

MEMORANDUM

TO: Methow Conservancy
FROM: Ryan T. Almstead
DATE: June 2, 2007
RE: Affordable Housing Strategies for the Methow Valley

I. INTRODUCTION

Over the past decade, the Methow Valley has seen massive changes in its housing market. The area's natural beauty and proximity to the Seattle Metro area, as well as its low costs as compared to Western Washington, have combined to cause a jump in real estate prices previously unseen in the Methow. For example, a 2005 article in the Methow Valley News on the local real estate boom reported that, at that time, land and home prices in the Methow were appreciating at the rate of 24 percent annually.¹ This figure far exceeded the U.S. average of 13 percent annually. The same article reported that, while the total assessed value of land and homes in the Methow School District in 1980 totaled just \$76 million, the figure had jumped to \$492 million by 2000.² Indeed, between the 3rd quarters of 2005 and 2006 alone, the median home price in Okanogan County as a whole rose from \$120,000 to \$140,000.³

Statistics also show that the majority of the land and home purchases taking place in the Methow Valley are not being made by local residents. In 2005, more than 62 percent of all the properties located in the Valley were owned by individuals who resided outside of Okanogan County.⁴ In addition, the 2005 Methow Valley News article reported that an informal survey of real estate agents revealed that over 80 percent of current sales were being made to people who did not plan to live in the Valley year round.⁵ In 2000, in the town of Winthrop alone, more than 16 percent of all homes were vacant for seasonal, recreational, or occasional use.⁶ Second-home purchasers and retirees have come to represent an ever increasing percentage of real estate owners in the Valley, leaving less and less housing available for year-round residents.

Despite the increase in real estate prices in recent years, income levels in the Methow Valley have remained relatively stagnant over the same period. While not specific to the Valley itself, between 2002 and 2004, the annual median household income in Okanogan County rose just 1.2 percent from \$32,492 to \$32,873.⁷ Meanwhile, real estate prices rose 24 percent per year during that time frame. Furthermore, the median income levels for the towns of Twisp (\$26,534 in 2000)⁸ and Winthrop (\$25,417 on 2000)⁹ fell below even those for Okanogan County.

¹ "Unreal Estate." Patrick Hannigan. Methow Valley News: Summer 2005, <http://www.methowvalleynews.com/unreal.htm>.

² Id.

³ "Median Home Prices: State of Washington and Counties." Washington Center for Real Estate Research: as of Feb. 27, 2007, http://www.cbe.wsu.edu/~wcrer/HMUPDATE/2006Q3/prices_06q3.pdf.

⁴ "Unreal Estate." Patrick Hannigan. Methow Valley News: Summer 2005, <http://www.methowvalleynews.com/unreal.htm>.

⁵ Id.

⁶ U.S. Census Bureau website: <http://censtats.census.gov/data/WA/1605379380.pdf>.

⁷ "Unreal Estate." Patrick Hannigan. Methow Valley News: Summer 2005, <http://www.methowvalleynews.com/unreal.htm>.

⁸ U.S. Census Bureau website: <http://censtats.census.gov/data/WA/1605373080.pdf>.

⁹ U.S. Census Bureau website: <http://censtats.census.gov/data/WA/1605379380.pdf>.

Perhaps most telling, though, is that data from the U.S. Census Bureau shows that 18.7 percent of Okanogan County's population lives below the poverty line compared to 11 percent throughout Washington State.¹⁰

The combination of increased real estate prices and below-average income in the Methow Valley has been the impetus for what can only be described as an affordable housing crisis.

II. AFFORDABLE HOUSING STRATEGIES

Although no panacea exists for the affordable housing problems facing the Methow Valley, some strategies have the potential to ameliorate the situation. Among the strategies that merit further consideration are: (1) the establishment of a community land trust, and (2) legislative advocacy related to zoning laws in Okanogan County.

A. *Community Land Trust*

The problem of affordable (or unaffordable) housing has found its way into all corners of the United States. In many locales, attempts to address the problem have focused largely on increasing the funds available to low-income individuals and families for either the purchase or rental of fair market housing. Unfortunately, even as subsidies make homeownership and renting possible in the short term, the cost of fair market housing continues to rise. As those costs rise, additional affordable housing subsidies must be provided simply to maintain the status quo. The result is an unending cycle of escalating housing prices followed by increased subsidies, with funding sources drying up and low-income families falling further behind.

Developed in the 1960's, the community land trust model seeks to retain the subsidies provided for affordable housing by maintaining a greater measure of control over the properties in which money is invested. The CLT model consists of three basic components: land ownership by the CLT, a land lease to participating families, and a resale formula limiting the sales price of homes on CLT land.

1. Land ownership: After organizing itself, the first step undertaken by a CLT is to purchase, or receive through donation, land upon which a home can be built or upon which a home has already been built. The CLT takes over the title and ownership of the land and separates it from any improvements that may already exist. In doing so, the CLT accomplishes two goals: (1) the property is removed from the whims of the real estate market and (2) a significant percentage of the price of a home—the underlying land—is eliminated.

