

# How Residential Development Gets Financed

Raquel Favela,  
Chief of Economic Development & Neighborhood Services  
Jackie Rodarte,  
Assistant Director, Housing & Neighborhood Revitalization



# Understanding the Housing Market

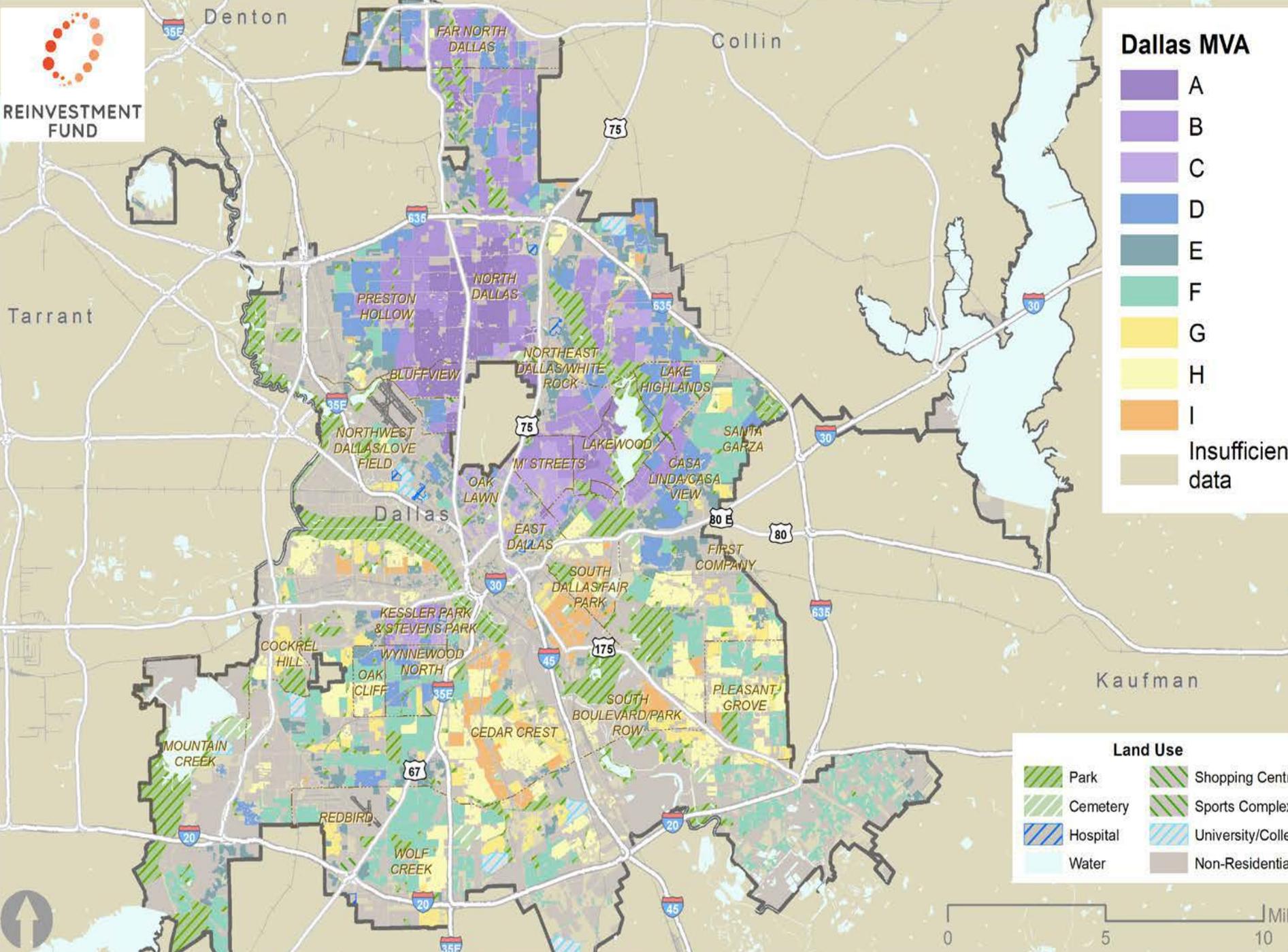
- For the City of Dallas the demand for housing is greater than supply, causing the sales prices to increase
  - Sales Prices increase at a faster pace than household incomes, leading to a greater gap over time
  - Costs for labor, materials, and regulatory increase
- Dallas residents contribute more than 30% of their income towards housing costs
- Developers will evaluate development opportunities based on Return on Investment (ROI) in for-sale projects or Internal Rate of Return (IRR) on rental housing



