

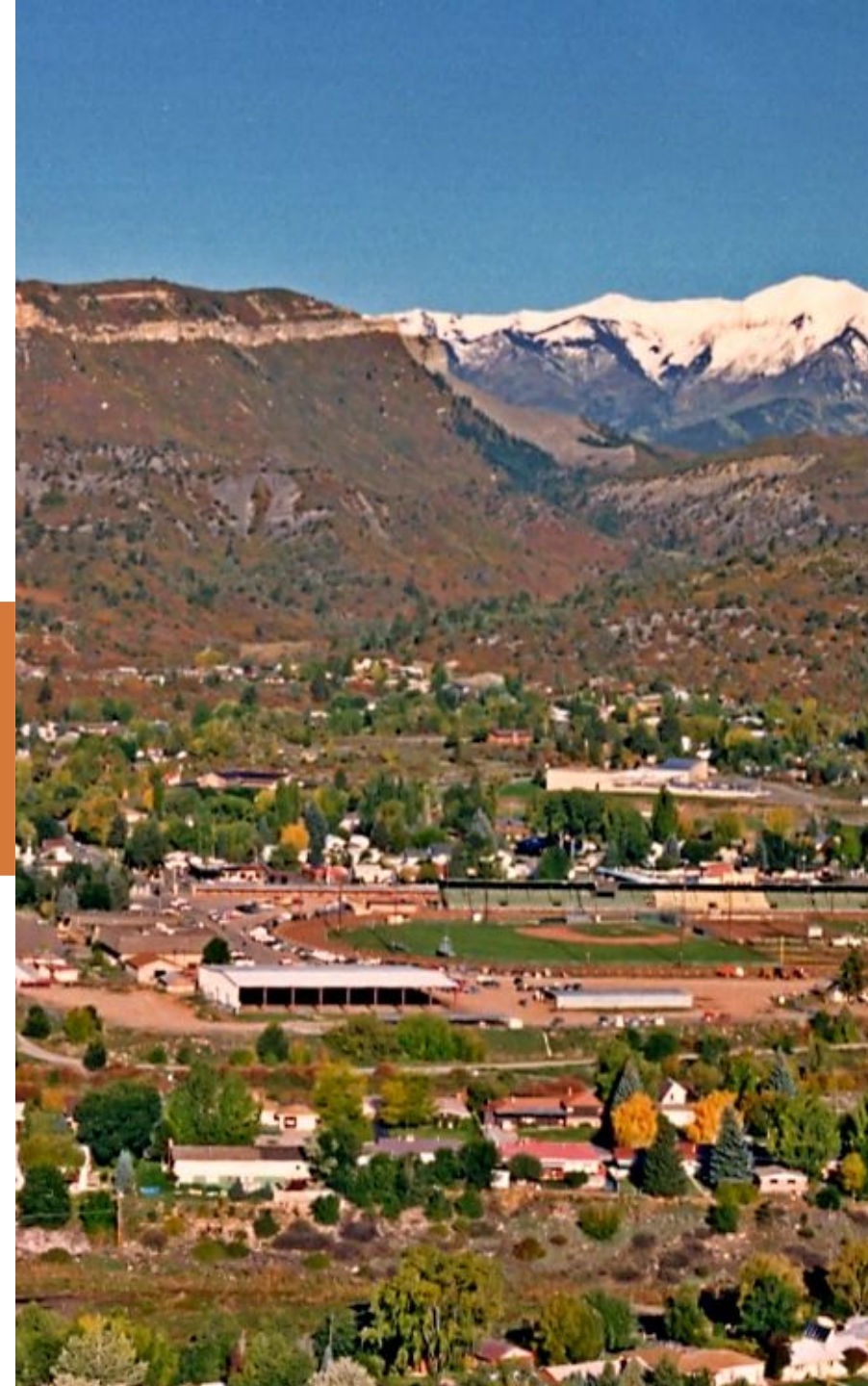


Housing 101

CAPPELLI
CONSULTING

PROJECT  MOXIE

 **HomesFund**
Serving Southwest Colorado





Introductions

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Introductions

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- Lisa Bloomquist



Agenda

1. Housing Market
2. Housing Terms & Definitions
3. Housing Toolbox
4. Strategies
5. Economic Alliance Scope of Work
6. Q&A/Discussion



The National Housing Market in 2022

- **Economic outlook:** Incomes are projected to **increase by 3.3%** and with many employers looking to attract and retain talent without impacting costs, we expect workplace flexibility will continue.
- **Financial sector adjustments:** The Federal Reserve is expected to **raise interest rates a few times in 2022**, which means mortgage rates will likely rise. Both Redfin and Realtor.com predict the 30-year-fixed mortgage rate will reach 3.60%.
 - This means that despite high housing demand and insufficient housing supply, investors will be disincentivized from acting in the space (less money to be made from investing in housing, reduce churn).
- **Housing market response:** Zillow predicts **home values will rise by 11%** in 2022 — not as much growth as in 2021, but still substantial.

