

**WORKFORCE HOUSING ANALYSIS
TALLAHASSEE, FL**

December 2006

GVA File #06065

PREPARED FOR:

Mr. Dave Wamsley
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The Valuation Group
The Hospitality Group
The Residential Analytics Group

The Corporate and Investment Group
The Aviation Group

December 12, 2006

Mr. Dave Wamsley
Managing Partner
Evening Rose Community Housing, LLC
521 Beverly Court
Tallahassee, FL 32301

Dear Mr. Wamsley:

GVA Marquette Advisors is pleased to present this consulting analysis pertaining to workforce housing in Tallahassee and your proposed development, known as the "Evening Rose Community." At your request, we have completed an analysis of the historic, current and projected residential market environment in Tallahassee and Leon County, FL, and have developed projections of 5-year workforce housing demand for the County and City. Specifically, this report provides an estimate of the demand for workforce housing units affordable to households earning less than 140% of AMI, with a particular focus on those earning between about 70% and 140% of AMI, the target income range for Evening Rose. Through an analysis of local market data, research and interviews, we have also documented the need for an increase in City support and programs which support the development of workforce housing in Tallahassee. Moreover, we have provided an estimate of the economic benefits that would accrue to the City of Tallahassee's economy through the addition of the proposed 92 workforce-affordable homes at Evening Rose, and then measured these impacts against the required subsidy amount (\$8 million) to develop an estimate of the "return on investment" from this effort.

We appreciate the opportunity to assist you with this important project, and remain available to answer any questions that may arise regarding the report.

Sincerely,

GVA MARQUETTE ADVISORS

A handwritten signature in black ink, appearing to read "Brent Wittenberg".

Brent E. Wittenberg
Vice President

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BACKGROUND & UNDERSTANDING

We understand that K2 Urban Corp. is proposing a mixed-use development in Tallahassee known as Evening Rose. This planned development will include 99 single-family homes and approximately 100,000 square feet of commercial space, along with 92 “workforce” housing units in the form of attached townhouse-style flats. K2 Urban Corp., together with the City of Tallahassee under the development entity Evening Rose Community Housing, LLC will be submitting an application for a \$5 million grant from the State’s Community Workforce Housing Innovation Program (CWHIP). These funds will be augmented with a contribution of \$2.69 million by the City of Tallahassee to effectively “buy down” the purchase price of the 92 workforce units to a level that is affordable to households earning less than 140% of the Area Median Income (AMI) in Tallahassee. The purpose of CWHIP and the proposed workforce housing initiative by Evening Rose Community Housing, LLC is to increase the number of housing opportunities within Tallahassee for middle-income households and “essential workforce personnel” such as teachers, law enforcement officers, firefighters, nurses and government employees.

In this regard, Evening Rose Community Housing, LLC retained GVA Marquette Advisors to assess the local workforce housing market and provide a consulting memorandum to be used as a part of the grant application package. The scope of services provided by GVA Marquette Advisors are summarized below.

SCOPE OF SERVICES

GVA Marquette Advisors was retained to provide the following:

1. An assessment of workforce housing demand in Tallahassee and Leon County over the coming five-year period.
2. A discussion of the need for an increased focus on workforce housing in Tallahassee due to a current shortage of programs and initiatives in this area, and a variety of barriers to the development of workforce housing in the City.
3. An analysis of the potential economic benefits of providing 92 additional workforce housing units in Tallahassee and an analysis of the “return on investment” (i.e. the grant and subsidy amounts).

The following paragraphs outline our key findings related to each of the above-noted research objectives.

DEFINITIONS

“Workforce Household.” For purposes of this analysis, a workforce household is a household with an annual income up to 140% of the Area Median Income (AMI). This includes single persons earning up to \$57,400/year, ranging up to \$108,080/year for a family of eight persons. The following table sets forth the maximum income by household size at the 140% AMI threshold, according to CHWIP.

| Household Size | Maximum Income |
|----------------|----------------|
| 1 | \$57,400 |
| 2 | \$65,520 |
| 3 | \$73,780 |
| 4 | \$81,900 |
| 5 | \$88,480 |
| 6 | \$95,060 |
| 7 | \$101,500 |
| 8 | \$108,080 |

* Area Median Income = \$58,500

Source: Community Workforce Housing Innovation Program (CHWIP)

We note that the average household size in this market is 2.33 persons.¹ Based on the average household size, this report will assess demand for housing units affordable to households earning less than about \$68,000 per year.

“Workforce Housing Unit.” For purposes of this analysis, a workforce housing unit is defined as a home that is affordable to a “workforce household” if it consumes not more than 30% of the household’s income (for rental) or falls within owner affordability standards common among lenders in today’s mortgage environment.² Consequently, a workforce housing unit at the 140% of AMI threshold (assuming an income of \$68,000/year based on the average household size of 2.33 persons) is an owner occupied unit priced at about \$215,000 or less.

¹ Source: University of Florida, Bureau of Economic and Business Research, “Florida Population Studies, Bulletin 143,” January 2006.

² We used the following guidelines to determine mortgage capacity: 30-yr. fixed rate mortgage at 6.0% + mortgage interest, hazard insurance and real estate taxes. Again, assume monthly housing cost not exceeding 30% of income.

PROPOSED UNIT MIX, PRICING AND AFFORDABILITY

The Evening Rose Community will provide 92 workforce townhouse units, along with market rate homes, retail shops, restaurants and public areas within a Traditional Neighborhood Development (TND) concept. With respect to the workforce housing component, there will be 46 units at 1,540 sq. ft. each with market prices at \$295,000 and 46 units at 740 sq. ft. each with market pricing at \$145,000. State, city and grant funding (totaling approximately \$8 million) will be used to effectively “buy down” the purchase price of these units to \$158,000 and \$100,000, respectively. *As such, it is important to note that the developer is will actually be providing homeownership units that will be affordable to households earning 69% of AMI or more. This is illustrated by the table below.*

| Table 2 | |
|--|----------|
| Evening Rose Workforce Townhouse Units | |
| Projected Pricing and Affordability | |
| 1BR, 1BA, 740 Sq. Ft. - Evening Rose Townhouse at \$100,000 | |
| Minimum Income Required to Afford at 30% of Income | \$32,250 |
| % of AMI for 1-person household in Tallahassee | 79% |
| % of AMI for 2-person household in Tallahassee | 69% |
| 2 or 3 BR, 2.5 BA, 1,540 Sq. Ft. - Evening Rose Townhouse at \$158,000 | |
| Minimum Income Required to Afford at 30% of Income | \$54,000 |
| % of AMI for 1-person household in Tallahassee | 132% |
| % of AMI for 2-person household in Tallahassee | 115% |
| % of AMI for 3-person household in Tallahassee | 94% |
| % of AMI for 4-person household in Tallahassee | 92% |
| Sources: Developer; HUD Income Guidelines as posted by FL Housing Finance Corporation; GVA Marquette Advisors | |

