



## Framework for Determining Financial Return from Affordable Housing

*“The San Francisco Bay Area Rapid Transit District (BART) is a steward of a large-scale public investment. This includes real estate assets essential to BART’s transit operations, and real estate assets that can be used to catalyze transit-oriented development in furtherance of BART’s purpose and goals.”*

### - [BART Transit-Oriented Development \(TOD\) Policy](#)

BART’s land assets represent an investment of public resources over the course of several decades. As the steward of this investment, it is BART’s responsibility to ensure its transit-oriented development projects are addressing public needs. In negotiating the terms of its deals, BART staff work to advance the six core goals of the TOD Policy: Complete Communities, Sustainable Communities Strategy, Ridership, Value Creation and Value Capture, Transportation Choice, and Affordability.

Each negotiation is a balance of these goals, which reflect BART’s vision for the public good to be achieved from BART’s TOD Investments. The following framework describes BART’s intentions toward its own financial return expectations for affordable housing, with consideration for the ongoing need to balance BART’s Board Adopted TOD Goals.

### **Baseline Considerations for Financial Return from TOD Projects**

**Fair Market Value:** BART expects to receive fair market value for its property in its ground leases, except as stipulated in this framework.

**Sources of Revenue from TOD:** BART will consider all types of revenue in its real estate transactions, including: sales proceeds, baseline ground lease payments, lease option payments, participation in gross (or, for affordable housing, residual) receipts, transit benefit fees or other property transfer fees, other one-time or ongoing payments.

**Net Ridership Gains:** All new projects must result in a net gain in ridership to BART. BART does not consider ridership gains as revenue that will replace fair market value for its land.

**Parking Revenue:** BART now charges for parking at all its stations where commuter parking is provided. The revenue BART receives from its parking may be considered as one baseline measurement of BART’s fair market value return.

### **Methodology for Evaluating Financial Return to BART**

BART expects to receive fair market value for its land from every TOD project, except as stipulated in this framework. Fair market value is defined as a dollar amount in an open and competitive market that a well-informed seller, who desires but is not required to sell, would



accept, and that a well-informed buyer, who desires but is not required to buy, would pay for property after due consideration of all the elements affecting value.

The fair market value will serve as the basis for BART's expected financial return from TOD projects. BART staff will use the following process to ensure that fair market return is achieved:

- 1) Establish the expected fair market value of the property prior to negotiation of financial terms, using an appraisal or other standard industry method of property valuation, considering:
  - a. Applicable zoning, including Section 29010 of the CA Public Utilities Code (AB 2923, Chiu/Grayson, 2018).
  - b. BART's Board adopted policies, including BART's project stabilization agreement requirements and affordable housing requirements which may suppress land value.
  - c. Intended uses as articulated in the developer's proposal and agreed to by BART.
  - d. Appraisal performed for BART, or appraisal/valuation scope is approved in writing by BART.
  - e. Competitive offers made during the solicitation process, where applicable.
- 2) As the term sheet is negotiated, BART staff will work to ensure that the net present value of expected compensation from the developer is in line with fair market value of the property. The fair market value expectation may be revisited based on changing market conditions, availability of outside funding, or other factors.
- 3) A discount to fair market value may be considered for projects that provide affordable housing above and beyond BART's minimum requirements as stated in the TOD Policy. Details about this discount are provided below.

### **Consideration of Discount for Affordable Housing**

The affordable housing discount framework covers the following parameters.

- 1) Depth of Affordability: Average income served as a percent of Area Median Income (input parameter)
- 2) Percent Affordable Units of Total Units Provided: Number of affordable units included, divided by the total number of residential units provided in the project (input parameter)
- 3) Discount: Potential percent discount from fair market value of land to be offered by BART (output parameter)
- 4) Conditions: Other BART expectations for developers receiving a discount from BART

For projects exceeding BART's minimum affordable housing requirement of 20 percent, BART may consider providing an additional discount not to exceed 60 percent of fair market value, using the tiered approach shown in Figure 1. The discount will be calculated from the value of the residential portion of the overall project. A project must be eligible for the tier in order to be considered for the minimum amount of discount in that tier.



