City of Ketchum

CITY COUNCIL MEETING AGENDA MEMO

Meeting Date:	June 12, 2023	Staff Member/Dept:	Rian Rooney/Housing
Agenda Item:	Ownership and Preservation Program Policies		

Policy Analysis and Background (non-consent items only):

Staff request guidance on key policy questions for the OPP.

Goal 1: Create + Preserve Housing
Action: Pathway to Ownership

The 2022-2023 Housing Action Plan identifies a Pathway to Ownership Year 1 Action to support Goal 1, including exploration of deed-restriction and down payment assistance feasibility and program options. Staff investigated the feasibility of a deed-restriction purchase program (Ownership and Preservation Program), similar to programs established in many other mountain resort communities.

The Town of Vail, Colorado and the Vail Local Housing Authority initiated the InDEED program in 2017. The program offers a cash incentive in exchange for "light" deed-restrictions, which restrict occupancy to qualified local workers, preserving existing housing stock for local, year-round occupancy. These restrictions are similar to Blaine County Housing Authority's Category L deed-restriction, which has no income or asset limits.

Staff hosted three focus groups with local experts, realtors, and mortgage lenders to introduce the program and receive feedback to refine program details. Staff also explored and analyzed local inventory and current economic conditions to inform program recommendations. Since the launch of Vail's InDEED program in 2017, pandemic-related effects have shifted the economic landscape in mountain towns like Ketchum. Home prices, already high and rising, surged with the pandemic. In the last year, federal interest rate policy made borrowing more expensive and decreased purchasing power.

Staff wishes to use this update to provide the City Council with the latest findings, analysis, and recommendations for the program and to seek direction and guidance to finalize a program proposal for review in July. More extensive background and details on the program can be found in the attached slides (Attachment #1). Staff requests direction from the City Council on the following program elements.

Expand Program to Include Rental Properties
Because the Year 1 HAP Action "Pathway to Ownership" seeks to encourage and support home ownership, originally staff explored a narrower, more restrictive program, targeted specifically to people seeking homeownership or assistance with existing homeownership. This differs from the most flexible deed-

restriction purchase programs (e.g. Vail InDEED, Park City), which are only concerned with the qualifications of the occupant of the unit, not the owner.

Given the high housing costs, decreased purchasing power, and limited inventory, staff recommends opening the Ownership and Preservation Program pilot to allow participating units to be used as rentals and to be purchased by other entities, including investors and employers. Staff believes that this added flexibility will expand the use of the program but values prioritizing support for homeownership, in alignment with the HAP year 1 action. Staff could closely monitor funding allocation among participant types and hold or pause funds to support homeownership. Summit County, Colorado, for example, only processes requests for ownership acquisition applications during peak sale season, and then reopens to existing homeowners after the summer.

Staff recommend Option 2, with the potential to consider timing preferences and funding allocations specifically for homeownership.

Program Options:

1. Flexible. No distinction between rental and ownership – unit occupant must be qualified, year-round local.
    a. Pro**:** Maximum flexibility and eligibility for use of program
    b. Con: May create competition between investors and those seeking homeownership funding
2. Same program, two deed-restrictions: 1. Ownership, 2. Flexible.
    a. Pro: Two restrictions could allow for distinctions in regulations, financial incentive, and appreciation, and give participants opportunity to choose what is preferable for them.
    b. Con: More options can add education and administrative work.
3. Ownership. Only allow program funds to be used for owner-occupied units
    a. Pro: Program exclusively supports homeownership, which is not currently supported by other programs
    b. Con: Limits program participation due to limited inventory amounts and housing types

Appreciation Cap

The program element which has received the most debate and discussion in focus groups is whether to include an appreciation cap with the Category-L deed-restriction, as is typically used with other BCHA deed-restrictions. Current BCHA Category-L deed-restriction terms include a maximum 4% annual appreciation cap that tracks with increases in cost-of-living. The most flexible versions of these programs, including the Vail InDEED and Park City programs, do not have appreciation caps. On the other hand, Jackson/Teton County's ownership-specific restriction includes a 3% annual appreciation cap (their second, less restrictive, rental version of the restriction does not have an appreciation cap). Notably, the more flexible restrictions provide less subsidy (typically about 10-15% of value) than Jackson's ownership-specific program (20%). In Breckenridge, two versions of the restriction are offered: an uncapped restriction (up to 19% of value) and an appreciation-capped restriction (up to 30% of value).