WORKFORCE HOUSING DEMAND ANALYSIS

Introduction

In developing our forecast of workforce housing demand for Tallahassee, we reviewed demographic and economic data from numerous sources. We analyzed historical population and household growth trends, employment growth by occupation, occupational earnings data, and household incomes for Tallahassee and Leon County, as compiled by the Tallahassee-Leon Planning Department and other government sources as noted herein. In addition, we reviewed household income data and growth projections by ESRI Business Information Solutions, a nationally-recognized econometric forecasting firm. Housing market information was provided by the Tallahassee Board of Realtors. Our data analysis was supplemented by interviews with local developers, builders, realtors, lenders and other local housing experts.

We have completed numerous housing studies and demand forecasts throughout the United States, at the neighborhood, city, county and regional level. Through these experiences, we have developed a demand model that is sensitive to the unique market dynamics and demand indicators which are pertinent to the area in focus. In many communities, including Tallahassee, household growth and housing unit demand are closely related to employment growth. In other words, as business and employment growth predominates, housing demand follows, with a large proportion of workers preferring to take residence in relatively close proximity to their work.

The following paragraphs and tables present a summary of key demand indicators, including population, household and employment growth, and household incomes. This is followed by our projection of workforce housing demand in Tallahassee over the coming five years.

Population, Household and Employment Growth Trends

The following are key points regarding population, household and employment growth trends in Tallahassee and Leon County, as displayed on Table 3 on the following page.

- Leon County has an estimated 268,000 persons and 108,800 households in 2006. The County has added more than 2,000 households and nearly 4,800 persons per year since 2000. County growth is projected to increase slightly in the coming five years, buoyed by a steady economy and an increase in the popularity of Leon County as a locale among retirees.
- Employment in Leon County (by place of work) is estimated at 169,000 jobs in 2006. The County is forecast to add an average of 2,600 new jobs per year over the coming five-year period.
- The City of Tallahassee has an estimated 162,200 persons and 69,600 households in 2006. It is interesting to note that while the City captured approximately 74% of the County's household growth during the 1990s, its share of countywide growth since 2000

has slipped to just 52%. This is due in part to the increasing cost of housing in the City. This trend will be addressed in more detail later in this report.

- Based on our analysis of growth projections by local and state planners, and by ESRI, a national econometric forecasting firm, paired with our review of growth and development trends in this market, GVA Marquette Advisors' forecast that the City has the potential to add an average of 2,260 households per year between 2006 and 2011, thereby capturing 75% of Countywide growth during this period. It is important to note that this forecast presumes an increase in the production of affordable and workforce housing units within the City during this timeframe.

Table 3

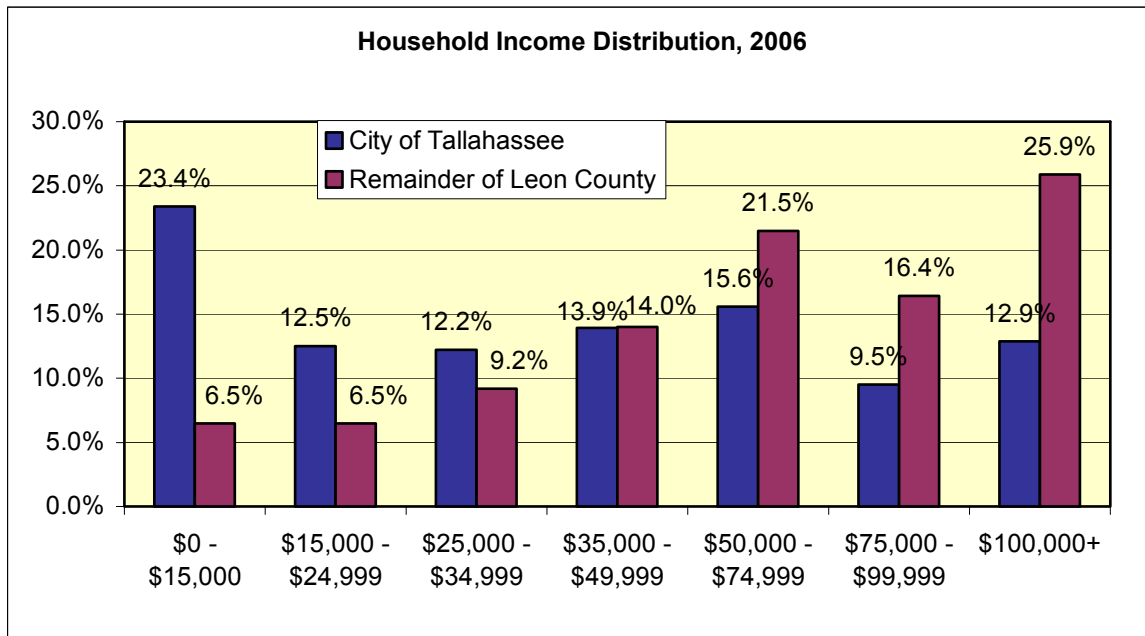
**Population, Household & Employment Growth Analysis, 1990-2011
Tallahassee & Leon County**

| | U.S Census | U.S Census | Estimate | Forecast | Average Annual Growth Trends | | |
|------------------------|------------|------------|----------|----------|------------------------------|-----------|-----------|
| | 1990 | 2000 | 2006 | 2011 | 1990-2000 | 2000-2006 | 2006-2011 |
| Population | | | | | | | |
| City of Tallahassee | 124,773 | 150,624 | 162,200 | 180,000 | 2,585 | 1,929 | 3,560 |
| Leon County | 192,493 | 239,452 | 268,000 | 293,000 | 4,696 | 4,758 | 5,000 |
| City % of County Total | 64.8% | 62.9% | 60.5% | 61.4% | 55.1% | 40.5% | 71.2% |
| Households | | | | | | | |
| City of Tallahassee | 50,442 | 63,217 | 69,600 | 78,000 | 1,278 | 1,064 | 1,680 |
| Leon County | 79,215 | 96,521 | 108,800 | 120,100 | 1,731 | 2,047 | 2,260 |
| City % of County Total | 63.7% | 65.5% | 64.0% | 64.9% | 73.8% | 52.0% | 74.3% |
| Employment | | | | | | | |
| City of Tallahassee | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Leon County | 127,200 | 164,000 | 169,000 | 182,000 | 3,680 | 833 | 2,600 |
| City % of County Total | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Sources: U.S. Census; Tallahassee-Leon County Planning Department, *Statistical Digest, 2006*; ESRI Business Information Solutions; GVA Marquette Advisors

