



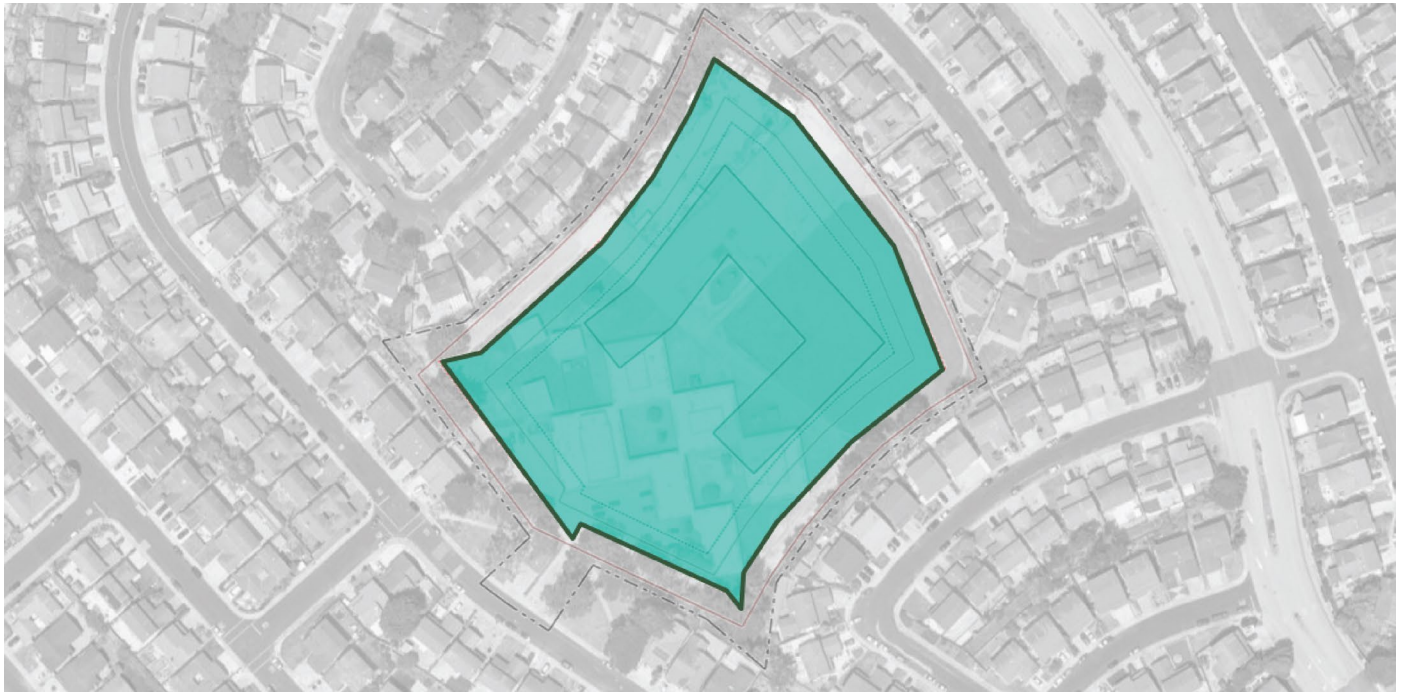
Bridging Gaps for Feasible Workforce Housing Solutions

Multistudio

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Bridging Gaps for Feasible Workforce Housing Solutions

Beginning in 2023, Multistudio initiated a series of pK-12 Workforce Housing Think Tanks focused on eliminating barriers to affordable housing for school district employees. Our goal is to connect districts with key resources to advance workforce housing projects. We have identified that potential developers are one of these key resources. **The third session, held in November 2024, built on earlier discussions by analyzing the capital structures of a sample feasibility study for a K-12 workforce housing project, enabling attendees to better understand how developers establish financial viability.**



Site Boundary

Our experts focused on how best to support the start of potential housing projects for pK-12 public districts.

- Corey Smith from the Housing Action Coalition (HAC) noted that HAC serves as a resource to facilitate legislative changes to ease housing construction, highlighting underwriting and financing challenges. He asked, “What do districts and developers need from a legislative perspective to make projects pencil?”
- Tony Mirenda of Kitchell compared workforce housing to a three-legged stool—composed of market demand, political will, and finances—and posed questions about developing teacher exemptions, adjusting Area Median Income (AMI) levels for affordability, and potentially amending AB 2295 to broaden AMI thresholds.
- Ross Robb from RLR Ventures LLC then introduced five key levers of financial feasibility for a pK-12 workforce housing project (illustrated on the following page).

