



Preston Park

*FORA Staff/Alliance
Residential Company
10/10/14*

Property Overview & FY 2014/2015 Budget



- ▶ 354 Units/Built in 1987
- ▶ 2 Units – Office Space/Maintenance
- ▶ 10 – 2 BR/1 BA (1150 sq ft + 400 sq ft garage)
- ▶ 82 – 2 BR/1.5 BA Unit B (1278 sq ft + 400 sq ft gar.)
- ▶ 135 – 2 BR/1.5 BA Unit C (1323 sq ft + 400 sq ft gar.)
- ▶ 125 – 3 BR/2.5 BA (1578 sq ft + 400 sq ft garage)

Preston Park Unit Amenities:

- **Interior**

Single-Car Direct Attached Garage, In Home Laundry Room with Full Size Washer/Dryer Connections, Abundant Storage Space, Eat-in Kitchen with Bar Area

- **Exterior**

Gated Back Yard, Dedicated Driveway, New Roofs

- **Community**

Playgrounds (8), Basketball Areas (3), Community Center, Business Center, Professional Management, Community Landscaping, Community Sports Parks

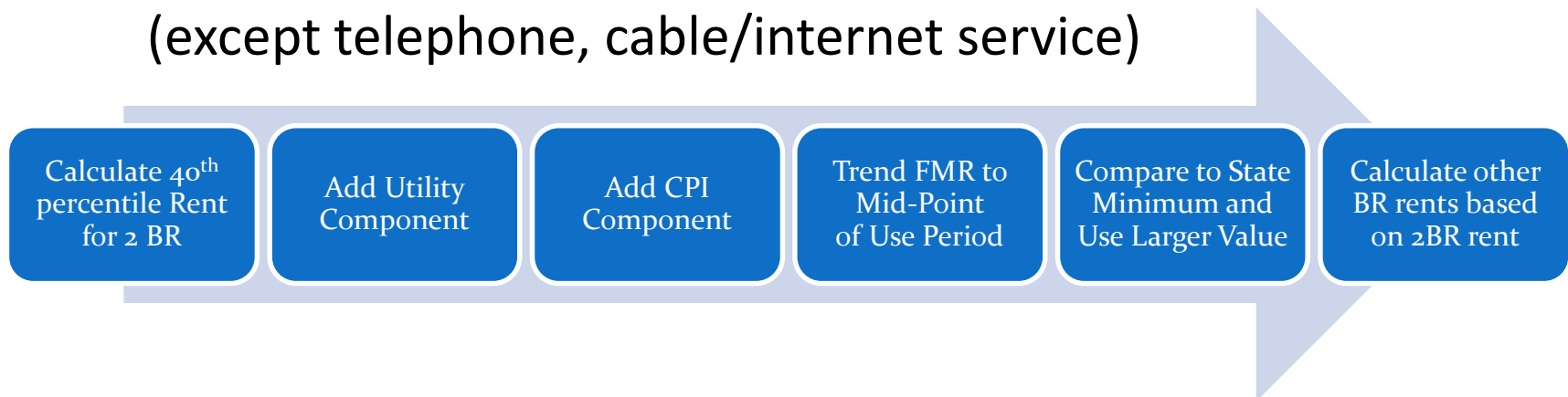
- **Pet Friendly**

Allows 2 pets per home, cats or dogs, with additional pet deposit

- ▶ By previous action, the Board established that 51 units of the 352 units at Preston Park will be rented at Below Market rates (BMR).
- ▶ On average, the current in-place tenant pays approximately 15% under market rent.
- ▶ With the 2.4% rent increase, a median income family of four , with annual income of \$68,700, could rent 90% of Preston Park units using 33% of their household income.
- ▶ The Marina real estate community requested FORA sustain rents at market rates.