- **No discount** will be provided for affordable housing at BART TOD properties with less than 35% deed-restricted affordable housing, unless the affordable component is primarily offering supportive housing for very low-income individuals (see High Discount below) or the project includes a high rise residential component desired by BART as noted in Figure 1. No discount will be provided for affordable projects exclusively serving moderate income households, those earning over 80% of Area Median Income (AMI).
- **A Low Discount of 10 to 20%** will be considered for affordable housing projects with units restricted to an average of 61% - 80% of AMI. These units will typically include some moderate-income housing (affordable to 80 - 120% AMI) as well as some housing affordable to lower incomes.
- **A Standard Discount of 20 to 30%** will be considered for affordable housing projects with units restricted to an average AMI of 46% - 60%. This is considered the typical range for a “standard” affordable housing project. High rise residential projects will be considered for a Standard Discount if at least 30% of their units are affordable, provided they meet the same income threshold.
- **A High Discount of 30 to 60%** will be considered for affordable housing projects with units restricted to an average AMI of 45% or below. A High Discount will also be considered for supportive housing projects with units restricted to an average AMI of 45% or below. “Supportive housing” includes affordable buildings offering on-site social services for vulnerable residents (e.g. formerly homeless households, differently abled residents, emancipated foster youth, etc.) – so that they may thrive and retain their housing.

**Figure 1:** Framework for an Affordable Housing Discount on BART-Owned Property

		<i>Affordable Housing as % of Total Project Units</i>		
		<b>Less than 35% of Units Affordable (except as noted)</b>	<b>35% and above</b>	
<i>Average Income Served as % of Area Median*</i>	<b>Market Rate/Moderate (81% or more)</b>			No Discount
	<b>Affordable/Moderate (61% - 80%)</b>			Low Discount
	<b>Affordable – Mostly Low/Very Low (46% - 60%)</b>	<i>Projects with High Rise - eligible if 30% of units affordable</i>		Standard Discount
	<b>Deeply Affordable – Very/Extremely Low (45% or less)</b>	<i>Supportive Housing Only</i>		High Discount

\* Average AMI of deed-restricted affordable units only



**Share of Affordable Housing (x axis):** BART will calculate the share of deed-restricted affordable housing as a percentage of residential units in the overall BART TOD project.

**Average Income Served (y axis):** BART will evaluate average income served for the affordable component(s) of the project only, based on its deed restrictions and consistent with standard methodologies established by the California Tax Credit Allocation Committee for its funding applications.

**High Rise Thresholds:** In some locations BART will be incentivizing high rise development with buildings taller than 12 stories. Because current sources of subsidy discourage production of below market rate units in a high rise, affordable housing is more likely to be provided in a mid-rise adjacent building in these projects. As such it may be harder for a project with a high rise to hit BART's 35% affordability goal. Projects including a residential high rise will be subject to a different standard for calculating the share of affordable housing: the threshold to be eligible for the Standard Discount will be 30% deed-restricted affordable units, not 35%.

### **Conditions**

Projects seeking to receive a discount must work to meet the following conditions. If these conditions cannot be met, developers must provide justification to BART staff. To be considered for the maximum allowable discount in a tier, the project must meet most of the conditions described below.

- **“But for” test:** Third party consultant will review sources and uses and pro forma to ensure all possible sources of subsidy have been exhausted.
- **Benefits:** Must deliver exceptional level of benefit to BART or the community.
- **Local support:** Commitment by the jurisdiction to provide funding.
- **Revenue-Sharing:** BART shares in residual receipts over the term of the ground lease.
- **Leverage:** Leverage BART's discount as a project contribution to ensure a project is more competitive for local, state, regional and/or federal sources of subsidy to support affordable housing and station access projects.
- **Transportation:** A project should pursue eligible sources of revenue that provide additional funding to transportation or infrastructure on BART property, such as Affordable Housing & Sustainable Communities (AHSC) or the Infill Infrastructure Grant. When applying for these sources, a Project receiving a discount should prioritize eligible BART improvements. Transit pass requirements of programs such as AHSC should be met with flexible Clipper card purchases (or equivalent) to enable and encourage BART ridership.

### **Board Approval**

The final determination of fair market value, and explanation for any discount, will be presented to the Board when a project term sheet is presented for review and approval.