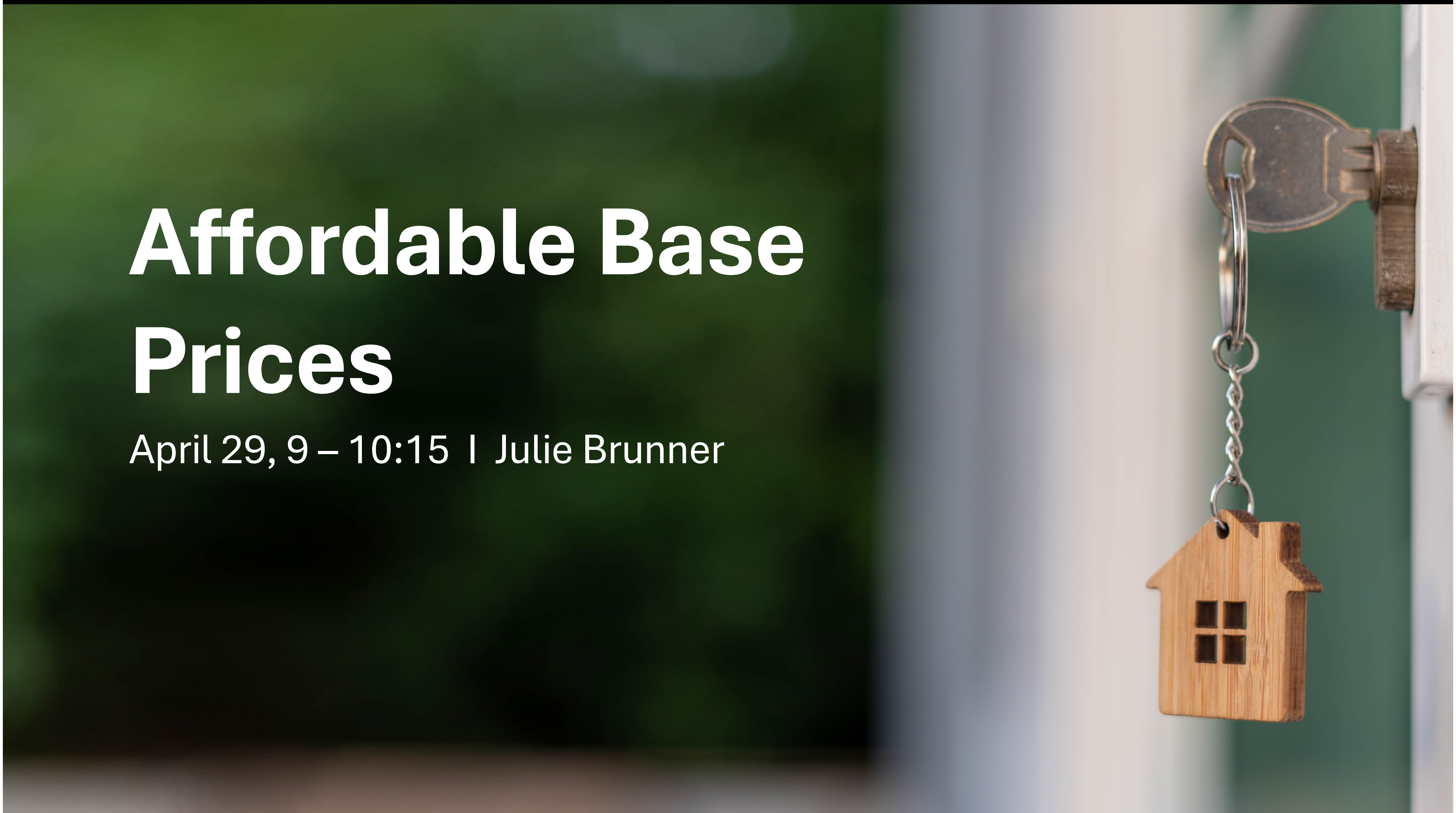
Affordable Base Prices

April 29, 9 – 10:15 I Julie Brunner



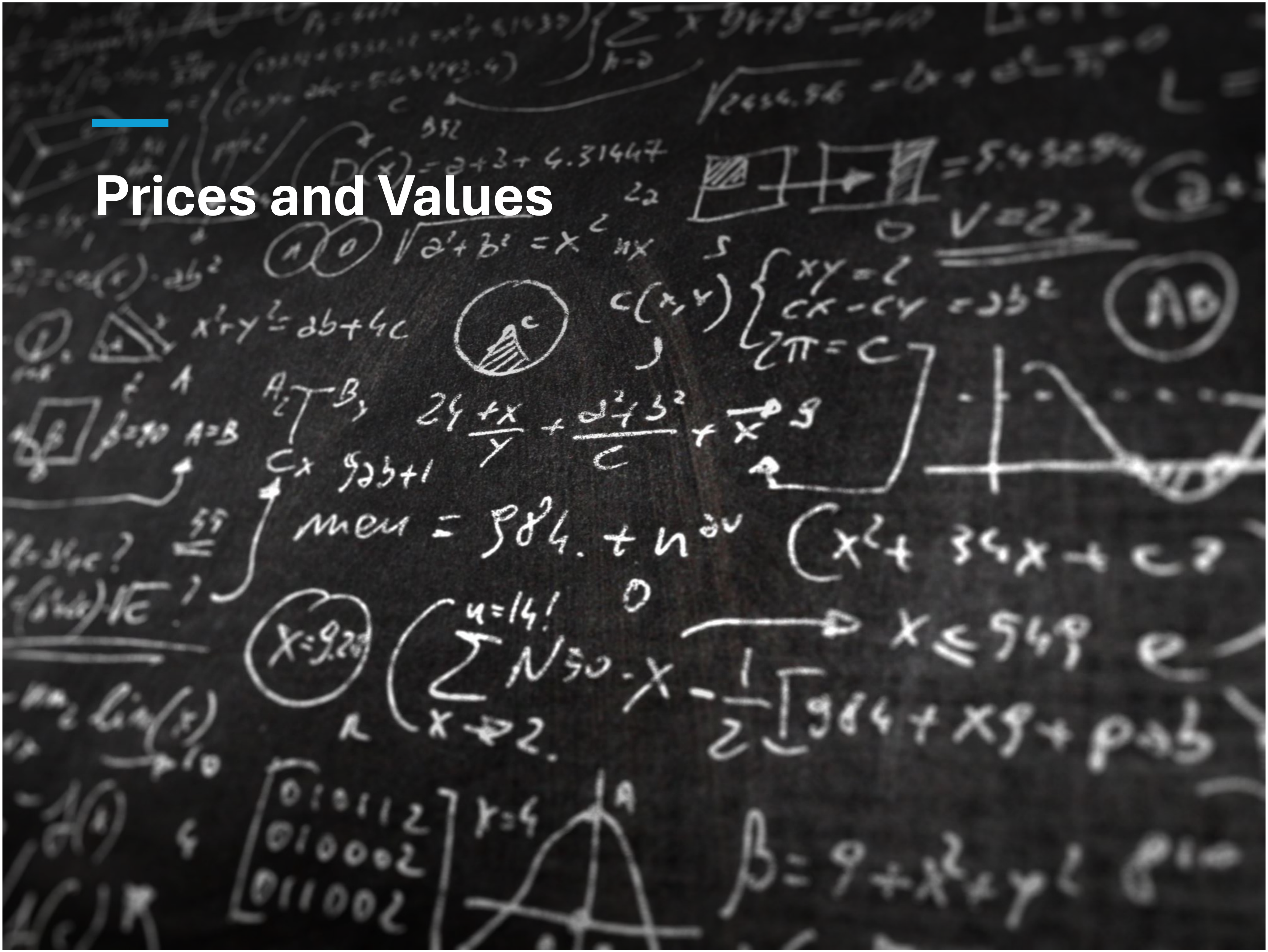
Agenda

- Introductions
- Definitions and Terminology
- Affordable Pricing Basics
- Base Price Calculations
- The Art of Pricingof Incomes


VOCABULARY

Words Matter!

Prices and Values



Prices and Values

- Market Value
- Appraised Value
- Assessed Value
- Leasehold Value
- Affordable or Base Price
- Purchase Option Price
- Formula Price
- Cost
- Subsidy or Community Investment
- Area Median Income (AMI)

Definitions & Terminology

Market Value

FAIR MARKET VALUE

FEE SIMPLE VALUE

UNRESTRICTED VALUE

APPRAISED VALUE

ASSESSED VALUE

Definitions & Terminology

Leasehold Value

For lenders – the value of their collateral

Foreclosure=No restrictions

= Market value **LESS** impact of lease fee

Fee simple comps used

Cap rate discount

Definitions & Terminology

Affordable or Base Price

Price eligible buyer pays

Unrelated to market value or cost

Based on what hypothetical target buyer can afford

Must be adequately below market

It's the basis for future affordability

Definitions & Terminology

Resale Price

- Purchase Option Price
- The maximum price at resale
- Defined in the Ground Lease (Article X)
- Lesser of...

