



Thurston
Thrives!

Regional Housing Summit II

www.thurstonthrives.org

The background features a dark blue-grey grid. Overlaid on this are several white line-art elements: a jagged mountain range silhouette at the bottom, and several overlapping, semi-transparent grey shapes that resemble stylized hills or data points. The text is centered in the upper half of the image.

HOUSING ACTION TEAM

INCENTIVIZED HOUSING- Regional Housing Summit II

THURSTON COUNTY HOUSING: THE PROBLEM



Recent population growth equates to the need for over 2,000 new housing units per year



Over the last six years we've been short by an average of 600 units per year county-wide



Household size is getting smaller, requiring more units than before



This shortage has led to vacancy rates below 3% for several years (many vacant units aren't rent ready, further shrinking supply)



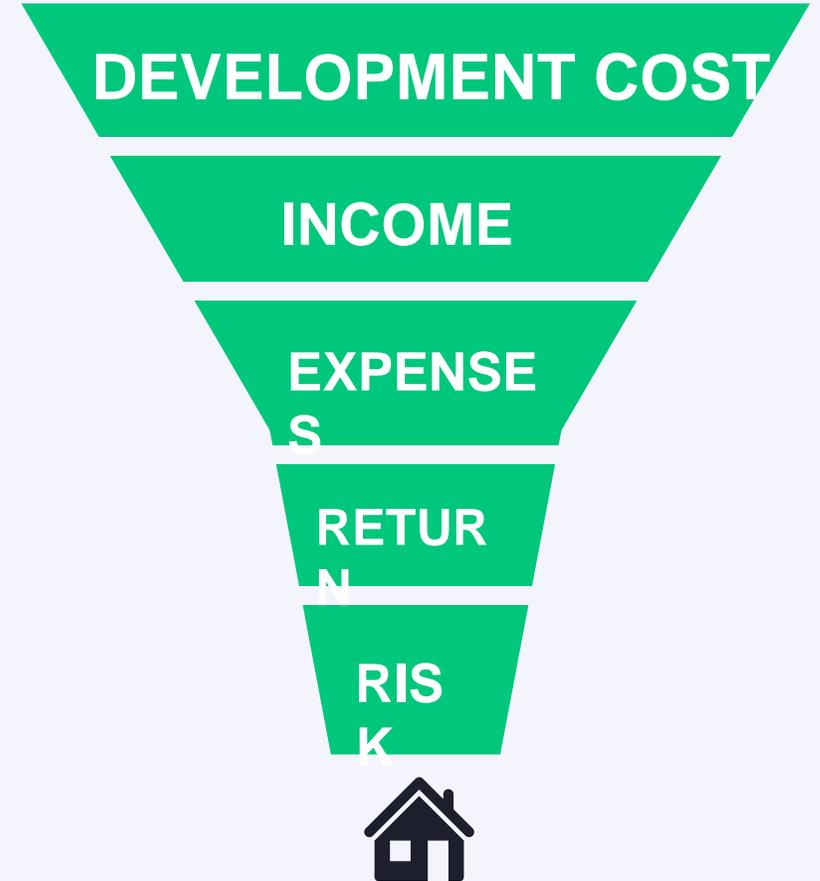
THURSTON COUNTY HOUSING: THE PROBLEM CONT...

-  Too much demand & not enough supply = Increased prices
-  Bringing on new supply is expensive, leading to little to no new development (supply) for the lower end of the market
-  This leads to wealth destruction (people spending too much on housing) and increased homelessness, etc.
-  Public & non-profits can't build enough units to come close to solving the problem



THURSTON COUNTY HOUSING: WHAT'S REALLY GOING ON?

