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Affordable Housing Models Financial Analysis

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camoin associates

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Strategies Explored

Model Name	Funding / Investment Amount
ADU Incentives	Cost/Benefits of Grants VS Loans
Short-Term Rentals	Opportunity Costs: STRs VS long-term rentals
Diverse Housing Types	Market Impact of Different Multiunits
Senior Housing	Opportunities and Barriers: Affordable Sr. Apts.
Community Land Trust	Local organization versus statewide organization

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ADU INCENTIVES

A cost-benefit analysis of providing lump-sum grants to property owners to construct affordably rented ADUs versus establishing a loan program for ADU construction.

ADUS AS AFFORDABLE HOUSING?

An Accessory Dwelling Unit (ADU) is an apartment added to a single-family house either internally (such as with a suite of rooms), as an addition, or as an ancillary structure (such as a converted garage or in a "pool house" style). Historically, these units were made for family members, such as aging parents or adult children priced out of the housing market.

Because ADUs piggyback on the main house's land, taxes, mortgage, and sometimes walls, and because many owners have a sympathetic relationship with the tenants, these units are frequently rented out affordably.

PROBLEM STATEMENT

Even when zoning and building codes will allow for the construction of a new ADU, building costs have made it prohibitively expensive – especially if the owners intended on renting the ADU affordably.

Just looking at the construction costs, a modest 800-square-foot (20 ft x 40 ft) backyard ADU might cost $300 per square foot to construct (online sources estimate between $200-$400/sf), and that does not include the cost of the concrete pad or tying in new utility lines like sewer, water, and electric. It also does not include permits.

800 sf x $300/sf = $240,000 + Pad + Utilities + Permits – perhaps $300,000 to construct total. Even if the owners had 20% to put down ($60,000), a mortgage payment would be $1,597.

AFFORDABLE ADUS BY THE NUMBERS

FINANCING NEW ADU CONSTRUCTION FOR AFFORDABILITY

An estimated “all-in” cost for a new, 800-square-foot, free-standing backyard ADU is **$300,000**.

If financed by a 30-year mortgage, a borrower might need to put down 20%, or **$60,000**.
At a mortgage rate of 7%, the monthly payment to leverage **$240,000** in principle is **$1,597**.
That number does not include the recapture of the $60,000 downpayment.

CAN MARKET RENTS SUPPORT CONSTRUCTION COSTS?

The US Department of Housing & Urban Development (HUD), calculates “Fair Market Rent” for every market in the US (to protect taxpayers from price gouging on housing vouchers).

Fair Market Rent is for “standard-condition” rentals that recently turned over and accounts for all utility costs. It is the 40th percentile of rents, that is, it is 4th out of 10 among the most expensive rents in town. For 2025, HUD calculates the Fair Market Rent for a one-bedroom apartment in Bristol to be **$1,319**. This market price would not cover the cost of an ADU mortgage.

However, if you applied the median rent for Bristol, at 1.25x HUD’s Fair Market Rent, rent would be **$1,649** per month. This could cover the cost of a mortgage but not recapture the downpayment.

AFFORDABLE ADUS MODELS

In this section, we look at the financial impacts of four models to encourage the construction of affordable rentals as accessory dwelling units:

1. Grants toward loan downpayment assistance
2. Grants toward points to buy down loan interest rates
3. A revolving loan from the inclusionary zoning funds
4. Construction loans from Town bonds

GRANTS VS. LOANS IN ADU AFFORDABILITY

THE COSTS:

For a new-construction, free-standing, one-bedroom ADU: **$300,000**.

To qualify for a mortgage, a borrower might need a 20% downpayment of **$60,000**. The monthly recapture rate of that downpayment (at no return) over 30 years is **$167** per month.
At a mortgage rate of 7%, the monthly payment to leverage **$240,000** is **$1,597**.

Therefore, the monthly rent needed to break even on construction costs is **$1,764**.

If HUD's Fair Market Rent is **$1,319**, Median Rent is **$1,493** (ACS, 2023), and 1.25x Fair Market is **$1,649**, how can we get these mid-range rents to cover the cost of ADU construction?

