

Taos Housing Partnership

Best Practices in Housing Development
July 18th, 2023



TAOS HOUSING
PARTNERSHIP

Mission and Vision



Taos Housing Partnership

Mission Statement

To create housing opportunities while:

- Preserving our Culture
- Promoting Financial Literacy
- Protecting our Environment



Who is Taos Housing Partnership?

Board Members

Mark Goldman, Architect and Professor of Green Building Technology at UNM Taos

Catherine Hummel, Executive Director, DreamTree Project

Kristina Ortez, Executive Director, Taos Land Trust, & State Representative, District 42

Leticia Pacheco, Vice President/Loan Officer, Centinel Bank

Luis A. Reyes Jr., Chief Executive Office and General Manager, Kit Carson Electric Cooperative

2 additional Board Members of low-income representation will be added to the current board roster. This is a best practice element for National Standards.

Transitioning Leadership

Previous “Interim” Board Members now part of a Transition Team:

Town of Taos:

- Mayor Maestas
- Manager Andrew Gonzales

Taos County:

- Manager Brent Jaramillo
- Commissioner Anjanette Brush
- Commissioner Darlene Vigil

Philanthropic Partners:

- Catherine Horsey, Taos Community Foundation
- Loe Marcoline, Anchorum St. Vincent
- Sonya Struck, LOR Foundation

Consulting Team



Jennifer Lopez - President & Founder

- 23 years of experience in affordable housing
- Held a senior position in the Hickenlooper administration in Colorado and led regional housing efforts in southwest Colorado for several years
- Technical experience in housing development and program development
- Experience in New Mexico since 2000

Jake Caldwell - Consultant Partner

- Jacob Caldwell has practiced law in Taos since 2000,
- Served as an attorney for Taos County and the Town of Taos, as well as serving as Taos County Manager.
- Worked for 8 years in community and economic development for the LOR Foundation in New Mexico, Colorado, Montana, Wyoming and Idaho

Dan Werweth - Werwath Associates Consultant Partner

- Over 20 years of experience helping create community-wide housing studies and plans, land-use expertise, led community housing advocacy, successful program designs and funding proposals for nonprofit organizations.
- Executive Director–New Mexico Inter-Faith Housing

Project History - A Brief Recap

Phase I - (November 2021 - April 2022)

- Community engagement / interviews (27 folks)
- Nonprofit focus group
- North Central NM Economic Development District employer assisted housing discussion

Phase 2 - (June 2022 - December 2022)

- Interim Board of Directors was established
- Established basic project framework (branding, website, mission/vision statements)
- Focused on start up funding and MOU

Phase 3 - (January 2023 - August 2023)

- Hiring of Executive Director
- 501 (c)3 start up and filing
- Development of a 3-year Community Housing Strategy
- Launch predevelopment fund

Phase 4

- Launch homebuyer classes
- Fund predevelopment for 2-4 projects
- Develop infrastructure initiative

Four Overarching Goals

Incentivize Below-Market Housing Development

Support Financial Literacy/Homebuyer Classes

Provide Mortgage Assistance Programs

Support Housing Policy and Advocacy Efforts



Big Picture from Housing Market Update 2023

Things for housing affordability in Taos are bad and getting worse.

This is due to a combination of not adding enough new housing and increased demand for existing housing.

Housing Affordability is not as bad as it could be and there is time to make meaningful impact.

Conditions for renters are especially difficult and this is becoming a major obstacle for people looking to move into homeownership because high housing costs can create savings and credit obstacles, and at worst displacement- but homeownership counseling and education programs can help.

What is Affordable Housing?

Affordable Housing means paying

no more than 30%

of gross income for rent/mortgages +
utilities

Those paying more than 30% for these
housing costs are considered “cost
burdened”

Housing Cost Burden Definition

- The largest single indicator of the lack of housing affordability is the number of households paying over 30% of their incomes for housing costs, a widely used standard of housing affordability.
- This study uses the 30%-of-income standard because it is broadly accepted and available in comparative tables for American Community Survey data.
- A total of 12,021, or 26%, of households in Taos County paid over 30% of their incomes for housing costs, according to the latest American Community Survey estimates.
- Of these, just over half—or 1149 households—were renters.
- Slightly less than half of all renter households in Taos County were cost burdened, compared to 25% of homeowners
- 2144 homeowners are cost burdened, they are making less than \$34,999 a year.