Definitions & Terminology

Cost

The actual cost to deliver a unit of housing

May be above or below market value

Is unrelated to affordable price

Includes the cost or value of the land

Includes the value of donated labor and materials

Definitions & Terminology

Community Investment or Subsidy

The subsidies that fill the gap

= Cost LESS Base Price

May include a variety of funding sources

May include community investment created thru IZ

OREGON HOUSING and COMMUNITY SERVICES

Definitions & Terminology

Value vs. Cost vs. Price Example:

Appraised **Market Value**:	$640,000 (fee simple)
Cost to deliver:	$550,000(cost to deliver)
Affordable or **Base Price**:	- $250,000 (65% AMI)
Community Investment:	= $300,000 (subsidy needed)

Definitions & Terminology

Leasehold Value Example:

Appraised Market Value: $640,000 (fee simple)

Annual Lease Fee: $50 X 12 = $600

Capitalization Rate: 4% (ie. Long term investments)

Leasehold Deduction: = $600/.04 = $15,000

Leasehold Value: =$640,000 - $15,000 = **$625,000**

Permanent Affordability

Permanent Responsibility


GET IT RIGHT

Affordable

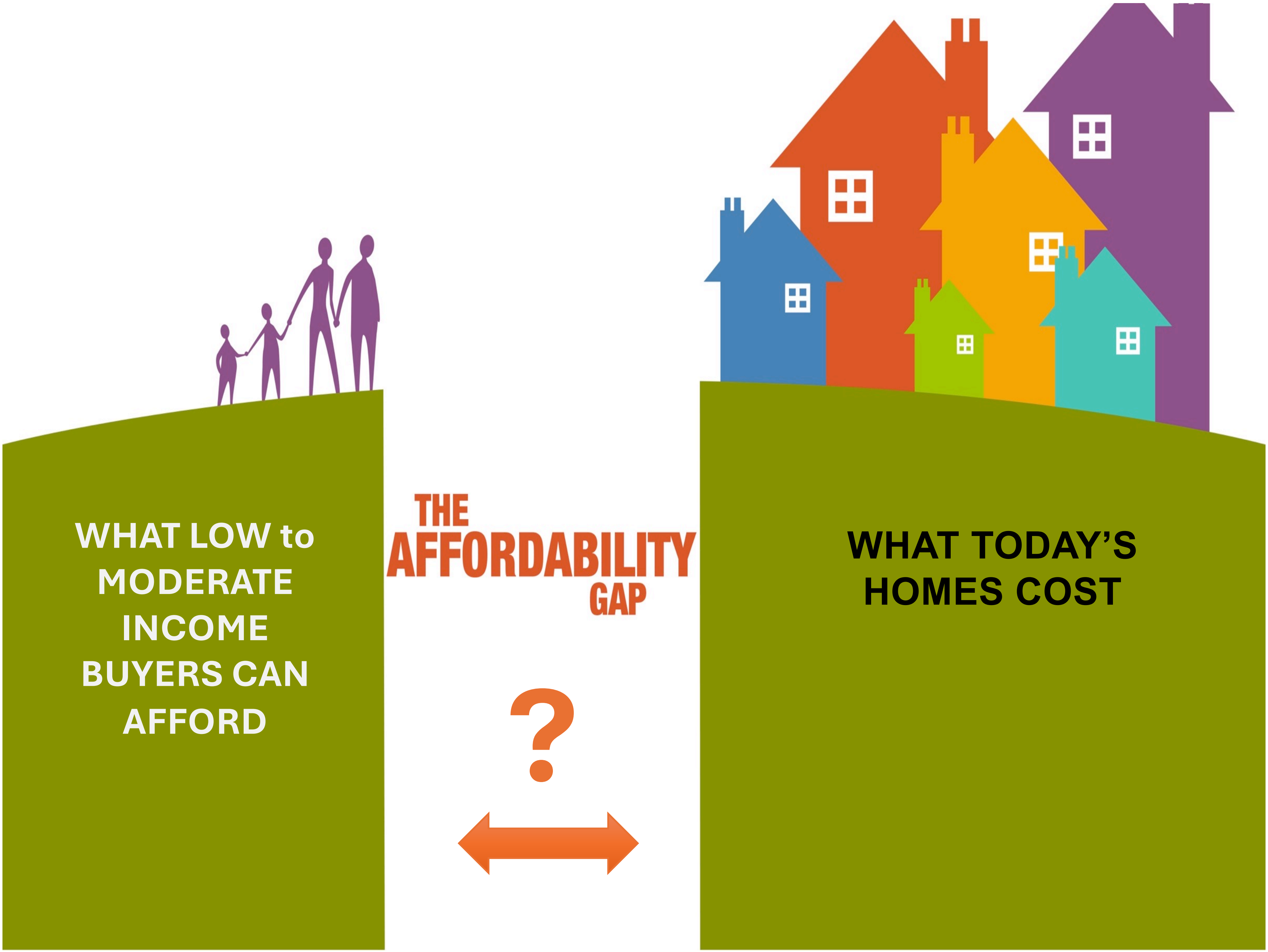
MANUFACTURING COST
MARKET CONDITION
MARKET PLACE
COMPETITION
BRAND
cost?
% Market Share
Company Logo
revenue-generating
PRICING
QUALITY of PRODUCT
100% QUALITY
Premium Quality
PROFITABILITY
REALISTIC
POSITIONING
Convert customer
NEEDS
DEMAND
PRICE/QUALITY Relationship
PRODUCT
PROMOTION
PLACE
4Ps
cost centers

