

How to Reduce Development Costs

Raquel Favela,
Chief of Economic Development & Neighborhood
Services

David Cossum,
Director, Sustainable Development & Construction



Recap of the Housing Problems

There are two types of **economic** housing problems as we discussed in the first session:

- Affordability – how much families are able and willing to pay for housing given the fair market values/rents
- Disinvestment – lack of investment in areas where the cost to develop housing does not provide developers a competitive return on their investment



Economic Problems Require Economic Solutions

Today we explore the first of 3 economic solutions

- Reduce Development Costs
- Increase the availability of capital
- Reduce the cost of capital



Requirements for Successful Residential Development

- Accurate estimate of costs
- Rely on market value for sales price on for-sale units
 - Different from affordability
- Rely on market rents for rental units
 - Different from affordability
- Accurate understanding of the demand for housing to be produced including absorption and affordability
- Effective management to control production and financing costs



Understanding the Development Process

- Site identification
- Market analysis
- Design / budgeting
- Financing*
 - Construction
 - Permanent
- Land Development
- Construction
- Sales or leasing



Site Identification

- Absence of negatives – crime, noise, pollution
- Access to employment
- Schools
- Amenities – parks, recreation activities, day cares
- Property zoned preferred
- Easily serviced by roads, water, power, sewer
- Available for sale at reasonable price/terms



Market Analysis

Has to answer basic questions:

- Who wants to live there?
- What type of home are they looking for?
- How much can they (will they) pay?
- How deep is the market?

Appraisal is key part of the market analysis

- Provides estimate of sales prices or rents
- Determines how much private financing is available
- Appraisal provides an opinion of fair market value



Design / Budgeting

Land

Acquisition
Site improvements
Off-sites
Platting/Zoning Fees

Fees

Architectural and engineering
Legal and accounting
Construction management
Permits

Financing

Construction interest
Loan fees
Appraisal

Construction

- New construction
- Modular
- Rehab

Sales /Leasing costs

Profit and overhead



Key Cost Issues

- Density / cost of finished lots or height restrictions based on zoning
 - *Incentive Zoning*
 - *Accessory Dwelling Units*
- Regulatory requirements on residential development
 - *Parkland dedication fees*
 - Tree mitigation (variable)
- Holding costs
 - Investment in non-revenue producing assets like models, common amenities
 - Rate of sales or lease up
 - Construction delays
 - Entitlements (zoning, permitting, etc.) delays