Household Incomes

The graph below shows the 2006 income distribution of Tallahassee households compared to that for the remainder of Leon County, according to the ESRI Business Information Solutions. It shows some clear differences between the city resident composition and that for the remainder of the county.



- As is often the case in urban areas, Tallahassee is home to a larger share of lower income households compared to the remainder of the county, due to the presence of affordable low-income housing, goods and services and public transportation there.
- According to statistics provided by Mr. Don Pickett of the Tallahassee Board of Realtors' Market Trends and Research Committee, the median sale price for single-family homes, townhomes and condos in Leon County during 2006 3rd Qtr. was \$193,050. We estimate that an annual income of approximately \$60,000 is required to afford such a mortgage.³ We note that more than 63% of Leon County households with incomes of \$60,000 or greater reside outside the City of Tallahassee.
- The Tallahassee workforce is clearly buoyed by employees earning between \$30,000 and \$70,000. Based on our review of occupational employment and wage statistics from the Florida Agency for Workforce Statistics, we estimate that more than 40% of the county's

³ Based on 30% of income spent on housing costs and mortgage terms as follows: 30-yr fixed rate mortgage @ 6.0%.

workers earn between \$30,000 and \$70,000 per year. Most of these jobs are within the city. Meanwhile, we understand from our review of local housing data and interviews with local builders, developers and realtors, that due to the cost of land, the vast majority of new housing units built in this affordability range are being constructed outside the city, resulting in longer commute times for Tallahassee's workforce.

- The target income range for the proposed workforce units at Evening Rose (at \$100,000 to \$158,000) is approximately \$32,000 to \$68,000 (based on the average household size of 2.33 persons). This includes households who could afford a mortgage of \$100,000 or more, earning up to as much as 140% of AMI. According to household income data from ESRI, an estimated 27% of Leon County households (about 29,000) have incomes in the targeted range of \$32,000 and \$68,000.

Workforce Housing Demand Projections

Table 4 on the following page presents a summary of our demand model for workforce housing units in Tallahassee for a five-year period, 2006 to 2011. The demand model is linked directly to county household growth and income estimates and projections. The following points summarize our methodology and the results of our calculations.

- The demand model multiplies projected Leon County household growth (11,300) by a City of Tallahassee capture rate of 75%. This results in projected citywide demand for 8,475 new housing units between 2006 and 2011, as shown on Line C.
- The city's household capture rate of 75% represents a significant increase over the 52% capture rate between 2000 and 2006. However, the city accounted for approximately 74% of countywide household growth during the 1990s. We note that the increase in the city's share of county household growth assumes an increase in the production of workforce housing within the city limits, which should spur an influx of more middle-income households to the city during the projection period.
- Next, we multiply the overall citywide demand figure of 8,475 units by 67%, to account for just those households with incomes of less than 140% of AMI. This equates to a projected **5,678** such households over the coming five years, as shown on Line E. This represents an average of **1,136 per year** between 2006 and 2011.
- From this point, we must further segment city housing demand to account for those persons who could afford the proposed Evening Rose workforce units at \$100,000 to \$158,000, and would choose to purchase a home in the city, rather than rent. These calculations result in projected citywide demand for **1,363 units** at \$100,000 to \$158,000 over five years, as shown on Line I. This equates to an average of **273 units per year**.

Table 4

**Projected Workforce Housing Demand
Tallahassee, FL**

Projected overall workforce housing unit demand at 0%-140% of AMI

| | | |
|---|---|--------------|
| A. Projected household growth in Leon County, 2006-2011 ¹ | | 11,300 |
| B. (times) Estimated % capturable within City of Tallahassee ² | x | 75% |
| C. (equals) Projected 5-year housing unit demand in City of Tallahassee | = | 8,475 |
| D. (times) Estimated % "workforce households" at 0% to 140% of AMI ³ | x | 67% |
| E. (equals) Projected 5-year total workforce housing demand at 0-140% of AMI | = | 5,678 |
| (Annual Demand) | | 1,136 |

Projected demand for ownership units in proposed price range (\$100,000-\$158,000)

| | | |
|--|---|--------------|
| F. Projected 5 year city-wide workforce housing unit demand at 0-140% of AMI (from line E above) | | 5,678 |
| G. (times) Estimated % of these households who can afford proposed pricing at \$100,000-\$158,000 ⁴ | x | 40% |
| H. (times) Propensity to buy (estimated homeownership preference) ⁵ | x | 60% |
| I. (equals) Projected 5-year city-wide demand for for-sale workforce housing at \$100k-\$158k | = | 1,363 |
| (Annual Demand) | = | 273 |

Notes:

- ¹ Growth projections by GVA Marquette Advisors based on review of forecasts by Tallahassee-Leon Planning Dept. & ESRI Business Information Solutions
- ² Historical city capture of county growth was 74% in 1990s, but has dipped to just 52% since 2000. A projected increase to 75% is reasonable, given the base of jobs within the city and a growing preference for urban living. We note, however that this increase assumes an increase in production of appropriately priced units for workforce households.
- ³ This includes the estimated % of households earning less than \$68,000/year, based on average household size of 2.33 persons.
- ⁴ Includes households earning between \$32,000 and \$68,000, based on average hh size of 2.33 persons.
- ⁵ Projected homeownership rate for this household group based on review of historical household tenure data, household incomes and housing permitting trends.

