



LIVE SALINA:
A STRATEGIC HOUSING PLAN

2022 Update



LIVE SALINA: 2022 UPDATE

Live Salina: A Strategic Housing Plan, published in March, 2016, presented a detailed analysis of Salina's housing characteristics, markets, and opportunities and included specific recommendations and strategies to address key housing and neighborhood development issues. The 2016 document included an extensive community engagement process that included open houses, public surveys, and small group listening sessions and discussions. The original study was refined in 2021 to include a supplement with key variables, the most recent available data, new analysis based on Salina's current position, and a housing policy framework to take advantage of opportunities for growth and development.

With ever changing conditions and markets, the next series of pages provides an update to critical market data as of June 2022, noting comparisons to 2021 data. To be concise, only tables updated with new data from the 2021 document are shown in this update document. All other maps, strategies, and recommendations of the 2021 Live Salina document are still relevant and important to consider in the context of housing need. **The update makes clear the continued, and increased, need for housing production in Salina.**

POPULATION CHARACTERISTICS

Figure 1 displays estimated population change in Salina compared to a sample of peer cities in the state. According to the 2020 Census, Salina's population declined slightly from its 2010 historic peak of 47,707 to about 47,000. We believe this is an undercount and detail our reasoning below. The Census Bureau has also recognized the undercount potential of the 2020 results. With the supplemental under count analysis, we believe the actual 2020 population is conservatively around 48,600, which represents a 2.0% growth from 2010-2020.

FIGURE 1: Population Comparison

City	2010	2020	% Change
Salina	47,707	46,889*	-1.7%
Emporia	24,916	24,139	-3.1%
Lawrence	87,643	94,934	8.3%
Leavenworth	35,251	37,351	6.0%
Manhattan	52,281	54,100	3.5%
Topeka	127,473	126,587	-0.7%

*An undercount is suspected because of the pandemic and the shortened time frame to follow up with people that did not voluntarily fill out their Census form in 2020. Historically, minority groups are less likely to fill out their Census forms voluntarily. In 2020, the Census Bureau reports an undercount of 4.99% for Hispanic or Latino populations and 1.48% for renters across the country. The reported Hispanic or Latino population in Salina was 12.5% in 2020, which is similar to Kansas (12.7%).

The likely undercounting in Salina is supported according to a 2021 Finney County Economic Development Corporation report which finds that 10%-20% of Saline County's population was at-risk of being undercounted, mostly attributed to Hispanic populations. When corrected for just one-fourth of the undercount risk, Saline County's estimated population growth is over 1,000 people between 2010 and 2020.

Therefore, to forecast a more accurate future housing demand, the reported 2020 Census count is inflated to capture one-fourth of the undercount risk, to a conservative 48,647 total 2020 population, shown in Figure 2.

FIGURE 2: Salina Population Change with 2020 Adjusted Population

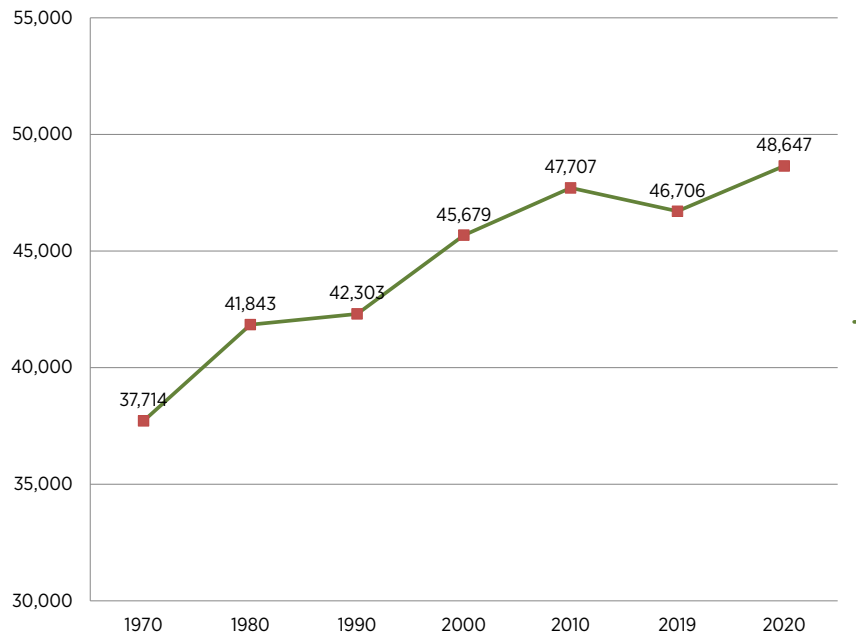
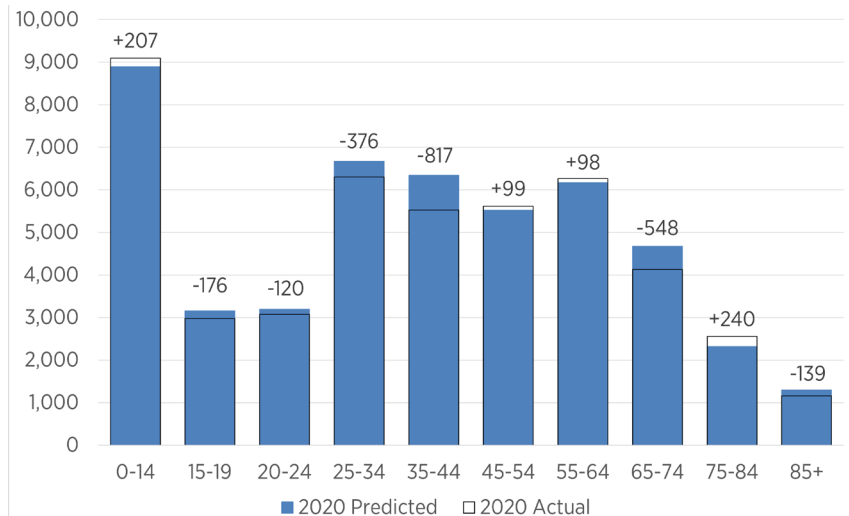