Base Price = FUTURE AFFORDABILITY

What's your strategy?


Cost
Vs.
Value?


Cost
Vs.
Value?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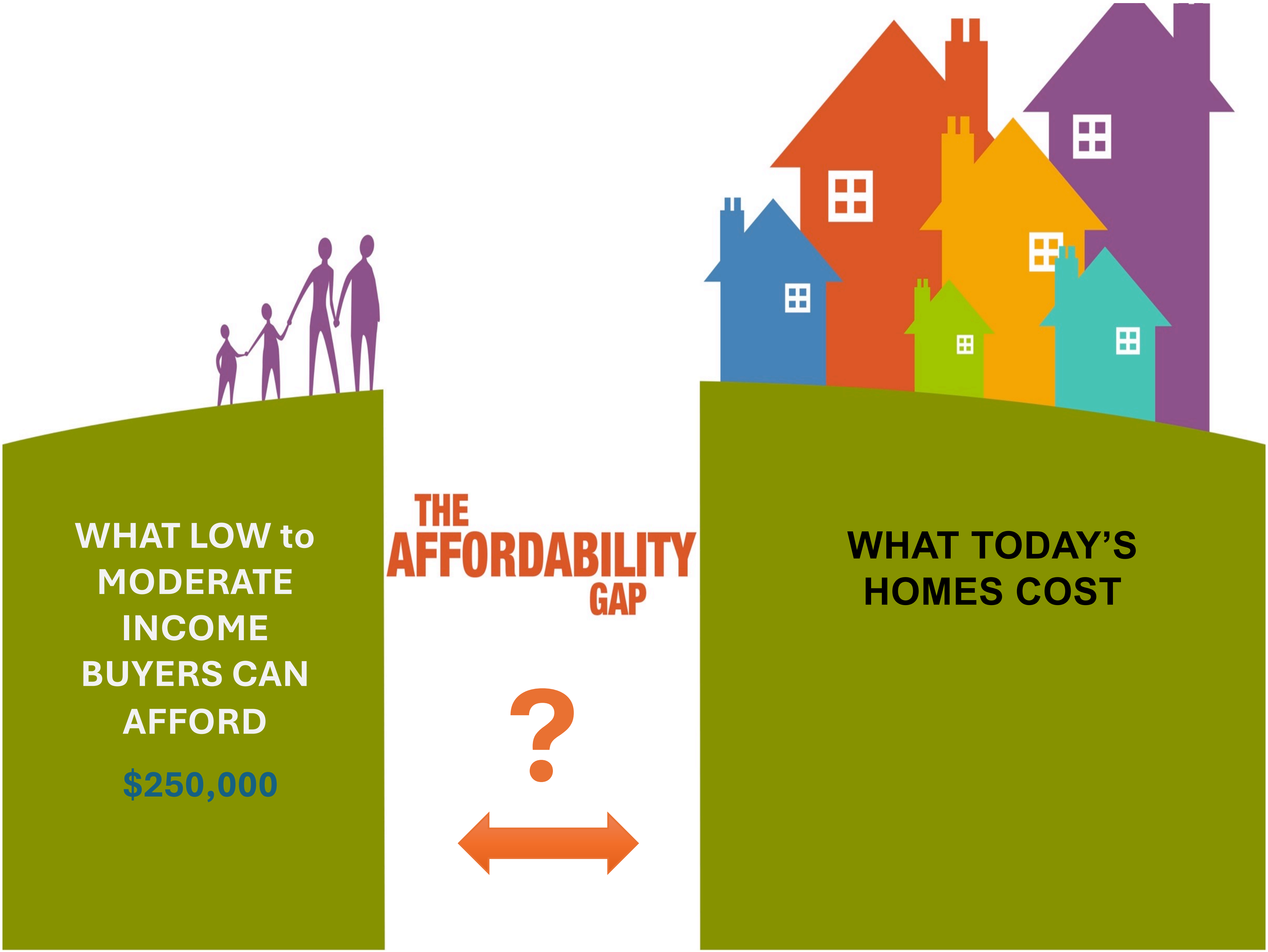