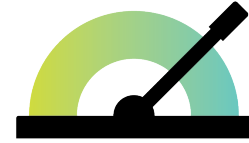
The following key levers and areas of focus were discussed:

- **Project Cost:** Options include using alternative building materials, marginally reducing unit sizes (or right-sizing), reducing or being selective with amenities, and/or leveraging city/county abatements—though prevailing wage requirements remain.
- **Rent Revenue & Operating Expenses:** Strategies such as property tax abatements (which can represent about 40% of annual operating expenses) can help balance lower rent revenue with reduced operating costs.
- **Cost of Capital:** Securing “free” capital, such as grants, is critical.
- **Land Cost:** This lever is often the simplest to reduce, as districts may donate land or offer no/low cost ground lease deals to lower overall costs.

Following the foundational understanding, The Annex Group, a real estate development company, in collaboration with Relequity and Multistudio, presented a sample feasibility study for a Bay Area K-12 district—referred to here as District X for confidentiality. Justin Smith of Relequity, currently working on two (2) K-12 projects in Oakland, stressed the importance of contextual development by considering challenges such as rising construction costs, community integration, transportation and traffic, parking balance with transit access, and city utility/infrastructure issues. He also highlighted potential opportunities, including construction innovation, streamlined state approvals, sustainable design elements, historical context integration, strong city and political support for workforce housing, and public-private partnerships.