FIGURE 3: Salina 2020 Predicted vs Actual Population Change



Source: U.S. Census Bureau; RDG Planning & Design

2021-2022 Report Comparison

- An updated base population in 2020 that factors under count reports. Updated to 48,647 in this report.
- Increase the percent of jobs that will produce new households in Salina, from 40% to 60%. Limited construction activity in the region will create more opportunity and need to accommodate these employees in Salina.
- An increase in the projected job growth from about 1,100 new jobs to about 1,850 new jobs. The increase is based on data provided by employers regarding their growth plans.
- A slight reduction in people per household from 2.38 to 2.35 to account for an aging population and the potential younger, single population needed to fill job openings.
- An overall increase from 2021 to 2022 in the forecasted households by 2030, from 20,400 to 22,215. This indicates the growth in housing need from just one year of changing market conditions and continued strong job base.

POPULATION PROJECTION

Figure 4 below displays Salina’s forecasted population to 2030, based on past trends and employment growth projections as of March 2022. This calculation differs significantly from the 2016 study because of data provided by employers about the number of new jobs that will be created by industrial expansion in the coming years. This projection includes the following assumptions:

- » **A basic annual growth rate of 0.50% is held through 2030.** The basic growth rate excludes projected population gain from new employment. It is based on building trends and past growth rates. The growth is also justified based on the potential spin-off business and attraction created by industrial expansions in the early 2020s.
- » **Addition of about 1,850 new jobs in major industries in the next several years, 70% which need to be absorbed by 2025 and the remainder through 2030 as employers gain capacity to hire and attract workers.** Adding of these jobs hinges on adequate housing options. The population forecast estimates that 60% of these new jobs will produce households new to Salina, with the balance in surrounding regional communities or representing people already in the city and surrounding area that take new jobs in expanding industries.
- » **Population per household will remain at the 2020 level of 2.35 for the next ten years, and the percentage of people living in households (rather than group quarters) will remain at the current level of 97%.** Households are the critical number in projecting new housing unit demand.

FIGURE 4: Salina Projected Population, 2022-2030

	2020 Base	2022-2025	2026-2030
Population with Basic Growth Rate (0.50% annually)	48,647	49,875	51,135
Growth Attributed to Job Expansion		1,826	783
Population with Basic Growth and Job Expansion	48,647	51,701	53,744
Population in Households with Growth and Job Expansion	47,188	50,201	52,205
Average People per Household	2.35	2.35	2.35
Number of Households Needed at End of Period	20,078	21,362	22,215

Source: RDG Planning & Design

INCOME DISTRIBUTION

Figure 5 updates income data from the 2016 study using 2020 estimates. These data partially account for the economic impact of the COVID pandemic, including federal relief payments. While Salina remains a moderate income market, it has experienced significant income growth of about 19% between 2010 and 2020. This level of growth (slightly higher than inflation) is lower than the group of peer cities but Salina still had a similar overall median household income to peers in 2020.

Figure 6 provides a reminder about the geography of income levels in Salina from the 2019 study update. The highest median incomes are in the East and Southeast parts of the city. Map data was not updated for the 2022 study revisions.

2021-2022 Report Comparison

- Incomes reported by the American Community Survey rose between 2019 and 2020 in Emporia, Lawrence, Leavenworth, and Manhattan.
- Incomes in Salina between 2019 and 2020 stayed around \$50,000.
- Wichita and Kearney, NE were added in the 2022 report to provide different areas for comparison.

FIGURE 5: Annual Median Household Income, 2010 and 2020 - Salina and Comparison Communities