THE AFFORDABILITY GAP
?
WHAT TODAY'S HOMES COST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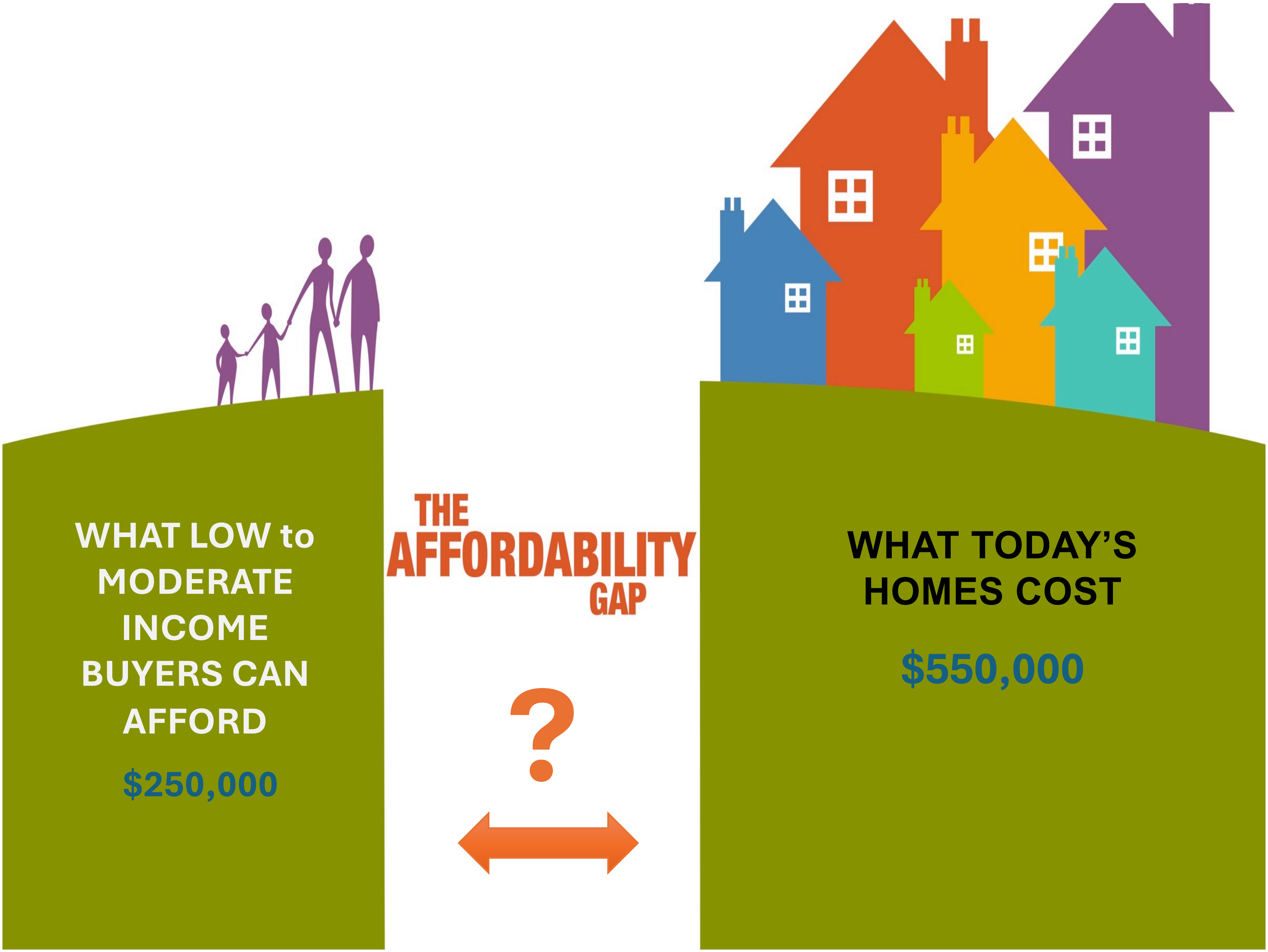