Demographics

Population grew, especially in the town, but the number of households declined, and births seem to have slowed. It could likely be evidence of a consolidation of households, people moving in together likely for housing cost reasons. The drop off in younger population cannot be accounted for by pandemic birth avoidance alone.

Population growth in the Town is very high 6+% a year, creating high demand pressure on housing.

Families with children seem to be moving from the town into the county, perhaps in search of larger more affordable housing such as mobile homes, which remain more more affordable both for rent and purchase.

Interest Rate Challenges

Interest rates in the Taos area remain higher than the national average at over 7%, an increase of over 4% since early 2022.

It's hard to overstate how much impact this has on affordability for working families. For example, at 3.25% interest rate, a median income family in Taos County can afford around \$310,000 mortgage. At 7.25%, the affordable mortgage amount drops below \$200,000, wiping away over \$100,000 in buying power.

This combined with some relatively affordable housing stock suggests that mortgage interest rate buydowns or special lower interest mortgages, would be an impactful strategy to explore. Similarly, second mortgage/principal reduction assistance programs can help close the gap on affordability.

Rental Housing Rates

The strongest indicator of rental housing demand is rental vacancy rates. Unfortunately, detailed current vacancy rate data is not available without conducting a comprehensive market survey. A review of rental listings on Craigslist on June 9, 2023, revealed a total of 27 listings. Of these, 12 were one-bedroom units, eight were two bedroom and six were three-bedroom units. The average listing price for one-bedroom units was **\$1516** with prices ranging from \$850 to \$1550.

The average listing rate for two-bedroom units was **\$1906**, with a range between \$1200 and \$2800. The average rental rate for the six three-bedroom units was **\$1842** and ranged from \$1450 to \$2200.

With the exception of the one \$850 unit, no entry level prices were affordable to families even at the 80% AMI level.

Home Sales Activity and Prices

Typical of high desirability communities in the Mountain West, sales activity in Taos was very strong over the last three years with shrinking affordability and massive growth at the high end of the market.

In just the last three years, the median sale price of all residential homes rose a dramatic \$122,500, or nearly 35% above 2020 levels. The increase in median sales price indicates that in 2022, more than 80% of homes are out of the reach of most working-class and entry level professional workers.

THP Potential Strategies By Income Strata

There is lots of opportunity for impact with strong counseling/education plus:

- **<60% AMI rental**- aggressive promotion of LIHTC development (municipal land donation, gap financing, explore 4% models (THP/Moxie tech support)
- **60-80% rental**- land use incentive approach, maybe tiny homes/ADU/casitas on existing properties as well (City/County with THC/Moxie tech support)
- **70-90% AMI homeownership** (130 HH +/-) multiple layered approaches- will require nonprofit-driven development with cross subsidization and subsidy layering (THC development project likely Chamisa Verde)

Strategies Continued

90-120% AMI homeownership (140 HH +/-) bulk of nonprofit development, possibly for-profit with incentives at upper end. Market rate purchases possible with a combination of a strong DPA program and below-market rate lending tools- MFA, RD, interest rate buydowns. (THC Counseling, education, DPA and mortgage assistance programs, highest priority for early wins while there's still some affordability left while also scaffolding the longer lead programmatic approaches)

120-200% AMI ownership (maybe 70 HH)- market rate development with regulatory incentives, land use code update, market rate development within nonprofit cross-subsidized housing.

Overall Program Policies and Guiding Principles

- All homebuyer opportunities will preference local households first.
- Public subsidies are designed to benefit local households and will be managed through resale control mechanisms.
- THP and partners will use competitive processes to award funds to projects.
- All discounted homes will be sold to graduates of THP homebuyer classes (program requirement).
- Resale controls will strive for simplicity and will be managed by the Taos Housing Partnership.