Fair Market Rent:

- Fair Market Rents are established by Housing Authority to determine standard payments for Housing Choice Vouchers.
- Current HUD definition: The 40th percentile rent, the dollar amount below which 40% of the standard-quality rental housing units are rented.
- Includes rent amount plus cost of all resident paid utilities (except telephone, cable/internet service)



Market Rate:

- The rental amount a landlord might reasonably expect to receive, and a tenant might reasonably expect to pay for tenancy, in comparison with rent levels for similar properties in similar areas.
- Calculated by taking into consideration the rental amounts attributed to like rental units based on square footage, amenities, location, and finish.
- Market rates are used to establish rental rates for New Move-Ins to the community. Used in part to evaluate property values for sale.

Privately owned properties set rents in accordance with their objectives.

Properties such as Schoonover Park and Frederick Park (which are limited by university affiliation) offer lower rents than Preston Park to provide an amenity to their employees.

In-Place Market Rent:

- The rental amounts attributed to current residents of the community. Typically based on length of residency and current market rates.
- How increases are currently calculated at Preston Park
 - 3% or CPI-U In Place Resident Rent Increase Formula
- How increases are calculated at other local communities
 - Increases upon Renewal, up to 5% below Market Rate
- Utilities
 - Included in Rental Amount or added to Rental Amount (Preston Park)
 - PG&E
 - Water/Sewer
 - Trash

Competitor Review and Comparison

(Unit Types, Size, Features, Amenities)

Sunbay – 266 units

- Studio, 1X1, 2 Br X 2 Ba
- 345 – 700 sq ft
- \$840 - \$1425 per month
- Swimming Pool, Sauna, Clubhouse, Gated, Covered Parking
- Playgrounds, Laundry Facility, Tennis Courts

Marina del Sol – 108 units

- 1X1, 2 Br X 1 Ba
- 618 – 736 sq ft
- \$1000- \$1300 per month
- Covered Parking, Laundry Facility

Marina Square – 48 units

- 2 Br X 1 Ba
- 1000 sq ft
- \$1325 - \$1450 per month
- Detached Garages, Playground, BBQ area
- Laundry Facility, Upgraded Homes

Abrams Park – 194 units

- 2 X1, 4 Br X 2.5 Ba
- 1000 – 1800 sq ft
- \$1450 - \$2450 per month
- Attached Garages, In Home Laundry, Playgrounds
- Gated Backyard/Balcony, Upgraded Homes

Current Preston Park Market Rents

- Versus Competitive Set and Fair Market Rent (refer to Attachment G)