2. Land lease: After taking ownership of the underlying land, the CLT then either sells the homes on the property to program-eligible families or assists those families in obtaining mortgages to build their own homes on the property. Each family typically receives a 99-year, renewable land lease, which allows the family to use the land as long

¹⁰ "Quickfacts." U.S. Census Bureau: as of Feb. 26, 2007, <http://quickfacts.census.gov/qfd/states/53/53047.html>.

as they remain eligible for the program.¹¹ Families are charged a minimal monthly fee under the land lease, helping to pay for property taxes and home insurance, as well as the administrative costs of the CLT. Again, because the CLT has removed the cost of the land from the overall price, the cost of building or purchasing a house becomes possible for low-income families.

3. Resale formula: The most important element of the CLT model is the resale formula. After having built or purchased a home on CLT land, a family may decide to leave the CLT (or be “incomed” out of the program) and need to sell the home. Often, CLTs will retain a right of first refusal, giving them the right to buy back the home from the family. Regardless of who purchases the home, though, the maximum sales price of the home is dictated not by fair market value, but by a resale formula incorporated into the land lease. Although the resale formulas used by CLTs differ, the typical formula uses either a percentage of annual local real estate appreciation rates or a set appreciation rate.

The use of a resale formula guarantees that the money invested by the CLT in the underlying land is retained by keeping the improvements on that land affordable. Moreover, the resale formula insures that any additional subsidies used to build the home (whether federally-subsidized mortgages or state affordable housing grants) are retained by enabling another family to capture some of that subsidy, as well. And while sellers do not get the full fair market value of their home, they receive a reasonable and fair price, in addition to the subsidy received through the use of the underlying land.

Although the basic structure of the program is fairly straightforward, the process of starting a community land trust can be much more complicated. Among the organizational problems cited by CLTs are: (1) developing broad community support; (2) acquiring funding and/or land needed for program operation; and (3) attracting ancillary players, such as lending institutions, to participate in a non-traditional homeownership model. Since these obstacles turn largely on public perception of the model, nearly all CLTs stress the importance of undertaking extensive community outreach and education as a first step in the organization process.

Of the aforementioned problems, the acquisition of funding and/or land is perhaps the most daunting faced by newly formed community land trusts. As with most community development projects, the funding that is available comes from three major sources: (1) federal agency programs, (2) state and local government resources, and (3) private donations. Which sources of funding provide the best value for the effort expended in acquiring them is a matter of differing opinion among CLTs. For example, due to the misperceptions of federal and state officials regarding what income levels needed affordable housing assistance in the Aspen, Colorado area, officials at the Aspen/Pitkin County Housing Authority (APCHA) have ceased seeking funding from those sources.¹² Furthermore, APCHA found that because the funding from federal and state sources came with many more requirements, in particular strict income limits, those funds were much less valuable to their community and thus a less efficient use of

¹¹ In some cases, instead of transferring ownership of an existing home or transferring the right to build upon the underlying land, a CLT will maintain ownership of existing housing units and rent them at reduced rates to program-eligible families.

¹² Interview with Tom McCabe, Executive Director, Aspen/Pitkin County Housing Authority. March 27, 2007.

time.¹³ As a result, APCHA has tapped into the financial resources of generous local citizens and, more importantly, has used a combination of increased sales taxes, a real estate transfer tax, and affordable housing set-asides for new development to create an affordable housing fund.¹⁴

In Washington State, community land trusts have likewise taken a patchwork approach to project funding, although they have also invested significant energy in obtaining available federal and state funds. For example, the San Juan Community Home Trust (SJCHT), located in Friday Harbor, started its initial project largely through the generosity of local donors. However, SJCHT also received significant funds from a Community Development Block Grant—a program of the U.S. Department of Housing and Urban Development—that had been received by San Juan County.¹⁵ The county had made affordable housing a top priority and has continued to spend a large portion of its CDBG funds on local CLTs.¹⁶ Additionally, SJCHT applied for and received funding from the Washington State Housing Trust Fund, which provides funds to help meet the housing needs of low-income and special needs populations across the state.¹⁷ For more recent projects, SJCHT has continued to utilize funds available from a county-managed affordable housing fund, while also assisting program participants in accessing resources available from the U.S. Department of Agriculture, which provides low-rate mortgages to income-eligible families in rural areas.¹⁸

The SHARE Community Land Trust (SHARE) in Leavenworth, has used a similar approach, and had a similar experience, to SJCHT. SHARE has used a combination of local donations (in the form of both CLT membership fees¹⁹ and private real estate bargains) and Washington State Housing Trust Fund monies to develop its projects.²⁰ Moreover, like SJCHT, SHARE has worked with program participants to access USDA Rural Development funds, including low-rate and guaranteed mortgages.²¹

Because of the wide array of funding available, as well as the individual requirements attached to those funds (including income limits, application length, etc.), communities interested in beginning a community land trust should do extensive research to pinpoint what funds they can access, as well as what funds provide them with the most flexibility to meet the needs of their unique population.