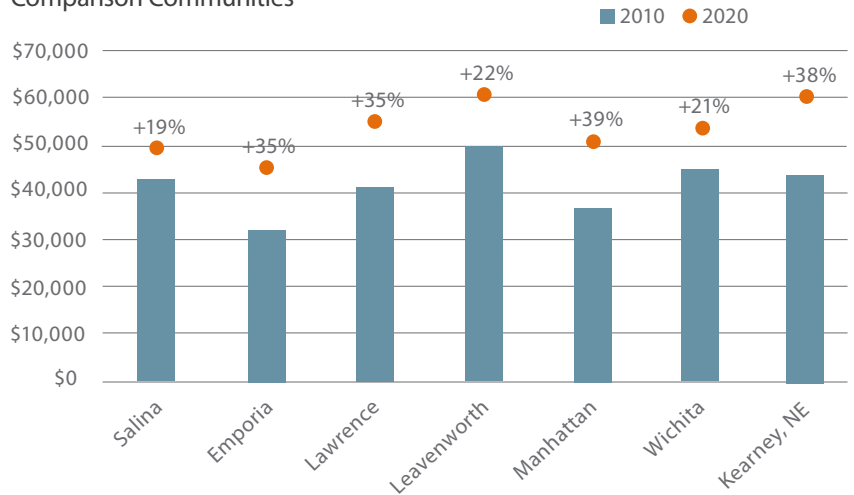
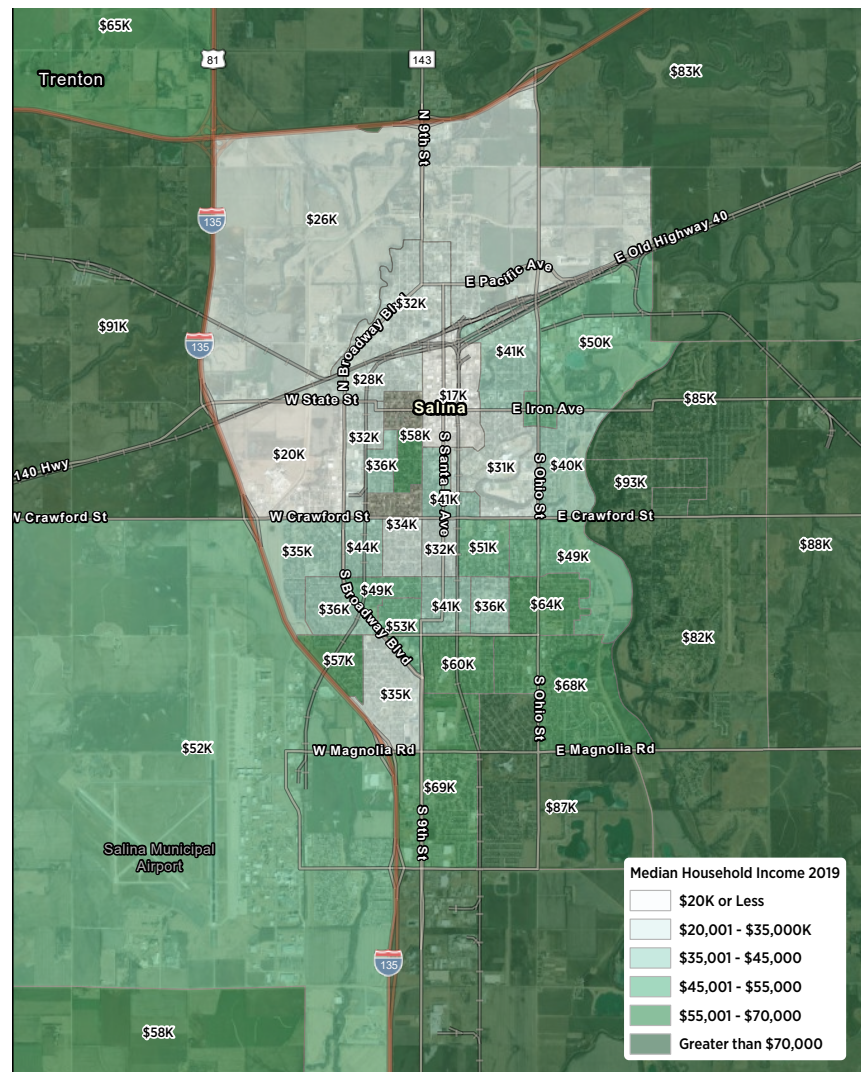


FIGURE 6: Median Household Income by Census Tract, 2019



Source: American Community Survey 5-year Estimates

FIGURE 7: Occupancy Change in Salina, 2010-2020

	2010	2020**	Change
Owner-Occupied	12,409	11,887	-522
Renter-Occupied	6,982	7,358	+376
Total Vacant	1,412	1,779	+367
For rent	645	413	-232
Rented, not occupied	38	199	+161
For sale only	213	406	+193
Sold, not occupied	66	75	+9
For seasonal, recreational, or occasional use	55	46	-9
For migratory workers	8	0	-8
All other vacant	387	640	+253
Vacancy Rate	6.8%	8.5%*	
Total	20,803	21,024	+221

*When excluding "other vacant" and vacation homes, the vacancy rate is 5.2% in 2020 versus 4.7% in 2010.

** Subject to margin of errors in the 2020 American Community Survey

HOUSING TENURE AND COMPARATIVE COST

Figure 7 shows estimates of tenure from the 2020 American Community Survey. Salina currently has an owner/renter occupancy split of about 63% owner to 37% renter. The ACS estimates indicate a vacancy rate of 8.5%.

However, the ACS also provides data about the reason units are vacant. Units nearly constructed but not yet occupied are counted as vacant units, even if a renter or homeowner is secured. Conversely, units that are condemned or exposed to the elements are not considered vacant.

To get a truer sense of the market, we subtracted the "other vacancy" and vacation home category from the actual number of vacancies. These vacant units are not available options to fill housing demand because they are for occasional use, foreclosure, repairs, and legal reasons among others. The exclusion results in a vacancy rate around 5.2%, which is used for projection purposes on the following pages.

2021-2022 Report Comparison

- A decrease in the overall vacancy rate from 9.8% to 8.5%.
- A decrease in the vacancy rate excluding "other vacant," vacation homes, and not yet occupied units from 6.0% to 3.9%. This means units were brought out of vacant status and converted to occupied rentals.
- An increase in value-to-income ratios across all comparison cities, except Topeka. Ownership became slightly more unaffordable.