Source: GVA Marquette Advisors

- It is important to note that our demand calculations are conservative, since we do *not* account for "turnover demand" available to the Evening Rose community. Our calculations project demand only based on new household growth to the County and City. Our calculations do not account for potential unit sales stemming from persons already residing within the City that would be attracted to this development, which will offer high quality new homes at an attractive price. Many such households may be residing in a sub-standard rental unit or single family home. Many of these residents likely have an excess housing cost burden (i.e. well beyond 30% of their income), and would be attracted to a new home that is more affordable to them.

- Based on our review of pending for-sale housing developments in the City of Tallahassee, we find no competitive projects offering new ownership units within the subject price range. Although a site analysis is beyond the scope of this analysis, we understand that the development is strategically located between the city's major medical facilities, near major highways and public transit, and is therefore within an easy commuting distance from the downtown area. Given our analysis of relevant housing demand indicators and the noted site considerations, we conclude that Evening Rose is well positioned to tap the local workforce housing market, and should enjoy a rapid sales period.

DISCUSSION: THE NEED FOR PUBLIC & PRIVATE SECTOR FOCUS, COOPERATION AND INVESTMENT IN WORKFORCE HOUSING PRODUCTION

Introduction

The previous section estimated the demand for workforce housing in Tallahassee. As noted, our demand analysis and projections were developed on the assumption that the production of new workforce housing units would increase by way of joint public-private partnerships, such as that proposed by Evening Rose Community Housing, LLC. We believe that the private sector stands prepared to venture into such partnerships, given the apparent demand fundamentals. However, for a variety of reasons, the development of workforce housing units in Tallahassee will require an increase in focus and resources, including direct and passive subsidy on the part of local and state government. In this section we present a summary demonstration of why the public sector should participate in this effort. This is followed by an overview of the economic benefits that will accrue to the entire Tallahassee community through the addition of new workforce housing units.

A Matter of Public Policy

The City of Tallahassee Comprehensive Plan sets forth a primary goal within its housing element, as follows:

“Ensure that the housing market provides housing opportunities for affordable housing to **all** citizens of Tallahassee-Leon County.”⁴

Clearly, for reasons described herein, the market is unable to produce a sufficient number of housing units which are affordable to its middle-income, a.k.a. “workforce” households. Current market dynamics require that the public sector engage beyond the very-low and low-income thresholds in working toward this goal.

⁴ Tallahassee-Leon County Comprehensive Plan, page VI-4. Adopted July 16, 1990, revised July 26, 2006.

Market Forces Creating a Workforce Housing “Crisis” Situation

- Stan Fitterman, Sr. Technical Advisor for the Florida Housing Coalition, wrote in a recent paper that “Housing costs in Florida’s metropolitan areas are growing at a faster rate than household incomes. As housing prices rise, working families need ever increasing subsidies to be able to afford homeownership.” Mr. Fitterman’s paper notes that housing costs in Tallahassee rose by 41.81% between September 2000 and September 2004, while the median income rose by just 9.50%.⁵ Moreover, between 2003 and 2004 the median income in Tallahassee increased by just 3.67%, while the Housing Price Index (HPI) increased by 14.7%.
- In this environment, workforce households are squeezed, forced to make difficult decisions pertaining to the allocation of limited incomes, spread between housing cost, insurance, and basic goods and services.
- Lenders and local economic experts have noted that this is an economy which is driven by its universities, state government and medical facilities. The viability of each of these institutions is predicated on the availability of “essential workforce personnel.” A growing share of the current workforce has an excess housing cost burden, or they have chosen to commute to adjacent counties where housing is more affordable. The long-term viability of these key industries in Tallahassee will be dependent upon their ability to retain current workers and expand by hiring new personnel. Those workers will require a sufficient supply of well-located, appropriately priced housing. An economic crisis is in fact approaching, because the market is unable to construct housing for the bulk of the workforce.
- We have noted that more than 40% of Tallahassee’s workers earn between \$30,000 and \$70,000 per year. A household with an income of \$70,000 can afford a home priced at approximately \$220,000. We understand from our review of housing market data and interviews with local builders, developers, realtors and lenders that in most circumstances new, entry-level homes in Tallahassee simply cannot be produced for less than \$220,000 due to rising land and construction costs.
- As such, a growing percentage of workers employed in “essential workforce” positions such as police officers, teachers and local and state government workers are forced to seek housing in outlying rural areas, including adjacent counties. This results in an inefficient land use and growth pattern, not to mention longer commutes.

⁵ The % change in housing costs is based on the housing price index (HPI) used by the Office of Federal Housing Enterprise Oversight (OFHEO).

Barriers to Workforce Housing Development and Construction

By reviewing relevant housing market data and from interviews with local housing experts, builders, developers, realtors and lenders, we have developed a listing of the barriers to the development and construction of workforce housing in Tallahassee. This listing is not intended to be all-inclusive, as there are several factors which contribute to this problem. Moreover, there are unique circumstances surrounding every development project and every sub-market within the city and county. Nonetheless, we have worked to identify the primary themes and barriers which contribute to the current market situation. The primary barriers are as follows:

- Construction cost is a primary impediment to the construction of workforce housing in Tallahassee, as it is in many markets across the country. Land cost is also a primary issue. According to Mr. Don Pickett of the Tallahassee Board of Realtors, entry level lots (approximately 40' wide lots) sold by developers to builders are currently running in the range of \$80,000 to \$120,000, with an average of approximately \$100,000. Given the cost of new construction, paired with the cost of finished lots, it has become impossible to construct new detached, single-family homes for under \$300,000 in the Tallahassee. Conditions are only slightly better outside the city limits, and there zoning often does not allow for sufficient density to support entry-level housing, be it for-sale or rental product.
- A short supply of developable land is also an impediment to workforce housing construction in the city. The City of Tallahassee is nearly fully developed. Meanwhile, some interviewees noted that growth management planning is also contributing to rapidly increasing housing costs, due to a short supply of land within the "urban service area." With a very limited supply of developable sites and an increasing demand for urban housing from upper-income households, most urban development has focused on the high-end of the market, rather than affordable and mid-market price points.
- We understand that there is a very limited supply of *developable* land even *outside* the City in the rural portion of the County. Local developers and realtors have noted that this area contains a number of tracts and plantations which may otherwise be developable, but there are very few willing sellers. Thus, a restricted land supply in the surrounding rural areas is driving up values there also.