The arguments for an appreciation cap are primarily protecting the long-term value of the public investment and keeping home prices on restricted units more attainable to more locals. When the public provides a subsidy in the form of down payment assistance, appreciation on the home would be capped beginning from the market price of the home, less the value of the restriction. This ensures that the value provided by the public subsidy buys down the home price on all future transactions so that all future homeowners benefit from the subsidy. If appreciation on the unit is not capped, the initial recipient can collect the public subsidy at the first subsequent sale. Even without an appreciation cap, a deed-restriction will likely limit the maximum sale value of unit relative to a comparable unrestricted unit, however, an appreciation cap can ensure that a home remains more accessible to local earners in the long-run.

Arguments against appreciation caps include that they prevent homeowners from building enough equity in their home to eventually "graduate" out of the unit and into an unrestricted, market home, as the market appreciates faster than the appreciation cap. Staff views the primary benefit of homeownership under this program as long-term housing stability, not as investment and equity-building, although equity-building and appreciation will be an additional benefit even with a cap.

Staff also heard that appreciation-capped units were difficult for owners to sell during economic downturns, citing challenges experienced after 2008. In a "down market" with home prices falling, comparable unrestricted units were affordable to buyers and more attractive than deed-restricted units. Some focus group participants argued that if a deed-restricted unit will participate in downside risk like a market unit, then it should also benefit from any potential upside. Staff notes that BCHA deed-restricted units in 2008 were income category-restricted units and did not include Category-L-style units, which do not have income or asset limits and use a different method for capping appreciation.

A final consideration for appreciation caps is related to question #1 and eligibility for participation in the Ownership and Preservation Program. When buyers are investors or businesses, capital and funding are more available for purchasing units, compared to the individual local household, and appreciation caps are not as necessary. Additionally, investors will be more interested in participating in a community housing program without an appreciation cap.

Staff recommends considering whether to include appreciation caps in conjunction with consideration of participant eligibility and corresponding grant value.

<u>Program Options</u>:

1. No appreciation cap
2. Two versions: one with an appreciation cap and a higher financial incentive and the other with no appreciation cap and lower financial incentive. These could also correspond with ownership vs. flexible deed-restrictions.
3. Annual appreciation cap (tracked against cost-of-living) for all participating units

Program Geography

Staff analyzed real estate inventory in Ketchum and the rest of the Wood River Valley over the past year. Ketchum's inventory in the sub-$1 million category is limited and largely made up of 1 and 2-bedroom condominiums constructed in the 1970s and 1980s. Hailey has the greatest mix and volume of unit types at this price point, including larger units and single-family homes. While staff believes, and recent survey data supports, that there is demand for the program to support acquisition of available units in Ketchum under this program, occupants of preserved units would be smaller households due to the limited size of units. Realtors advised that some families seeking housing would opt for larger unit types in Hailey or beyond, without subsidy programs. Additionally, the City of Hailey is currently developing a similar preservation program.

The HAP includes direction to allocate 20% of City of Ketchum housing funds for significant county-wide actions. Staff recommends Option 2 or 3. Any funding for properties outside of Ketchum's city limits could be split with relevant participating jurisdictions (if any).

Program Options:
1. Restrict use of Ownership and Preservation Program to properties located within the Ketchum city limits.
2. Restrict use of program to properties located within Ketchum or Ketchum's Area of City Impact.
3. Restrict 80% of the program funds for properties located within Ketchum (or Ketchum's Area of City Impact).
4. Expand use of program to all of Blaine County and operate the program through the Blaine County Housing Authority.

