

Residential Real Estate

How an affordable housing redevelopment project costs \$310 million

Email Share in Share Tweet Save Print Order Reprints



A rendering of the Twin Rivers redevelopment project
COURTESY OF SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY



By **Ben van der Meer** – Staff Writer, Sacramento Business Journal
Oct 4, 2018, 3:02pm

PEOPLE IN THIS ARTICLE

Bern Wikhammer
Councilmember Jeff Harris
La Shelle Dozier
Tyrone Roderick Williams

Redeveloping the Twin Rivers public housing project in Sacramento's River District is ambitious and complicated. The project calls for relocating residents and demolishing 218 aging units, followed by building 487 new units for a mix of incomes. On top of that, there will be a new city park, resident services center and a light-rail stop mixed in.

It's also expensive, at approximately \$310 million, according to a presentation that developers made to city leaders last month. The housing portion alone accounts for about \$220 million, or \$451,745 per unit. That's comparable, or even more expensive, than new single-family homes for sale in some area subdivisions.

TRENDING

FOOD & LIFESTYLE

Farm-to-Fork Festival draws big crowds to Capitol Mall (PHOTOS)



CAREER & WORKPLACE

PHOTOS: Meet our 40 Under 40 winners for 2018



COMING EVENT

Business Transition Seminar
Oct. 24



Twin Rivers' redevelopment, years in the making and just in the demolition phase now, is a joint project of development firm McCormack Baron Salazar and the Sacramento Housing and Redevelopment Agency. **La Shelle Dozier**, SHRA's executive director, said the agency is well aware of how the price tag raises eyebrows.

"It's important to understand that this is a huge transformation that's not just housing," she said. "It's really a neighborhood transformation."



WHERE THE MONEY IS GOING

\$2,240,000	Site assessment and subdivision design
4,500,000	Resident service/job training coordination
4,500,000	Relocation and return of residents
5,000,000	Replacement of public housing units
2,500,000	Demolition and abatement of 93 buildings
21,700,000	Demolition of existing street/utilities, construction of new streets
800,000	1.1 acre dual-use park w/amenities
3,760,000	City and HUD-approved improvement projects
25,000,000	Light-rail station, track re-alignment
20,000,000	Project contingency – minimum of 5% of total cost
+ 220,000,000	Total development cost of 487 housing units with service space and amenities

\$310 MILLION

A solid green horizontal bar located directly beneath the "\$310 MILLION" text.

Setting the stage

Before a single unit is built, said Dozier and other project representatives, the site needs a considerable amount of work. Bordered by Dos Rios Street, Eliza Street, Richards Boulevard and a small stretch of North 12th Street, Twin Rivers is the oldest public housing development in Sacramento County, with the bulk of the units built in the 1940s.

Relocating its residents and beginning demolition was the first step, but far from the last before vertical construction will start. **Tyrone Roderick Williams**, SHRA's director of development, said crews had to remove trees on the 22-acre site because the area is below grade and needs to be 4 feet taller to prevent future problems with flooding and drainage. Without building at a higher grade, the project couldn't get permits to build new units, he said.

Twin Rivers is also going through an exercise familiar to other infill developers in areas with aging infrastructure. The River District, largely a warehouse district for most of its history, is slowly turning into a more urbanized area with new residential and commercial development.



The current Twin Rivers housing project site.

DENNIS MCCOY | SACRAMENTO BUSINESS JOURNAL

“The utilities are all outdated and undersized, so we also have to update those,” Roderick Williams said. SHRA found some cost savings by putting a retention basin under a planned park, he said. Still, the agency's budget shows infrastructure costs to be \$21.7 million, a figure that doesn't include the park, light-rail station or other community improvements.

Dozier said the park is a city requirement based on the number of housing units. The light-rail station, with an estimated cost of \$25 million, will benefit not only residents but the city as a whole, establishing a second transit stop in what's expected to be a growth area.

But even without the ancillary costs, the housing costs over \$450,000 a unit. Sacramento City Councilmember Jeff Harris, whose district includes Twin Rivers, said that as a former homebuilder, that figure is striking.

“You could build a really nice custom home at that price,” Harris said, adding that he supports the project overall. “There are lot of circumstances around Twin Rivers that add a lot of cost.”

But Dozier said the high per-home cost isn’t unique to Twin Rivers. During a city workshop last month on housing issues, representatives from housing groups in San Diego put the per-unit cost there for affordable housing at about \$480,000, she said.