In Place Rents

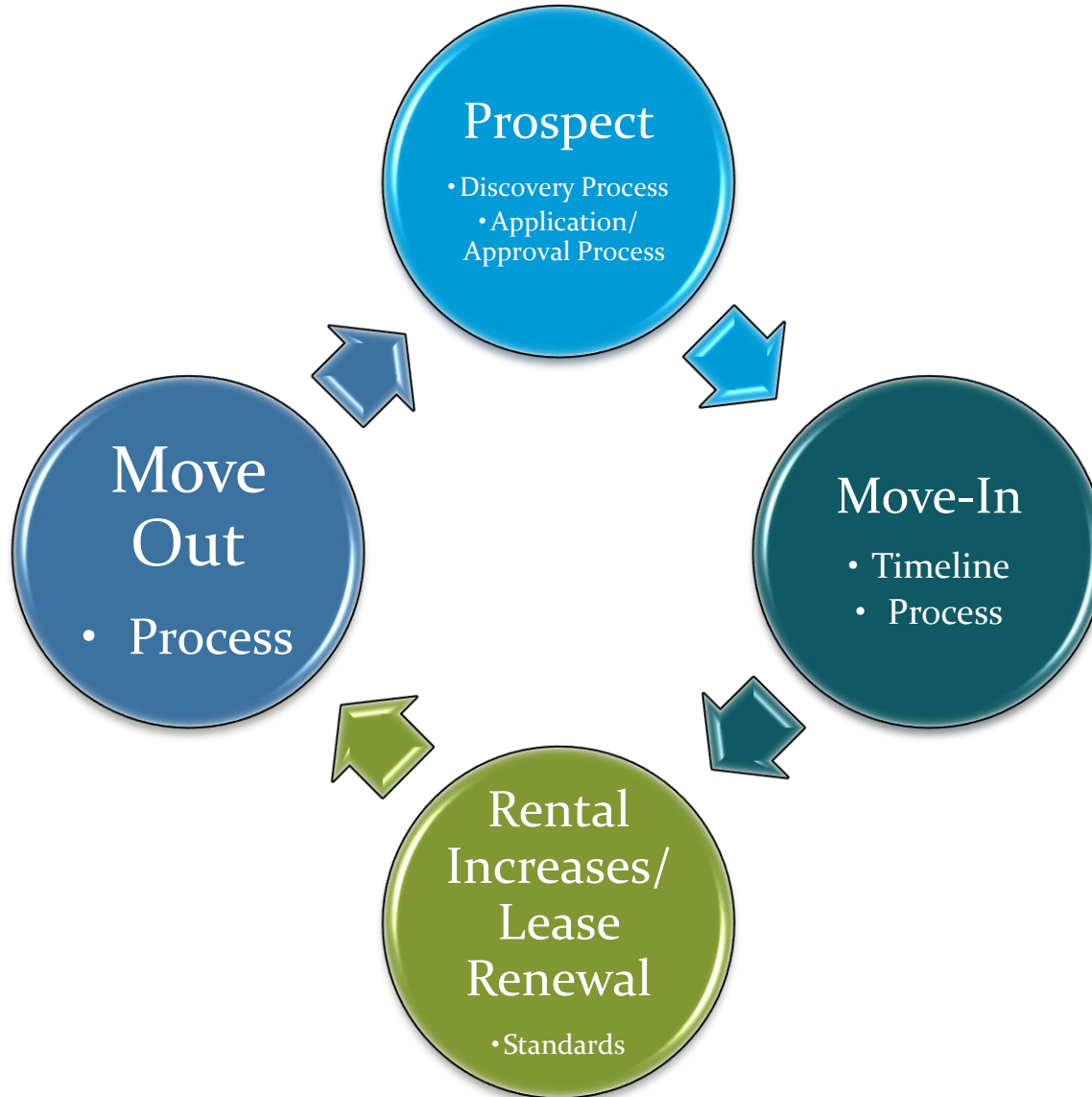
- | <u>Versus Market Rents</u> | <u>2BR</u> | <u>3BR</u> |
|----------------------------|------------|------------|
| By Resident Tenure | | |
| >12 months | \$0 | \$0 |
| 1 - 3 years | \$-156 | \$-108 |
| 3 - 5 years | \$-333 | \$-266 |
| 5+ years | \$-457 | \$-420 |

* Negative number indicates residents are paying less than the Market Rate

- | <u>Versus Fair Market Rents</u> | <u>2BR</u> | <u>3BR</u> |
|---------------------------------|------------|------------|
| By Resident Tenure | | |
| >12 months | \$431 | \$210 |
| 1 - 3 years | \$300 | \$95 |
| 3 - 5 years | \$110 | \$-61 |
| 5+ years | \$-14 | \$-93 |

* Negative number indicates residents are paying less than the Fair Market Rent

Resident Life Cycle



Preston Park

- Occupancy
 - ▶ Property Historical Trends

1 Year	99.72%
3 Year	98.87%
5 Year	99.72%

 - ▶ Market Historical Trends based on Market Survey data

1 Year	98.0%
3 Year	97.0%
5 Year	94.0%

- Rental Rate Value
 - ▶ Incoming Residents
 - Supply/Demand Opportunities
 - Value Added Enhancements
 - ▶ Renewing Residents / Term Increases
 - ▶ Ancillary Revenue (Pets, Parking, Clubhouse)

- ▶ Expenses
 - Controllable
 - Impacts
 - Asset's Age
 - Economic Inflation
 - Value Add Enhancements
 - Non-Routine
 - Property Assessment Results
 - Capital Expenses
 - Life Expectancy / Planning Needs