Takeaway: Housing affordability will remain a key issue as the nation's rental housing market tries to stabilize from lingering pandemic and housing stock issues. Supply chain delays and continued inflation will also impact every facet of the industry, from property managers to renters to owners.

The Local Housing Market in 2022

Housing Supply Challenges

- **Diminishing Supply:** In November 2021, 48% fewer residential units were available for sale compared to November 2020.
- **Lightning Absorption:** Durango has a total of six available single-family homes with 19 pending sales. In the Durango area, there are currently **62 properties for sale... with 62 pending sales.**
- **Resort Pressure:** "...even tighter inventory levels, with just three active properties, all priced over \$1 million. Condo/townhome inventory fell by >72% compared to 2021. This lack of available units reduced sale rates. Average sale price was just under \$550,000."



Economic Impacts

Employers are struggling to fill positions in virtually every sector. The Durango Herald ran an article this week stating that the city is operating at just 50% capacity for its snowplow drivers. The school district is holding job fairs to fill admin and substitute teacher positions. The City of Durango has more than 50 unfilled positions.

Housing Cost Challenges

The average **sales price** for November exceeded \$1 million for the first time ever. **The median home price for November was \$740,000**, also an all-time high, up 25% from 2020.

Takeaway: We need bold, new, courageous strategies to address the significant need in our community, and we need to start building now.

Discussion Questions

1. What does “housing affordability” mean to you?
Affordable to *whom*?
2. What would an equitable housing market in La Plata County look like?
3. What are the negative consequences of not having housing options?

What's causing demand issues?


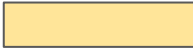


In short, **we have not kept up with market demand for years.**

Present day contributing factors include:

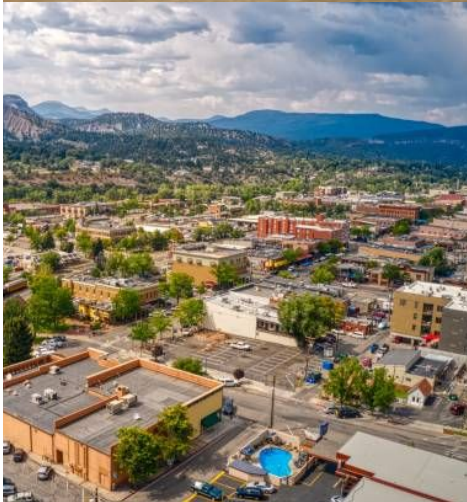
1. **COVID impacts** — we had an increase in demand as people “fled” urban areas to work remotely from here. We have less than 2 weeks of inventory. A balanced market is 6 months of inventory.
2. **Supply chain issues** — we can't get the materials to build, or the prices are inflated.
3. **Land inventory** — we don't have enough land with infrastructure at scale ready to go.
4. **Labor issues** — we don't have enough labor to build.
5. **Market mismatch** — The market builds to the market: if the demand is for high-end homes, that is what we get.
6. **Wages** — wage growth has significantly lagged behind rent and home price increases year over year.



La Plata County Housing Needs: ‘21-’24

<u>Type of Units Needed</u>	<u>Number of Units Needed</u>
Surge Seasonal Beds/Units	45 
Low-income rentals (rent of \$625 a month or less)	118 
Workforce rentals (\$625-\$1750 a month)	232 
Ownership units (\$380,000- \$525,000)	473 

Source: Root Policy Housing Needs Assessment, 2021



Housing Terms & Definitions

In La Plata, there is a distinction between “affordable housing” and “housing affordability.” Households are being impacted at both ends of the spectrum.

1. **General housing affordability:** There are so few housing units available that it is impacting households that earn over \$130,000 a year.
2. **Traditional affordable housing:** The lowest income households are quickly running out of options and many are facing homelessness.

Takeaway: We need to increase inventory across the continuum as quickly as we can.

What is “affordable housing”?