# Why Market Value Analysis?

- The **Market Value Analysis** (MVA) is a tool designed to assist the private **market** and government officials to identify and comprehend the various elements of local real estate **markets**
- Data driven decision making
- Develop a 3-year strategic rolling plan





### 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



# Average Characteristics for Dallas Market Types

\*Household Density was not included in the MVA model and is included here for descriptive purposes.

	Median Sales Price	Variation Sales Price	Household Density*	Percent Owner Occupied	Pct. New Construction Units	Pct. Rehab. Permits	Percent Subsidized Households	Percent Code Violations	Percent Vacant Homes	Percent Foreclosure Filings
A (29)	\$1,073,300	0.57	3.0	81%	2.6%	3.6%	1%	1%	2.4%	>1%
B (97)	\$463,900	0.48	3.7	85%	1.2%	4.4%	2%	>1%	1.2%	>1%
C (87)	\$390,500	0.40	8.5	31%	1.8%	1.2%	4%	1%	1.7%	1%
D (99)	\$267,100	0.42	4.9	69%	0.5%	2.9%	4%	1%	1.8%	>1%
E (233)	\$140,300	0.32	15.6	13%	1.1%	0.3%	13%	2%	2.3%	3%
F (128)	\$117,600	0.44	5.0	73%	0.3%	1.5%	8%	2%	1.8%	3%
G (61)	\$91,300	0.41	12.3	26%	0.4%	0.6%	63%	4%	3.8%	7%
H (126)	\$72,400	0.55	5.7	60%	0.4%	1.3%	8%	6%	3.7%	4%
I (48)	\$41,500	0.76	7.1	46%	0.7%	1.0%	17%	21%	7.5%	5%
<b>Avg. Dallas Block Group</b>	\$133,300	0.44	8.5	48%	0.9%	1.6%	12%	3%	2.6%	1%

## SAMPLE TABLE OF INTERVENTIONS BY MARKET TYPES

SAMPLE ONLY	Market Value Analysis Market Types								
	A	B	C	D	E	F	G	H	I
<b>CITY OFFERED ACTIVITIES</b>									
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									
<b>PROPOSED ACTIVITIES</b>									
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



# Real estate development is a business

- Benefits of owning rental real estate
  1. Tax Benefits
  2. Appreciation
  3. Cash Flow
- Cash Flow and Appreciation are most important in Market-Rate Projects
- Tax Benefits are most important in subsidized projects
- For-sale housing provides profit when enough units are sold that pay off all of the debt and return on equity



# Goals of Government

In areas of disinvestment or in order to achieve a public goal like adding more housing to the market

- Help raise enough money to pay for the project
- Attract the maximum amount of private money
- Fair return for the owner/developer but no undue enrichment