FIGURE 8: 2020 Housing Characteristics - Salina and Comparison Communities

	Salina	Emporia	Lawrence	Leavenworth	Manhattan	Topeka
Total Units	21,024	11,479	42,033	14,331	23,992	60,489
% Owner	61.8%	47.9%	44.6%	49.1%	39.7%	58.6%
% Renter	38.2%	52.1%	55.4%	50.9%	60.3%	41.4%
Vacancy Rates	8.5%	12.5%	6.2%	10.4%	14.0%	10.6%
Median Value (Owner-Occupied)	\$133,500	\$98,200	\$204,800	\$136,800	\$213,200	\$105,700
Median Rent (Gross)	\$769	\$668	\$924	\$958	\$910	\$815
Median Year Structure Built	1965	1967	1987	1969	1982	1965
Average household size of owner-occupied unit	2.47	2.7	3	2.4	2.49	2.33
Average household size of renter-occupied unit	2.16	1.98	2.06	2.68	2.28	2.11
Value-to-Income Ratio*	2.68	2.26	3.68	2.25	4.18	2.13

*see 2021 supplement document for definitions

Source: American Community Survey 5-year Estimates

2021-2022 Report Comparison

- The same trends year-to-year related to gaps in options for households making under \$25,000 and over \$75,000 a year.
- The balance of supply and demand became more unbalanced across all income levels.

AFFORDABILITY ANALYSIS

Figure 9 examines supply and demand through the lens of what is “affordable” to different income groups to answer the question: is there an adequate supply of housing options available for residents of different income groups? Figure 9 illustrates five major components in pursuit of the above story:

- 1. Income Ranges.** The starting point of the analysis is the spectrum of incomes across all residents. From these incomes, corresponding “affordable” housing prices are established for ownership and rental opportunities.
- 2. Number of Households in Each Income Range.** The number of households in each income range is the demand; these residents seek housing options that are affordable to them.
- 3. Affordability Ranges.** An affordable ownership home is calculated at 2-3 times the household income depending on the income range. Lower income households tend to spend a higher percentage of their income on housing and higher income households tend to spend a lower percentage of their total income on housing. An affordable rental would be nearly 30% of household income.
- 4. Number of Housing Units in Each Affordability Range.** The number of housing units in each affordability range is the supply of affordable options.
- 5. The Balance of Supply and Demand.**
 - If the number of households exceeds the number of units available, those households must seek options in different affordability ranges.
 - If the number of units exceeds the number of households, it indicates that the units are occupied by households in different income ranges.
 - This analysis is meant to illustrate larger trends in how existing units are being occupied. It does not demonstrate exact market demand in certain price ranges.

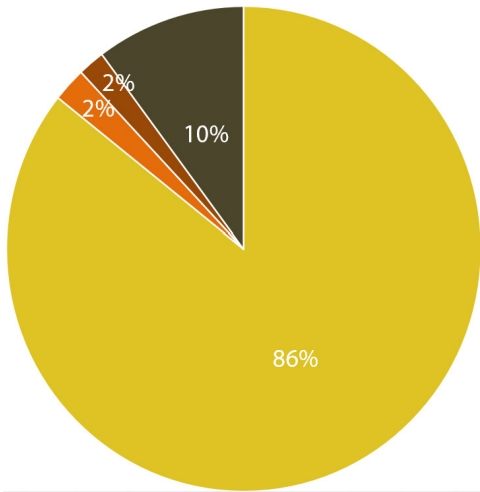
Compared with the 2016 analysis, the deficit shown in Figure 9 has decreased somewhat for the lowest income group and grown at the upper end of the income scale. This indicates that higher income households are occupying

FIGURE 9: Affordability Analysis for Salina Housing Stock, 2020

Income Range	# of Households in Each Range	Affordable Range for Owner Units	# of Owner Units	Affordable Range for Renter Units	# of Renter Units	Total Affordable Units	Balance
\$0 - \$25,000	4,368	>\$60,000	940	\$0-499	2,239	3,179	-1,189
\$25,000 - \$49,999	5,278	\$60,000-124,999	4,381	\$500-999	4,536	8,917	3,639
\$50,000 - \$74,999	3,891	\$125,000-199,999	4,089	\$1,000-1,499	319	4,408	517
\$75,000 - \$99,999	2,128	\$200,000-249,999	1,361	\$1,500-1,999	195	1,556	-572
\$100,000 - \$150,000	2,450	\$250,000-399,999	738	\$2,000-2,999	25	763	-1,687
\$150,000 +	1,130	\$400,000+	378	\$3000+	43	421	-709

Source: American Community Survey 5-year Estimates

FIGURE 10: New Construction by Type (2010-2021)