Affordable housing means paying **no more than 30% of gross income** for rent/mortgage + utilities





Regulated affordable housing — what we commonly refer to as “affordable housing” are homes that have **income restrictions**. When the public sector invests in a housing unit, a **restrictive covenant** or **land use restriction agreement** is recorded. These limit the cost of the unit and who is eligible to rent or buy the home.

Naturally occurring affordable housing (NOAH) — this is market-rate housing that *happens* to be leased or sold affordably.



What is traditionally considered “affordable housing?”

Area Median Income (AMI) = **\$61,400**
(one person)

				
x 30%	\$18,420	\$21,060	\$23,700	\$26,310
x 50%	\$30,700	\$35,100	\$39,500	\$43,850
x 60%	\$36,840	\$42,120	\$47,400	\$52,620
x 80%	\$49,120	\$56,160	\$63,200	\$70,160
x 100%	\$61,400	\$70,200	\$79,00	\$87,700

A single parent working 40 hours/week at minimum wage

Two parents each working full time at minimum wage

Why 30%?

A family's housing is defined as "affordable" if they pay less than 30% of their income for housing...



Housing



...but even with "affordable" housing, a typical household has little left over to invest in the future.



Clothing, toiletries,
spending money, **savings**

Health insurance
phone, internet

Childcare

Groceries

Transportation

Income tax

Housing

Across the State,
\$2B of revenue is
lost annually in
housing costs above
30% of CO
resident's income
(*Shift Research
Labs*)

 = 1% of income

More terms and definitions

Share your thoughts on the definition of each term...

1. “Workforce Housing”

Used often at the local level to define the need of the low-moderate income workforce. This includes those in the service, recreation, and often civil service sectors.

2. “Middle Income Housing”

Used to indicate affordability for white collar households.

3. “Community Housing”

Used to indicate affordability for low to moderate income households with an emphasis on local residents.

4. “Attainable Housing”

Used interchangeably with the categories to the left and above depending on context. Usually not used to refer to very low income housing.