The cost issues identified above are, by far, the key constraints to workforce housing development in Tallahassee & Leon County. All of these factors necessitate higher price points (or rents) to support the cost of development. Listed below are other issues that are perhaps less obvious, or somewhat more unique to Tallahassee, which have surfaced through our research and interviews.

- Like most other cities, the City of Tallahassee has historically targeted its programs and financial assistance toward very-low and low-income housing construction. Many feel this is where the focus should remain, as these households are the "neediest." However, several local contacts have noted that a commitment to middle-market housing with similar programs and resources would bring results, as there is clearly market demand to

support an increase in new construction of such housing within the city. Moreover, it is imperative that the public and private sector work together to ensure that a sufficient supply of housing units are provided for essential workforce employees such as **teachers, police officers, nurses and other health occupations, many local and state government workers.** The private market simply cannot produce housing that is affordable to many such workers. The ability of the Tallahassee economy to expand and thrive is dependent upon its ability to hire and retain these workers. This is not possible in a market where there is an insufficient supply of appropriately priced workforce housing. Further, the economic benefits associated with supporting new workforce housing construction by far outweigh the costs (i.e. subsidy), as will be demonstrated by our economic impact analysis.

- Interviewees also noted a perception problem among some residents and elected officials. Many people simply do not understand what “workforce housing” really means, and what it would look like. Because of this, the NIMBY (“Not In My Back Yard”) phenomenon now predominates even at middle-market price points. One local housing expert noted that Tallahassee is in dire need of a “model community” such as Evening Rose, which demonstrates that “workforce housing” can be developed within a quality living environment that is complimentary to surrounding neighborhoods and the community as a whole. This development is expected to begin to shift perceptions, and could also spur other developers to pursue such projects as residents and elected officials begin to warm to this type of development, and understand the social and economic benefits of such projects.
- Relatively small, local development companies have historically done most of the housing development in Tallahassee. Most of these developers do not have the financial capacity to develop large numbers of workforce housing units at lower per-unit returns. Meanwhile, many local builders/developers have focused their efforts on a growing demand for high-end urban housing in Tallahassee. As long as there is sufficient demand for high-end product, most will focus on this niche rather than “workforce housing” which necessitates a more complex pre-development and construction process and greater financial risk, for an ultimately lesser financial reward.
- Several local interviewees noted that the city’s inclusionary housing policy will likely be ineffective unless paired with more consistent government participation (i.e. subsidy) in development. While the Evening Rose development is credited as a model for quality community building, quality housing, and as an example of how a public-private partnership should work, many remain skeptical. They wonder if the public sector will consistently come to the table and allocate the necessary financial resources to make communities like Evening Rose a reality. There is concern that this is a “one-off” type project and that the city and/or state will be unwilling or unable to provide needed subsidy on a consistent basis in the Tallahassee market to support workforce housing. It is clear to us through our analysis and local interviews that the development, building and lending community recognizes the need for workforce housing in Tallahassee. And the City is making a strong commitment and commendable effort in partnering on the

Evening Rose development. As such, we as an analyst and workforce housing expert would be hopeful that the Evening Rose development can be the catalyst and model for the type of public-private partnerships that will be needed to support workforce housing development in the Tallahassee area in the years to come.

ECONOMIC IMPACT & RETURN ON INVESTMENT

Introduction

In the previous sections of this memorandum, we have documented workforce housing demand in Tallahassee and also the need for the public sector to provide gap financing to support the construction of workforce housing in the coming five years. The proposed development known as Evening Rose will provide 92 workforce units, including one-bedroom homes at \$100,000 and two-bedroom homes at \$158,000. This project will not be financially feasible, but for provision of approximately \$8.0 million in gap financing through the subject grant and city funding. In this section, we provide an overview of the economic impact of new workforce housing units in Tallahassee. We provide estimates of the direct, indirect and induced impacts that would accrue to the local economy through the addition of 92 workforce housing units. We then measure the “return on investment” by comparing the projected economic impact with the required \$8.0 million in public funding.

Economic Impact

Direct impacts are changes in which a final demand change is made, i.e. a net change in the demand for a particular good or service. In the case of a new residential neighborhood (i.e. 92 workforce housing units in the case of the Evening Rose Community), direct impacts would be those generated directly by the residential construction project and also the homebuyers coming to reside in the new neighborhood. Direct impacts measured here include purchases of goods and services and new employment and wages by these new residents.

Estimates of *indirect* and *induced* impact were prepared by GVA Marquette Advisors using the IMPLAN (IMpact Analysis for PLANing) economic model originally developed for the USDA Forest Service in cooperation with the Federal Emergency Management Agency and the USDI Bureau of Land Management. The IMPLAN model has been in use since 1979. The IMPLAN model accounts closely follow the accounting conventions used in the “Input-Output Study of the U.S. Economy” by the Bureau of Economic Analysis and the rectangular format recommended by the United Nations.

The concepts of indirect and induced impact are among the most widely used and poorly understood tools in economic analysis. Fundamentally, they are based on an extension of the direct expenditures by new residents on goods and services. The incomes of the new residents would be spent on goods and services in the area. The businesses to which those dollars are paid then further redistribute the money they receive in the form of wages to their employees and

purchases for their own operating needs. It is this on-going cycle of redistribution that estimates of indirect and induced impact attempt to quantify.

Indirect impact calculated by the IMPLAN model reflects changes in inter-industry purchases, effectively measuring the impact of expenditures for goods and services related to the new housing units and the new households residing in the Evening Rose Community as they cycle through the local economy.

Induced impact calculated by the IMPLAN model reflects changes in spending from households as income and population increases as a result of the new housing units, effectively measuring the impact of the additional wages earned as they too cycle through the economy.

Three levels of impact have been calculated here:

- Output (equivalent to GDP)
- Employment
- Earnings (equivalent to personal income)

In order to fully estimate the economic impact of 92 new workforce housing units in Tallahassee, we must first estimate the economic impact of the construction project (a one-time impact) and then the ongoing annual impact of adding these households (consumer spending units) to the local economy. This would be the impact of the expenditures made by 92 new households on goods and services purchased from local businesses.

