PROJECTS IN PROGRESS: THREE CASE STUDIES

by Kate O'Brien

Elsewhere in this issue, you'll learn about various strategies for affordability. But how well do the theories translate to the real world? Here are three cases of affordable projects in progress. All are new construction; two are located in rural areas outside larger cities; one in a northern New England town. They are in varying stages of development; one is facing severe obstacles. But all yield lessons worth heeding.

Forest Row: Land Trust Makes It Happen

Forest Row is a development project located outside of Great Barrington, a well-to-do western Massachusetts city that often serves as a second home for nearby New York residents. But not everyone in the area is well-off financially, and the project developer—The Community Land Trust of the Southern Berkshires—provides housing opportunities for those with moderate incomes. At the same time it works to protect open land. It does this by buying large parcels of land, generally farmland, developing sections of the land for housing, and leaving most of it untouched.

When it is completed, Forest Row will provide housing for 18 families in nine buildings: four single-family, three two-family, and two four-family buildings. To date all but three singles have been completed and are occupied. The project was conceived in July 1985, and actual building began in September 1986. The units range in cost from $70,000 to $155,000, depending on the type of the unit and the options selected.

The project is built on land that is heavily wooded (90 percent) and once served as a mink farm. The land trust had originally planned to buy the entire 125-acre farm, which included several buildings. But this proved too costly and, instead, the group purchased 21 acres. The rest of the land was sold in fairly large chunks (15 acres or more), and the land trust's full-time project coordinator and founder, Bob Swann, suspects that any housing built on those lots will be high-end (about $200,000). The Forest Row buildings are clustered in an area a little less than five acres. Each building is separated from one another by at least 50 feet, and generally 60 to 70 feet. The owners have the benefit of 16 to 17 acres of open space, which is used for recreational purposes. Eight acres are strictly kept in conservation.

The main source of affordability is in the fact that the site is owned by a land trust. The homeowners have purchased their buildings or units (in the case of multi-family), but they have not purchased the land. They lease the land with monthly payments that range from $30 to $60, depending on the type of unit. This is "ground rent," meaning it does not stop, and will last as long as the purchaser owns the house sitting on that ground. The land trust uses the money to pay off mortgages, and when the mortgages are fulfilled, funds to help others buy housing.

These payments for ground rent are low because the land trust has been able to keep the cost of the land down. Its most obvious advantage is volume buying power: The land trust can buy a larger parcel of land than an individual can, and because it is going to keep some land open anyway, can purchase unbuildable land as part of the deal. But there are other reasons. Being a non-profit, the land trust attracts sellers who are sympathetic to the idea of conservation and affordability, and who make concessions they wouldn't make to an individual who might be speculating in land. This might take the form of lower cost per acre, as it did in the case of Forest Row, or it might take the form of better financing terms such as take-back mortgages at low-interest rates.

The fact that the developer is a non-profit helps in other ways too. Like any developer, the land trust has to keep construction costs down, and it does this mainly by keeping its interest for construction loans as low as possible. In this project, the land trust borrowed money at first from regular lenders, at market rate. But over its two-year life span, the project has attracted low-interest social investment money from investors wishing to support a worthy cause. It's been able to cut its yearly interest on construction loans in half. And although the land trust does not finance primary mortgages, it has used some of the social investment money to set up a fund to help first-time home buyers bridge the gap between the mortgage available to them and the down-payment required. The land trust has put together a fund of a little over $100,000 and so far has used it to help five different families, generally in amounts of $5,000 to $10,000. Normal-

Units (1,300 square feet each) in this quadraplex have three levels and cost the home buyers from $70,000 to $85,000, depending on how the lower level is finished.

ly, banks will frown upon a second mortgage upon purchase, but with the land trust's low interest rates, banks seem not to be as concerned.

Another benefit of land-trusted development to the home-buying public is that there are provisions for long-term affordability. When they brought in, Forest Row purchasers gave up their right to speculate. The land trust includes in its lease agreement that the lessee will give the land trust first option to buy back the house if he or she wishes to sell—and that the price he determined by the average of three assessors who are assessing only the cost of rebuilding the house. In this way, the owners do not benefit from the appreciation of land value. So, not only does a project such as this attract a certain kind of seller and investor, it probably appeals to a certain kind of buyer. In any event, affordability is made integral to the buildings on land-trusted land.