Value of financial incentive
The recommended financial incentive – either as a percentage of home price and/or in maximum dollars – is largely dependent on the guidance sought above.

Next steps:
Staff will recommend program policies to Council in July. In the meantime, Staff will review the deed restriction template(s) with key partners and prepare for implementation.

Sustainability Impact:

Community housing houses members of the community locally, ensuring that residents are closer to their places of work, recreation, and other needs. This proximity helps to decrease transportation time and reduce vehicle-related emissions associated with commuting to and from work from outside of the community.

Additionally, the proposed Ownership and Preservation program converts existing housing units into community housing, utilizing existing housing stock, land, and resources.

Financial Impact:

Staff anticipate launching a pilot of the Ownership and Preservation Program using $1 million in LOT funding, to be distributed over two years.

Attachments:
1. Ownership and Preservation Pilot Program Background Slides

HOUSING MATTERS

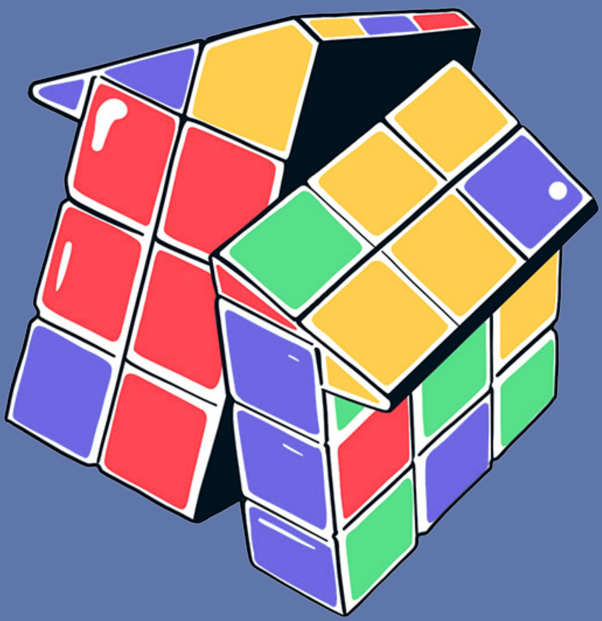
Ownership and Preservation Pilot Program

May 2023

Carissa Connelly
City of Ketchum Housing Director

Rian Rooney
City of Ketchum Housing Fellow

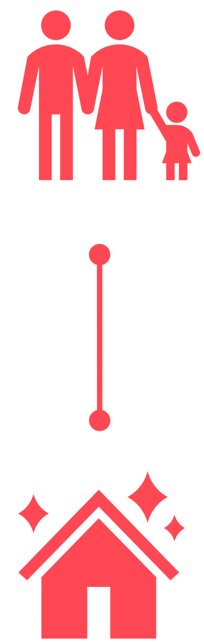
housing@ketchumidaho.org



1 PRODUCE + PRESERVE HOUSING | **OWNERSHIP AND PRESERVATION PILOT PROGRAM**

ACTION: PATHWAY TO OWNERSHIP

Identify **deed restriction** and **down payment assistance** feasibility and program options. Explore deed restrictions, tax abatement, cash equivalent, rehab assistance, and cooperative/co-ownership opportunities.



PILOT PROGRAM: INITIAL CONCEPT

City of Ketchum

$1M

proposed pilot funding

15-20%

lesser of appraised value or sale price

OR

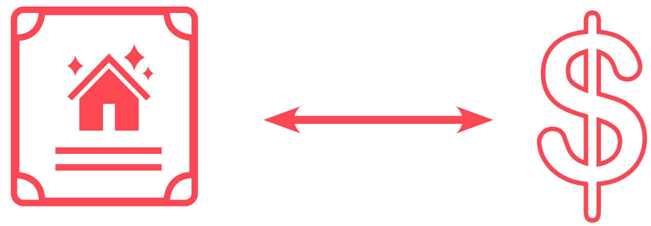
$150-200k

maximum

Individual Deed-Restriction Value

Local Homeownership and Preservation: Minimum 5 deed-restrictions

WHAT IS AN OWNERSHIP + PRESERVATION PROGRAM?