-  Why aren't we getting enough supply?
-  Why aren't more affordable units being built?
-  There's a simple explanation
-  New housing development in five steps



THURSTON COUNTY HOUSING: DEVELOPMENT COST

-  Land acquisition & development
-  Hard construction cost
-  Soft costs, fees, & taxes
-  Debt financing & equity cost

COST BREAKDOWN	
Land Acquisition & Development	\$1,000,000
Hard Construction Cost	\$6,000,000
Soft Costs, Fees, & Taxes	\$4,000,000
Debt Financing & Equity Cost	\$1,000,000
Total Cost	\$12,000,000
Down Payment	\$3,000,000
Mortgage Payment	\$45,000/mo

THURSTON COUNTY HOUSING: INCOME



Rent



Reimbursements



Fees



Less vacancy, delinquency, etc.

INCOME BREAKDOWN	
Rent Potential	\$1,100,000
Vacancy	(\$55,000)
Delinquency	(\$10,000)
Other Income	\$165,000
Total Income	\$1,200,000

THURSTON COUNTY HOUSING: EXPENSES

-  Payroll, management, & admin
-  Utilities
-  Repairs, maintenance, & reserves
-  Taxes & insurance

EXPENSE BREAKDOWN	
Payroll, Management, & Admin	\$150,000
Utilities	\$80,000
R&M & Reserves	\$100,000
Taxes & Insurance	\$160,000
Total Expenses	\$490,000

THURSTON COUNTY HOUSING: RETURN



Income



Expenses



Debt service (mortgage)



Cash flow & equity

RETURN BREAKDOWN	
Income	\$1,200,000
Expenses	(\$490,000)
Net Operating Income	\$710,000
Debt Service (Mortgage)	(\$540,000)
Cash Flow	\$170,000
Cash On Cash Return	5.7%
Market Value (5.5% Cap)	\$12,900,000

THURSTON COUNTY HOUSING: RISK

-  Is it worth it (personal guarantee)?
-  What could go wrong?
-  Is the money better invested elsewhere?
-  Decision

RISK FACTORS

Interest Rate Increases

Vacancy

Expense Inflation

Rent Stagnation

Construction Cost Increases

Longer Timeline To Stabilization

THURSTON COUNTY HOUSING: AFFORDABILITY



Price inflation **MUST** be passed on to the consumer or projects can't be financed



If revenue decreases and returns decreased, projects can't be financed and reward isn't worth the risk



How do we solve the problem?

COMPARISON	Market Rate	Affordable
Income	\$1,200,000	\$1,000,000
Expenses	(\$490,000)	(\$490,000)
Net Operating Income	\$710,000	\$510,000
Debt Service (Mortgage)	(\$540,000)	(\$540,000)
Cash Flow	\$170,000	(\$30,000)
Cash On Cash Return	5.7%	(1%)
Market Value (5.5% Cap)	\$12,900,000	\$9,300,000

THURSTON COUNTY HOUSING: POTENTIAL SOLUTIONS



Incentivize (and make it possible for) the private market to build affordable units

1. Expedite permitting & up-zone properties
2. Mitigate fees (permit, impact, hookup, etc.)
3. Tax flexibility (property, sales, B&O)



THURSTON COUNTY HOUSING: EXAMPLE PROJECT

-  Mitigating fees
-  Reducing taxes
-  Speeding up the process
-  Incentives tied to affordability

EXAMPLE BREAKDOWN	35% Affordable
Income	\$1,000,000
Expenses	(\$355,000)
Net Operating Income	\$645,000
Debt Service (Mortgage)	(\$455,000)
Cash Flow	\$190,000
Cash On Cash Return	7.6%
Market Value (5.5% Cap)	\$11,700,000

THURSTON COUNTY HOUSING: MOVING FORWARD



What we're doing isn't working



We must innovate and work together



We've created a "Housing Affordability Model" for you to see exactly how you can help accomplish the goal of more affordable housing



We look forward to partnering with you to make this a reality





HOUSING ACTION TEAM

INCENTIVIZED HOUSING SUMMIT

For more information and to learn how to use our model,
contact us at housingthurston@co.thurston.wa.us



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