

Multi-Family, Mixed Use and Mixed Income Housing Development





What is a Mixed-Use Project?

- Mixed-use development is an example of flexible zoning which allows various types of land uses, including office, commercial, residential, and in some cases, light industrial or manufacturing, to be combined within a single development or district.
- A major purpose of mixed-use zoning is to allow a balanced mix of office, commercial, and residential uses in close proximity to increase convenience to residents and reduce the number of shopping and/or commuting trips needed.
- Mixed-use developments can range in size from single buildings with apartments located over retail uses, to large-scale projects that include office and commercial space along with hotels, convention centers, theaters, and housing.

Mixed Residential and Retail Development



Madison Crossing, in Seattle WA, features 24 residential units, a 15,000-square-foot ground-floor grocery and a parking garage on the second level.



Benefits of Mixed Use Projects

- Mixed-use projects can offer cost savings to developers in the form of shared parking arrangements and shared costs for building operation, maintenance, and security.
- Commercial uses can help subsidize affordable or low-income housing, which may be necessary because of high urban land prices and development costs.
- Mixed-use projects can create new housing opportunities in areas that may have previously allowed only commercial, office, or light industrial uses.



Benefits of Mixed Use Projects

- Mixed-use projects offers one way to accommodate the higher housing densities. Higher density housing in commercial zones may be more politically acceptable than increasing densities in established single-family zones.
- Mixed-use projects can be utilized to better integrate land uses by locating residential developments near downtown commercial (shopping) areas.
- With residents working or shopping close to home, traffic congestion is reduced.
- Allowing mixed uses can help to revitalize distressed neighborhoods by creating a sense of community and safety.



Fundamental Challenges of Mixed-Use Projects

- Higher costs
- Large financing gaps
- Unproven market demand
- Difficulty in implementation



Higher Costs in Mixed Use Projects

Mixed-use projects often have higher costs per square foot than other projects because of costs associated with parking structures, firewalls between ground-floor commercial and upper-floor residential units, elevators, and advanced fire suppression systems.

Large Financing Gaps in Mixed Use Projects

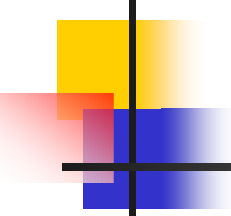


- Mixed-use projects, particularly those that incorporate some element of affordable housing, often face both “cost gaps” and “affordability gaps” associated with both the housing and the commercial uses.
- Cost gaps = the difference between the cost of development and what the market is willing to finance.
- Affordability gaps = the difference between market rates and what the project’s target market can afford to pay.
- The majority of mixed-use projects, both nationally and locally, require significant public subsidies.
- The challenge of filling these gaps is compounded by the fact that there are relatively few subsidy sources for commercial real estate development and that many common housing subsidy tools are not well suited for projects that consist of multiple uses.



Unproven Market Demand in Mixed Use Project

- There are relatively few mixed-use projects in the most communities.
- Most housing in the most communities is located in distinctly residential areas.
- Therefore, many funders and lenders remain unconvinced of the demand for housing on busy commercial streets and transit routes.



Difficulty in Implementation in Mixed Use Projects

- Projects with multiple uses are inherently more complex and less efficient to design, finance and manage.
- Because housing and commercial uses are fundamentally different, they require different design features, different financing tools (with different underwriting standards) and different management skills.
- In some cases, the demands of housing and commercial uses conflict in ways that make it difficult to market the product.
- Bringing all of the divergent components together so that they complement each other is the key to having a successful mixed-use project.