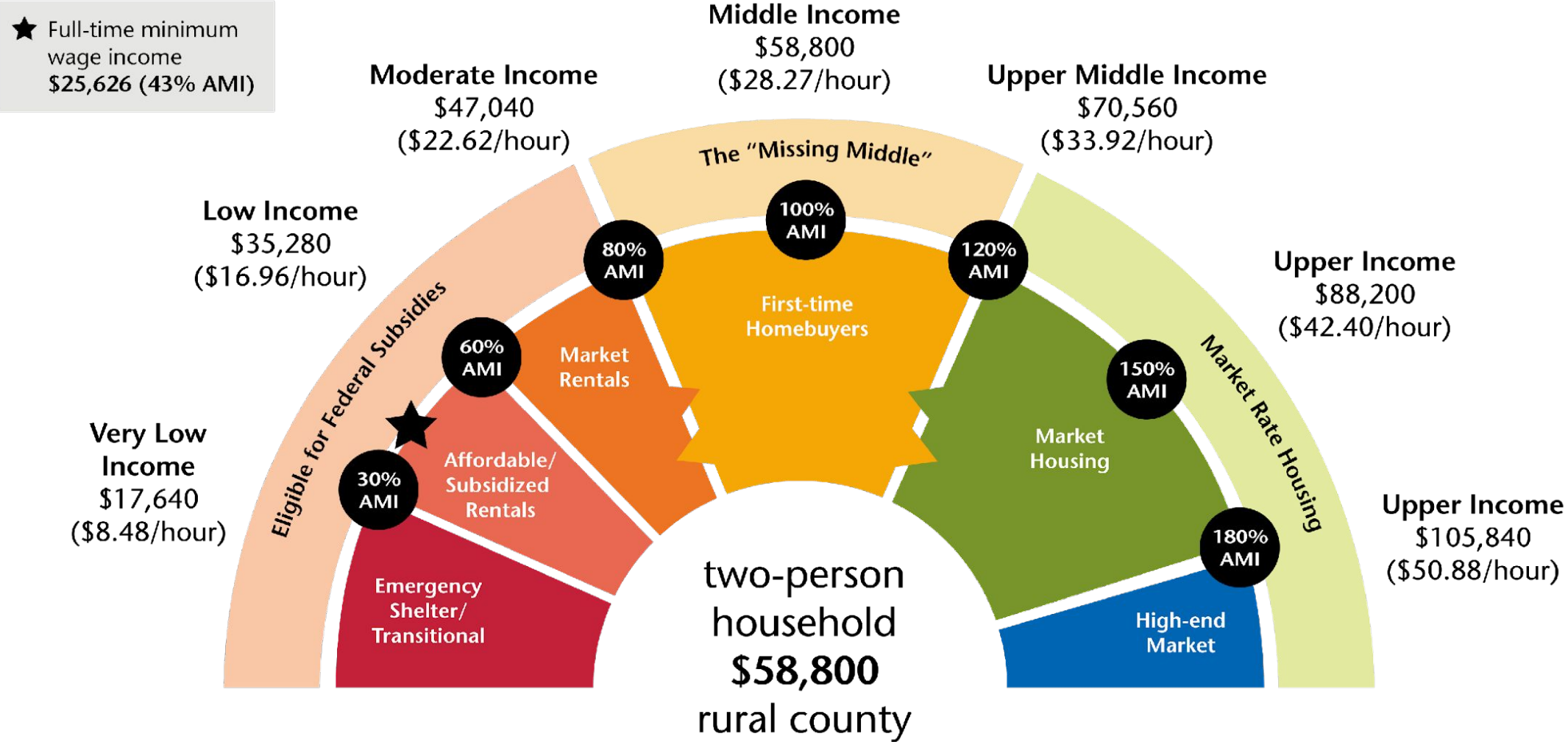
Below-Market Housing

Housing at affordability levels that the market currently does not provide on its own.

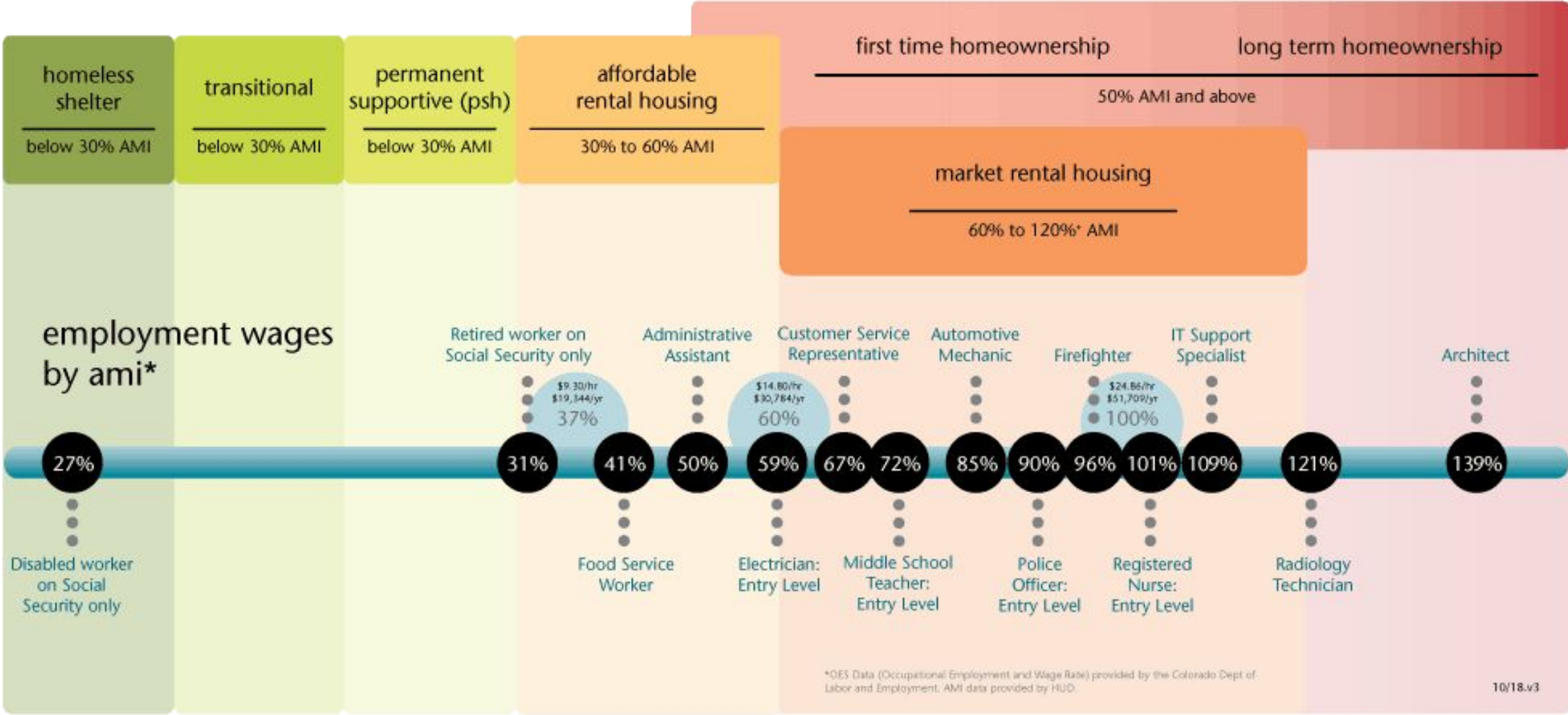
We prefer this term because it eliminates the ambiguity or preconceived notions sometimes elicited by the categories to the left.