GRANTS VERSUS LOANS: THE GRANTS

If the Town of Bristol were to dispense its Inclusionary Zoning housing fund into 13 grants of $40,000 to defray the cost of a down payment, it would reduce the monthly recapture rate to $56. This, plus the mortgage payment, amount to **$1,653** – a few dollars over 1.25x Fair Market.

The owner will have some expenses as part of renting out the new ADU, too, such as some increased property taxes with the new addition, increased property insurance costs, and some utilities like sewer and water fees at a minimum. Breaking even is slightly higher than construction costs. So far in our analysis, grants cannot cover the spread.

GRANTS VS. LOANS IN ADU AFFORDABILITY

GRANTS VERSUS LOANS: GRANTS TO BUY DOWN INTEREST RATES

An alternative approach for dispensing the inclusionary zoning housing trust fund would be to use it to buy "points" to buy down the interest rate for owners taking out a mortgage to build an ADU. If interest rates were at 7% and the Town of Bristol paid for four points, that could drop the mortgage interest rate to 6% and cost the Town a **$9,600** grant on a $240,000 loan. If the Town took this approach, the fund could buy points on over **54 loans**.

That lower interest rate of 6% would reduce the monthly payment to $1,439, and when combined with the owner's downpayment recapture, it brings the monthly repayment to **$1,606**. With 1.25x Fair Market at $1,649, we're getting much closer to a workable rent. However, the difference of $43 per month is not likely to cover the owner's incidental costs, such as taxes, insurance, and some utilities.

It is worth noting that there may not be 54 applicants to the program in the first few years.

GRANTS VERSUS LOANS: THE LOANS

If the Town wanted to consider using the inclusionary zoning housing trust fund as a revolving loan fund to construct new ADUs, the fund could simultaneously support two $240,000 loans. With two 30-year loans in repayment, it would take 15 years before enough principal was paid back to issue a new loan, and by that time, construction costs may have risen.

GRANTS VS. LOANS IN ADU AFFORDABILITY

GRANTS VERSUS LOANS: THE LOANS

Another option might be for the Town to bond for an ADU loan fund. The Town might borrow $5,000,000 to loan out to twenty new ADU construction projects. The Town may be able to bond at 4% interest and make twenty $240,000 construction loans at 5% interest to borrowers.

A 5% construction loan would make the monthly payment $1,288, and when the downpayment recapture of $167 is added, it comes to **$1,455** per month needed to pay back an ADU construction loan. If the owner charged 1.25x Fair Market at $1,649, that allows for almost $200 per month to cover incidental costs of increased taxes, insurance, and some utilities. While this comes very close to breaking even, the monthly payback amount is fixed for 30 years, while 1.25x Fair Market rates should rise with the rate of inflation. For example, if Fair Market Rent rose by 3% each year with inflation, after ten years, 1.25x Fair Market would be $2,216 – while the monthly repayment amount would stay the same. After ten years, there would be $761 per month for the owner to cover incidentals and profits. Yes, in the early years, the ADU would come close to breaking even, but in later years, there would be notable profit – even with the price capped at 1.25% Fair Market Rent. This is in addition to owners' tax benefits like asset depreciation (the cost of the ADU) and loan interest deductions.

This bond and loan program would be paid off by monthly installments from borrowers, not Bristol taxpayers. Charging just 1% over its own borrowing costs would net the Town $789,511 in interest payments over the 30-year life of the bond.

AFFORDABILITY CHECK

In order to settle upon a rental price that could support the cost of construction, we have relied on multiplying HUD's Fair Market Rent by one-and-a-quarter times itself to arrive at approximately the 50th percentile of area market rents. This calculation equals a monthly rent of $1,649, but is that affordable to Bristol renters?

According to the Census, Median Renter Household Income adjusted for 2024 dollars is $62,088. HUD sets a standard where a household cannot responsibly afford their housing if they pay more than 30% of their income on housing costs. At 30% of $62,088, we have $18,626 available for annual housing costs (including utilities), or $1,552 per month. This means that the renter household earning a median renter income cannot responsibly afford a rent of $1,649 by almost $100. However, HUD estimated 2024 median renter income for a single household in the Providence-Fall River region to be $78,680, which would allow for a monthly housing budget of $1,967 – well above our 1.25x Fair Market Rent. There will be renters in the market who can responsibly afford these prices.