Maximum Household Incomes of Buyers (2022 HUD-derived numbers)

	Number of Persons in Household							
AMI	1	2	3	4	5	6	7	8+
50%	\$22,650	\$25,850	\$29,100	\$32,300	\$34,900	\$37,500	\$40,100	\$42,650
60%	\$27,180	\$31,020	\$34,920	\$38,760	\$41,880	\$45,000	\$48,120	\$51,180
80%	\$36,200	\$41,350	\$46,500	\$51,650	\$55,800	\$59,950	\$64,050	\$68,200
100%	\$45,300	\$51,700	\$58,200	\$64,600	\$69,800	\$75,000	\$80,200	\$85,300
120%	\$54,360	\$62,040	\$69,840	\$77,520	\$83,760	\$90,000	\$96,240	\$102,360
200%	\$90,600	\$103,400	\$116,400	\$129,200	\$139,600	\$150,000	\$160,400	\$170,600

Affordable Monthly Rent at 30% of Income

Number of Persons in Household:

% Median	1	2	3	4	5	6
30%	\$365	\$493	\$622	\$750	\$873	\$938
50%	\$566	\$646	\$728	\$808	\$873	\$938
60%	\$680	\$776	\$873	\$969	\$1,047	\$1,125
80%	\$905	\$1,034	\$1,163	\$1,291	\$1,395	\$1,499

Affordable Purchase Price (2022 HUD-derived numbers)

	Number of Persons in Household							
AMI	1	2	3	4	5	6	7	8+
50%	\$74,118	\$72,140	\$88,211	\$98,773	\$108,590	\$118,406	\$151,403	\$161,031
60%	\$91,222	\$91,660	\$110,185	\$123,164	\$134,943	\$146,723	\$181,683	\$193,237
80%	\$125,278	\$130,662	\$153,907	\$171,831	\$187,500	\$203,169	\$241,829	\$257,498
100%	\$159,636	\$169,740	\$198,082	\$220,726	\$240,359	\$259,992	\$302,806	\$322,061
120%	\$183,795	\$186,340	\$222,939	\$249,076	\$272,636	\$296,196	\$363,367	\$386,474
200%	\$320,624	\$342,500	\$398,732	\$444,201	\$483,467	\$522,734	\$605,611	\$644,123

Resale Controls

- The THP Board has been discussing for months how to manage below market homes and ensure that subsidies benefit families that need them but that the method for managing the subsidy is not overly burdensome and helps families and individuals build wealth over time.
- The THP Interim Committee, Board and Development Committee have chosen second mortgages as the tool to start with over the next few years.

Second Mortgages

- This is a proven tool in New Mexico and has been used successfully in several other communities.
- This is a recorded document that comes due when a homebuyer wants to sell or refinance their home.
- It is a mechanism that is easy to set up when using government funds to subsidize a development.
- Funds can flow from government to development partner to homebuyer where the subsidy is captured.
- The mechanism is easier to administer than other forms of resale control and allows for wealth building for buyers.

Equity Sharing Feature

- If THP finds that the second mortgages are large (25% or more of home price), it will consider an equity sharing feature.
- This is to ensure that households have some opportunity for wealth building and subsidies grow for next homebuyer using second mortgage proceeds.
- The formula for equity sharing will be calibrated to address local market conditions.
- The simplest method is pro rata formulas.

Pro Rata Share of Appreciation

Appraised Value of Home	\$350,000
Sales Price (97% of Appraised Value)	\$339,500
Affordable Home Effective Price	\$200,000
Second Mortgage/Buyer Discount	\$139,500

Second mortgage features:

Right of First Refusal — organization has the right to repurchase home

“Silent Second” — maximizes equity creation for buyers

Shared equity — original discount amount plus a percentage of increase in value. House sells for 439,500– owner gets 58,910 (58% of equity from purchasing 58% of home)

How do we encourage below market homes?

Multiple strategies are needed to achieve more affordable home prices. Best practice strategies include:

- ❖ Working with low cost or free land.
- ❖ Subsidizing infrastructure with public funding sources.
- ❖ Providing principal reduction through mortgage assistance (silent second mortgages).
- ❖ Building smaller homes, attached homes.
- ❖ Cross subsidy; market rate homes help to subsidize below market homes.
- ❖ Production building and finding savings at scale.
- ❖ Increasing density when feasible.
- ❖ Use a predevelopment fund to identify opportunities.

THP Announces the Launch of a Predevelopment Fund

- Predevelopment funding is a best practice for providing early seed funds to see if a project is feasible.
- This process is designed to also solicit project ideas and partners quickly to understand what development opportunities are available throughout the county.
- Predevelopment funding cues projects up for state and private investment.
- This fund could create the process for identifying the project/projects to receive funding from the Town's Infrastructure funds and for investment from the County (ARPA funds).
- This process is an opportunity to align around THP priorities and convey these to the broader community (Taos County).