Example: many very low income households work, some moderate income households don’t work, and none of the categories to the right explicitly name seniors adults.

Below Market Housing By Income



Below Market Housing By Tenure & Type



Strategies & Tools

Below market housing tends to be developed through one of two of the following strategies:

Note: these strategies can be (and often are) combined.

Development Subsidy

Reduce the costs of developing new below-market housing so people earning a certain income level can afford it.

Put another way, it allows the developer to be able to afford to offer below market rent or mortgage without going bankrupt.

In essence, it brings housing costs down to match local incomes.

Household Subsidy

Reduce a person's housing costs through rent assistance (such as Section 8 Vouchers) or mortgage assistance.

In either case, a payment is provided to the household to cover the difference between what they can afford (<30% of income) and what their housing costs.

In essence, it adds to household incomes to match housing costs

Example of Funding Gaps Implicit in Below Market Housing Construction

Sample Development A (based on a real world example)
 Multifamily; 45 units ; 2 bedrooms ; 1000 sqft

What it cost to build	Who its trying to serve	30% AMI	60% AMI
<div> <div>\$8.8M</div> <div>Total Development Cost</div> <div> <div>\$200K</div> <div>Soft Cost: Design, Permit, Fees</div> <div>\$300K</div> <div>Infrastructure Cost</div> <div>\$300K</div> <div>Land Cost</div> <div>\$8M</div> <div>Construction Cost</div> </div> </div>			
	Monthly Rent	\$375	\$852
	Total Annual Rent (Income)	\$202,000	\$460,000
	Less Operating Costs	(\$150,000)	(\$150,000)
	Net Operating Income (NOI)	\$52,000	\$310,000
	Mortgage Size	\$250,000	\$1.2M
	Capital Gap (Equity Needs)	\$8.5M	\$7.6M

Example of Market-Rate Housing Construction Costs By Comparison

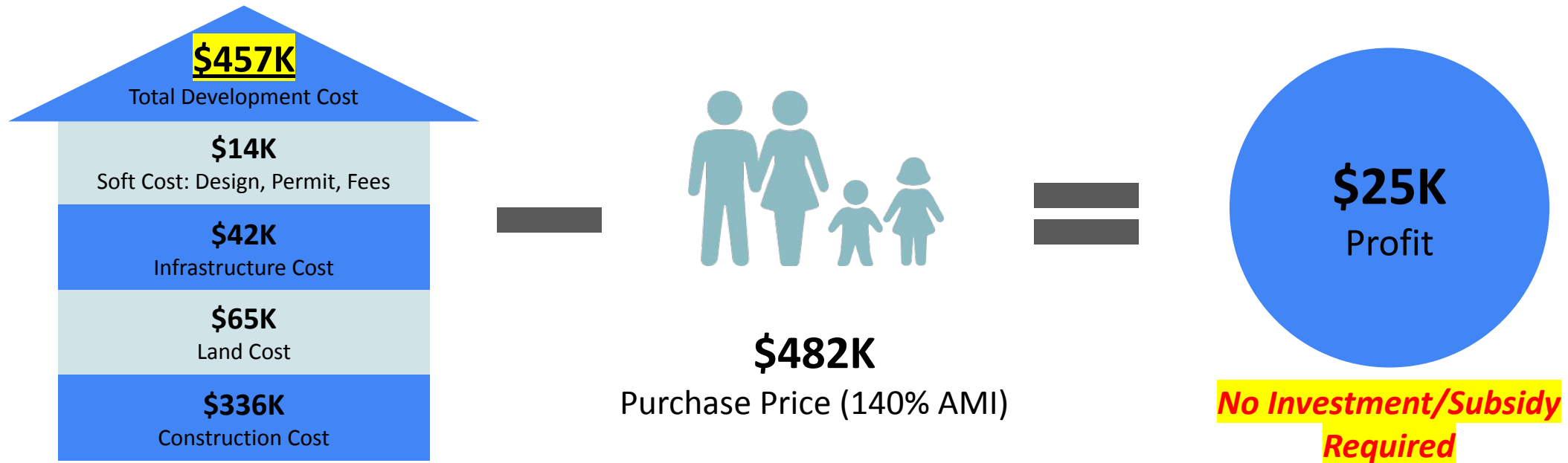
Sample Development B *(based on a real world example)*