IF THE TOWN BONDS, WHAT ABOUT THE INCLUSIONARY ZONING FUNDS?

If the Town of Bristol were to pursue the bond-funded loans in the last example, the Town might consider using the inclusionary zoning funds for downpayment assistance to select borrowers. This assistance should not be the whole amount but a large portion of it. The Town might dispense 13 grants outright, or it could loan the funds subordinate to their bond loan, or the Town might place a lien on the ADU equal to the downpayment assistance so the Town will get the money back if the property ever sells.

FINAL NOTES FOR CONSIDERATION

In all models previously explored in this section, the Town of Bristol should place a 30-year covenant on each ADU that the Town assisted to cap the maximum rent at 1.25x HUD's Fair Market Rent.

In several of the models explored, the finances did not work because current interest rates were too high. It may be in the next couple of years that interest rates return closer to 5% on the free market. If that happens, many of these ADUs could be constructed without loan or grant assistance.

If interest rates were to drop to 5%, the Town might focus on the use of Inclusionary Zoning funds to provide construction loan downpayment assistance or to buy points on a private construction loan – both in exchange for 30-year rent-cap covenants. (If interest rates fall and ADUs can be constructed without assistance, then nothing precludes owners from charging rents that are a stretch for the local workforce to afford.)

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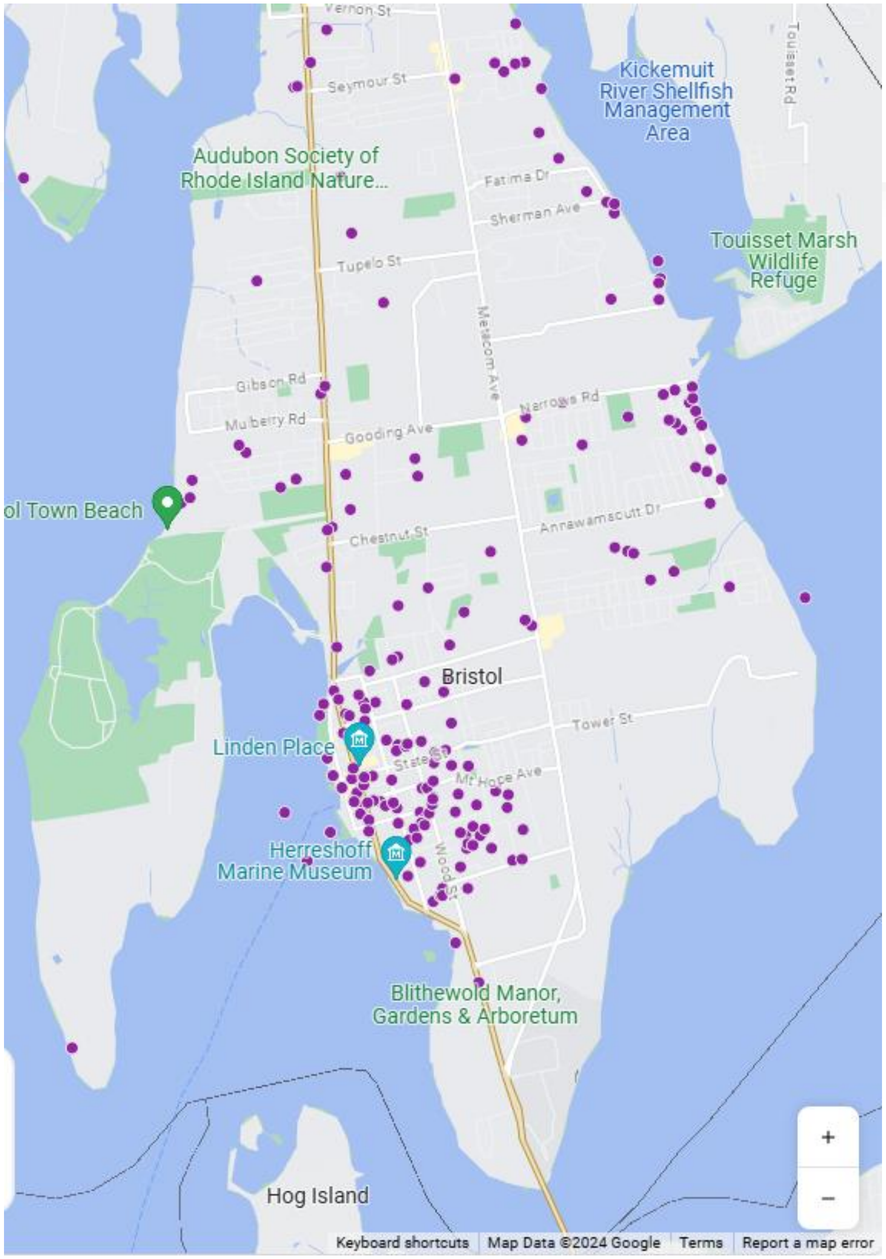
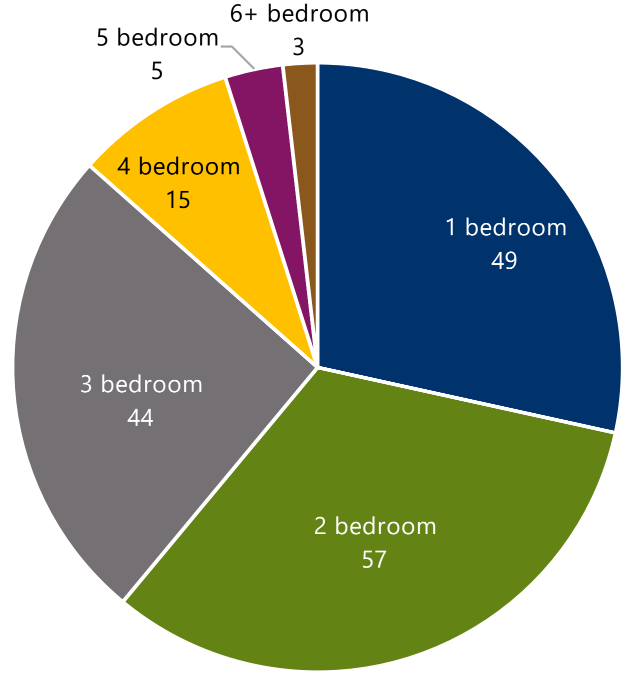
SHORT-TERM RENTALS

