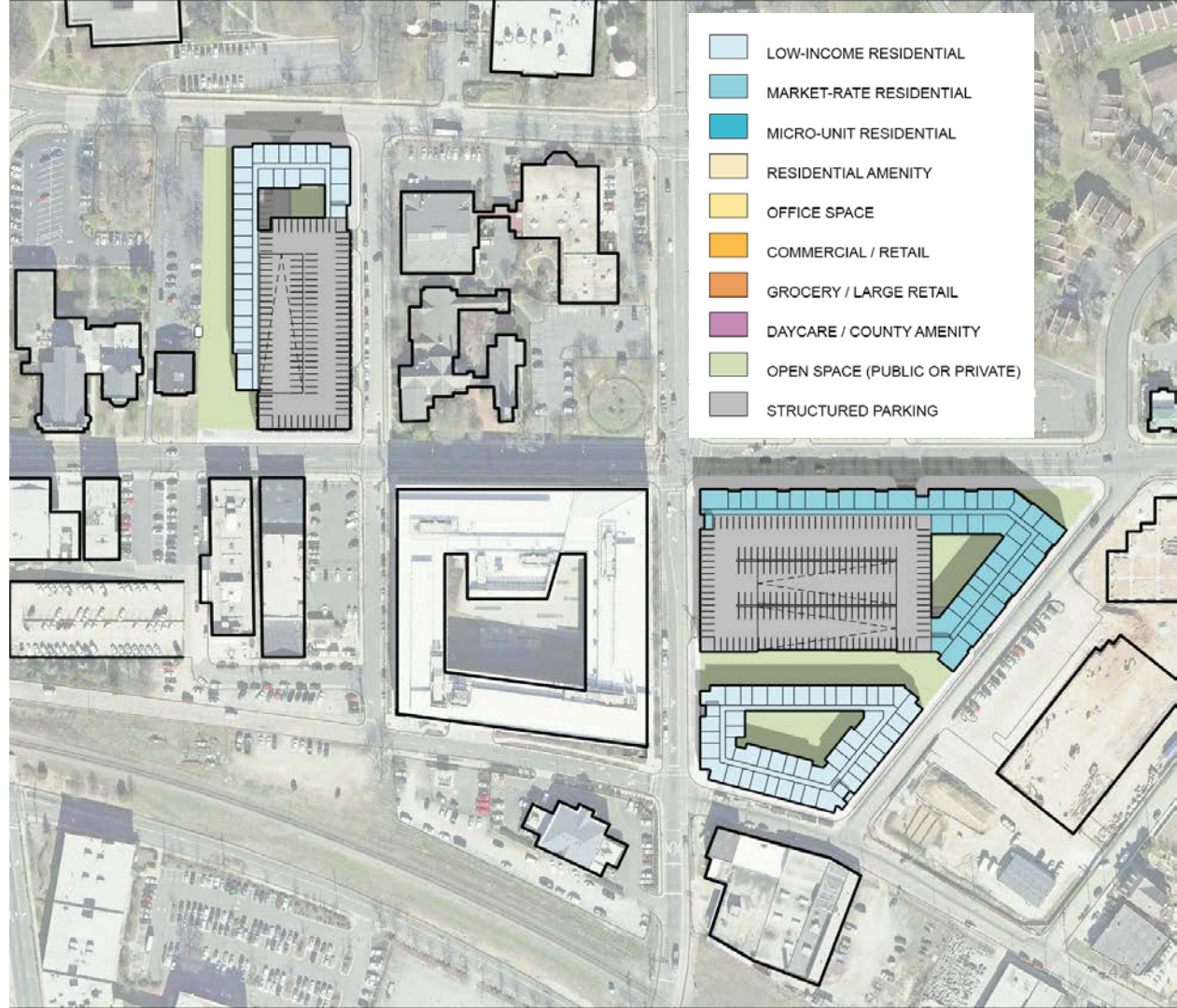
Plan C.2

Plan C.2: L-Shape and Double Parcel

- The 500 block development is a duplicate of Plan A (a mix of market rate on the north parcel and mixed income, affordable housing on the south parcel).
- Uses income averaging for both LIHTC projects, accommodating households with incomes up to 80% AMI.
- Without trying to accommodate the volume of DHA vouchers in 1-bedrooms, a family-sized (primarily 2 & 3 bedrooms) development on the 300 block reduces overall public investment (total and per unit) and is small enough to pursue 9% LIHTCs (9% projects are capped at 120 units, 4% projects are capped at 200 units)