Single Family ; 1600 sqft ; Market Rate

What it costs to build

Who we are trying to serve

Community Investment



Data Source: Cappelli Consulting, Williford, Inc. and Housing Colorado, "Living Affordably Colorado"

Multifamily Market Rate & Below Market Development Cost Side-By-Side

These charts show the percent of the total project cost a bank is willing to lend based on its affordability

The higher rents are, the more \$\$ traditional lenders are willing to lend

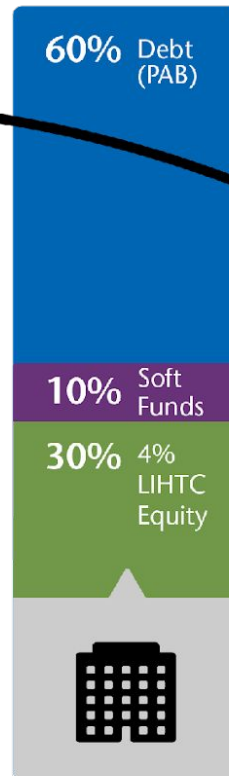
...and the more likely they have cash to cover any gaps

Market Rate Apartment



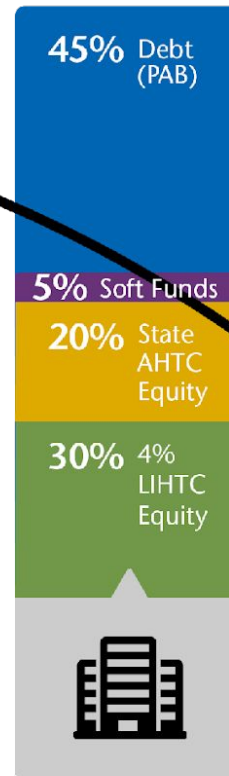
Conventional

Low-Mod Income



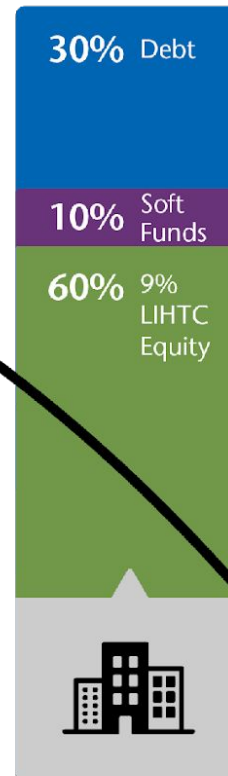
4% LIHTC

Low-Income



4% LIHTC + AHTC

Very Low Income



9% LIHTC

The less in traditional financing received ...