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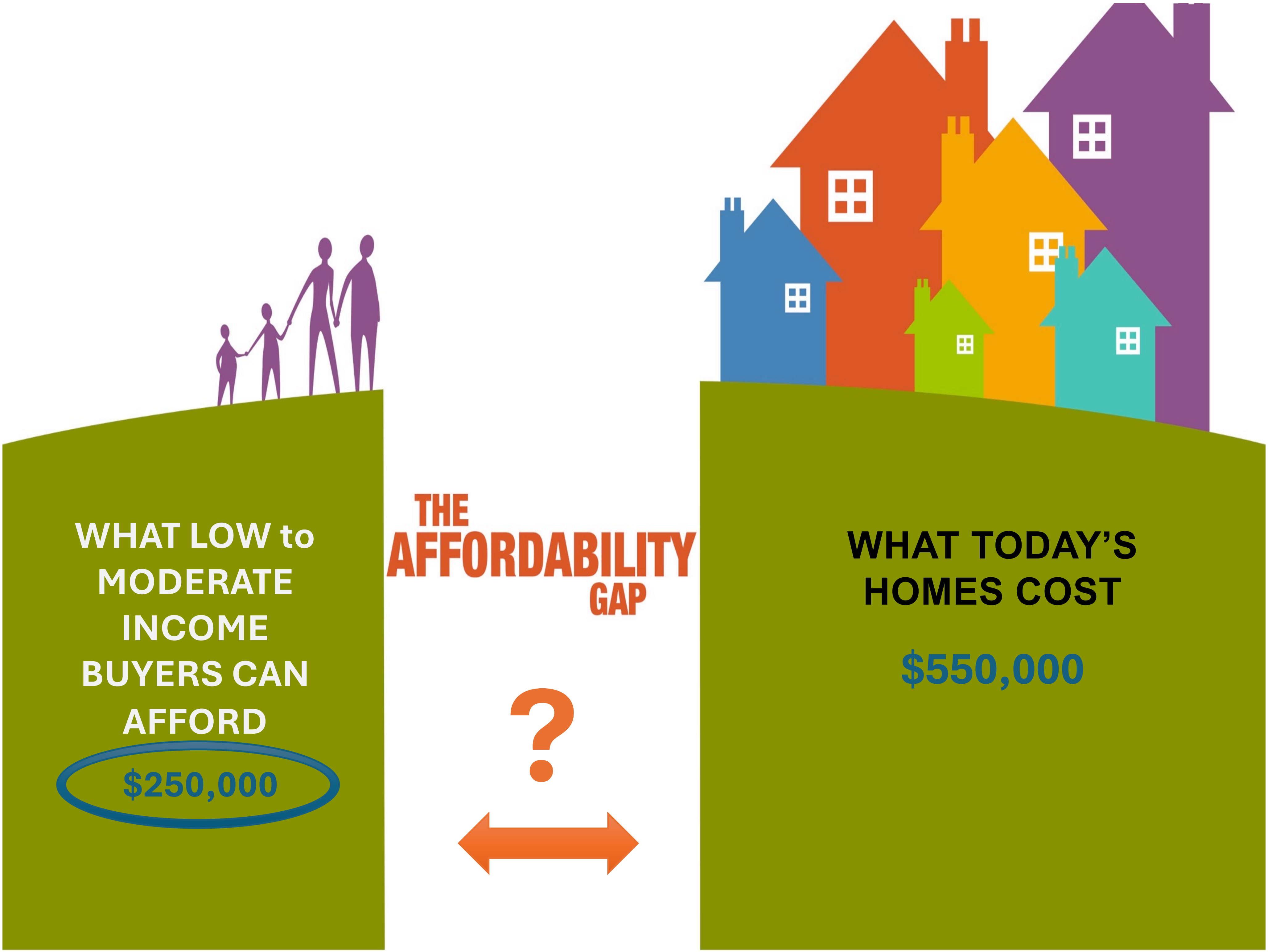
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Change in AMI & Home Values