An opportunity cost analysis of supporting or restricting short-term rentals compared to long-term rentals.

BRISTOL'S SHORT-TERM RENTALS



Average Distribution of STR Listings by Bedroom Count in Bristol, 12 months ending Sept. 2024



Source: AirDNA, Camoin Associates

77 Listings

48.6% Occupancy

3.6 Days Average STR stay

Source: AirDNA, Camoin Associates
Note: Estimates for Bristol Town are based on data for Bristol County for the 12 months ending Sept 2024

SPENDING OF STR VISITORS

Summary of Bristol Short-Term Rental Market and New Visitors

Average full-home listings	72
Average occupancy rate	49%
Est. Total Rental Nights	**12,772**
Average length of stay (nights)	3.55
Est. visitors per booking	2.2
Est. Total STR Visitors	**11,942**

Source: AirDNA, American Community Survey, Camoin Associates

Short-Term Rental Spending Patterns in Bristol

Total STR visitors	11,942
Est. total spending per visitor	$122
Est. Total Visitor Spending from STR Visitors	**$1,453,205**

Source: Visit Rhode Island 2022 Tourism Impact Analysis, Camoin Associates

Note: Spending excludes any spending on short-term rentals.

Full-Time Household Spending Patterns in Bristol

Average full-home listings	72
Average spending per full-time household	$36,149
Est. share spent locally	34%
Est. local spending per full-time household	$12,291
Est. Total Spending by Full-Time Households	**$884,928**

Source: AirDNA, 2022 Consumer Expenditures Survey, Lightcast, Camoin Associates

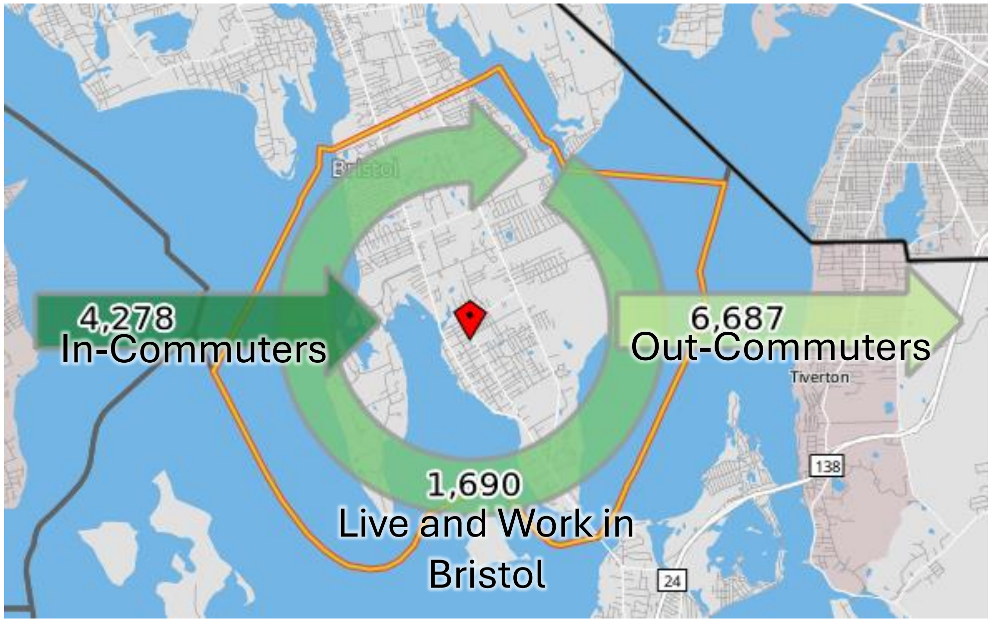
Note: Represents the average spending for a household with Bristol's median household income of $91,382 (2022 American Community Survey)

Based on short-term rental (STR) data from AirDNA, **approximately 12,000 visitors** are projected to stay at these properties in Bristol each year.

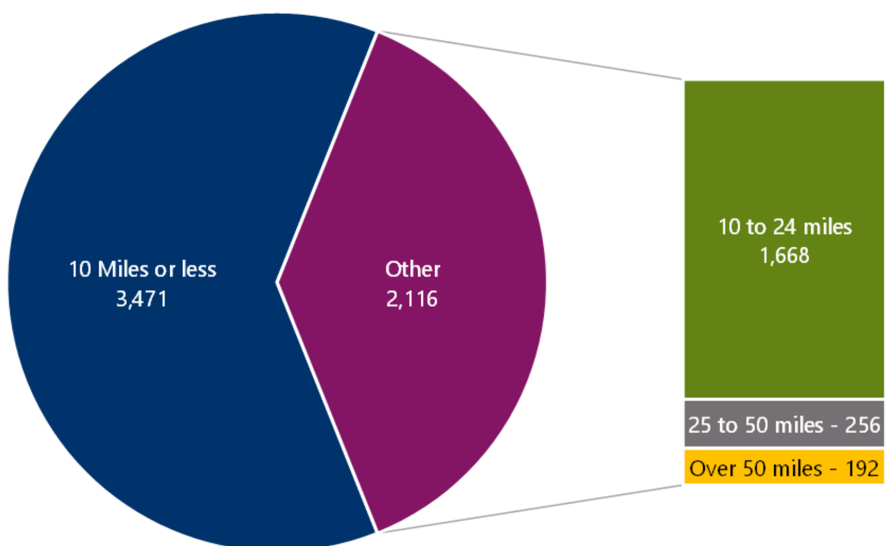
These visitors are expected to **spend about $1.4 million** throughout Bristol's economy.

Comparatively, if these units were used to house full-time households, they would be estimated to generate **about $900,000 in local spending.**

OTHER IMPACTS AND CONSIDERATIONS



Number of Workers Employed in Bristol by Commute Distance - 2021



Source: US Census - OnTheMap

- Bristol has a mismatch of those who live in the town vs. those who work in the town.
- This employment economy is sustainable for those 5,139 employees who travel **less than 30 minutes** to their jobs in Bristol.
- However, those remaining commuters into Bristol for work – 448 – are **most at risk of changing employment** to something closer to their out-of-town residence.
- Short-term rentals could compete for housing options for those 448 employees who are commuting longer distances to get to Bristol jobs.