Construction Impact

The direct construction impact estimate is based on the total per-unit development value, and will come in the form of construction jobs and wages, as well as purchased goods and materials. We note that the average market value of the units (before subsidy) is estimated at approximately \$145,000 for one-bedroom units and \$295,000 for two-bedroom units, with a total value of approximately \$20,000,000. Indirect impacts reflect the increase in inter-industry purchases as a result of increased economic activity from purchases made related to the construction project. Induced impacts reflect the increase in area purchases by consumers resulting from the direct and indirect employment and wage increases due to the construction project.

The total impact of the construction project is projected to be \$29.39 million (about \$319,500 per unit), including direct, indirect and induced impacts. Additionally, the construction project is estimated to support approximately **394 jobs** during the construction period and **\$11.9 million in wages**. This includes an estimated 286 jobs related directly to the construction project, plus another 108 jobs resulting from the indirect and induced effects.

Table 5

**Estimated Economic Impact of Construction Project
92 New Workforce Housing Units**

| | Impact of Construction Project |
|--------------------------|--------------------------------|
| Output (GDP) | |
| Direct | \$20,000,000 |
| Indirect | \$3,375,000 |
| Induced | \$6,015,000 |
| Total | \$29,390,000 |
| Employee Earnings | |
| Direct | \$8,820,000 |
| Indirect | \$1,265,000 |
| Induced | \$1,815,000 |
| Total | \$11,900,000 |
| Employment Impact | |
| Direct | 286 |
| Indirect | 41 |
| Induced | 67 |
| Total | 394 |

Sources: IMPLAN; GVA Marquette Advisors

It is important to note that the projected economic impact of the construction project is effectively a “one-time” impact, spanning the timeframe of the construction period. Additionally, we note that the estimates provided above are not specific to the City of Tallahassee or even Leon County, since it is probable that many of the materials purchased for the project and construction workers will come from outside the region. Nonetheless, the impact upon the city is still significant, as a portion of the goods and services will in fact be purchased from Tallahassee businesses. As well, a significant portion of the workers will be Tallahassee residents, who will in turn spend a large percentage of their wages within the city.

Household Spending Impact

The primary impact of the 92 workforce housing units will come in the form of increased expenditures from these new Tallahassee residents. For the purposes of our analysis, we assume that all 92 homebuyers will be new residents of Tallahassee. Although it is likely that some buyers will already reside in the City, we know also that by moving into the Evening Rose Community these buyers are hence freeing up other workforce units for new residents to move into.

In our analysis, we only include *disposable* income in our estimate of the ongoing impact of household expenditures in the area. Disposable income for purposes of this analysis is defined as income available after housing cost and savings/investments. We estimate the average income of

the new residents will be approximately \$50,000 and disposable income will be about 60% of total income, after housing cost and savings/investments. We conservatively estimate that the City of Tallahassee would capture of about 80% of the disposable incomes of its residents, meaning that an estimated 20% of resident expenditures occur outside the city.

As shown on Table 6, **the total annual consumer spending impact estimated to result from the addition of 92 workforce households in Tallahassee is \$1.58 million/year, or about \$17,100 per unit.** This reflects the increase in sales at Tallahassee businesses. The addition of these households to the Tallahassee economy will also create an estimated 33 new job opportunities and \$625,000 in wages each year.

| Table 6 | | | | |
|--|--------------------------------|--------------------|---------------------------------|--------------------|
| Estimated Total Economic Impact of 92 New Workforce Housing Units (in 2006 dollars) Tallahassee, Florida | | | | |
| | Projected Annual Impact | | Projected 20-Year Impact | |
| | Total Impact of 92 Units | Impact per Unit | Total Impact of 92 units | Impact per Unit |
| Output (GDP) | | | | |
| Direct | \$1,100,000 | \$11,957 | \$22,000,000 | \$239,130 |
| Indirect | \$175,000 | \$1,902 | \$3,500,000 | \$38,043 |
| Induced | \$300,000 | \$3,261 | \$6,000,000 | \$65,217 |
| Total | \$1,575,000 | \$17,120 | \$31,500,000 | \$342,391 |
| Employee Earnings | | | | |
| Direct | \$480,000 | \$5,217 | \$9,600,000 | \$104,348 |
| Indirect | \$55,000 | \$598 | \$1,100,000 | \$11,957 |
| Induced | \$90,000 | \$978 | \$1,800,000 | \$19,565 |
| Total | \$625,000 | \$6,793 | \$12,500,000 | \$135,870 |
| Employment Impact | | | | |
| Direct | 28 | 0.30 | 28 | 0.30 |
| Indirect | 2 | 0.02 | 2 | 0.02 |
| Induced | 3 | 0.03 | 3 | 0.03 |
| Total | 33 | 0.36 | 38 | 0.41 |
| * Economic impact reflects the increase in annual consumer spending within the City of Tallahassee by 92 new homeowners at Evening Rose. | | | | |
| Sources: IMPLAN; GVA Marquette Advisors | | | | |

Projected 20-Year Economic Impact

The economic benefits of adding 92 workforce households to the local economy will obviously accrue over a number of years. Therefore, in analyzing the potential “return on investment,” from supporting the construction of these new units, we have projected the total impact over a 20-year period. **The total 20-year impact is estimated to be approximately \$31.5 million, or**

\$342,000 per unit. Over 20 years, consumer spending by these 92 households is projected to support 33 jobs/year and more than \$12.5 million in wages by these workers. Our projections are conservative, in that they are based on stabilized annual consumer spending, and do not factor in annual increases in earnings or spending by the 92 households over the projection period.

RETURN ON INVESTMENT

Table 7 summarizes the economic return on workforce housing construction in Tallahassee. The table measures the projected annual and 20-year economic impact against the public subsidy requirement (\$8 million) to support the construction of the proposed 92 workforce units.