Project Costs



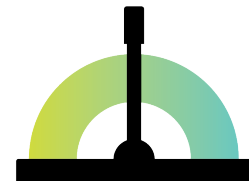
Operating Expenses



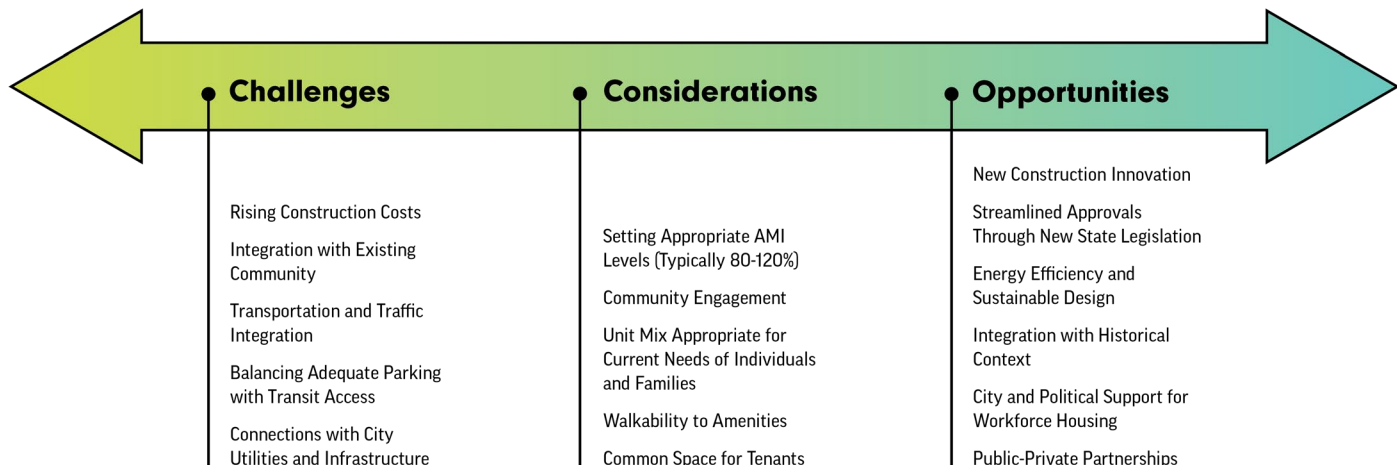
Cost of Capital



Cost of Land



Rent Revenue

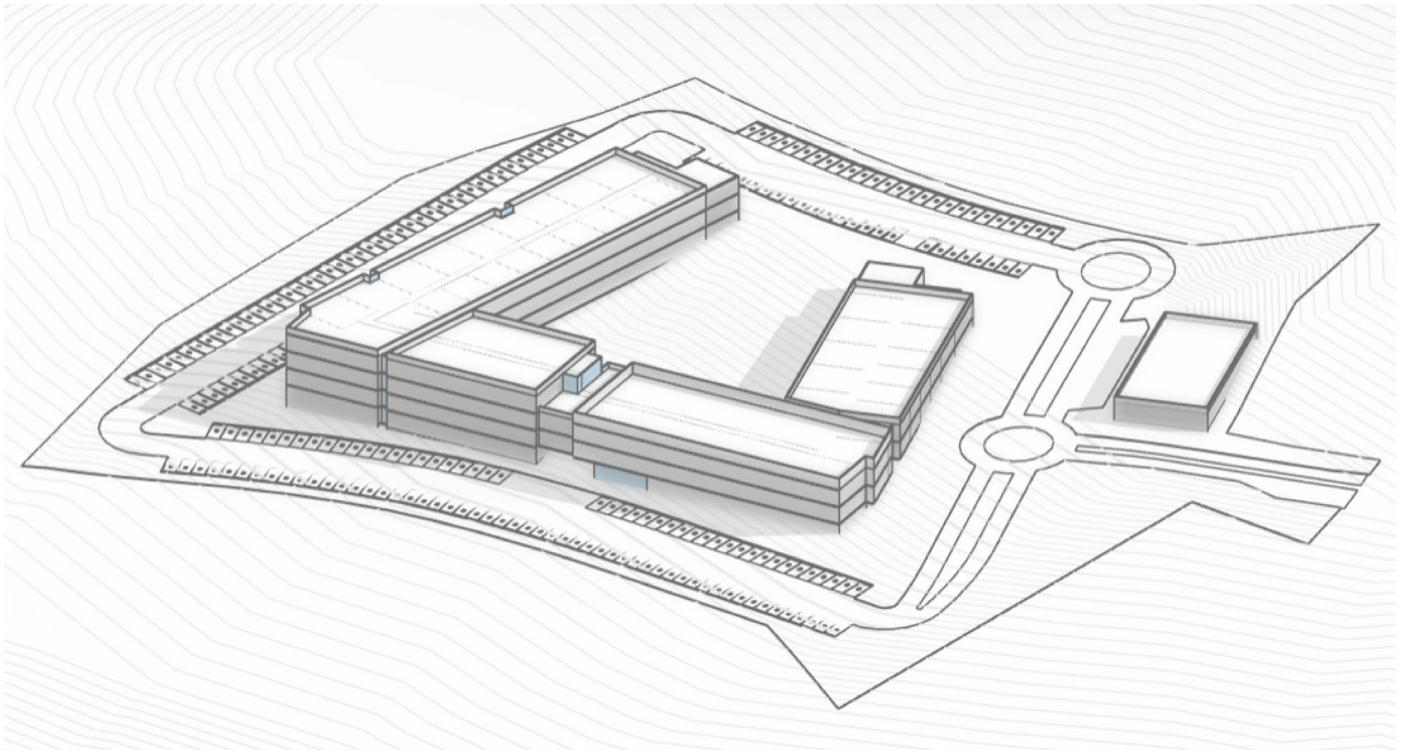


Feasibility Study

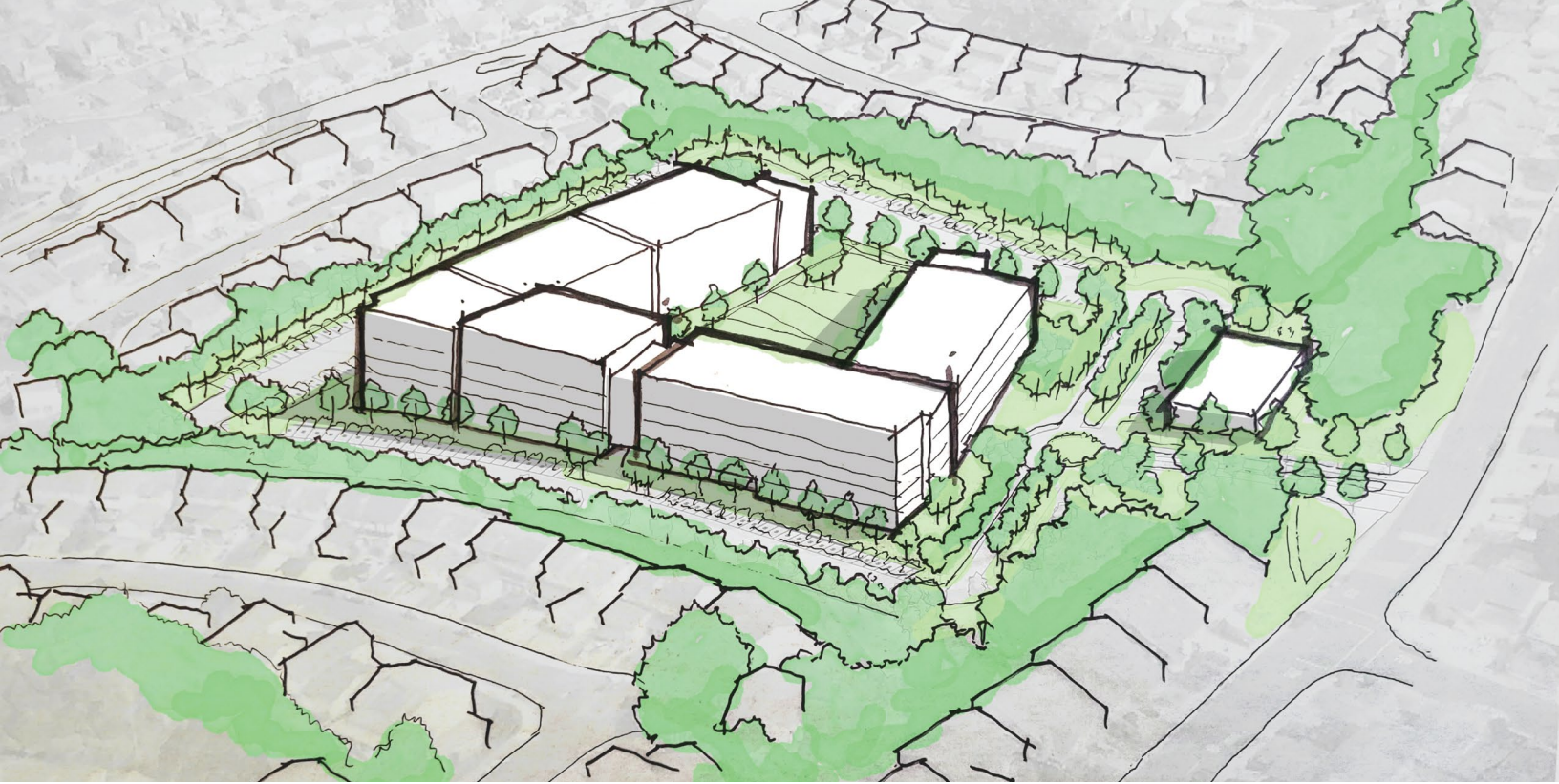
District X's feasibility study began with a market analysis addressing two fundamental questions: What is the project's location and how many people would live there? District X has a site set aside for workforce housing that includes a former elementary school; the district has voter-approved general obligation bond funding dedicated to workforce housing. In this area, the AMI is \$166,600, with a 5.1% vacancy rate. Average rents in the 4th quarter of 2024 were \$2,367 for a studio, \$2,639 for a one-bedroom, \$3,299 for a two-bedroom, and \$4,068 for a three-bedroom unit. A single-income teacher could afford between \$1,500 and \$2,600 in rent expenses per month, so these rents are far beyond what one could afford.

Our site analysis, presented by Matt Pauly from Multistudio, determined that District X's site—located in a single-family neighborhood and already zoned for housing—could support a building with a maximum height of 35 feet to blend with the surrounding area, with up to 148 units. Factors such as slope, parking, and proximity to neighbors were considered, and a quick feasibility massing study was developed as a tool with which The Annex Group was able to create a “capital stack.” This analysis is essential for determining the optimal unit mix and building efficiency, thereby reducing construction costs and ensuring maximum rentable units.

District X envisioned a four-story, type 3 structure (wood-framed) housing project, which lowers both construction costs and code requirements. Additionally, state density bonuses may permit a 50% increase in units if very low-income units are provided. With AB 1287, an extra 50% bonus may be possible—though expanding project size could lead to higher construction costs and may exceed neighborhood height limits. Transportation considerations, such as how teachers and staff commute, might also necessitate podium parking structures rather than surface lots for larger projects.



