

Rental builder plans big '03

But then it'll halt low-end units; wage law cited

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Greater Sacramento's top builder of affordable apartments is carrying out a \$200 million construction spree because its partners believe that in 14 months, the opportunity to build such housing here will mostly end.

St. Anton Partners LLC of Sacramento, run by Steve Eggert and Peter Geremia, is starting or completing 992 local apartments this year and starting 800 more next year, for a total of almost 1,800 units.

But they say they'll build no more affordable housing after that because Senate Bill 975, signed by Gov. Davis in October 2001, requires subsidized private developments to pay prevailing wages to their construction workers. Other builders say they'll stay in the game but will require bigger subsidies.

The new law will raise construction costs for the affordable projects by up to 30 percent, the builders say, canceling the cost-cutting advantage that the public financing otherwise offers. In return for public help, the builders currently agree to reserve some of the apartments, usually 20 percent or more, for lower-income renters.

The hike adds about 16 percent to the overall costs of a development, and Eggert said rents can't be raised to cover the cost.

The new law began taking effect in January 2002. The impact escalates sharply in January 2004 when SB 975 extends to cover projects financed by tax-exempt government bonds and federal tax credits. That's the kind of financing St. Anton and other major builders use.

"This thing is an absolute disaster," said Geoff Brown, president of U.S.A. Properties Fund Inc., another big builder of affordable apartments. "It's the biggest threat to the affordable housing industry out there."

Nonsense, say labor unions, the

main proponents of the prevailing-wage law, which usually raises wages to something close to what union members get.

"The cost of labor for construction is not that great," said Mike Dugan, a spokesman for the State Building & Construction Trades Council of California, "and there will not be less affordable housing built."

St. Anton goes for it: St. Anton is a 7-year old partnership between lawyer Eggert and Geremia, a member of the well-known local family that builds swimming pools. The two have become among the most active apartment builders in the region.

This year they are going for their own record, starting or completing 922 Greater Sacramento apartments in five complexes at a cost of about \$101.4 million or \$110,000 per front door, Eggert said. They're building another 200 apartments in Fairfield.

Last year, they built 400 apartments, their previous record.

"The law on prevailing wage affects us in 2004," Eggert said. "We don't anticipate doing any more affordable housing when that happens. After that, we'll build only conventional, higher-end product and relax our pace a bit."

St. Anton will build only market-rate units, renting at whatever the market can bear. He estimates they will build about 500 such apartments in 2004, tailored for the well-heeled renter.

As he sees it, he has good reason to leave the field. Builders say that paying the prevailing wage would hike construction costs as high as 20 percent on new construction and up to 30 percent on rehabilitations, crushing the feasibility of such ventures.

The union's view: "We have worked with affordable housing

developers on this from the beginning," the union's Dugan said. "The only crimp it will put in affordable housing production is those developers that won't want to do it because it affects their profit margin."

The developers committed to building affordable homes realize that the idea is to supply housing for people who have trouble affording it. These developers understand that the point of the law is to raise substandard wages. An electrician, for instance, may make \$28 an hour on a prevailing-wage job, he said, but only \$6 of \$7 otherwise.

He said the law will not only allow more laborers to enter the middle class, it will give them medical and pension coverage they would not otherwise have.

He also predicted that the number of affordable apartments built will not be knocked down by SB 975, and that the law won't increase costs by more than 5 percent.

What the law says: Under previous state law, the contractor hired to build any public works project had to pay the prevailing wage received by union workers. But the law did not apply to private projects that use public subsidies.

SB 975 — sponsored by state Sen. Richard Alarcon, a San Fernando Valley Democrat — changed the existing law to include those private projects that get public money.

This year, some cleanup legislation exempted houses built or rehabilitated by the occupants, said Joel Jaspin, associate regional director of Mercy Housing California, a builder of affordable housing.