# Rental Housing

## Pro Forma Income and Expense Statement

Cash In

Gross Rent

Other Income

- Vacancy Factor

= Effective Gross Rents

Cash Out

- Operating Expenses

For

Taxes, Maintenance,  
Insurance, Utilities, Mgmt. Fee

= Net Operating Income

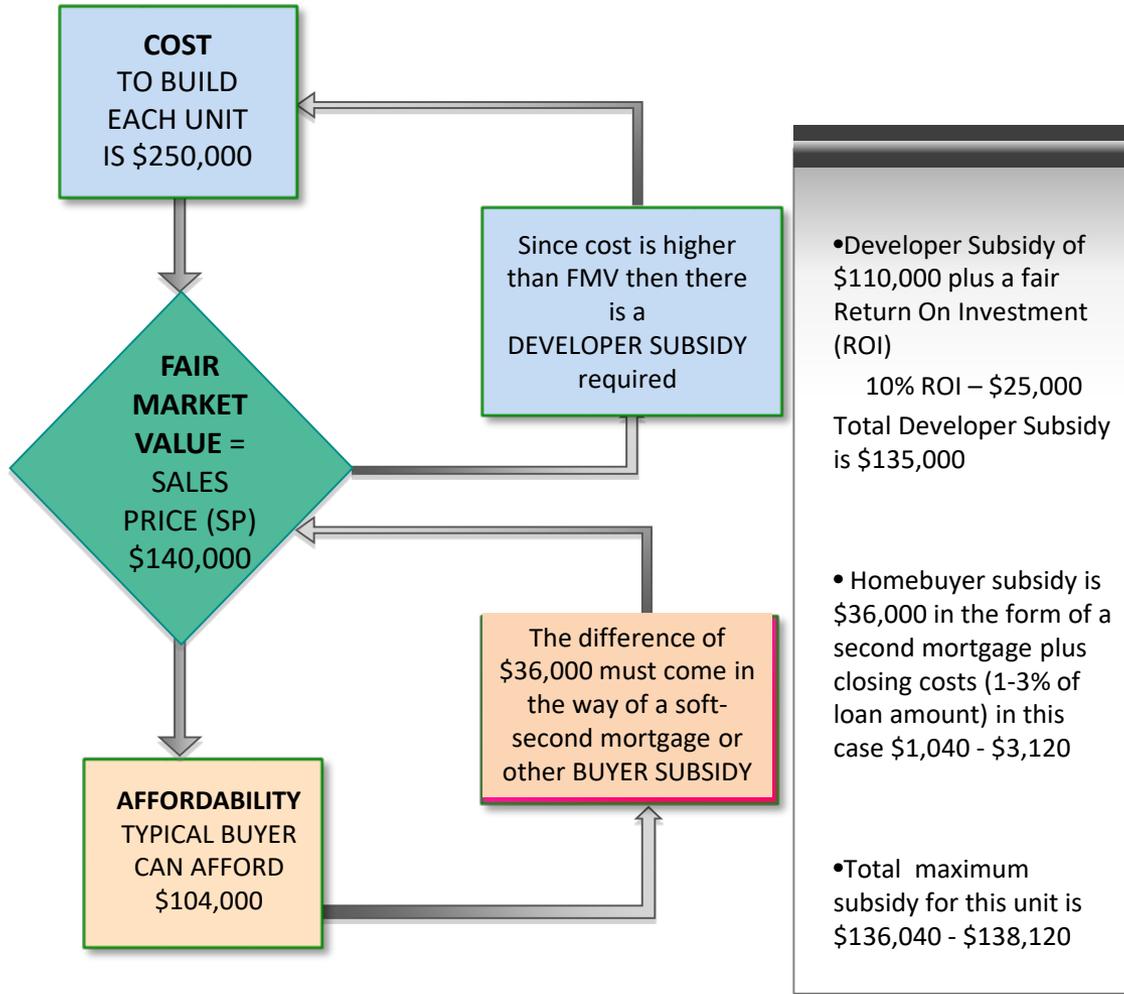
- Debt Service

= Cash Flow

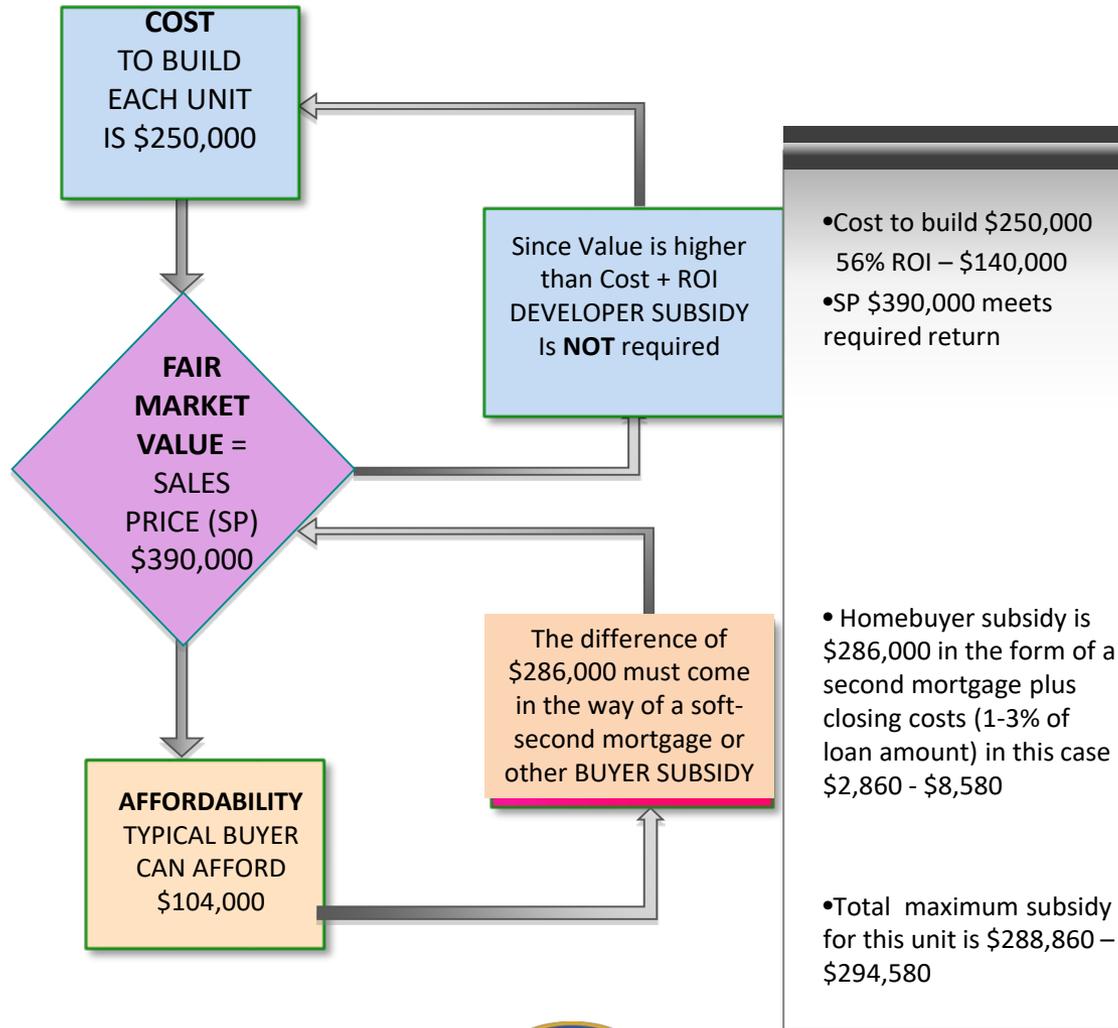




# For-Sale Housing



# For-Sale Housing



# Questions and Answers

1) For rental housing, which development option would you support knowing the public subsidy required?

- a. Mixed income
- b. 100% affordable
- c. 100% market rate

2) Would you support the development of for-sale housing that requires both development and homebuyer subsidy of approximately \$140,000 per unit?

For example: Subdivision of 100 units would require public subsidy of \$14.0M

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 development costs, financing costs, and new programs to help address the problem in a comprehensive manner.