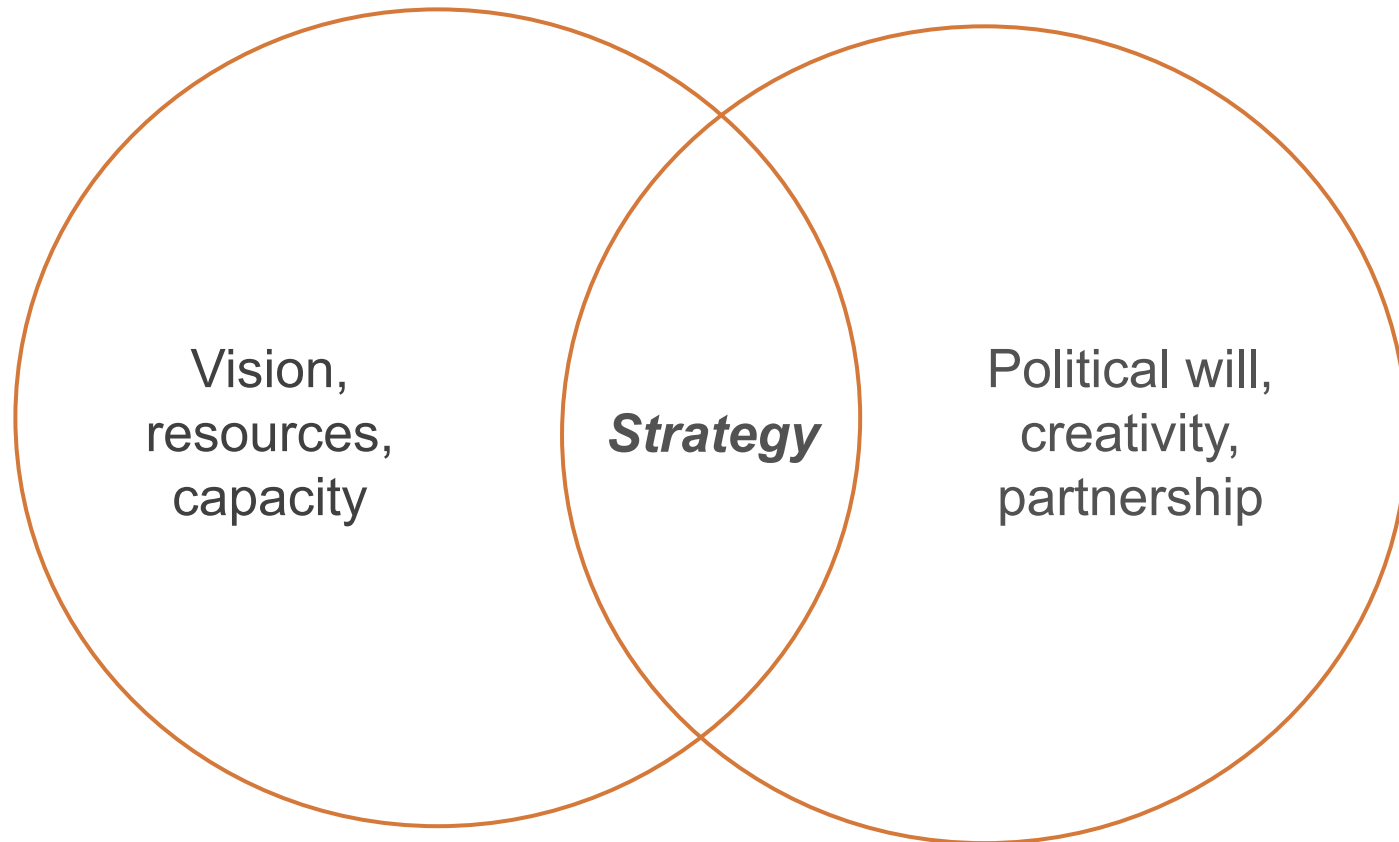
The greater the need for subsidy/alternative financing

rents

- The lower rent... the less money traditional lenders are willing to lend...
- ...But the greater the public/philanthropic subsidy potential

Strategy Development

Housing strategy emerges where a community's vision, resources, and capacity meets political will, creativity and partnership.



Housing Toolbox



Incentives	Partnerships/ Public Initiatives	Development Regulations	Funding
Density bonuses	Providing County or Town land	Inclusionary Housing	Grants: Federal, State, Foundation
Fee waivers	Town or County builds housing	Residential linkage	Proceeds from regulations
Reduced parking	Public provide financing	Commercial linkage	Low Income Housing Tax Credits
Fast track processing	Property tax exemption	Annexation policy	General fund revenues
Reduce min lot/ house size	Habitat for Humanity/ Self help		Favorable loans
Allow affordable housing all/most zones			Tax: Property, Sales/Use, Excise on STR, Marijuana, GO Bond

Housing Strategy 101

Preserve Existing Housing

Preserve existing affordable units through:

- Home or renter rehab,
- Mobile home park preservation
- Preservation of NOAH (Naturally Occurring Affordable Housing)

Promote & Develop New Housing

- Promote and develop new rental housing
- Promote and develop new for-sale housing

Increase Access to Housing Opportunity

- Stabilize and create access to all types of housing through services
- Homebuyer education/renter education/tenant rights workshops/homeless prevention

Preserve existing below market housing

- **River View (mobile home preservation w/ROC USA):**
 - Residents of the 120-unit River View Mobile Home Park formed the Animas View MHP Co-op in early 2021 to organize and secure funding to purchase their mobile home park that went up for sale in late 2020 (14 million and multiple funders)
- **Tamarin square preservation 2020/21:**
 - How it was done: local allocation of Private Activity Bonds, and tax credits and additional development capacity with willing property owner. Rehabbed and extended the affordability period for an additional 20 years.
 - What's Next: Expect requests from Mercy Housing to preserve properties in 2023 and 2024-over 100 units built over 15 years ago.



Promote and develop below market housing

- Identify a development pipeline and help to subsidize land development (capacity plus resources) so that we can create below-market opportunities.
- Increase development capacity through public/private partnerships for vertical development.
- Subsidize development with increased state and federal funding resources as well as use public financing tools to offset development costs.
- Simplify and streamline the planning and entitlement process.
- Create a supportive development environment and create consistency across the region.