Characteristics of Successful Mixed-Use Projects

- **Specific goals for both the housing and commercial components of the project**, informed by careful market analysis that verifies the needs and assumptions underlying those goals.
- **Development teams with solid experience** in mixed-use design, commercial leasing, housing & commercial financing, and property management.
- **Sites located within existing commercial districts** with good visibility & access to transit and roads.
- **Architectural designs** that accommodate specific needs for commercial uses into the project on the front end, while incorporating unique elements **that attractively integrate the projects into their communities**.
- Careful selection of a **strong and unique mix of commercial tenants**.
- **Sufficient parking** that will adequately serve the needs of commercial and housing tenants.
- **Partnerships with municipalities** on site assembly and the financing of infrastructure improvements.
- **The use of phasing** for large, multi-block projects when resources are not sufficient to undertake all activities at one time.
- **Creative financing opportunities** for short, medium and long term investors that allow the commercial portion of the project to establish its customer base.
- **Realistic pro formas** that include funds for tenant improvements, rents that are in line with the market, a healthy vacancy rate for the commercial, and tested assumptions for operating expenses.
- **Legal structures that separate the different uses** when necessary to obtain financing.
- **Incorporation of civic uses, public or green spaces** such as libraries, banks, community centers, urban parks, and creative landscaping.



Non-Residential Uses and Risk in a Mixed Use Development

- The least risky non-residential use to develop is community program space, which even though do not produce rent or revitalize commercial corridors, they can provide tremendous benefits to a supportive or affordable housing project.
- Developing space for a childcare center or as office space for the sponsoring agency or another non-profit group can be a reliable way to generate income from the commercial space, without taking on too much financial risk.
- Developing space for a for-profit office tenant in an affordable or supportive housing development can be difficult to market, depending on the nearby availability of comparable spaces for rent.
- The highest level of risk comes with trying to develop retail or restaurant space since location is a major determining factor in the success of a retail or food service establishment.



BEST MANAGEMENT PRACTICES FOR MIXED INCOME HOUSING

- The following is checklist of considerations in deciding if a mixed-income development is needed or desirable.
 - What is the market?
 - Who is being served in a development?
 - What is the tenure type?
 - What is the scale?
 - What is the greater community context?
 - What are the financial considerations?
 - Is a mix of incomes necessary for approval
 - What defines success?



Income Levels for Mixed Income Projects The Conventional Wisdom

- Many affordable housing experts believe that a mix including up to 20% extremely low income (ELI) elderly households is almost always feasible.
- There is general consensus that a mix including non-working ELI family households is more risky.
- Many experts believe that up to 20% non-working family ELI households is feasible with good management, and that higher percentages may or may not be feasible.



Income Levels for Mixed Income Projects Different Mixes

According to conventional wisdom, sponsors should consider the following factors when planning a development with these mixes:

- **"30 to 60" mix.** Some households below 30% area median income (AMI), with the remaining households meeting LIHTC requirements. In this mix, the conventional wisdom rule of thumb is the most frequently cited advice.
- **"30 to 80" mix.** Some households below 30% AMI, with at least a significant number of the remaining households being typical market renters. There is some evidence that the presence of a middle band, say from 40% to 60% AMI, is very helpful and perhaps essential in achieving community stability and viability.
- **"30 to 120" mix.** Some households below 30% AMI, with at least a significant number of the remaining households having incomes at or near the highest levels typical for renter households in the local market. Here, the evidence is stronger that a middle band is needed.

House Charlotte

2002 Median Family Income for the Metropolitan Statistical Area:

Charlotte - Gastonia - Rock Hill

FAMILY SIZE								
% OF INCOME	1	2	3	4	5	6	7	8
20%	\$8,950	\$10,250	\$11,500	\$12,800	\$13,800	\$14,850	\$15,850	\$16,900
30%	\$13,500	\$15,400	\$17,350	\$19,250	\$20,800	\$22,350	\$23,850	\$25,400
40%	\$17,950	\$20,500	\$23,100	\$25,650	\$27,700	\$29,750	\$31,800	\$33,850
50%	\$22,450	\$25,650	\$28,850	\$32,050	\$34,600	\$37,200	\$39,750	\$42,300
60%	\$26,900	\$30,750	\$34,600	\$38,450	\$41,550	\$44,600	\$47,700	\$50,750
70%	\$31,400	\$35,900	\$40,350	\$44,850	\$48,450	\$52,050	\$55,600	\$59,200
80%	\$35,900	\$41,050	\$46,150	\$51,300	\$55,400	\$59,500	\$63,600	\$67,700
90%	\$40,400	\$46,150	\$51,950	\$57,700	\$62,300	\$66,950	\$71,550	\$76,150
100%	\$44,850	\$51,300	\$57,700	\$64,100	\$69,250	\$74,350	\$79,500	\$84,600
110%	\$49,350	\$56,400	\$63,450	\$70,500	\$76,150	\$81,800	\$87,400	\$93,050