Email responses and any questions: [housingpolicy@dallascityhall.com](mailto:housingpolicy@dallascityhall.com)



# Appendix 1

Guide for Household Budget											
Category	Budget % of Household Income	HUD estimate		100% Median		Family for a		Monthly		Budget @	
		Family for a family of 4	Monthly Budget @ 100% AMI	@ 80% for a family of 4	Monthly budget @ 80% AMI	@60% for a family of 4	Monthly budget @ 60% AMI	30% for a family of 4	Monthly budget @ 30% AMI		
		\$73,400		\$58,700		\$44,040		\$22,000			
Housing related expenses (includes owner's/renter's insurance, property taxes, maintenance)	30%	\$ 22,020	\$ 1,835	\$ 17,610	\$ 1,468	\$ 13,212	\$ 1,101	\$ 6,600	\$ 550		
Transportation, Groceries, Utilities,	20%	\$ 14,680	\$ 1,223	\$ 11,740	\$ 978	\$ 8,808	\$ 734	\$ 4,400	\$ 367		
Savings, Retirement & Debt Payments	20%	\$ 14,680	\$ 1,223	\$ 11,740	\$ 978	\$ 8,808	\$ 734	\$ 4,400	\$ 367		
Personal, Entertainment, Cell Phone, Cable, Gym Memberships, Eating out, leisure travel	30%	\$ 22,020	\$ 1,835	\$ 17,610	\$ 1,468	\$ 13,212	\$ 1,101	\$ 6,600	\$ 550		
	100%										