Deed-Restriction

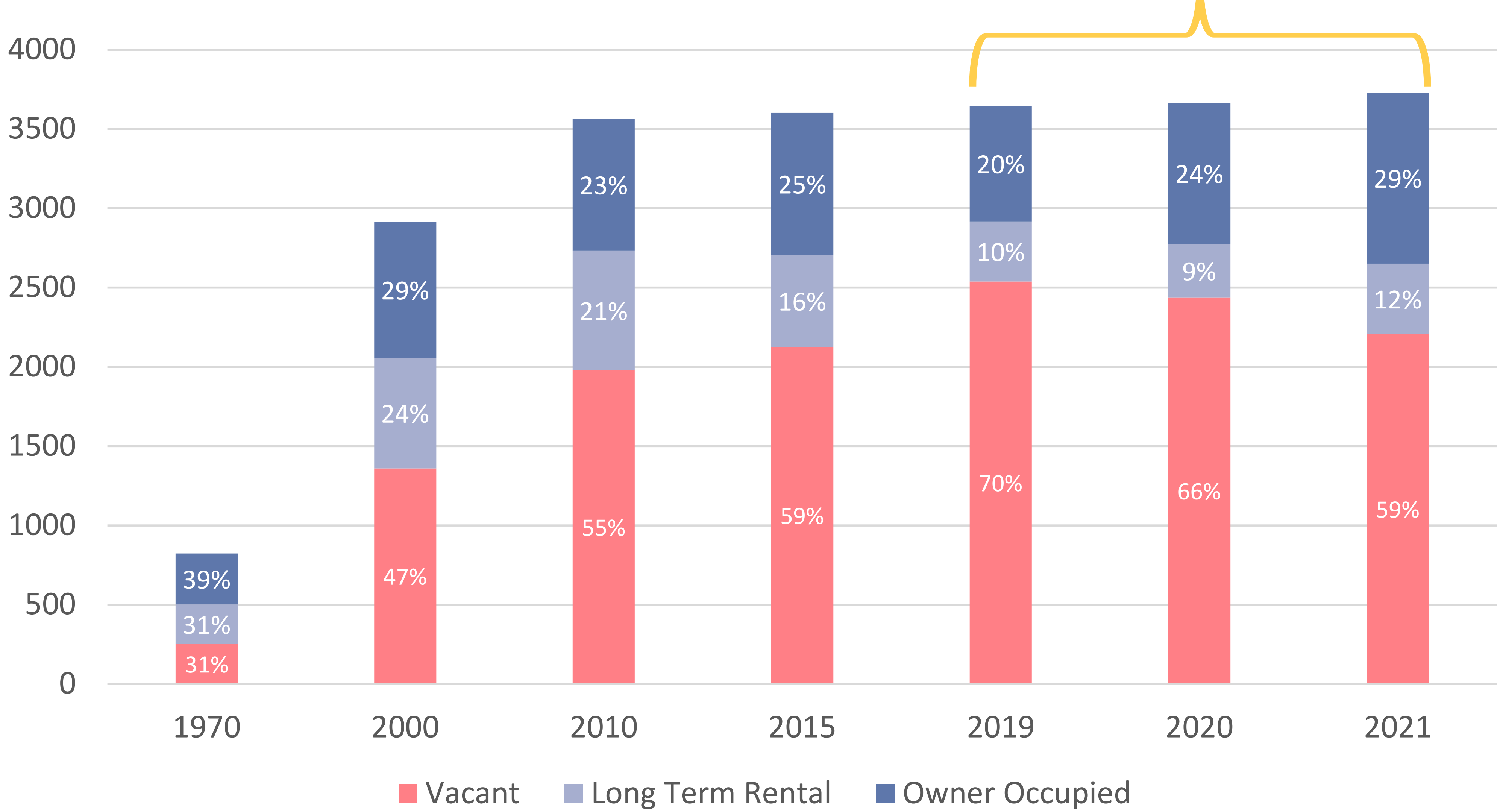
- Long-term covenant that runs with the land that can restrict occupancy, ownership, and resale
- Explicit or de facto affordability + local occupancy
- 70-year term, with renewal at sale