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Housing Land Trust

Engaging an existing organization
versus creating a new entity for Bristol

WHAT IS A HOUSING LAND TRUST?

A housing land trust is a mission-based, private organization that leases land to residents who own houses on the land. The land trust charges a nominal fee for the land lease, thus taking the cost of land acquisition out of the financial equation for homeownership.

A resident may buy or build any structure allowable by zoning on the leased land and privately own it. In return for nominal land-lease rates, the land trust can restrict the resale of the house on the land to income-qualified buyers. In this way, the housing land trust lease model is a financially accessible entry point into homeownership, but it limits the amount of equity a homeowner can access after years of appreciation.

If the Town of Bristol considered engaging this model for price-affordable housing options, would it be more effective to create a new local entity or to contract with an established land trust?

WHAT GOES INTO A HOUSING LAND TRUST?

ORGANIZATIONAL COMPONENTS

1. Full-time director. Duties include:
    1. Education, outreach, and fielding inquiries
    2. Monitoring, mediating issues, and enforcing covenants
    3. Overseeing administration and reporting to a board of directors
    4. Executing opportunities (eg, offers of donated land) and protecting assets
    5. Optional: advocacy efforts to attract more funding and effective policies
    6. Note: like a real estate agent, a land trust director needs to be on call at all times when an emergency or opportunity comes up

2. Administration and accounting. Duties include:
    1. Invoicing monthly land lease fees
    2. Reconciling payments
    3. Preparing monthly financial statements and reports
    4. Payroll and filing taxes

Operating Expenses:

1. Office equipment and supplies, subscriptions and fees, and some travel
2. Upfront legal documents template preparation (like contracts)
3. Contingency plan (line of credit?) if the organization gets sued or needs to sue
4. Access to capital to buy back properties that are foreclosed or go to auction

HOW IS A LOCAL LAND TRUST FUNDED?

Land-lease fees are nominal and do not produce much revenue.

Some operational expenses can be shared by a sponsoring organization, such as bookkeeping and office expenses.

A director might be funded by consulting in a related and flexible field, like real estate.

Some land trusts with large holdings might have for-profit investments, like rental properties, to pay for staffing costs.

Grants for nonprofits are sometimes available, but they're often inconsistent (offered for a few years only), or inadequately awarded (each applicant receives a small proportion of their request), and grants can rarely cover operational expenses.

WHAT MIGHT A LOCAL PROGRAM COST THE TOWN OF BRISTOL?

A land trust director would need real estate and legal acumen to understand finances and contracting. A salary for this mission-based work might be $70,000, plus employment taxes and health insurance, totaling close to $100,000 in employment costs.

Perhaps a sympathetic department or organization could cover the payroll, admin, and bookkeeping activities. Some startup funds would also be needed to create contracts, etc.

HOW WOULD AN EXISTING ORG SERVE BRISTOL?

The Community Housing Land Trust (CHLT) of Rhode Island is a statewide entity allied with the Housing Network of Rhode Island (the two organizations share some resources).

CHLT acquires new land to lease by donation, not purchase. The donor must pay the closing costs to transfer the property. Otherwise, there are no costs to a donating entity to have CHLT operate in their vicinity.

CHLT is large enough to support dedicated staff. The organization has all of the relevant legal documents on file, and the staff is experienced in the more complicated situations that can arise (foreclosures, auctions, delinquency, storm damage, etc.). CHLT is also building a capital fund to be able to act upon rights-of-first-refusal written into their rental agreements.

CONSIDERATIONS REGARDING LOCAL VERSUS ESTABLISHED STATEWIDE ORG

The biggest consideration is scale. A land trust needs someone “at the ready” to respond to donation offers or emergencies such as foreclosure or auction. To support this capacity at the local level would mean paying a dedicated person for a small number of properties (proportionately). Since the statewide organization is established with an existing business model, it would not cost the Town of Bristol anything to have CHLT operate in Bristol.

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