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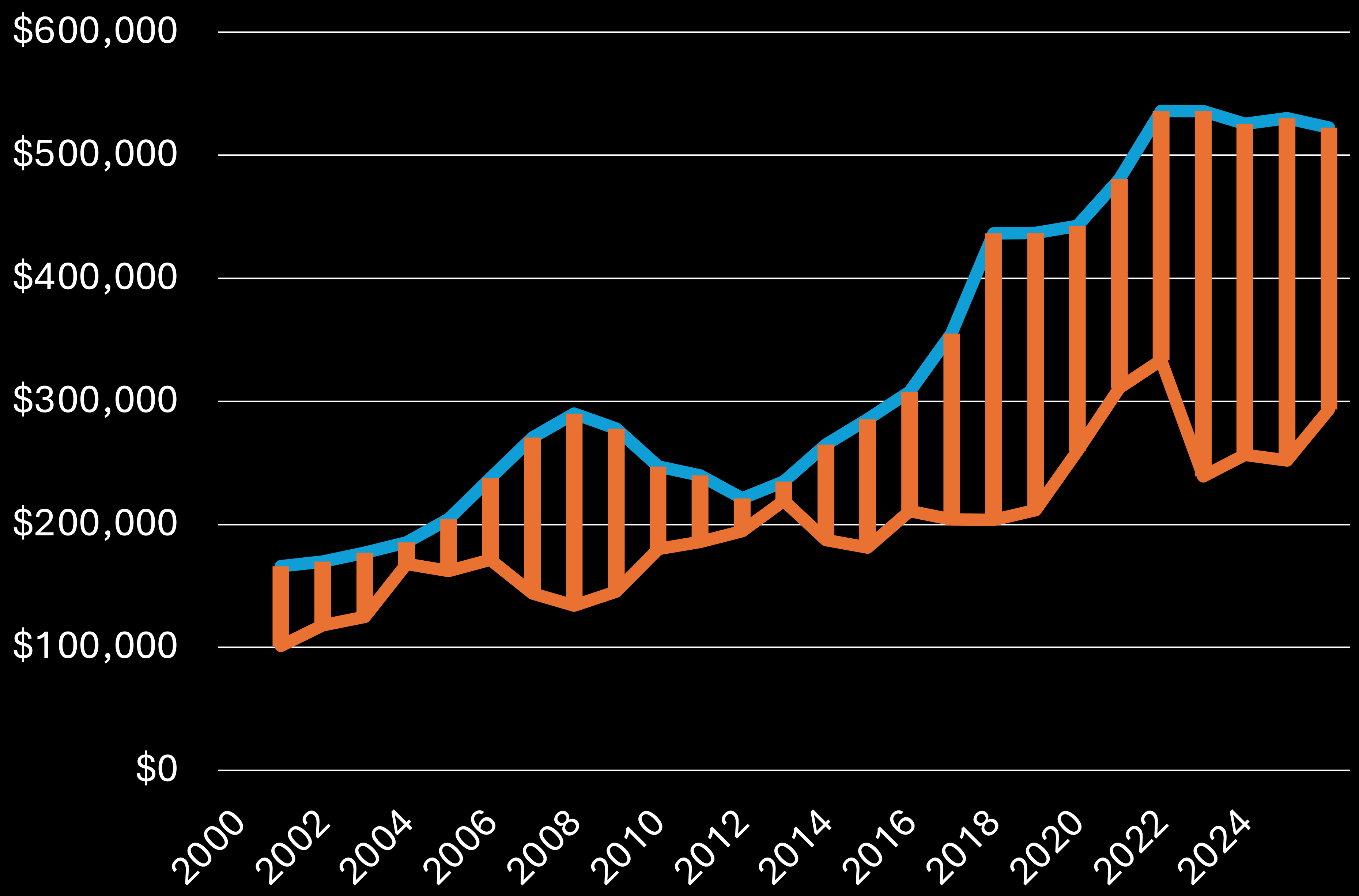

