BRIDGE Housing

BUILDING SUSTAINING LEADING

BRIDGE HOUSING CORPORATION

BRIDGE PROPERTY MANAGEMENT COMPANY

BRIDGE ECONOMIC DEVELOPMENT CORPORATION

May 5, 2022

Berkeley Housing Authority
1936 University Ave., Suite 150
Berkeley, CA 94704

RE: Request for Additional Project Based Vouchers for 1740 San Pablo

Dear Berkeley Housing Authority Board of Commissioners:

Please consider this a request to authorize BRIDGE to submit a supplemental request for additional Project Based Vouchers (PBVs) under the next BHA Request for Proposals, which we understand is scheduled for late summer 2022.

Existing PBV Allocation

Our 54-unit 100% affordable project at 1740 San Pablo currently has an allocation of 21 PBVs, awarded to the project in 2020. This allocation was approved under the HOTMA rules allowing for a project voucher cap the greater of 25 units or 25 percent of the project units. We hope to increase our total voucher allocation from 21 to the maximum of 25. As a project located in a Census Tract with a poverty rate of 7.5 percent[1] and a High Resource designation[2] from the state, maximizing the vouchers allocated to this project will deepen the affordability and therefore access to opportunity for low income households in Berkeley.

Evolving Program

In response to HCD funding criteria, we are currently working to update the Project's programming to dedicate a subset of the units to either formerly homeless households or households with Intellectual and Developmental Disabilities (ID/D). We are considering partnering with a service provider to offer wrap around services (funded via an external source) to these households and we will allocate some or all of the PBVs to these units. The current program is summarized in the table below. The affordability and unit mix may undergo minor revisions as we analyze how to best respond to the new State funding requirements and incorporate any recommendations from the service provider we bring on, but the overall unit count of 54 units will not change.

[1] 2020 5-Year ACS Estimate for Census Tract 4221.
[2] 2022 TCAC/HCD Opportunity Map: https://belonging.berkeley.edu/2022-tcac-opportunity-map

Program Summary

Unit Mix							
Affordability	**Studio**	**One**	**Two**	**Three**	**Four**	**Total**	**%**
20%	-	-	-	-	-	-	0.0%
30%	5	5	7	6	-	23	42.6%
35%	-	-	-	-	-	-	0.0%
40%	-	4	3	2	-	9	16.7%
50%	-	5	7	5	-	17	31.5%
55%	-	-	-	-	-	0	0.0%
60%	-	3	-	1	-	4	7.4%
70%	-	-	-	-	-	-	0.0%
80%	-	-	-	-	-	-	0.0%
Above 80%	-	-	-	-	-	-	0.0%
Managers	-	-	-	1	-	1	1.9%
TOTAL	**5**	**17**	**17**	**15**	**-**	**54**	**100%**

Project Feasibility and Development Cost Increases

When we originally submitted a PBV application in August 2020, the financial assumptions at that time included much lower total development costs than we are facing in the current environment of inflation, rising interest rates, and supply chain instability.

- At that time, we estimated $503,900 per unit for hard costs. We are now estimating $606,000, a 20% increase. For reference, statewide construction costs have increased nearly 27% since August 2020, per the State's construction cost index (here).
- Due to arson at residential construction sites in the region, insurance on wood frame construction has increased dramatically. In August 2020 we estimated 1.8% of hard costs for insurance during construction. We have been advised by our broker that we should now assume 4.5% of hard costs for insurance during construction. In absolute terms, this is an increase of over $1M to the project.

Higher development costs undermine the project's financial feasibility unless it is possible to increase revenues to meet the higher expenses. Additional PBV funding would increase the annual revenue the project may rely on during the operations phase, increasing the amount a lender would be willing to offer the project as a permanent loan and therefore increasing the construction costs the project may bear. We are working to value-engineer our design so as to lower costs, but as the Project is currently structured it is not financially feasible. Additional PBVs would help close the gap financially.

Competitive State Funding

We applied for two funding programs from the State in 2021: the Infrastructure Infill Grant (IIG) and the Multifamily Housing Program (MHP). The MHP funding was contingent on IIG funding and our IIG application fell just short of the score necessary to be awarded a grant. As such we did not receive funding under either program. This year the application for the two funding sources is combined under the State's first "SuperNOFA" and we are currently assembling an application.

Under the new, updated scoring criteria for the "SuperNOFA" average affordability and the leveraging of public funds are two key metrics on which the application is evaluated. The project's affordability level as submitted in our 2021 application was 42.83 percent. HCD awards maximum points at 40 percent, so additional PBVs would enable us to revise the affordability mix by lowering the AMI on additional units, driving the average affordability down to HCD's preferred 40 percent. Additional PBVs would also improve our score on HCD's leveraging of public funds criteria.

Development of this project has been delayed by over a year because the Project was not awarded state funding in 2021. Because we did not receive funding in 2021, we paused design development and have found an interim use for the site to cover some of BRIDGE's holding costs—property taxes, insurance, security, maintenance, etc.—but project feasibility is strained by the costs we are accruing in this extended holding period, in addition to the increasing development costs mentioned above. In order to prevent any further delays to the project, we are striving to submit the most competitive application possible according to the State's new scoring criteria to ensure a funding award. If we are able to secure state funding in 2022, the objective is to break ground on the project no later than fall of 2023.

Additional PBVs, if only a small amount, are critical to the project's financial feasibility. We appreciate your consideration of this request.

Sincerely,

Kate Traynor

Project Manager