However, affordable doesn't mean unappealing, as this project sets out to prove. The houses are designed by Swann, who is an experienced builder. The four-family buildings (quadraplexes) are designed using a cross plan to afford privacy and individual yards (see drawing). Each unit has a quarter of the pie.

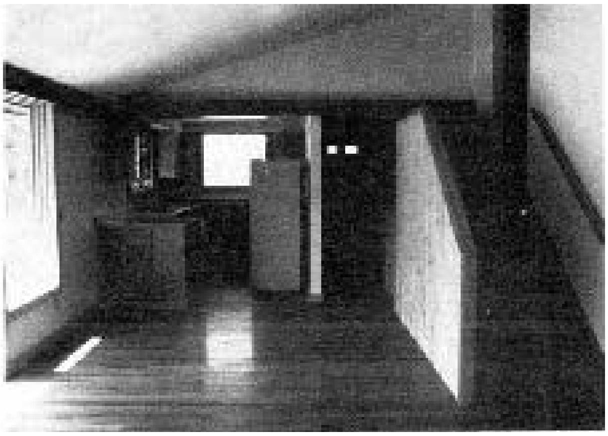
The two-bedroom quadraplexes cost the home buyers $70,000 to $85,000, depending upon how they are finished. They are designed as split levels, with the third lower level left in a semi-finished condition to allow for expandability. Swann claims that a similar unit would go for around $130,000 on the regular market in his area.

The two-family units have been built in two styles: side by side, and two-level. They range from $108,000 to $115,000. The lower-priced units contain two bedrooms and a bath, the higher-priced ones three bedrooms and two baths.

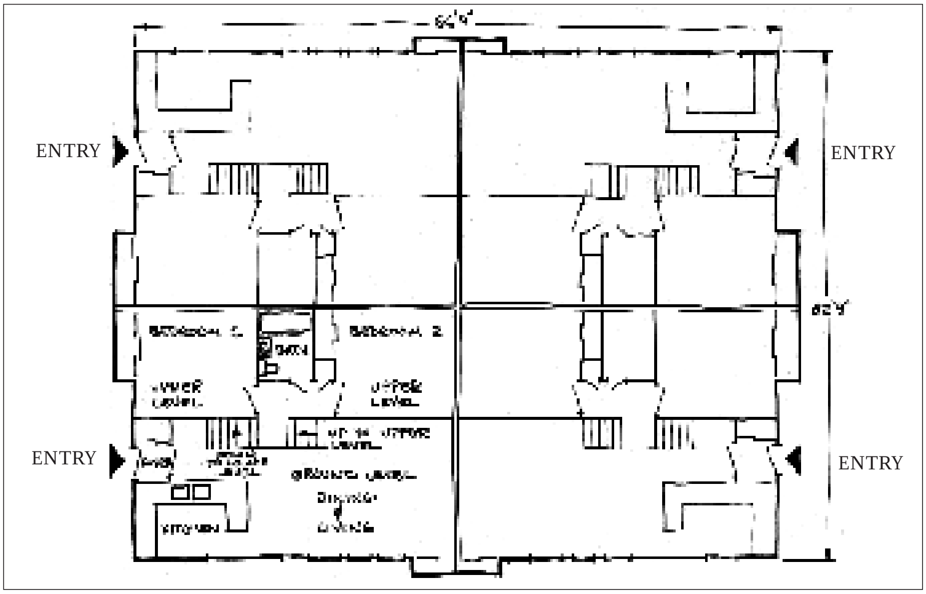
Only one single-family has been built so far, and Swann was disappointed with the cost of construction. It ran much higher than expected: $155,000, and included three bedrooms, two baths, and spacious kitchen, living and utility rooms. It also boasts a greenhouse and deck. To keep costs down, the next single-family will be built by the owner, and it's hoped that this will encourage other owner-builders to contract for the two remaining single-family units.

Construction is conventional: 2x6 stick-built, although with spray-in cellulose walls, the Forest Row houses are probably more energy-efficient than most other houses in the area. All work is subcontracted out, and subs are paid at or above market rate.

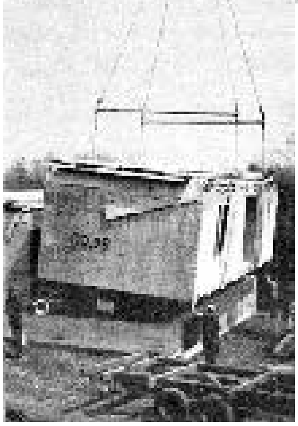
Swann says that the occupants range widely in age and demographics. Retired couples, first-time homebuyers with children, and recently divorced single parents all live side-by-side in the development. And according to Swann, they live happily. The project is expected to be completed by early 1990.