What's your strategy?

Pricing Strategy

- Define assumptions
- Set the affordable price
- Test against affordable housing options
- Test against market rate housing
- Test against rental options

Base Price

- Maximum AMI
- Target AMI
- Front end ratio
- Interest rates
- Target HH size per BR
- Down payment

Target AMI

- What is your cap?
- Is 80% actually 80%?
- Who can afford market rate housing?
- How big is your marketing window?
- The lower the AMI = less risk = more community investment

Interest Rates

1. What are today's rates?
2. Are they likely to go up or down?
3. Establish a floor for pricing
4. Higher the interest rate = lower price = less risk = more community investment

Front End Ratio

1. PITI + ?
2. Front end ratio = max monthly income towards housing
3. May be different than program limits
4. Lower ratio = lower price = less risk = higher community investment

HH Size vs. # BR

1. # BR = HH size?
2. # BR + 1 = HH size?
3. Larger HH size = higher price = higher risk = less community investment
4. Smaller HH size = lower price = less risk = more community investment

What's your strategy?

Pricing

	Assumption	
1	Household Size	# of Bedrooms + 1 = HH Size
2	Monthly Household Income	Max (80%) – 15% = 65% AMI
3	Front-End Ratio	Max = 33%
4	Interest Rate	Min 6% - or 1-2% above current rates
5	Down Payment	Cash = closing costs
6	**Affordable Price**	**Sets Affordable pricing**

Pricing

	Assumption	
1	Household Size	4 person HH (3BR house)
2	Monthly Household Income	$6,722 (or 65% AMI)
3	Front-End Ratio	$2,218 (33% of Monthly Income)
4	Interest Rate	7.5% (1% above current rates)
5	Down Payment	Cash = closing costs
6	**Affordable Price**	**$250,000 for a 3BR home**

Pricing

	Assumption	
1	Household Size	4 person HH (3BR house)
2	Monthly Household Income	$6,722 (or 65% AMI)
3	Front-End Ratio	$2,218 (33% of Monthly Income)
4	**Interest Rate**	**5.5% (1% above current rates)**
5	Down Payment	Cash = closing costs
6	**Affordable Price**	**$298,500 for a 3BR home**

How does it Measure Up?

Compare it to:

- Market rate homeownership
- Other affordable housing programs
- Rental market

How does it Measure Up?

Compared to:

Market Rate Homeownership

- $640,000 = market price
- $625,000 = leasehold value

VS

- ✓ $250,000 = affordable price
- ✓ 61% market discount
- ✓ 60% leasehold discount

How does it Measure Up?

Compared to:

DPA Program

- $640,000 = market price
- $50,000 = DPA
- $590,000 = Mortgage

VS

- ✓ $250,000 = CLT Mortgage
- ✓ 58% discount

How does it Measure Up?

Compared to:

Rental market

- $2,739 = fair market rent

VS

- ✓ $2,218 = monthly PITI+
- ✓ Lower monthly payment

Pricing and Funding:

How Do They Stack Up?

Layering the Money

- Market Value
- Cost to Deliver
- Lift Funding (OHCS)
- SHOP (HUD)
- Private Donations
- Affordable Price/Base Price
- 1st Mortgage
- 2nd Mortgage

Market Value	$640,000
Cost to Deliver	$550,000
Affordable Price	$250,000
GAP	$300,000

LIFT - OHCS	$200,000
SHOP - HUD0	$25,000
Private Donations	$75,000
Total Subsidy/Community Investment	**$300,000**

Market Value	**$640,000**
Cost to Deliver	**$550,000**
Lift Funding (OHCS)	-$200,000
SHOP (HUD)	-$25,000
Private Donations	-$75,000
Affordable Price/**Base Price**	**$250,000**
1st Mortgage	$240,000
2nd Mortgage	$10,000

Layering the money…

Market Value	**$640,000**		
Cost to Deliver	**=$550,000**		
	-$200,000	**LIFT Funding (OR)**	
	-$25,000	**SHOP Funding (HUD)**	
	-$75,000	**Private**	
Affordable Price	**=$250,000**	**Buyer Financing**	
	$240,000	**1st Mortgage**	
	$10,000	**2nd Mortgage - DPA**	

Questions?