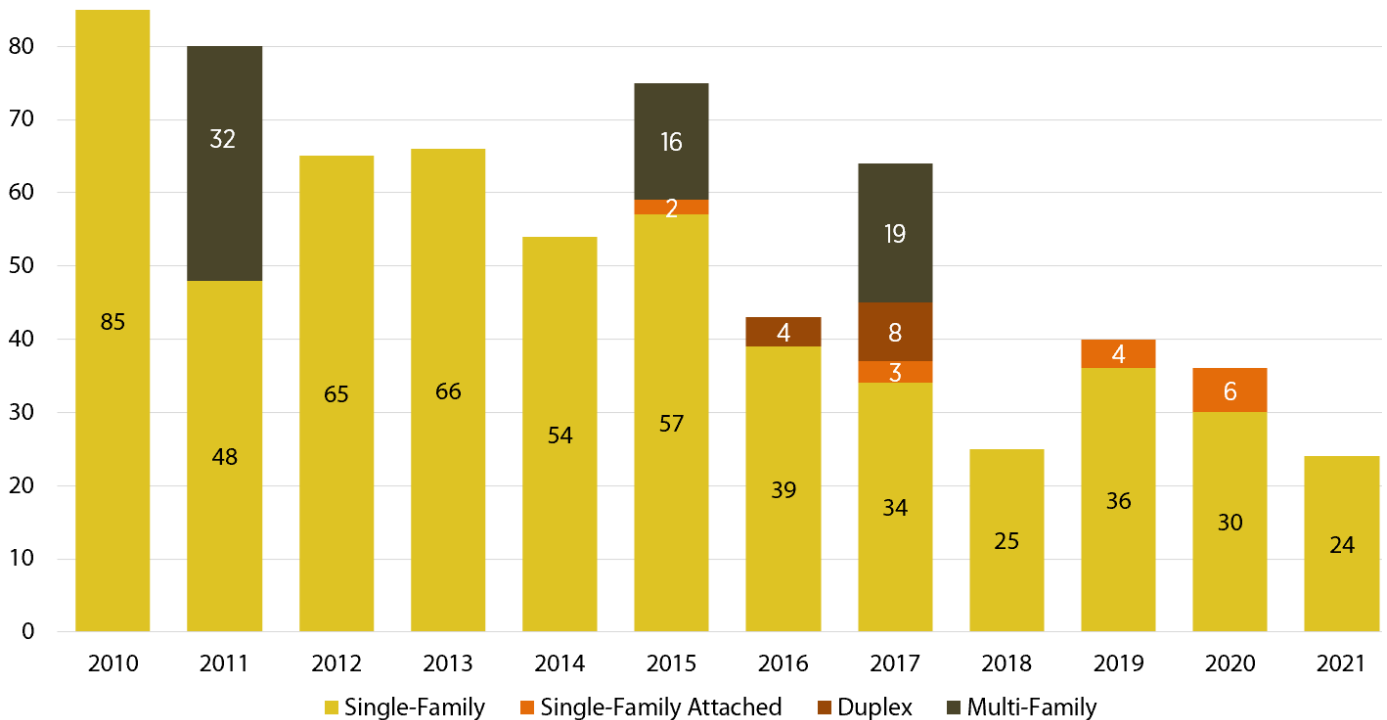
some of the city’s more affordable stock and that housing in the city may also be somewhat undervalued. The largest deficits are above \$200,000 for owner-occupied housing and above \$1,000 a month for renters. We draw the following conclusions from Figure 9:

- Competition for housing and rentals at mid-price points is extreme. The imbalance of options for households making more than \$75,000 and below \$25,000 means there are many having to live in the mid-price point units. This is particularly concerning for the lowest income households who may have to share rent, double-up on units, or pay more than 30% of their income for rent.
- Significant opportunities for move-up housing, in turn opening lower-cost existing units for new or moderate-income households.
- In general, housing in the city is relatively undervalued, an important finding of the original Live Salina study.
- Production, even of market-rate units, is a significant challenge. However, recent developments are starting to prove market demand at the higher price points, such as Southview Estates and Aero Plains.

CONSTRUCTION ACTIVITY

Figures 10 and 11 display construction activity in Salina from 2010-2021. Residential construction was overwhelmingly in single-family detached residential, accounting for about 80% of all new housing units. This runs counter to trends in most other cities, where single-family and other forms were roughly in parity. Also counter to trends in much of the country after the 2008 financial crisis, Salina’s single-family production remained relatively strong at the beginning of the decade. It has tailed off since 2016, possibly because rising costs for detached housing are affordable to a smaller slice of the potential market. Multi-family development has focused on the occasional large project, rather than proceeding at a steady annual rate.

FIGURE 11: Residential Building Permits by Unit



Source: City of Salina

HOUSING DEMAND PROGRAM

Figure 12 uses the population and household projections and affordability analysis to develop an updated demand projection for the next ten years in Salina. Basic assumptions used to calculate demand include:

A slightly increasing vacancy rate

- ACS indicates a current 5.2% vacancy rate when excluding the “other vacancy” rate and vacation homes. This rate should increase slightly over time to reach a 6% rate. This is especially true as an influx of rental options need to come online with industrial job growth.
- A 6% vacancy rate is a reasonable target in a healthy market.

Replacement rate of 15 units/year

- Replacement is generated by demolition and conversion of housing to other uses.
- Average annual residential demolition permits since 2010 at 16 units.
- Forecast model assumes annual replacement need of 15 units.

Owner/Renter tenure split

- From 2022-2025, immediate demand is likely to be for quality rentals. This is especially true given the shortage of contemporary rentals
- During the following five years, demand may level out somewhat and people, becoming vested in the city, are likely to increase demand for ownership housing.
- Given this reasoning, the program includes a 50/50 split through 2025 and a more typical 60/40 owner/renter split between 2026 and 2030.

The calculation indicates a potential need for over 2,300 new housing units through 2030, assuming projected growth in employment occurs. It is important to note that this is not a prediction, but a projection of potential if the market responds and Salina competes successfully in attracting new households in response to announced and anticipated job growth.

FIGURE 12: Salina Housing Projections, 2022 - 2030

	2022 - 2025	2026 - 2030	Total: 2022 - 2030
Population at End of Period	49,875	51,135	
Base Household Population at End of Period	48,375	49,597	
Population Growth from New Jobs	1,826	783	
Total Household Population with Job Growth	50,201	52,205	
Average Household Size	2.35	2.35	
Household Demand at End of Period	21,362	22,215	
Projected Vacancy Rate	5.4%	5.7%	
Unit Needs at End of Period	22,593	23,557	
Total Replacement Need	60	75	135
Cumulative Need During Period	1,357	1,039	2,396
Average Annual Construction	339	208	240

Source: RDG Planning & Design

2021-2022 Report Comparison

- Total housing demand has increased significantly year-to-year, largely attributed to increases in employment growth currently and in the coming years. Forecasted housing need was 1,664 in the 2021 study versus 2,396 in the 2022 study.
- The forecasted need between owner and renter units remains distributed the same, at 50%/50% from 2022-2025 and 60% owner/40% renter units from 2026-2030.
- The model updated in 2022 allocates a higher percentage of new jobs to be absorbed between 2026 and 2030 to account for existing openings that need to be filled and employer capacity/time needed to onboard new employees and build facility capacity.