Goals

- Support community character
- Prevent housing leakage + preserve supply of housing for locals
- Homeownership assistance for new buyers
- Financial assistance for existing homeowners

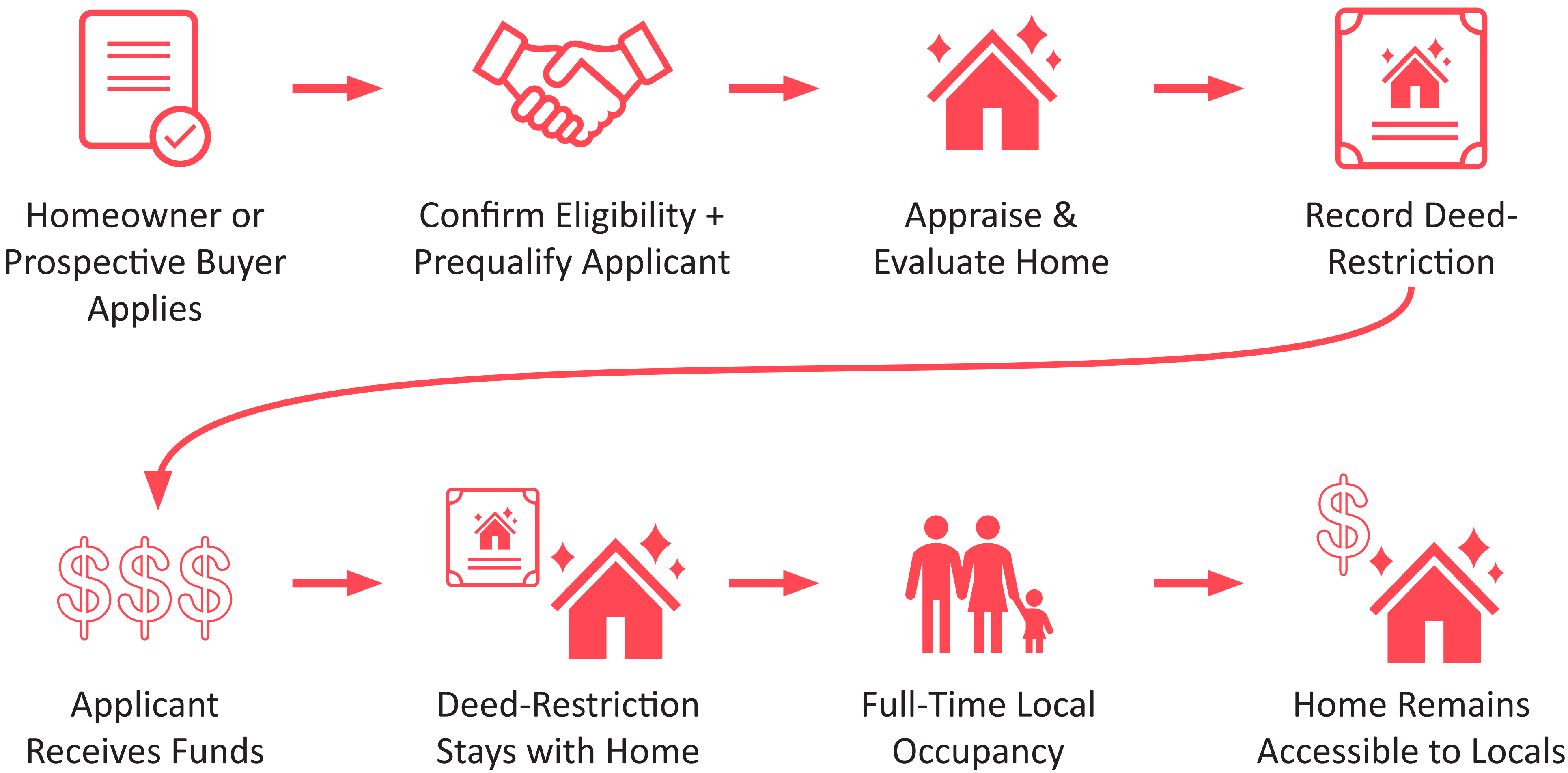
KETCHUM HOUSING STOCK PROFILE

Some declines in vacancy since pandemic:
- owner occupancy increase (+9%)
- long term rentals unchanged (+2%)



Source: U.S. Census Bureau: American Community Survey 5-Year Estimates, Decennial Census, City of Ketchum Building Permits

HOW IT WORKS


Homeowner or Prospective Buyer Applies
Confirm Eligibility + Prequalify Applicant
Appraise & Evaluate Home
Record Deed-Restriction
Applicant Receives Funds
Deed-Restriction Stays with Home
Full-Time Local Occupancy
Home Remains Accessible to Locals

COMMON IN PEER COMMUNITIES

- Vail (Vail InDEED)
- Summit County & Breckenridge (Housing Helps)
- Teton County & Jackson, WY (Preservation Program)
- Truckee (Home Access Program)
- Placer County (Workforce Housing Preservation Program)
- Mountain Village (YES Incentive Program)
- Big Sky Community Housing Trust (GOOD DEEDS)
- Park City (Live Park City)
- And more..

TYPICAL PROGRAM CRITERIA

- **Peer programs focus on light "locals" and "workforce" deed-restrictions (Target: ~120% AMI and up)**
  - Full-time local employment and residency
  - No asset or income cap
  - No short term rentals
- **BCHA Category L Deed-Restriction**

CRITERIA THAT VARY ACROSS PROGRAMS

Ownership vs. Rental Flexibility

- Rental opens program to investors, landlords, employers
- Competition with buyers seeking homeownership
- Housing Action is **Pathway to Ownership**

Other Residential Property

- No limit in programs that allow rentals
- Limited in homeownership-focused programs

Appreciation

- No limit: restriction establishes market
- Capped annually to balance long-term affordability & equity growth

PEER PROGRAMS - GRANT VALUE

- **Breckenridge + Summit County**
  - 10-15% (no appreciation cap)
  - Breckenridge Revised 2022: 19% (no cap), 30% (3% cap)
- **Jackson + Teton County**
  - 10%, $100k for rentals (no cap)
  - 20%, $200k for ownership (3% cap)
- **Truckee - new in 2022**
  - 16%, $150k max (no cap)
  - Maximum 245% AMI
- **Park City - new in 2022**
  - 10-20%, $200k max (no cap)
  - Average 14% of value in pilot