Plan C.2

Parking	1,537 – 1,933
Residential Units	437
Units 80% AMI and Below	277
Commercial	34,700 SF



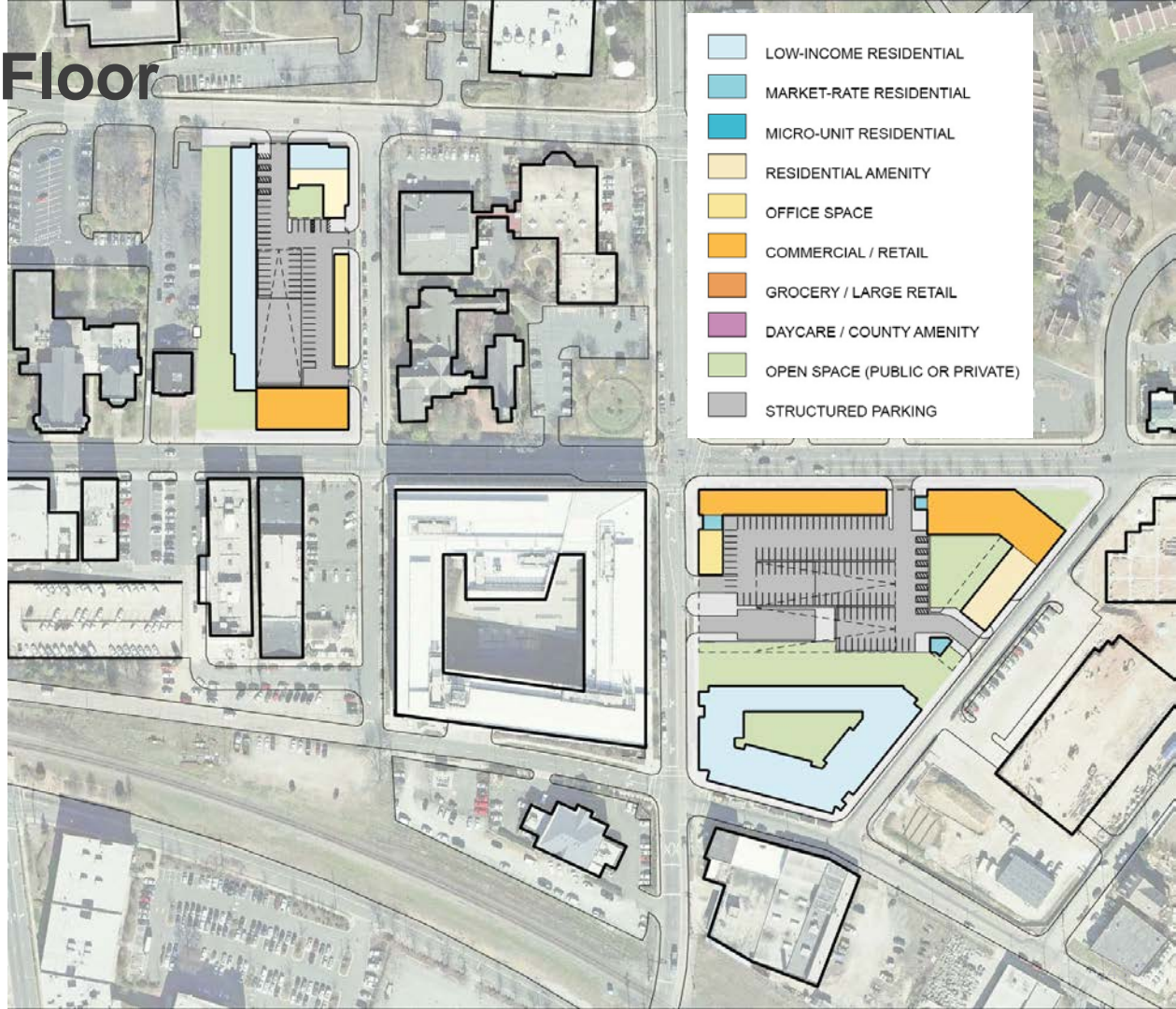
Plan C.2: Ground Floor

County-Owned Commercial Space in Parking Decks:

- 13,800 SF

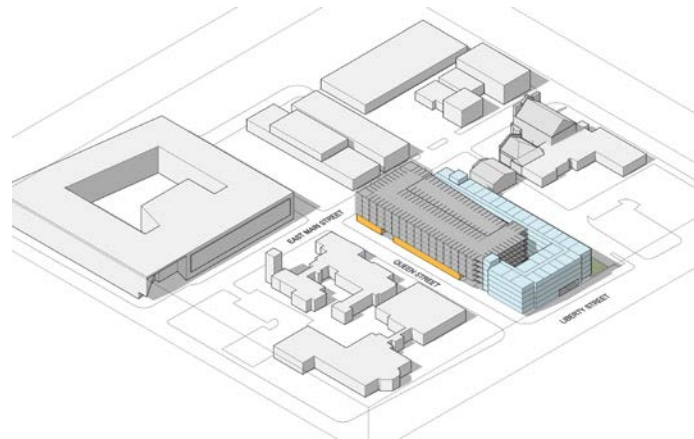
Commercial Space in Private Development:

- 20,900 SF



300 Block (9 or 4% LIHTC)

- Rents are set using HUD's new income averaging rule:
 - 18% of units @ 30% AMI
 - 60% of units @ 60% AMI
 - 22% of units @ 80% AMI
- Assumes the units at 30% AMI will serve as replacement units for Durham Housing Authority (DHA)'s RAD conversion and receive Section 8 Project-Based Vouchers.
- An alternative model includes 140 units, primarily studio and 1-bedrooms that better meet the demand, but require a higher total and per unit subsidy.



Unit Mix	# of Units	Rents (restricted)
1-Bedroom	22	\$295 - \$1,015
2-Bedroom	46	\$865 - \$1,209
3-Bedroom	29	\$976-\$1,375
	97	

Plan C.2: Development Costs

	318 E. Main (LIHTC)	500 E. Main (Market)	500 E. Main (4% LIHTC)	Total
Total Public Development (Parking)	\$14.3M - \$17M	\$22.3M – 31.0M		\$36.6M - \$48.0M
Total Privately-Owned Development	\$16.8M	\$32.5M	\$25.7M	\$75.0M
Total Development	\$31.0M - \$33.8M	\$54.8M - \$63.5M	\$25.7M	\$111.6M - \$123.0M
<i>Total Public Participation in Private Development*</i>	<i>\$4.0M</i>	<i>None</i>	<i>\$4.6M</i>	<i>\$8.6M</i>

*Not including value of land, cost of parking and tax deferral. Assumes a percent of development fees will be deferred.

Plan C.2: Durham County Cash Flows*

Assumptions compared to Plan A:

- Lower revenue from parking leases
- Lower property tax collections
- Lower operating income from retail/office space
- Larger loan (\$6.7M) and grant (\$1.9M) amount
- Higher annual interest payments to the County
- No daycare/pre-K subsidy

	Upfront	Annual
Total (w/o Parking)	(\$7,000,000)	\$640,000
Total (with Parking)	(\$7,460,000)	(\$4,200,000)

*These are estimates that represent a range of potential costs.

Comparison of Income Targeting




	Plan A	Plan C	Plan C.2
30% AMI (LIHTC)	32	160	50
60% AMI (LIHTC)	108	160	166
80% AMI (LIHTC & Market*)	88	0	61
90% - 100% AMI (Market*)	92	32	32
>100% (Market*)	172	128	128
Total	492	480	437

*Market rate rents are unrestricted.

Note: 24% of Durham County employees that completed a DFI survey in February of 2018 ($n=359$) are part of households that earn between 60% and 100% AMI.