Inside one of the quadraplex units, stairs lead from ground level to the upper bedroom level, a half-flight above.



Note that the "cross" design (with entries at the four far corners) allows each quadraplex unit a "private yard." Although owners of the units do not own the land, they can landscape to provide for privacy and separation.



The developer of the Ledgeview Colony believes that modular construction will help him reach his goals: affordable housing, a reasonable profit, and a manageable workday.

Ledgeview Colony Cottages: Modular Neighborhood Comes To Town

This project is located in the town of St. Albans, Vt. a small New England town (pop. 3,000) with a growing industrial base, located north of Burlington, Vermont.

The project developer, Bob Provost, is a stick-builder turned real-estate investor, who is now promoting modular housing development through his company, Affordable Homes of Vermont. He had to sell the idea of modular housing to the city's zoning board, he said, and recently received conceptual approval. He says his biggest problem was to discourage the stereotype that modular housing means "mobile homes."

Provost believes that his main avenue to affordability is by use of modular construction; but he also believes that state and local agencies can help, particularly with density requirements. He also feels that the state should spend some of its land-conservation trust fund on helping developers early on with their soft costs when they are so much at risk.

In looking at possible sites for affordable housing, Provost looks for land with modest development costs. This site had city sewer and water, natural gas lines, and somewhat favorable density requirements.

However, the land deal has proved less of a bargain than Provost originally thought. He signed a purchase-and-sale agreement in early 1987, but to date, hasn't broken ground. After meeting with the planning board six times, he finally resorted to spending $5,500 for a site planner's services (see architect's drawing). In fact he's spent a total of $10,000 so far on preliminary costs, including surveys.

Having just received conceptual approval, he's begun the engineering aspect of the development, and he still plans to wrap the project up by fall of 1989. From conception to finish, that would mean two years, which he says is typical for development these days.

If all goes well, the Ledgeview Colony project will consist of 60 units, single-family and two-family detached condominiums, situated on 231/2 acres. Provost will manage the property until the homeowners achieve majority, at which point they will take over the maintenance of the development.

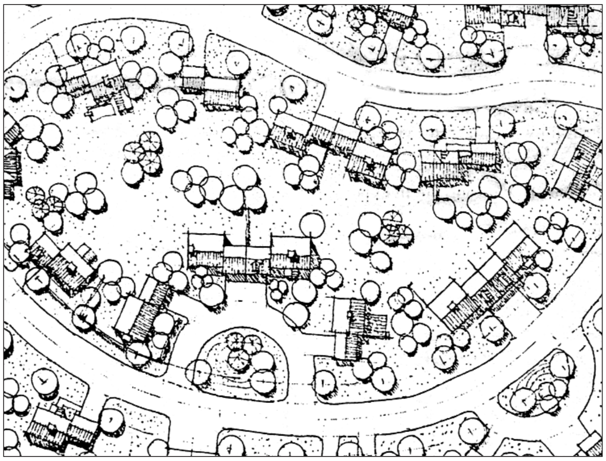
In his original plan, Provost wanted to cluster the development. This would have saved on the cost of building roads (the town insists on town roads, not private roads) and it would have pleased those wishing to keep land open. But the state's Agency of Environment Conservation reviewed the site and felt that the land could be fully developed because it did not consider it prime agricultural land. So the plan was revised to spread the project over the entire land area. This avoided a conflict with the town, which had balked at the cluster concept.

Provost wants to build homes in the $50,000 to $70,000 range, and expects to make at least 8-percent profit on the job. He believes it's possible because he's sold similar homes—modular homes with 2x6 construction, R-19 sidewalls, R-38 ceilings—for approximately $39,000. He believes that modular construction saves him 25 to 30 percent over stick-built, and is looking into setting up his own manufacturing facility locally to control costs even more. (See "Looking Into Modular," This issue for more specifics on this method of construction.)

The two-bedroom units in this project will be expandable: They'll have second floors that can be used for a large extra bedroom or two small ones. And buyers will have the option of a breezeway and garage. The plan allows for additions as well. This affects the long-term affordability, since the development will be able to mature as owners enhance their "starter homes." They won't have to move out as their families and requirements grow.