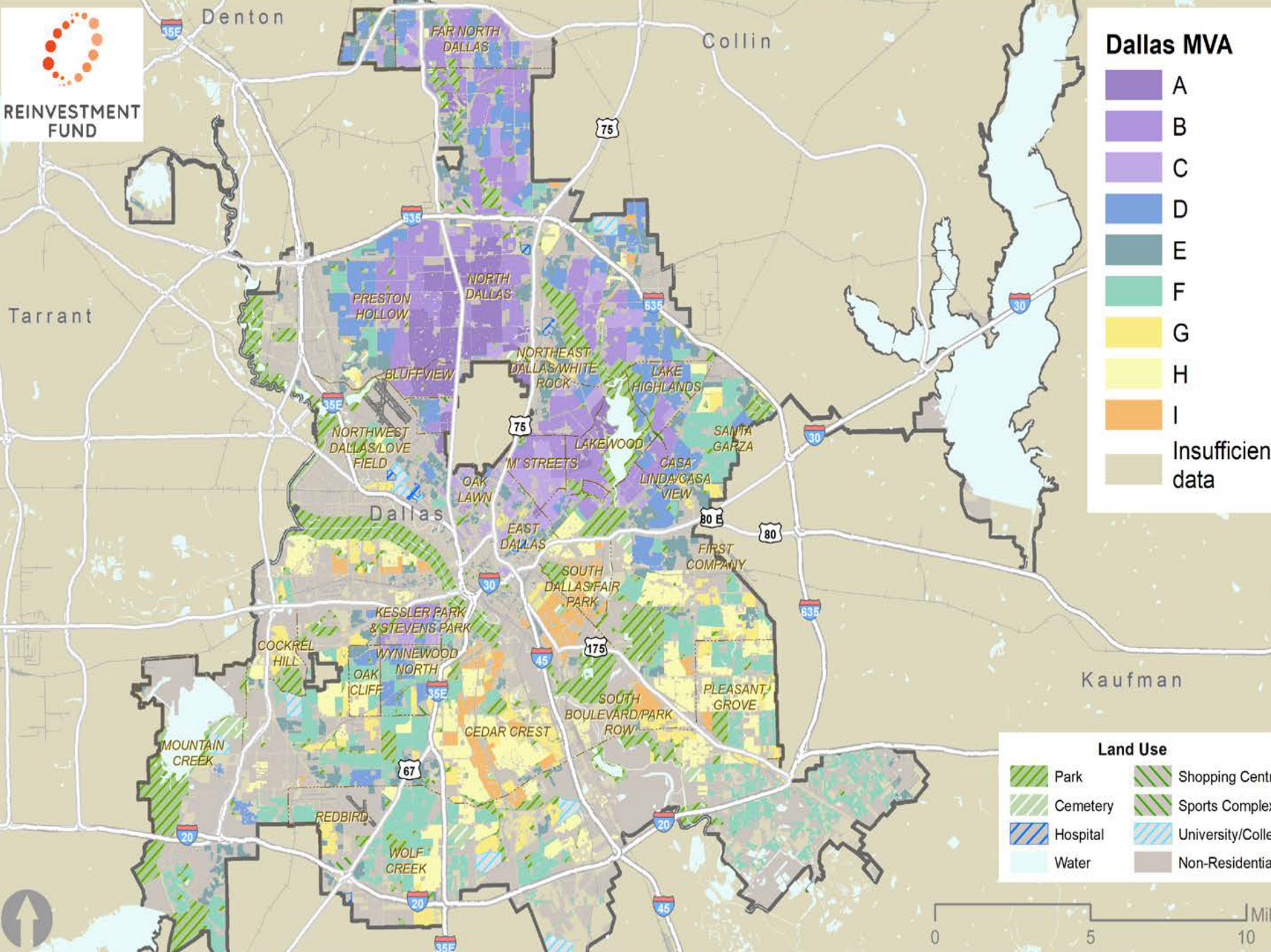
Market Value Analysis

- The **Market Value Analysis** (MVA) will help with site selection to some extent
 - Choose sites that are closer to market strength so costs to develop are closer to Fair Market Values / Rents
 - Identify areas where *Incentive Zoning* is appropriate
 - Identify areas where *Accessory Dwelling Units* can help add housing units and for which target price points
- Identify areas where the City's land bank should concentrate its acquisition strategy
- Designate *Neighborhood Empowerment Zones* that provide benefits like: permit fee waivers for home owners, property tax freeze
- Provide certainty of where Housing Tax Credit Projects will receive City support





REINVESTMENT FUND



Dallas MVA

- A
- B
- C
- D
- E
- F
- G
- H
- I
- Insufficient data

Land Use

- Park
- Cemetery
- Hospital
- Water
- Shopping Centre
- Sports Complex
- University/College
- Non-Residential



SAMPLE TABLE OF INTERVENTIONS BY MARKET TYPES

SAMPLE ONLY	Market Value Analysis Market Types								
	A	B	C	D	E	F	G	H	I
CITY OFFERED ACTIVITIES									
Owner- Occupied Home Repair (HIPP)									
Single-Family Rental Home Repair (HIPP)	YR 3	YR 3	YR 3	YR2	YR 1	YR 1	YR 1	YR 2	YR 2
Infill Lot Development				YR 3	YR 2	YR 2	YR 2	YR 3	YR 3
Landbanking	YR 3	YR 3	YR 3	YR2	YR 1	YR 1	YR 1	YR 2	YR 2
City's Second Mortgage Assistance Program (DHAP)	-	-	YR 1	YR 2	YR 1	-	YR 1	YR 2	YR 2
Multi-Family New Construction	YR 2	YR 2	YR 2	YR 3		YR 3		YR 3	
Multi-Family Rehab	YR 2	YR 2	YR 2	YR 3		YR 3		YR 3	
Code Academy									
Dallas Tomorrow Fund - Code home repair	-	-	-	-	-	-	YR 2	YR 2	YR1
Designate Tax Increment Reinvestment Zone									
Create Neighborhood Association									
Neighborhood Beautification Projects									
PROPOSED ACTIVITIES									
Low Income Housing Tax Credit City support	YR 1	YR 1	YR 1	YR 2	YR 3	YR 2	-	YR 2	YR 3
Neighborhood Sweep									
Neighborhood Revitalization Strategy Area Designation									
Code Lien Foreclosures									
Opportunity Zones									
Neighborhood Empowerment Zones	YR 2	YR 1	YR 1	YR 1	YR 2	YR 2	-	YR 3	YR 3



Questions and Answers

- 1) For those already involved in residential development, what represents the highest per unit cost burden in your projects?
 - a. Fees – permit, zoning, other entitlement
 - b. Carrying costs associated with the entitlement process
 - c. Labor
 - d. Material
 - e. Acquisition

- 2) What costs vary so much from project to project that it makes it difficult for you to budget or estimate your project costs?

- 3) What other ways could we help increase the production of housing in Dallas?

The next meetings will cover topics to help identify ways to reduce financing costs, increase access to capital and new programs to help address the problem in a comprehensive manner.

Please submit answers and any questions: housingpolicy@dallascityhall.com