B. Legislative Advocacy

While a community land trust has the potential to bring more long-term affordable housing to the Methow Valley, legislative changes to Okanogan County's zoning codes may hold equal promise for increasing housing affordability in the area. In fact, at present, Okanogan

¹³ *Id.*

¹⁴ *Id.*

¹⁵ Interview with Nancy De Vaux, Executive Director, San Juan Community Home Trust. April 4, 2007.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ SHARE, as well as most other CLTs, allows and encourages members of the community to participate in the CLT. SHARE has a membership base that includes individuals from all facets of the community, each of whom pays a membership fee based on how much they can afford. *Source:* Interview with Marggie Simmons, Executive Director, SHARE Community Land Trust. March 14, 2007.

²⁰ *Id.*

²¹ *Id.*

County code not only fails to take advantage of state legislation designed to encourage the development of affordable housing units, but it also prohibits the use of potentially affordable housing resources currently available in the area.

1. Affordable Housing Incentive Variances: Under the Revised Code of Washington § 36.70A.540, both cities and counties are granted the right to enact incentive programs aimed at addressing affordable housing issues in their locales. More specifically, RCW § 36.70A.540 allows locales to provide development variances to builders in exchange for the construction of low-income, i.e., affordable, housing units. While RCW § 36.70A.540 does not delimit the exact variances allowable under such a program, among those it specifically lists are density bonuses in urban growth areas, height and bulk bonuses, parking reductions, and expedited permitting. As of March 2007, Okanogan County had failed to implement regulations allowing such variances in the Methow Review District and, in so doing, has failed to provide incentives to local developers to increase the stock of affordable housing in the area.

2. Secondary Dwellings: Under Okanogan County Code § 17.14.040, lots in certain areas of the Methow Review District that meet or exceed minimum size requirements may contain an additional attached or detached unit. The additional unit is restricted in size to no more than 50 percent of the floor area of the primary structure. However, even where an additional unit is allowed, county code limits its use to the housing of only guests, relatives, or employees, or, as long as occupied no more than 90 days per year, to transient tourists. While concerns about increased residential density are valid and would need to be addressed, changes to the present regulations could both quickly increase the area's housing stock (and thus presumably create greater affordability) and potentially provide rental income for lower and middle income homeowners.

In addition to actions on the local level, substantial room for advocacy exists at the state level, as well. In particular, communities interested in increasing affordable housing in Washington State should familiarize themselves with the recommendations made by the Governor's Affordable Housing Advisory Board (AHAB) in Fall 2006. Communities should voice their approval of those measures they support and/or ask for more aggressive steps where appropriate. More information on AHAB can be found at: www.cted.wa.gov/site/718/default.aspx.

III. NEXT STEPS

Before establishing a community land trust in the Methow Valley or undertaking a legislative advocacy campaign to change county code, further research is needed to determine both the nature and the scope of the affordable housing problems in the area. While data from various sources clearly shows that housing prices are outpacing income levels in the Methow, understanding the specific circumstances of the individuals and families being priced out of the market is crucial to knowing how to proceed. Several questions should be answered prior to proceeding with either strategy offered in this memorandum, including:

1. How many individuals and families are currently experiencing housing affordability problems?

2. Are those facing housing affordability problems year-round residents or seasonal workers?
3. What level of income are those in need of affordable housing: very low-income, low-income, middle-income, or varied incomes?
4. Are families experiencing housing affordability problems candidates for homeownership or does the nature of their income (e.g., intermittent) make them better suited for rental?
5. What kind of community support exists for affordable housing? What concerns do community members have about increased residential density, increased taxation, and other governmental financial support? What misperceptions do community members have about increased affordable housing?

To answer these questions, information will need to be collected on: (1) the demographic make-up of the community; (2) properties available either through donation or for purchase²²; (3) the number of community members who would support a community land trust with both time and financial resources; and (4) funding resources available to assist in the development of a community land trust. Undertaking a comprehensive needs assessment is the typical means utilized by CLTs to acquire this data. The Methow Conservancy has been provided with final reports from a handful of affordable housing needs assessments sponsored by CLTs. These reports provide insight into the type and form of information sought by other CLTs and should serve as a valuable template for developing a needs assessment for the Methow Valley.

To implement the steps recommended above, the Methow Conservancy may also wish to seek technical assistance from organizations with expertise in community land trusts and affordable housing. The following organizations have experience in community development, affordable housing and community land trusts and may be valuable resources as the Conservancy moves forward:

- The Housing Assistance Council (rural housing) - www.ruralhome.org
- The Institute for Community Economics (community land trusts) - www.iceclt.org
- E.F. Schumacher Society (community development) - www.schumachersociety.org
- Washington State Housing Trust Fund (affordable housing funding) - www.cted.wa.gov/site/493/default.aspx
- US HUD CDBG (affordable housing/community development) - www.hud.gov/offices/cpd/communitydevelopment/programs
- USDA Rural Housing (rural affordable housing) - www.rurdev.usda.gov/rhs/
- National CLT Network (community land trusts) - www.cltnetwork.org/

²² Most community land trusts prefer to purchase land in high density areas, which more often allows for the development of more units per acre. Indeed, the San Juan Community Home Trust is presently working with the village of Friday Harbor to annex property owned by SJCHT that falls outside the village limits, which would bring the property within the village's urban growth area.