Discussion & Next Steps

Plan Comparison

	 A	 C	 C.2
Parking Spaces	1,574 – 1,970	1,537 – 1,933	1,537 – 1,933
Total Residential Units	492 units	480 units	437 units
Total Affordable Units (<80% AMI)	180 units (37%)	320 units (67%)	277 units (63%)
Total Commercial SF	55,000 SF (incl. daycare space)	34,700 SF	34,700 SF
Total Public Participation	\$46.9M - \$53.5M	\$50.6M - \$59.3M	\$45.2M – \$56.5M
Total Public Investment per Affordable Unit (Loan/Grant)	\$25,500	\$44,000	\$30,900
Net Upfront Cash (Land, Loan/Grant)	(\$2.0M)	(\$12.4M)	(\$7.0M)

Recommended Next Steps

- Finance officer to examine fiscal implications of Plan A and Plan C.2 within the context of other budget items.
- Manager will report back to Commissioners on fiscal implications of plans.
- Commissioners select a plan(s) for public feedback.
- County and DFI define schedule (dates/timing) for public engagement.
- Public engagement process begins.

Proposed Public Engagement Strategy

- Three (3) public workshop sessions held over several weeks
 - Each workshop at a different location, on a different day of the week, at a different time to facilitate participation
 - Content of each of the three workshops will be identical
- Website updated with detailed plan information
- Online feedback form available through website, email, and social media; open for several weeks



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Appendix

Commercial Space Assumptions

- County retains ownership of commercial space in parking decks.
- County master leases space for Head Start or other non-profit daycare/pre-K in private development at market rate.
- All other commercial space in residential developments will be leased or sold at market rate at discretion of owner.
- Commercial space along E. Main can support estimated office rents at \$25 per SF (NNN) and retail rents at \$22 per SF (NNN)*.

* Based on comparable properties and projected impact of the residential development on the sites.

Market Rate Housing Assumptions

- Recommended market rate developments generate a minimum Internal Rate of Return(IRR) of 17% and Equity Multiple above 2x.
- Developer purchases property at \$1.5 million per acre.
- The County owns and develops the parking deck and leases spaces for residential units and privately-owned commercial space to the developer.
- Current market rate rents - Due to rising construction costs, rents in market rate development for units 1-bedroom or larger are comparable to rents in projects like Liberty Warehouse (\$2.20-.80/SF: \$1,499 to \$2,879)

Affordable Housing Assumptions

- Focus on stick-built construction and minimizing non-residential uses wherever possible.
- We do not recommend a project without use of LIHTC – a key tool.
- Setting aside units for affordability within a market rate development is double the cost per affordable unit.
- 9% Low-income Housing Tax Credits (LIHTC) projects are capped at 120 units and 4% LIHTC capped at 200 units.
 - 9% tax credits are competitive.
 - DHA plans to compete for 9% credits each year for next 10 years.
- The 500 block is in a Qualified Census Tract and eligible for a 30% boost in tax credits (the 300 block is not).

Affordable Housing Assumptions

- Projects should be at a minimum 90% affordable:
 - Financing terms are more favorable.
 - Market viability of mixing extremely low income units with market rate is uncertain/untested in Durham market (per affordable developers and affordable housing case study research).
- Availability of Section 8 project based vouchers are not guaranteed (project must generate cash flows without), but are favorable to the project financially.
 - DHA primarily needs 1-bedroom replacement units for elderly and non-elderly, disabled households.
- Affordable housing demand is greatest for studios and 1-bedrooms.

Income Averaging for LIHTC

- LIHTC has two options as to what types of households developments must serve.
 - 20% at 50% AMI and below
 - 40% at 60% AMI and below.
- Under these two options, you may not receive LIHTC for projects serving households at 61% AMI or above:
- There is a new option, known as income averaging.
- The new rule makes units at 80% AMI eligible if all affordable units average to 60% AMI or below, encouraging mixed income.
- **This rule has not yet been adopted by North Carolina.**

Example of Impact of AMI Targeting (per Unit)