This analysis clearly shows that the \$8 million in funding to support the 92 workforce units at Evening Rose will generate a 19.7% annual return (\$1,575,000) to the Tallahassee Economy. Over 20 years, the total impact is estimated at \$31.5 million, representing a 394% return on the initial \$8 million investment.

| Table 7 | | |
|---|--------------|-----------------|
| Return on Investment Analysis: Workforce Housing Development Subsidy | | |
| 92 Workforce Housing Units in Tallahassee, FL | | |
| Annual Rate of Return | Total | Per Unit |
| Estimated Total Gov't Subsidy Required for 92 Workforce Rental Units ¹ | \$8,000,000 | \$86,957 |
| Projected Annual Economic Impact | \$1,575,000 | \$17,120 |
| Annual Rate of Return | 19.7% | 19.7% |
| 20-Year Investment Return | | |
| Estimated Total Gov't Subsidy Required for 92 Workforce Rental Units ¹ | \$8,000,000 | \$86,957 |
| Projected 20-Year Economic Impact | \$31,500,000 | \$342,391 |
| 20-Year Return on Investment | 394% | 394% |
| ¹ Subsidy amount includes city matching funds and state grant amount. | | |
| Sources: IMPLAN; GVA Marquette Advisors | | |

CONCLUDING REMARKS

It is clear from our analysis that construction of workforce housing will not occur in Tallahassee without public support, including direct subsidy. Clearly the need for government assistance has expanded beyond the very-low and low-income segments of this area's household base. The provision of affordable housing for **all** citizens is more than a worthy comprehensive planning goal, it is an economic imperative. Without substantial and consistent investment in workforce housing on the part of the public and private sectors, the economic vitality of the greater Tallahassee region is in jeopardy. The ability of local and state government, schools, and the business community to expand in Tallahassee is dependent upon their ability to hire and retain workers, and those workers must be able to find affordable housing within a reasonable commuting distance. We believe that this study will be a significant contribution to subsequent discussions of the policy issues involved in providing housing for the Tallahassee workforce. In particular, the study should redirect attention from considerations of demand (as there is clearly a substantial need) to the economic aspects of this critical issue. Devoting money to workforce housing is an investment that lasts for decades. Housing construction brings new households into a market, helps employers more easily attract workers and creates a larger base of consumers for retailers. Once the task of construction itself is done, these benefits last as long as the units are maintained and desirable to the market. Given the quality of the development proposed for Evening Rose, we expect the creation of a sustainable neighborhood from which its residents will continue to add value to the local and regional economies for decades to come.



Residential Analytics Group

THE COMPANY

GVA Marquette Advisors is a full-service real estate research and feasibility consulting firm providing comprehensive advisory services to residential, hospitality and commercial real estate developments of all types. Through its *Residential Analytics Group*, GVA Marquette Advisors offers highly specialized consulting services to the real estate industry throughout the United States.

GVA's associates have completed hundreds of consulting assignments of varied types throughout the United States on behalf of property owners, developers, lenders, and investors, as well as local, county and state housing agencies and non-profit affordable housing developers and advocates. GVA Marquette Advisors is recognized as a national leader in real estate research and urban economics, and the principals of the Residential Analytics Group have made presentations on market trends and the economic impact of housing affordability issues and development trends at regional, national and international conferences in the United States.

Our significant housing experience, combined with the skill sets of our Hospitality, Corporate & Investment and Valuation Groups, also enable us to provide a broader range of services to assist in other development opportunities. Our service lines include:

- Market Research
- Market and Financial Feasibility Studies
- Regional and Community Housing Needs Assessments
- Appraisals
- Litigation Support
- Due Diligence
- Financial Analysis, preparation of full scale financial projections
- Economic Impact Studies
- Business Plans
- Project development management outsourcing

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PARTIAL LISTING OF RECENT ENGAGEMENTS

RESIDENTIAL ANALYTICS GROUP

EXAMPLES OF PUBLIC-SECTOR CLIENTS

PORTLAND, OREGON BUSINESS ALLIANCE AND PORTLAND DEVELOPMENT COMMISSION: A comprehensive study of housing market trends and a 5-year demand forecast for housing by price point in downtown Portland, Oregon. The study identified several barriers to development of affordable workforce housing in downtown Portland, estimated the cost to develop affordable housing and the needed public subsidy to support new construction. Further, the analysis included an economic impact study which measured the economic benefits of increasing the supply of affordable workforce housing in downtown Portland, and then measured this impact against the needed subsidy to support new construction. The report documented the “return on investment” (workforce housing development subsidies and incentive programs) from the standpoint of local government.

THE FAMILY HOUSING FUND, THE MINNESOTA HOUSING FINANCE AGENCY, THE METROPOLITAN COUNCIL, AND THE MINNESOTA MULTI-HOUSING ASSOCIATION: A study of the economic impact of the lack of affordable “workforce” housing in the Twin Cities Metropolitan Area. This study measured the current and future demand for affordable housing in the metro area, as well as cost to produce such housing, the level of subsidy required to support this construction, and the return on investment this investment.

BEAUFORT COUNTY, SOUTH CAROLINA: Completion of a for-sale and rental housing needs assessment with detailed 5-year demand projections and development recommendations by price/rent and location for Beaufort County, South Carolina. This coastal South Carolina County includes the Hilton Head area, which has seen rapid resort and high-end residential development during the past five to eight years. Meanwhile, a growing share of the workforce is effectively being priced out of the local housing market, to the point where many of the Hilton Head area workforce is commuting long distances to more affordable housing in adjacent counties. GVA developed a demand forecast and development recommendations for Beaufort County over a five year period, assisted in identifying the primary barriers to development of affordable housing in the county, and suggested strategies for reducing or eliminating many of these barriers in support of affordable housing construction in the years ahead.

CITY OF ST. LOUIS PARK, MINNESOTA: Market feasibility study and development recommendations for a proposed mixed use redevelopment project at Excelsior Boulevard and France Avenue in St. Louis Park.

SHERBURNE COUNTY, MINNESOTA: Retail market analysis and development forecast on behalf of Sherburne County. This study provided an assessment of population, household and employment growth trends, as well as consumer spending activity. GVA developed a forecast of retail and office space development and land absorption, which will be utilized by the County in developing land use plans and zoning throughout the County.

CITY OF HASTINGS, MINNESOTA: Market feasibility study related to a proposed boutique hotel and banquet hall on a redevelopment site on the Mississippi River in downtown Hastings, Minnesota. GVA Marquette provided a thorough assessment of the market realities related to the potential for hotel and banquet hall construction, which was used by the Hastings HRA and downtown business association in developing a framework for the redevelopment of its historic downtown. In addition to providing a comprehensive market study, GVA led numerous public meetings, focus groups and presentations in the community.

CITY OF ST. PAUL, MINNESOTA: Market study analyzing for-sale and rental housing in Downtown St. Paul. Market study projected demand for additional housing construction and recommended an appropriate housing mix to guide redevelopment planning by the St. Paul PED.