Note: To update to current year, please change HUD's estimate of Median Income for 100% Family of 4

Appendix 1 - Definition of Affordability For Base Year 2002

I. Affordability Matrix - (Based on a Family of 4)

% of Median Income	Annual Income	Maximun Monthly Rent	Max. Price	Max. Sales Price
50%	\$32,050	\$801	\$88,755	\$93,192
60%	\$38,450	\$961	\$110,560	\$116,088
80%	\$51,300	\$1,283	\$154,341	\$162,058
100%	\$64,100	\$1,603	\$197,952	\$207,849
120%	\$76,900	\$1,923	\$241,562	\$253,641

Assumptions: Insurance and taxes are \$150,.00
8 % interest Rate for 30 years

II. Affordability Matrix - (Based on a Family of 3)

% of Median Income	Annual Income	Maximun Monthly Rent	Max. Price	Max. Sales Price
50%	\$28,850	\$721	\$77,852	\$81,745
60%	\$34,600	\$865	\$97,443	\$102,315
80%	\$46,150	\$1,154	\$136,795	\$143,634
100%	\$57,700	\$1,443	\$176,146	\$184,954
120%	\$69,250	\$1,731	\$215,498	\$226,273

Assumptions: Insurance and taxes are \$150,.00
8 % interest Rate for 30 years

III. Affordability Matrix - (Based on a Family of 2)

% of Median Income	Annual Income	Maximun Monthly Rent	Max. Price	Max. Sales Price
50%	\$25,650	\$641	\$66,949	\$70,297
60%	\$30,800	\$770	\$84,496	\$88,721
80%	\$41,050	\$1,026	\$119,418	\$125,389
100%	\$51,300	\$1,283	\$154,341	\$162,058
120%	\$61,550	\$1,539	\$189,264	\$198,727

Assumptions: Insurance and taxes are \$150,.00
8 % interest Rate for 30 years

IV. Affordability Matrix - (Based on a Family of 1)

% of Median Income	Annual Income	Maximun Monthly Rent	Max. Price	Max. Sales Price
50%	\$22,450	\$561	\$56,047	\$58,849
60%	\$26,900	\$673	\$71,208	\$74,769
80%	\$35,900	\$898	\$101,872	\$106,966
100%	\$44,850	\$1,121	\$132,365	\$138,984
120%	\$53,800	\$1,345	\$162,859	\$171,002

Assumptions: Insurance and taxes are \$150,.00
8 % interest Rate for 30 years

Information on Housing Affordability in Your Area



National Low Income Housing Coalition

Dedicated solely to ending America's affordable housing crisis

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Out of Reach 2004

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Despite the emphasis on homeownership and the marginalization of renters, renter households still make up fully one-third of the households in the United States – nearly 36 million households. *Out of Reach* is a side-by-side comparison of wages and rents in every county, Metropolitan Statistical Area (MSA), combined nonmetropolitan area and state in the United States. For each jurisdiction, the report calculates the amount of money a household must earn in order to afford a rental unit of a range of sizes (0, 1, 2, 3, and 4 bedrooms) at the area's Fair Market Rent (FMR), based on the generally accepted affordability standard of paying no more than 30% of income for housing costs. From these calculations the hourly wage a worker must earn to afford the FMR for a two bedroom home is derived. This figure is the Housing Wage.

Data

To View Data for a State, County, Metropolitan Statistical Area, or nonmetro areas for a state, choose a state:

--- All States ---
Alabama
Alaska
Arizona
Arkansas

You can select more than one state by

holding down the Control key

[Click to View Data](#)

[Calculate your personal housing wage, based on your current cost.](#)

- [Introduction](#) (Includes the analysis of the report and describes national trends.)