Provost wants to offer 100-percent financing, if the state housing finance agency will allow him to do it. He hopes that VSHA will cover 95 percent, and he will loan the remainder. He also plans to offer rent with option to buy by setting aside a portion of rent each month for mortgage payments, to be used if the renter later chooses to become a purchaser.

Provost's interest in the affordable housing market is not altogether altruistic: He feels it's the only market for a small developer like himself. Banks frown upon small companies like his overburdening themselves with large projects, and high-end houses aren't moving as fast in his area these days. Provost pointed to a project nearby where 14 homes have been sitting unsold for almost three months. And after years of "staying up until 11 o'clock every night" during his stick-building years, he also appreciates the ease and control of modular construction, which he believes wouldn't sell to upscale buyers.



After several meetings with the town's zoning board, the developer resorted to a strong visual device: He hired a landscape architect to draw plans. This is unusual at such an early stage, but helped him overcome the board's reservations and won him concept approval. Cost for drawing: $5,500.

The modular homes in Ledgeview Colony will look similar to this one, built nearby by the same developer. The breezeway and garage (not shown) will be options.

Two developers wanted to protect farmland like this and create affordable housing at the same time. So far, they haven't succeeded.

The One That May Get Away

Most affordable projects require commitment and perseverance on the part of the developers. And not all that are started succeed. For example, this project, the third in our series, is on very shaky ground. It was conceived two years ago by two individuals experienced with successful affordable projects in the past. But this one may die without ever getting beyond the "pipe dream" stage. So as not to jeopardize future projects, the two men hoping to develop the project, both experienced in building, and one currently involved in real estate, asked to remain nameless. They also want to preserve any chance of saving this one.

Some pipe dreams are free, but this one has cost $10,000 so far. It started two years ago, when the developers saw an opportunity to save the hide of a failing farmer, and at the same time, provide affordable housing. Their intent was to provide a model for similar developments around their state, where agricultural land could be bought, some of it developed for affordable housing, and the rest kept open for farming.

They hoped to create affordability through a combination of mechanisms. First, they hoped the state housing finance agency would make purchases easier by providing 95 percent financing to the home buyers. Second, the same agency was to help finance infrastructure expenses, up to $250,000. Third, the developers also expected to provide long-term affordability, in that the housing finance agency would have first rights to buy out if a homeowner wished to sell, at prices at or below replacement costs. Fourth, they had negotiated with the state's land trust for financial support (in fact, half of the $10,000 spent so far had been donated by that organization to conduct a feasibility study). Finally, they planned to use cost-saving construction methods: They hoped to convert a barn that exists on the land into a panel factory and employ panelized construction. But as one of the developers put it: "We've looked at a lot of ideas for the actual housing. Unfortunately we don't have the actual land."

The 400-acre parcel they planned to develop turned out to be marginal—with only one 14-acre area meeting the perc test requirements. Holding the right of first refusal, they spent a year monitoring the water situation with hydrogeologists to make sure that this one area would be sufficient for the state's approval.

In the early days of the project, the state passed legislation funding the land conservation and affordable housing project, which looked like good news to them. However, because the agency responsible for dispersing these funds was in its infancy, action took a long time. Between this delay and the delays created by other state and local agencies, the project lost momentum. The landowner, who was up to his neck in debt, saw a way out and listed with another real estate agent, who got a contract right away. (The landowner has gone through three attorneys to find one to support his action, which would ignore the developer's right of first refusal. But the developers feel their position would hold up legally.) Meanwhile, the two developers and the state had spent money and time on monitoring, surveys, test pits, experts, and meetings.

While the developers still hold out hope that the project will happen, the chances look dim. If they do ever get it off the ground, they plan to build 30 single-family units, with expandable interiors.

Together they argue that the project has been stymied by (1) the small margin for error common in affordable projects—"you can't afford to risk much time and money given your profit is so marginal;" (2) an obstructionist permitting process; and (3) a lengthy bureaucratic process, which does not allow for the urgency usually involved with acquiring land at a reasonable price.

According to the developers, the permitting process actually favors affordable projects, but this often backfires, because it discourages other development, and as a result drives up the prices for land. In order to remedy this problem and make it easier for developers to succeed with low-cost housing, they favor streamlining the permitting process and the subsidy approvals for affordable projects. ■

Kate O'Brien is managing editor of The Journal of Light Construction.