CITY OF MINNEAPOLIS, MINNESOTA: A feasibility study for a proposed luxury high-rise to be constructed in conjunction with a new library and planetarium in downtown Minneapolis, Minnesota.

CITY OF FRIDLEY, MN: A feasibility study for a proposed mixed-use redevelopment project on a site in Fridley, Minnesota. The proposed project included 50,000 square feet of street-level retail and restaurant space, with residential condominiums in the upper three stories of two proposed buildings.

CITY OF ANOKA, MINNESOTA: A study of residential and commercial real estate market trends in the Downtown Anoka area. Based on a review of demographic trends and the market situation, projected demand for additional retail and office space and housing units in Downtown and evaluated the redevelopment potential of Downtown and multiple sub-areas in Anoka.

WINONA AREA JOINT COORDINATION COMMITTEE, Winona, Minnesota: A study of housing and economic/industrial development in Winona County. Recommended an appropriate housing mix for the County to support economic and employment growth. Projected residential and industrial land absorption and evaluated the appropriateness of sub-areas in the County for residential and industrial development.

AUSTIN HOUSING AND REDEVELOPMENT AUTHORITY, Austin, Minnesota: A feasibility study for a proposed rental housing development in Austin. In addition, an assessment of the for-sale housing market in Austin. Calculated demand for for-sale housing and recommended an appropriate mix of housing at various price points based on an evaluation of household incomes and business/employment growth trends in the community.

DEVELOPERS/INVESTORS/LENDERS

ROSSLUND HOMES: Market assessment and demand analysis for *Twin Lakes*, a proposed mixed-use redevelopment project at County Road C and Cleveland Avenue in Roseville, Minnesota. The proposed development program included 490 for-sale townhouse and condominium units, 240 units of senior housing, 317,000 square feet of retail and restaurant space and 221,000 square feet of office space. GVA Marquette Advisors provided an analysis current and projected market conditions, and provided a demand forecast for each of the proposed development components to determine whether there was sufficient market support for the project.

PEDEERSEN VENTURES: Market feasibility study and detailed development recommendations for a proposed mixed use residential and retail development in Apple Valley. This development, known as *The Village at Founders Circle*, is being designed as a new downtown for this suburban Twin Cities community.

HANS HAGEN HOMES: Market study and consulting services regarding proposed rental townhomes and apartments within *The Lakes* of Blaine.

AIMCO: Market study and due diligence consulting on behalf of AIMCO in evaluation of investment opportunity in Lake Calhoun area of Minneapolis.

DUKE REALTY: Preliminary market assessment and development recommendations for a proposed mixed-use redevelopment project on a site near the I-394/Hwy. 100 interchange in St. Louis Park, Minnesota. Study included an analysis of for-sale and rental housing, hotel, retail and office development components.

TE MILLER DEVELOPMENT: Market study and development recommendations for a proposed 33-acre redevelopment project at I-35 and Penn Avenue. GVA provided a detailed assessment of residential, retail, office and lodging market trends and provided specific phased development recommendations for this prime site along the I-494 strip in the Twin Cities metro area.

ROSSLUND HOMES: Site assessment and expert opinion memorandum regarding the potential for retail development at 36th & Wooddale in St. Louis Park, Minnesota.

LUPE DEVELOPMENT PARTNERS: Market feasibility study for proposed apartment development in the East Phillips Neighborhood in Minneapolis, MN.

HARTMAN DEVELOPMENT: Market research and due diligence regarding the acquisition of a 360-unit apartment community in Brooklyn Park, Minnesota.

CENTRAL COMMUNITY HOUSING TRUST (CCHT): Market feasibility study for a proposed market rate apartment community in Rosemount, Minnesota.

EDINA DEVELOPMENT COMPANY: A market feasibility study and development recommendations for a master planned community of 550 homes on a site near Lake Pulaski in Buffalo, Minnesota.

KMS PROPERTIES: A study of market rents and rental rate recommendations for an apartment community, subject to renovation and repositioning in Woodbury, Minnesota.

CORNERSTONE GROUP: A feasibility study for *Kensington Park*, a mixed-use residential and retail development project in Richfield, Minnesota near the I-494/Lyndale Avenue interchange. The project includes retail and restaurant development, along with for-sale townhomes and loft-style condominiums.

DEL AMERICAN: A feasibility study for *Le Chateau Grand*, a proposed ultra-luxury apartment tower in Bloomington, Minnesota and an analysis of the potential for condominium conversion and pricing.

STATE TEACHERS RETIREMENT SYSTEM OF OHIO: A market assessment and demand forecast for 1) the Twin Cities regional apartment market, and 2) the downtown Minneapolis apartment market.

INSIGNIA DEVELOPMENT GROUP: A feasibility study for a proposed residential condominium project, involving the conversion of the Lowry Professional Building, an office building at 5th & St. Peter in downtown St. Paul, Minnesota.

MMA FINANCIAL, LLC: A feasibility study for a proposed luxury rental townhome development known as *Grandeville at Cascade Lakes* in Rochester, Minnesota.

TRK DEVELOPMENT: Market feasibility study for a proposed Section 42 rental housing community in Delano, Minnesota.

ROSSLUND COMPANY, Osseo, Minnesota: Preliminary market overview for a proposed urban resort and golf course to be included in a suburban planned unit development.

CROCKETT ASSOCIATES, INC.: A feasibility study for a proposed mixed-use redevelopment project at the intersection of 48th and Chicago in south Minneapolis, Minnesota.

CENTEX MULTI-FAMILY, Dallas, Texas: A feasibility study for a proposed upscale rental housing development in Plymouth, Minnesota.

CENTEX MULTI-FAMILY, Dallas, Texas: An assessment of the market potential of luxury condominiums and townhomes in the proposed “Upper Landing” development adjacent to Downtown St. Paul and the Mississippi River.

CENTEX MULTI-FAMILY, Dallas, Texas: Meetings and focus group sessions with Downtown St. Paul Realtors.

JPI STUDENT HOUSING: A study of the market potential for a student housing project on a site near the campus of the University of Minnesota.

HOLIDAY COMPANIES, Minneapolis, Minnesota: A feasibility study for a proposed apartment development in Bloomington, Minnesota. An analysis of potential mixed-use redevelopment options for a site in Bloomington.