Also, the bill probably won't hurt large, high-rise private projects, such as downtown hotels, if they are subsidized. The building trades required for such complex construction are typically already

St. Anton's local projects for 2002

- ✓ Natomas Park Apartments, 212 units, in North Natomas on Club Center Drive. Under construction.
- ✓ Churchill Downs Apartments, 204 units, in Elk Grove on Waterman Road. Under construction.
- ✓ Savannah at Southport, 228 units, on Southport Parkway. Construction starts in December.
- ✓ Arlington Creek Apartments, 148 units, in Antelope on Walerga Road. Recently finished.
- ✓ Crocker Oaks Apartments, 130 units, in Roseville on Woodcreek Oaks. Finished this month.

unionized.

But the affordable apartment project, usually tenuous anyway, could be doomed. The bill has already taken its toll, said Dana Phillips, general counsel for the Sacramento Housing and Redevelopment Agency. As of Jan. 1, a project was affected if it were funded by:

1. Tax increments, or the increase in property taxes that occurs in a redevelopment area after the area is formed.
2. Housing trust fund money, or the housing fees collected from new commercial development.
3. Housing and Urban Development Department funding.

In 2004, tax-exempt bonds and tax-credit projects will join the list.

The tax credits are federal income tax credits. They are allocated by the state Debt Limit Allocation Committee to projects that compete for them. The winners can sell the credits to raise equity for developments. In return, some of the apartments built by this kind of financing are to be rented to lower income tenants.

Tax-exempt bonds, also Internal Revenue Service financing vehicles, allow local agencies to issue bonds for the permanent financing of affordable housing projects. The interest on the bonds is federally tax exempt, which means bond buyers will accept a lower interest rate. That's a big savings for the developer that borrows the bond proceeds.

"The bonds are the workhorse in terms of getting affordable housing developed," said Beverly Fretz-Brown, director of housing



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development for the Sacramento Housing and Redevelopment Agency.

Meanwhile, housing is scarce:

Greater Sacramento is experiencing a severe housing shortage. This year Sacramento County's Housing Continuum Task Force released a study showing that between 1995 and 2001, Sacramento, El Dorado and Placer counties collectively were 31 percent behind in providing jobs for their growing work force.

That works out to a shortage of 43,000 houses and apartments. The result is that rents and sales prices are rising to record heights, denying local housing to increasing numbers of the lower-wage employed.

Bigger subsidies, fewer units:

Some affordable apartment builders will try to stick it out. Brown of U.S.A. Properties is building more apartments than usual, but not because SB 975 is looming. And he said wants to keep building affordable apartments after January 2004.

But he is not likely to build at the current level of nearly 1,000 units a year, split about evenly between Northern and Southern California.

"I'd like to think we'll still be in business if the law takes effect," he said. "But we'll have to look harder for projects that make sense, and we'll need a lot more subsidy."

Also hoping to stay in the game is the apartment arm of Mercy Housing California, which built 86 apartments last year and plans 180 or more next year, said Chris Gladel, Mercy's director of housing development.

"We'll continue to build," he said. "It will be more expensive and take longer to pull together the financing."

Rents for the pricier units will

probably rise. "It does not help those most in need," he said.

Mercy will look for public financing with less onerous terms and bankers willing to discount terms.

Overall, observers say it's going to be harder to lure developers into the affordable-housing game. "The cost of the prevailing wages will be paid for by local subsidies," said Phillips of the Sacramento housing agency. "If we now pay 10 percent into a project, it will be 20 percent. For us, it's going to cost a lot more money."

And because subsidy money is limited, fewer units can be subsidized. Moreover, the smaller projects will feel the impact the most because of the increased paperwork and administration costs, he added.

It's also possible that infill, affordable apartment projects will be especially vulnerable to the law, because development in the inner city costs so much more than it does in the suburbs, said Dan Nethercott, project manager for Stockton-based, The Grupe Co.

Grupe, one of the biggest apartment builders in California, is trying to develop an apartment project in midtown Sacramento. The prevailing wage law would add more than 30 percent to the cost of labor and 5 percent to 8 percent to the total cost, he estimated.

But midtown's rents, he said, didn't even cover the higher cost of building that existed before the law kicks in.

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