DEMAND BY PRICE POINT

Figure 13 distributes the forecasted demand by price point, based on the 2020 distribution of household incomes in Salina. This assumes that the lower income ranges of the income distribution will be served by existing housing, a more realistic assumption given development costs. The majority of new demand for owner-occupied units will be in the \$225,000 to \$400,000 range in 2020 dollars, and in rents around \$1,000 per month.

Note that in 2022, the price ranges likely need to be slightly higher because of inflation and on-going high construction cost rates. For example, the <\$225,000 category may be close to approaching <\$250,000. In addition, increases in mortgage rates in 2022 can add several hundreds of dollars to monthly ownership costs, which will drive households to rent longer or choose renting over owning when first moving to Salina. These types of households can likely afford higher rents when the ownership market is that much more out of reach.

FIGURE 13: Development Program, 2022-2030 (Including demand from existing and future job openings)

	2022 - 2025	2026-2030	Total
Total Need	1,357	1,039	2,396
Total Owner Occupied	678	624	1,302
<\$225,000	418	384	802
\$225-\$300,000	97	89	186
\$300-\$400,000	112	103	214
Over \$400,000	52	47	99
Total Renter Occupied	678	416	1,094
Less Than \$625	189	116	305
\$625-\$1,000	229	140	369
\$1,000-\$1,500	169	103	272
Over \$1,500	92	56	149

Source: RDG Planning & Design

Note: Affordability ranges are also influenced by interest rates – people can afford more expensive homes when interest rates are low. Increases in residential interest rates may reduce the stock of affordable workforce housing and create an even greater demand for quality rental units.

2021-2022 Report Comparison

- The percent allocation for each housing type remains the same because there still remains a need for a variety of housing types to meet households' preferences and ability to afford housing.

DEMAND BY HOUSING TYPE

The analysis illustrated in Figure 14 has important implications for the types of housing products built in the Salina market. Most of the city's housing production to date has been conventional single-family detached homes on relatively large lots, typically 8,000 square feet and more, and multi-family development in either new construction or adaptive reuse in projects like Lee Hardware Lofts and Pioneer Presidents Place (2006). Nationally, a significant amount of attention has been given to the "missing middle" – moderate and medium density housing forms that are more efficient and affordable to family households entering the ownership market. These products include single-family attached, duplexes (including owner-occupied duplexes where a household rents out the attached unit), townhouses and rowhouses, and small footprint studio apartments. These products are scarce in the Salina market, and builders are not familiar with developing and marketing them.

Figure 14 distributes the forecasted 2030 housing demand by price point over different housing forms, assuming that single-family detached homes will continue to dominate higher-end markets, but other solutions like attached units will be needed to deliver family-friendly, affordable products.

FIGURE 14: Target New Construction Housing Distribution by Price Point

	Total Demand	Conventional 1-Family	Small Lot 1-Family, 1-Family Attached, Duplex	Duplex, Low-Density Townhomes and Rowhouses	High-Density Townhomes and Multifamily/Studios
Typical Density (units/acre)		<4	4-8	8-12	>12
OWNERSHIP					
<\$225,000	775	0 (0%)	321 (40%)	321 (40%)	160 (20%)
\$225,000-\$300,000	180	37 (20%)	74 (40%)	56 (30%)	19 (10%)
\$300,000-\$400,000	207	129 (60%)	32 (15%)	32 (15%)	21 (10%)
>\$400,000	95	69 (70%)	10 (10%)	10 (10%)	10 (10%)
RENTAL					
<\$625	307	0 (0%)	61 (20%)	92 (30%)	153 (50%)
\$625-\$1,000	371	0 (0%)	74 (20%)	111 (30%)	184 (50%)
\$1,000-\$1,500	273	0 (0%)	82 (30%)	95 (35%)	95 (35%)
>\$1,500	149	0 (0%)	52 (35%)	52 (35%)	45 (30%)
TOTAL BY TYPE	2,396	235	706	768	687

Cells with 0% indicate that a housing type is not feasible and/or desirable at that price point. For example, it would be very difficult in the 2022 market to construct and sell a conventional 1-Family home for under \$225,000.

Source: RDG Planning & Design

FIGURE 15: Alternative Housing Forms



Small lot single-family



Townhouses



Owner-occupied duplexes



Rowhouses



Single-family attached



Small footprint apartments

SENIOR HOUSING DEMAND

This section examines senior population characteristics and trends in the city to quantify demand for senior housing. These households are the primary market for targeted new residential products that are **maintenance-provided ownership settings, senior independent living, and assisted living**. Findings include:

- 21% of the Salina’s population is 55 and over.
- From 2010 to 2020, Salina’s population 55 and over group grew by 14.4%. A large part of this growth is from the 70-74 age group, which grew by 30% due to the natural aging of the large baby boomer age group.
- Some senior age groups experienced migration into the city, while others did not.
- Figure 17 projects the population of each senior age group, based on recent migration rates and current population distribution. Potential new demand for alternative senior housing settings in 2025 is conservatively about 71 units. This represents 0.8% of the potential senior households.
- Note, the demand for 71 units will include a need across different price points. Not all seniors have an income that can support a move to a new living complex.