Stabilize those who are housed already

- Housing Solutions of the Southwest manages several programs that help navigate housing opportunities for local residents
- This also includes programs to prevent homelessness and to rapidly rehouse those that fall into homelessness.
- Programs that provide emergency assistance, financial literacy classes and help navigate benefits are critical to stabilizing those that are already housed.
- In the last two years we have seen a significant need and increase in tenant protections counseling, education and eviction prevention programs.



Creating pathways to homeownership

HomesFund Provides:

- **Homebuyer Education** – A CHFA certified class that covers budgeting, credit, lending, working with a Realtor, home inspections, etc.
 - In-person classes provided monthly at FLC.
 - Online classes available through www.Homesfund.org.
 - Homebuyer Education is available to all, regardless of income.
- **Housing Counseling** – One-on-one examination of readiness for homeownership.
 - HomesFund has three HUD certified Housing Counselors.
 - Housing Counseling is available to all, regardless of income.
- **Mortgage Assistance** – Financial assistance to fill the gap between low wages and high home prices.
 - Various programs available depending on household income, home location, and homebuyer employment.
 - Employer sponsored programs can be managed by HomesFund.
 - Shared appreciation model – 0% interest, no monthly payments, due along with a proportional share of the home's appreciation when the home is sold or refinanced.
 - Mortgage Assistance programs have income limits.



Creating pathways to homeownership (continued)

HomesFund Provides:

- **Manufactured/Mobile Home Loan Program** – HomesFund provides primary mortgage financing for difficult-to-finance manufactured homes that are either in parks or affixed to land.
- **Administration of local affordable homeownership Programs** - Including the City of Durango Fair Share Program (both the deed restricted units created through the program and the fee-in-lieu funds that are allocated for Mortgage Assistance), and the Town of Bayfield's Fox Farm Community and the Cinnamon Heights Community.
- **Other Programs** – HomesFund provided some of the financing needed for the residents of the River View / Animas View mobile home park to purchase their community, and HomesFund has also provided financing to developers of affordable housing.



Capacity Building

- Support our core program infrastructure: HomesFund, Habitat, Housing Solutions, Mercy, VOA
- Regional Housing Alliance—reconstituted and here to coordinate workforce housing opportunities and identify long-term local funding. RHA will have leadership in 2022.
- Assist local governments with grants, program management and policy development.
- Support private developers interested and willing to create new below-market housing opportunities.
- Continue to import development partners with expertise in tax credits and below market financing through government loan programs.
- Support City's Fair Share agreements—how to get units or land in 2022 and beyond.



Private Sector Strategies

- Work with employers to identify resources including potential redevelopment sites.
- Continue building mortgage assistance programs-employer funded that can be matched with public resources.
- **There are over 1000 units in various stages of planning** and entitlement and an immediate opportunity to work with private developers to decrease costs to deliver some below market housing.
- Educate private sector on opportunities with new federal and state funds.



Public Sector Strategies

- Repurpose underutilized assets.
- Identify redevelopment opportunities (ie. Best Western on 160).
- Create public will for increased residential development.
- Identify incentives like predevelopment funding to activate public sites.
- Fund and support RHA, Homes Fund and other nonprofit partners to scale efforts when possible and build local capacity for the long-term.
- Identify/create a local public funding stream for housing.



Photo credit: *The Durango Herald*

Discussion Question

What other strategies should be considered?

Raise your hand or type them in the chat.



- The La Plata County Economic Development Alliance and City of Durango received grant funds to develop a three-year strategy.
- Our team started in the fall with interviews to identify activities, opportunities, capacities, and resources to develop this three-year strategy.
- Our team has over 50 years of combined experience with housing, real estate development and housing policy and advocacy work.
- We are excited about the alignment of interest currently across government and the broader community.
- This specifically aims to address the workforce piece of the continuum.

Economic Alliance Project Scope of Work

GOAL: Develop a three-year countywide investment strategy to increase workforce housing opportunities (80% AMI and above) that:

1. Reflects the unique factors facing La Plata County - sky high housing costs, record low interest rates, significant construction costs, limited land and limited local resources for this target population.
2. Leverages capacities, identifies new resources, and looks to build more of both
3. Identifies specific strategies and agencies to implement on specific timelines.
4. Results in greater community coordination, picks realistic priority strategies, and can be funded and implemented as soon as possible.

Questions? Comments?

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