What is a Predevelopment Fund?

- It is a mechanism that can provide grant funds or technical assistance to help housing projects move through feasibility.
- This program is designed based on best practices (Enterprise Section 4, Arizona Community Foundation etc.)
- THP manages the program and would fundraise throughout the year for the fund.
- Housing Consultant team staffs the project and provides technical assistance.
- Foundations have seeded the fund with \$240,000 (thank you Anchorum, TCF, LOR and others!)

Predevelopment Fund Process

- The fund provide grants to nonprofits, for-profits, and public entities pursuing below-market housing opportunities.
- The fund will solicit applications through a simple letter of interest (LOI) application when funds are available.
- Each round may have a different focus or different funding amounts depending on what the goals and opportunities are in that funding round.
- Once LOI's are received the consulting team will score and present a rubric of projects for discussion.
- The Development Committee will review LOI's and provide recommendations to the THP Board.

Eligibility Criteria

- Funds can be used for predevelopment activities such as site review (phase 1, survey, entitlement preparation, appraisals etc.), design or engineering services, consulting services, legal review, application prep for funds etc.
- Any reasonable aspect related to project feasibility
- This may include staff support for nonprofits pursuing development opportunities.
- Projects seeking funds must commit to a % of below market housing. THP does not want to make funds overly burdensome, so compliance will follow other funding sources used for final project gap funding.

What types of units do we seek to fund?

- Rental units up to 80% of Area Median Income (based on needs assessment)
- For-sale units up to 120% of Area Median Income (based on needs assessment)
- THP prefers that projects receiving predevelopment grant funds set-aside at least 25% of their units as below market; if applicant does not see this as feasible, they can propose an alternative.
- This process gives THP a snapshot on what development projects and opportunities exist in the market.

Eligible Applicants

- Nonprofit/for-profit/public sector.
- Have direct housing experience or have experienced consultant/s on the team.
- Do not have any compliance issues with state agencies, local government partners on existing projects.
- Are willing to commit a % of units to below-market housing.
- Should clearly define how the predevelopment grant will be spent.

Proposed Funding Amounts

- THP will implement a simple grant agreement and one time disbursement.
- Grant agreement requires reporting out on what was expended and whether project is feasible and next steps.
- Grants from \$10,000-\$75,000
- Each application is reviewed for readiness to proceed, how much match is available, proposed use of funds, innovation, reputation of applicant etc.
- Predevelopment has risk; THP will mitigate as best possible. There is potential for huge leverage for projects moving forward.

Examples of Predevelopment Leverage

- Local government funded \$110,000 to explore motel conversion opportunity.
- Consultants ran due diligence for 6 months and found a development partner and confirmed funding for the project.
- Developer put together a 4% tax credit project which is leveraging \$30 million dollars and creating 120 units of affordable rental housing.
- This was a motel conversion, we mitigated risk by working closely with the state on funding to ensure the project was well positioned as a credit project.

Round 1

- The first round of funding will consider rental and for-sale projects so THP can see what projects are out there and what kind of funding or technical assistance is needed to move projects forward. Any projects in Taos County can apply.
- Applicants will have an opportunity to tell THP what they need funding for.
- LOI requires a basic pro forma and asks for information about location, readiness to proceed and project team.
- First round will prioritize projects most ready to move forward and need some early wins.
- This first round is a pilot project; THP will modify the program after the first round based on feedback and experience.

Feedback on Predevelopment Fund?

- What suggestions do you have for the fund?
- Any suggestions on a name?
- How should we advertise it?

THP Strategic Plan Update

Draft plan will be live on the website in a few weeks
Will also hold meetings for feedback in early August
Welcome input, ideas etc.

Anticipate the plan is completed in August and adopted by the Board.

For more information find us at:
<https://taoshousingpartnership.org/>

Future community sessions

- What topics are of interest for future sessions on below market housing?

THP
Contact
information

Lisa M. O'Brien
Executive Director

Taos Housing Partnership

PO Box 964, Taos, NM 87571

lisa@taoshousingpartnership.org

(575) 240 - 9673