FIGURE 16: Salina Senior Population Change, 2010 - 2020

5-Year Age Groups (55+)	2010	2020	Percent Change
55 - 64	5,501	6,267	13.9%
65 - 69	1,817	2,122	16.8%
70 - 74	1,543	2,008	30.1%
75 - 79	1,243	1,336	7.5%
80 - 84	1,126	1,220	8.3%
85 and Over	1,103	1,158	5.0%
Total 55 and Over	12,333	14,111	14.4%
Total 65 and Over	6,832	7,844	14.8%

Source: U.S. Census Bureau; American Community Survey 5-year Estimates; *American Community Survey Estimate, 2020 Census age cohorts not available at the time of this update

FIGURE 17: Projected Senior Population and Housing Demands for 2025, City of Salina

	2025 Population Projection	Estimated Household Size	Total Households	Demand for Alternative Senior Housing Settings (0.5% - 1% of Total)
55 - 64	5,352	2	2,676	27
65 - 74	4,682	1.75	2,676	27
75 and Over	4,329	1.25	3,463	17
Total 55 and Over	14,363	--	8,815	71

Source: RDG Planning & Design

Analysis of market conditions and housing economics since the 2021 Supplement report still show significant challenges to make a housing project “work.” We note that inflation as of the first quarter of 2022 is higher than in 2021, and this inflation should be considered for financing packages in the near term. The longevity of elevated inflation and potential near-term recession possibilities are uncertain (as of the summer of 2022).

2021-2022 Report Comparison

- The loan rate was increased from 4.5% in the 2021 model to 6.0% in this model to reflect rising rates.
- The property tax rate was updated to the current recent rate.

AN EXERCISE IN DEVELOPMENT ECONOMICS

The 2021 Study Supplement helped answer several questions regarding appropriate public assistance toward housing projects, based on the following conclusions.

- » **Salina has a very low vacancy rate, especially in good quality, multifamily housing.** Many properties have no vacancies, and new residents have few options in the city.
- » **Existing rents in Salina are at relatively modest levels.**
- » **Rental development has been very limited during the last ten years.** The only two major projects during the decade were The Heritage in 2011 and Lee Hardware Lofts in 2020. However, these are developments with income qualification requirements. A significant amount of the multifamily inventory is limited to older adults.
- » **Very little “missing middle” housing forms have been developed in Salina.** Most new development has been conventional lot single-family detached homes and a relatively small number of rental units.
- » **Typical apartment density is about 13 to 14 units per acre, with the exception of downtown area adaptive reuse projects.**

The Economics of New Rentals: A Hypothetical Case

A financial analysis built around a hypothetical 50 unit apartment project in Salina can help test the need for and effectiveness of development incentives. Figure 18 below presents the basic parameters of this study, built around typical project character in the city. **This conservative hypothetical project is a basic development without considering significant site features and amenities like covered parking, public spaces, and pools.**

FIGURE 18: Key Variables for Hypothetical Project

Variable	Units	Assumptions
Dwelling Units	50 units	
Site Area (Acres)	3.85 acres	13 units/acre
Site Area (SF)	167,500 SF	
Gross Residential Area (SF)	52,941 SF	85% efficiency
Net Residential Area (SF)	45,000 SF	
Average Unit Size	900 SF	
On-Site Parking	88 stalls	1.75 stalls/unit

Source: RDG Planning & Design

As an example, \$1.98 per square foot translates to a monthly market-rate rent of:

- Studio (450 SF) - \$889
- One-bed (700 SF) - \$1,383
- One/Two bed (900 SF) - \$1,778
- Two bed+ (1,200 SF) - \$2,371



Figure 19 below summarizes development costs for this hypothetical project, again based on local land and construction cost.

Figure 20 lists typical financing assumptions for a project of this scale.

Then Figure 21 on the next page displays a simplified proforma and concludes with the amount of rent necessary per square foot to “make the numbers work” on this hypothetical development. The calculation indicates that a project developed along these relatively typical lines requires about \$1.98/SF/month.

- The rent assumption is based on all private funding and average unit sizes. Market rate studios tend to rent more per square foot than 1-2 bedroom units. The rents on the left include other fees that residents could be charged, such as parking. However, the rent per square foot does not factor any public assistance that may be granted to the project - discussed more on the following pages.

FIGURE 19: Hypothetical Development Cost - Scenario: 50 Unit Multifamily Structure at an Average 900 SF Per Unit

Component	Cost (rounded)	Assumptions
Land Cost	\$670,000	\$4/SF for improved land
Building Construction	\$7,941,000	\$150/SF
Parking	\$153,000	\$5/SF, 350 SF per stall
Other Site Development Cost	\$335,000	\$2/SF
Contingency	\$455,000	5%
Hard Cost	\$9,554,500	
Soft Cost	\$2,388,600	25% of hard cost
Total Development Cost	\$11,943,000	

FIGURE 20: Hypothetical Sources of Funds Scenario: 50 Unit Multifamily Structure at an Average 900 SF Per Unit

Component	Assumption	Notes
Equity	30%	\$3,583,000
Debt	70%	\$8,360,200
Mortgage Loan Rate	6.0%	
Permanent Loan Term	25 years	
Permanent Loan Take-Out Year	Year 2	
Expected Cash on Cash Return	5%	Note: 5% annual cash on equity may seem like a low rate of return. It is important to remember though that many equity investors realize their return from tax advantages rather than annual cash return. In Low Income Housing Tax Credit (LIHTC) projects, an investor may receive a tax credit up to 9% annually (a direct reduction of income tax liability) for ten years plus the residual value of their capital investment and depreciation.