Massing Study



Massing Sketch of Proposed Workforce Housing Project

Ketan Chokshi from The Annex Group proceeded to outline Path 1, a financial transaction strategy for District X's workforce housing project. The financial objectives focus on developing housing that minimizes total capital cost and rent levels, leveraging the strength of District X to extend general obligation bond measure funds, and maximizing the use of additional capital to enhance project feasibility. Key considerations include:

- Restricting at least 15% of units to Low and Very Low Income AMIs (in line with city ordinances and state density laws).
- Further restricting the remaining units to match District X's essential workforce income levels.
- Managing any shared obligations with the city to incorporate its workforce housing needs.
- Determining the extent of District X's direct investment.
- Addressing uncertainties in the future tax environment.

With Path 2, alternative financing options were also considered. While conventional project financing can increase transaction certainty, it may compromise affordability due to higher capital costs and require third-party equity partners who may have different priorities than the district. In contrast, project finance models such as Joint Powers Authorities (JPAs) or 501(c)(3) structures offer greater flexibility and may encourage more significant local government engagement and city involvement, which can be beneficial. Ketan further explored the potential for integrating the local government into the project. California law permits various cooperative frameworks between local governments, Authorities Having Jurisdiction (AHJ's), and districts, including:

1. A Joint Powers Authority agreement, which more substantially shares both the benefits and obligations.
2. Developing the project within a not-for-profit special purpose entity to limit liability.
3. District X fully owning, operating, and financing the project, with a limited or deprioritized allocation of units to local government stakeholders.

Paths 1 and 2 were identified as optimal for projects that assume significant city involvement, enabling direct investment, design variances, and expedited review.

The Annex Group showcased a conceptual “capital stack” for the project, developed in collaboration with District X and RBC Capital Markets, shown below in Illustrative Project Capital Stack #1. When capital allocated from the general obligation bond specifically for workforce housing is combined efficiently with additional capital sources, which includes financing derived from net operating income (rent minus operating expenses), Certificates of Participation (COPs), and potential grants from agencies such as the Environmental Protection Agency (EPA), or Department of Toxic Substances Control (DTSC)—the project’s financial viability is maximized. COPs, as a form of tax-exempt financing, depend on collateral quality and can be an efficient financing tool without requiring voter approval. Additional funds may come from sources such as California Housing Finance Agency (CAL HFA), Community Development Block Grants CD Block Grants), county or city housing programs, and Housing and Community Development Funds (HCD Funds).

The Annex Group also examined a more traditional financing approach, shown below in Illustrative Project Capital Stack #2. While traditional financing may be available, it could require additional feasibility improvements to maintain rent affordability and might necessitate compromises impacting affordability or shifting priorities due to third-party equity involvement. In this scenario, general obligation bond measure funds would be limited to functioning as a loan or grant for the project.



It is important to note that no two (2) projects are identical. Various partners and financing strategies can be tailored to successfully develop workforce housing projects. Through these think tanks, Multistudio has built a robust network of school districts, developers, program managers, advisors, and legislative policy advocates with firsthand experience in workforce and affordable housing. This network uniquely positions us to assist K-12 districts in securing the right partners and resources at every stage of their workforce housing projects—from initial feasibility and design to financing and construction.

We invite you to explore these insights and consider how our collaborative approach can transform workforce housing into a catalyst for positive change—not only for teachers and staff but for students, families, and your communities.

To learn how Multistudio and our partners can support your district in bringing workforce housing to life, visit www.multi.studio/perspective/perspective/workforce-housing.

Thank You to Our Contributors

Special thanks to Jason Taylor, Tom Tomaszewski, Ketan Chokshi, and Matt Zetzel of The Annex Group, Justin Smith of Relequity, Ross Robb of RLR Ventures LLC, Lori Shelton, Calvin Wong, and Wazi Chowdhury of South San Francisco USD, Tony Mirenda, Erica Kodiyan, and Kent Brown of Kitchell, Corey Smith of Housing Action Coalition as well as numerous Bay Area district representatives, developers, and architects for their contributions.



Explore possibilities with us.

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