Building affordable units for less

By: Lee Fehrenbacher in Scrolling BoxMay 22, 20141:20 pm

Rob Justus, left, and Dave Carboneau of Home First Development stand in front of the Snowberry, a 27-unit affordable housing complex the firm built in 2013. (Sam Tenney/DJC)

When Portland nonprofit **PHC Northwest** hired **Home First Development** to build an affordable housing complex, it included a serious demand: stick to the budget or eat the project.

The plan called for construction of 27 units for just $1.89 million.

“We said, ‘We’ll put up the money,’ ” said John Murphy, president of PHC Northwest, which provides employment opportunities for disabled individuals. ” ‘You build it, and you have to meet these targets of cost and quality, and if you meet them we’ll buy it from you. If you don’t, it’s yours and you pay us back.’ So they had a real strong incentive. They were out on a limb if they couldn’t perform.”

Slightly more than a year ago, Home First delivered the 27-unit **Snowberry apartments**, on Southeast 151st Avenue near East Burnside Street, in six months – on time and on budget. Now, Home First and PHC are using their nontraditional business model to build two more affordable housing complexes totaling 107 units. More may follow.

Rob Justus, co-owner of Home First and the founder of **JOIN** – an organization that helps the homeless find permanent housing – said those projects started out of frustration over the cost of new construction.

Consider that the 85-unit **Shaver Green** workforce housing complex in Northeast Portland cost approximately $16 million in 2009; the 32-unit **Beech Street** affordable housing complex under construction in Northeast Portland will cost close to $18 million; and the 130-unit **Bud Clark Commons** transitional housing building in downtown cost $46.9 million in 2011. All of those developments accommodate more uses than only housing, but for a substantial cost.

Justus believes affordable housing can be built for much less money. For the Snowberry – a typical, garden-style apartment complex – Home First reduced its construction costs, in large part, by eliminating unintended incentives for cost increases. The development team receives a flat fee regardless of how the scope evolves, and change orders receive no markups. The contractor also figured out how to cut its construction schedule in half, in part via efficient scheduling.

“I was really frustrated with watching publicly subsidized housing and every year the costs going up dramatically,” Justus said. “All the energy and politics was all going toward funding this very expensive housing that was deemed ‘affordable.’ ”

Instead of designing a project and then seeking city, state and federal money to pay for it, Home First starts by identifying how much housing its tenants can afford. For example, entry-level workers making approximately $24,000 a year can afford to pay $660 a month in rent without spending more than one-third of their income on housing. With that basis, Home First determined it would need to set aside $275 for maintenance and $100 more toward reserves – leaving $285 per unit for monthly mortgage payments.

That income projection allowed the company to borrow $50,000 per unit at a 5 percent interest rate, with a one-third down payment. With the cost of land at $10,000 per unit, and soft costs totaling $10,000 per unit, the final total came to roughly $70,000 each.

At a 5 to 6 percent rate of return, Home First co-owner Dave Carboneau said the Snowberry yields slightly less than what investors typically like, but more than what a bank would pay. Plus, demand for affordable housing is anticipated to remain high.

“I question sometimes … the jobs that can support the high-end rents,” said Carboneau, a former **Portland General Electric** vice president. “But I have no doubt in my mind that there will always be jobs that pay $10 to $12 per hour. From a pure business standpoint there will be a good market for this product.”

This year, Home First and PHC Northwest are partnering to build an 80-unit complex at Southeast Division Street and 171st Avenue, and a 27-unit complex at East Burnside and 141st Avenue. Beyond those affordable housing projects, PHC has plans to build 400 additional units over the next five years.

Carboneau said that with an estimated 20,000-unit affordable housing deficit in the region, a big opportunity exists to meet that demand.

“At $70,000 a unit, that’s $1.4 billion,” he said. “That’s a lot of stimulus. We employ about 20 people on average during a six-month period of construction. The math works out to about 1,000 people employed on a full-time basis for 10 years.”