Source: RDG Planning & Design

2021-2022 Report Comparison

- Because of rising interest rates, the typical rent in this scenario rose from \$1,645 to \$1,778 from 2021 to 2022.

Filling the Gap

A variety of financial tools and incentives are available to reduce this financing gap. Since this hypothetical project is designed as a market rate development, the Low Income Housing Tax Credit is not included in this analysis. The techniques evaluated include:

- Tax Incentives, including Rural Housing Incentive Districts and tax abatements through Industrial Revenue Bonds (IRB's) or the Neighborhood Revitalization Program. RHIDs are a tax increment device, allocating added taxes created by the project to financing eligible project-related improvements. IRB's offer sales tax exemptions and a ten year abatement of property taxes.
- Interest rate subsidy.
- Land contributed without cost to a project.
- Increasing the density yield on the site to achieve higher revenues. In this example, an increase in density from 13 to 20 units/acre would increase the density yield from 50 to 77 units and reduce the rent rate per square foot by \$0.29.
- Deferral of annual cash on equity return. If the project is sold to limited partners (equity investors) who are in the project for tax benefits and residual value at the end of a given period rather than annual cash return, the required yield drops substantially
- Grant through the State of Kansas Moderate Income Housing program, with a maximum grant of \$400,000.
- Lengthening the loan term from 25 to 30 years.
- Waiving building permit fees (3%).
- Up front cash subsidy to total development costs.

Figure 22 displays the impact of each of these incentives or variations have on the base \$1.98/SF rent requirement.

This calculation shows that the most effective strategies are tax related tools such as IRBs/RHIDs or tax abatements; deferral or elimination of annual cash on equity payments that are at least partially a tax driven policy as well; and promoting higher density development on a given site to increase revenues and reduce marginal cost per unit.

FIGURE 21: Simplified Typical Year Proforma - Without Incentives Scenario: 50 Unit Multifamily Structure at an Average 900 SF Per Unit		
FIXED COST ITEM	Cost (rounded)	Assumptions
Annual Debt Service	\$646,400	6.0%, 25 year amortization
Annual Operation and Maintenance	\$132,400	\$2.50/SF annualized
Property Taxes	\$109,200	1.27% Saline County rate
Annual Cash on Equity Return	\$179,100	5%
Total Annual Fixed Cost	\$1,067,000	
REQUIRED REVENUE YIELD		
Leasable Area (SF)	45,000	
Necessary Annual Revenue/SF	\$23.71	
Necessary Monthly Revenue/SF	\$1.98	
Rent for Typical 900 SF Unit	\$1,778	
Source: RDG Planning & Design		

FIGURE 22: Impact of Selected Tools to Reduce Rental Gap (some of the tools can be used simultaneously)	
STRATEGY	Savings on Monthly Rent per SF/month
Tax Abatement or IRB/RHID Increment	\$0.21
Interest Subsidy by 2%	\$0.25
Free Land	\$0.13
Increase in Density to 20 du/A on Full Site	\$0.29
Increase in Density Reducing Site Size	\$0.07
Deferral of Annual Cash Return	\$0.34
Maximum Moderate Income Housing Grant	\$0.06
Increase in Loan Term to 30 years	\$0.09
Waiving Developer Fees (3%)	\$0.04
Up Front Cash Assistance of \$1 million	\$0.13

What Influence Can Salina Have?

As Figure 22 illustrates, there are several tools that the City can pursue to help lessen the financial cost of development, and ultimately the price paid by renters or owners. However, as Figure 23 illustrates, there are limits to how much Salina can influence housing prices.

Figure 23 applies the savings to the hypothetical development project in Figures 18-21, where the needed market rent for a 900 square foot apartment is \$1,778. Note, the savings application assumes the developer applies 100% of the assistance toward rental price reductions.

- » **These savings are on a basic 50 unit apartment, without additional features like covered parking, public spaces, and pools.**
- » **While some of these strategies can be combined for one project, the options to combine tools requires the involvement of banks, property owners, and developers themselves.** Also, the level of savings per tool is the best case scenario given perfect efficiency in application and filtering of the incentive to the end renter.
- » **For a typical scenario where the City offers RHID/IRB incentives, the savings on rent is limited to \$189 a month.** If the project is awarded the maximum State MIH Grant, the savings on monthly rent rises to \$243 a month in this scenario.

FIGURE 23: Savings tools applied to final rent price for this project example (some of the tools can be used simultaneously)

STRATEGY	Savings on Monthly Rent per SF/month	Reduced Market Rent for Scenario 900 SF Unit	Savings for Renter per Month
Tax Abatement or IRB/RHID Increment	\$0.21	\$1,589	\$189
Interest Subsidy to 2%	\$0.25	\$1,553	\$225
Free Land	\$0.13	\$1,661	\$117
Increase in Density to 20 du/A on Full Site	\$0.29	\$1,517	\$261
Increase in Density Reducing Site Size	\$0.07	\$1,715	\$63
Deferral of Annual Cash Return	\$0.34	\$1,472	\$306
Maximum Moderate Income Housing (MIH) Grant	\$0.06	\$1,724	\$54
Increase in Loan Term to 30 years	\$0.09	\$1,697	\$81
Waiving Building Permit Fees (3%)	\$0.04	\$1,742	\$36
Up Front Cash Assistance of \$1 million	\$0.13 per \$1 million cash	\$1,661	\$117