PER-UNIT COSTS AND FUNDING SOURCES

Below is a breakdown of the estimated per-unit costs and funding sources for the \$310 million Twin Rivers housing development. The 22-acre, 487-unit project is being developed in six distinct blocks, and will also include a new city park, resident services center and a light-rail stop. Actual costs will be determined by construction bids.

The total development cost of 487 housing units is

\$220 MILLION

When divided between the 487 units, the average per-unit cost is \$451,745.

<u>\$484,875</u>	\$420,025	\$413,268	\$430,515	\$463,732	\$492,913
Block A	Block B	Block C	Block D	Block E	Block F*
104 units	66 units	84 units	96 units	59 units	78 units

For Block A, here is a closer look at the total per-unit cost, and what accounts for the \$484,875.

\$44,312		Prevailing-wage requirements
14,771		Building to market-rate standards
465		Green building certification
14,361		Resident service and property management space
40,041		Infrastructure costs
273,544		All other housing construction costs
3,974		Financing – tax credit and bond issuance costs
93,407		All other soft costs

\$484,875 | Total development cost

*Total cost for Block F excludes costs related to the new light-rail section

Sourcing

\$310 MILLION

- \$110M | Tax credit equity and bank loans
- 65M | Grants and loans, including from state Affordable Housing and Sustainable Communities
- 40M | Federal Housing Trust Fund, HOME Investment Partnerships Program, sewer/park fee credits
- 65M | Federal Choice Neighborhood Implementation Grant, Section 108 Loan, Community Development Block Grant
- 25M | Additional state and federal loans and grants, including the state Transit and Intercity Rail Capital Program
- 5M | Project-based vouchers for the replacement of public housing units

Making up the difference

Affordable housing units in particular – especially those intended as rentals – often have other dynamics that boost the cost. Because they’re going to be rented at below-market rates, such units can’t carry the “pass-through” costs a market-rate home for sale would have, Dozier said, meaning those costs are paid up front.

“Rents don’t support the total costs,” she said. “You’re subsidizing those rents, but the delta has to be made up for people.”

Williams said the source of funding for the project also has an effect. The budget for Twin Rivers shows \$65 million from state sources and another \$65 million from federal dollars. The largest amount, \$110 million, is from private sources such as bank loans and tax-credit equity programs.

Because the project is being built with federal money, Williams said, it triggers a prevailing wage requirement for builders. Typically, prevailing wages are union wages, which aren’t used as often on a private, market-rate project, he said. But using prevailing wage adds about 15 percent to the cost, he added.

The final additional costs for affordable projects come not from current construction but planning for the future. According to SHRA, new units have to meet standards for ongoing compliance with public housing laws. **Bern Wikhammer**, a program manager and development director for the agency, said there also needs to be a fund of operating reserves for future maintenance, and designated space for resident services, such as job placement assistance and adult education resources.

“Services are paid by the operations income, but you need the space to provide them,” he said.

Beyond that, market realities also play a role. Harris, of the city council, said construction projects of all kinds have seen costs inflate in recent years because of both a labor shortage and rising prices for materials—both functions of a stronger economy.

“I would like to find cost savings, but you have to deal with things as they are,” he said. Harris also hears from people aghast at Twin Rivers’ cost, he said, and believes that’s pressure SHRA also feels.

The amount of public housing the project will have makes it unique for the agency, Dozier said, though it’s done similar complete overhauls before, notably the Phoenix Park project more than a decade ago. That project took a crime-plagued South Sacramento property called Franklin Villa and redeveloped it into 360 affordable apartment units, for \$84 million.

The amount of public housing the project will have makes it unique for the agency, Dozier said, though it's done similar complete overhauls before, notably the Phoenix Park project more than a decade ago. That project took a crime-plagued South Sacramento property called Franklin Villa and redeveloped it into 360 affordable apartment units, for \$84 million.

In redeveloping Twin Rivers, agency executives said, they're trying to learn as they go to save money on this project and future ones. But Dozier said critics also need to recognize that they're not just building housing, they're improving people's lives.

The promise of the latter is why Harris said he still supports the project.

"If we can effect the thing, it can be beautiful," he said.

RELATED CONTENT

Developer again seeking loan to start Twin Rivers redevelopment 🔑



SHRA to buy additional land near Twin Rivers redevelopment 🔑



Sacramento Project Watch

Here's your guide to major commercial real estate projects in the Sacramento area...



RESIDENTIAL REAL ESTATE

[More >](#)