- ▶ What are Capital Expenses?
 - Determined by demand; expenses that directly affect the property longevity, including life/safety issues (roofs, windows/doors, community paint, appliances, etc.)
 - Funded through the Operations Budget set aside. Typically a % from each “door” (unit)

- ▶ Capital Projects & Funding Projections
 - 2013/2014 Capital Projects
 - 2014/2015 Projected Capital Projects
 - Future Capital Project and Funding Needs
 - Marx Okubo Report Summary
 - Capital Reserve Analysis / Projection

Agreements Which Impact Rental Revenue

- ▶ Regulatory Agreement (executed 2008)
 - 40% of Units should be affordable for Very Low, Low and Moderate Income households
 - Income limits are set annually by Housing Authority of Monterey
 - Rental rates at/or under \$1,889 per month fall under the affordable guidelines
 - More than 90% of the units at Preston Park would be affordable to Very Low, Low, and Moderate Income households, even after the proposed 2.4% increase is applied. Hence, the property meets more than twice the required affordable indexing.
 - Of that 40%, 51 Units are to be held for BMR qualified residents (19 Very Low, 32 Low)

- ▶ Adoption of 3% or CPI-U In-Place Resident Rent Increase Formula (signed in 2010)
 - Adopted in 2010 by the Marina City Council
 - Approved in 2010 by the FORA Board
 - Allows for possibility of rental increases for all residents (BMR excluded)

- ▶ Tenant input involvement has always been a part of the Preston Park Budget development process.
- ▶ Since May 2014 the Preston Park 2014/15 Budget was shared with Preston Park Abrams Tenants Association (PPTA).
- ▶ PPTA input is reflected in this proposed budget.
- ▶ Since July > fifteen attempts to meet with the PPTA representatives no meetings could be confirmed.

- ▶ One step rental increase 16% for all units with no increase for 2 years.
 - Too burdensome resulting in high vacancy rates.
 - Property would increase in value as rents are closer to market rents
- ▶ Fixed rental increase at 2% a years for next 5 years.
 - Establish new FORA Board Policy and change Regulatory Agreement
 - Over time period could result in 12% change on in place residents
 - Risky formula that would not permit annual response to market changes.
- ▶ Keep current formula as set in 2010 which limits annual rent increase but permits annual review and response to market.



▶ Below Market Rental – 51 units

Home rented at a reduced rate to households that meet current income and household size requirements (50% and 60% median income).

⇒ (Example: Total Rent collected \$677 or \$832, \$756 or \$928)

▶ Section 8 Rental – 30 units

Home rented to households with a voucher from Housing Authority. Rental rate is limited by Housing Authority payment standards.

⇒ (Example: Resident pays \$1000, HA pays \$300, Total Rent \$1300)

▶ Market Rate Rental – 273 units

Home rented to a household that meets current rental standards for any rental community.

⇒ (Example: Total rent collected equals rental full rental amount based on tenure or Market Rate)

- Sustainability and asset protection is the objective of the rent increase. Non-routine expenses are anticipated to encompass significant projects (resulting from the Property Assessment performed in 2013) over a 5-year period. **These costs are not capitalized as the reserve accounts do not have the funds to carry the projects.**
- Alliance recommends a minimum Capital Reserve withholding amount of **\$2,057** per unit per year during the 2014/15 fiscal period. This withholding would ensure adequate reserves to perform necessary replacements and repairs to protect the useful life of the asset and account for possible unforeseen cost increases and repairs, and address resident requested projects such as parking enhancements.
- Implementing a rent increase offers an opportunity to **stabilize the property's replacement reserve account through compounded revenue generation**, to provide for the critical Capital Improvement projects throughout the community to take place over time.

- ▶ Approve the FORA/Alliance recommended Preston Park Operating/Capital Improvement Budget with a 2.4% rent increase.
 - This enables property to maintain quality units, respond to health and safety issues and carry out needed capital improvements AND keeps 90% of units affordable. Regulatory agreements only require 40% be affordable.