Rankings

- [Least Affordable States](#)
- [Least Affordable Metropolitan Statistical Areas](#)
- [Least Affordable Counties](#)
- [Least Affordable Combined Nonmetro Areas](#)
- [State Rankings Based on Two Bedroom Housing Wage](#)
- [How to Use the Numbers](#)
- [Where the Numbers Came From](#)
- [Appendix A: Explanation of Fair Market Rents](#)
- [Appendix B: Methodology and Sources](#)
- [Appendix C: Change and Controversy for the 2005 Fair Market Rents](#)
- [Appendix D: Towns within New England FMR Areas](#)
- [NLIHC Press Release](#)

- Go to the web site of the National Low Income Housing Coalition
- <http://www.nlihc.org/oor2004/>
- Go to your specific state and your specific county or MSA
- This site will yield detailed information on the “fair market rent” for different size apartments
- It will also yield detailed information about the proportion of your area’s population that can afford fair market rents (30% of AMI)

Housing Affordability in Charlotte NC



National Low Income Housing Coalition

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Out of Reach 2004

Charlotte--Gastonia--Rock Hill, NC--SC MSA, North

In Charlotte--Gastonia--Rock Hill, NC--SC MSA, North, an extremely low income household (earning \$18,540, 30% of the Area Median Income of \$61,800) can afford monthly rent of no more than \$464, while the Fair Market Rent for a two bedroom unit is \$719.

A minimum wage earner (earning \$5.15 per hour) can afford monthly rent of no more than .

An SSI recipient (receiving \$564 monthly) can afford monthly rent of no more than , while the Fair Market Rent for a one-bedroom unit is \$647.

In Charlotte--Gastonia--Rock Hill, NC--SC MSA, North, a worker earning the Minimum Wage (\$5.15 per hour) must work 107 hours per week in order to afford a two-bedroom unit at the area's Fair Market rent.

The Housing Wage in Charlotte--Gastonia--Rock Hill, NC--SC MSA, North is \$13.83. This is the amount a full time (40 hours per week) worker must earn per hour in order to afford a two-bedroom unit at the area's Fair Market rent.

A unit is considered affordable if it costs no more than 30% of the renter's income.

- What impact will these limitations make on affordable housing projects in Charlotte?
- What would you have to do to develop or rehabilitate an apartment to be affordable in this market?

Specific Affordability Data for Charlotte

2004 Family Income							
Location	2004 Annual Median Income ¹ (HUD)			Maximum Affordable ² Monthly Housing Cost by % of Family AMI			
	Annual	Monthly	30% of AMI	30%	50%	80%	100%
Charlotte--Gastonia--Rock Hill, NC-- SC MSA, North	\$61,800	\$5,150	\$18,540	\$464	\$773	\$1,236	\$1,545

Fair Market Rents (FMR) ³ by Number of Bedrooms					
Location	Zero	One	Two	Three	Four
Charlotte--Gastonia--Rock Hill, NC--SC MSA, North	\$597	\$647	\$719	\$913	\$1,000

2004 Renter Households					
Location	Estimated Renter Median Annual Income	Income Needed to Afford 2BR FMR as Percent of Renter Median	Number Earning 30% of AMI or Less Unable to Afford Rent (2000)	Number Earning 30- 50% of AMI Unable to Afford Rent (2000)	Monthly Rent Affordable at Renter Median
Charlotte--Gastonia-- Rock Hill, NC--SC MSA, North	\$35,661	81%	21,606	15,105	\$892

Income Needed to Afford FMR										
Location	Annual Amount					Percent of Family AMI				
	Zero Bedrooms	One Bedroom	Two Bedrooms	Three Bedrooms	Four Bedrooms	Zero Bedrooms	One Bedroom	Two Bedrooms	Three Bedrooms	Four Bedrooms
Charlotte--Gastonia-- Rock Hill, NC--SC MSA, North	\$23,880	\$25,880	\$28,760	\$36,520	\$40,000	39%	42%	47%	59%	65%