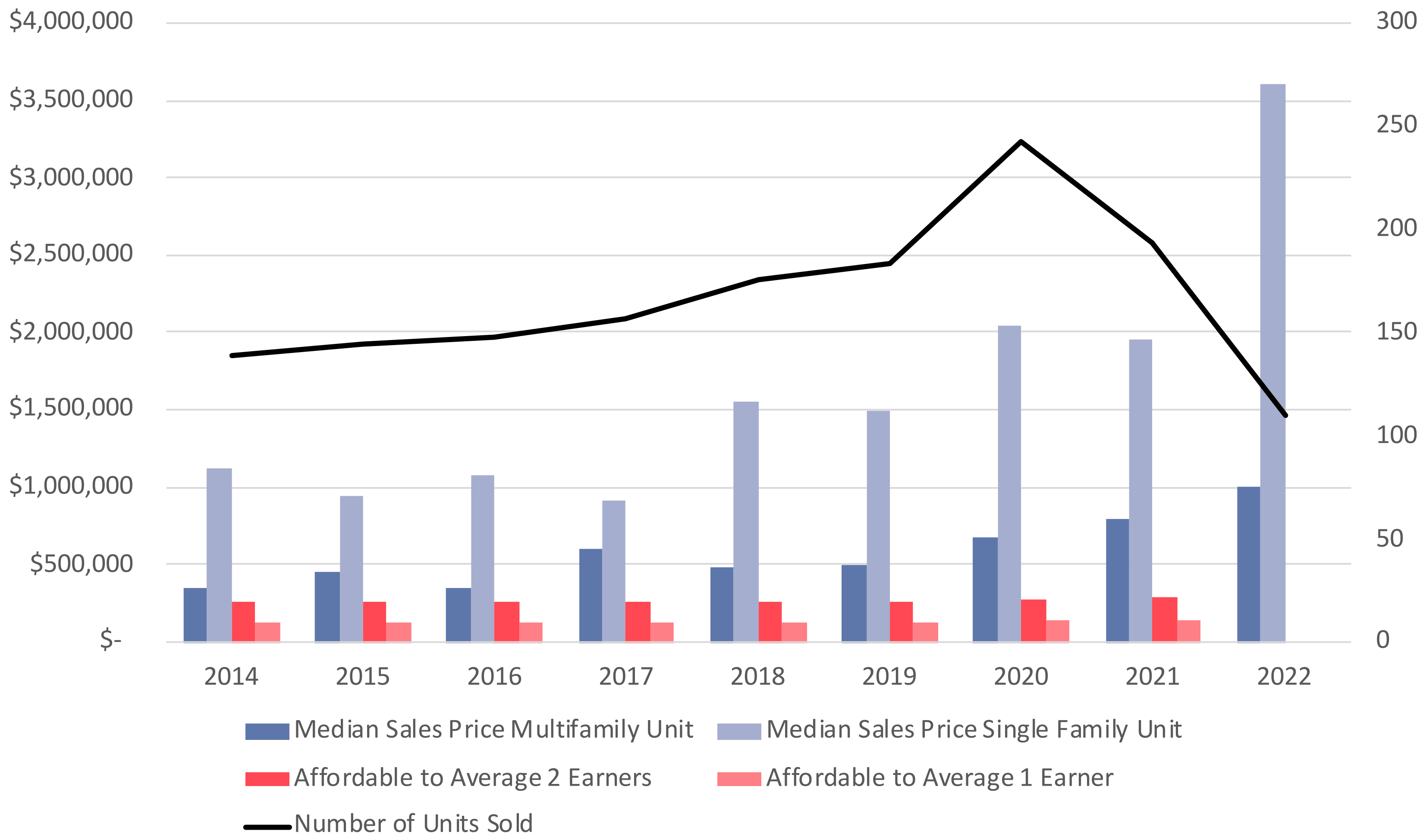
PROPOSED CATEGORY L CRITERIA - OWNERSHIP

- **Local Employment - Blaine County**
  - One adult: full-time (1,500 hrs / year)
  - Exceptions for military, teachers, retirement, disability etc.
- **Local Residency**
  - Owner-occupied; 9 month min.
  - 1 year rental to local; no short term rental
- **Income**
  - No maximum
  - Minimum amount of household income earned locally
- **Assets**
  - No asset limit
  - Cannot own other developed residential property
- **Appreciation Cap**
  - Tracks with cost of living (CPI)
  - From net of home value and grant

PROPOSED CATEGORY L CRITERIA - FLEXIBLE

- **Local Employment - Blaine County**
  - One adult: 30 hours / week
  - Exceptions for military, teachers, retirement, disability etc.
- **Long-Term Occupancy**
  - Owner-occupied; 9 month min., or
  - 12-month minimum lease; no short term rental
- **Income**
  - No maximum
  - Minimum amount of household income earned locally
- **Assets**
  - No asset limit
  - No limits on property ownership for owner
- **No Appreciation Cap**

KETCHUM HOME PRICES RISING, PURCHASING POWER DECLINING



LOCAL INVENTORY - SUB $1 MILLION

Ketchum

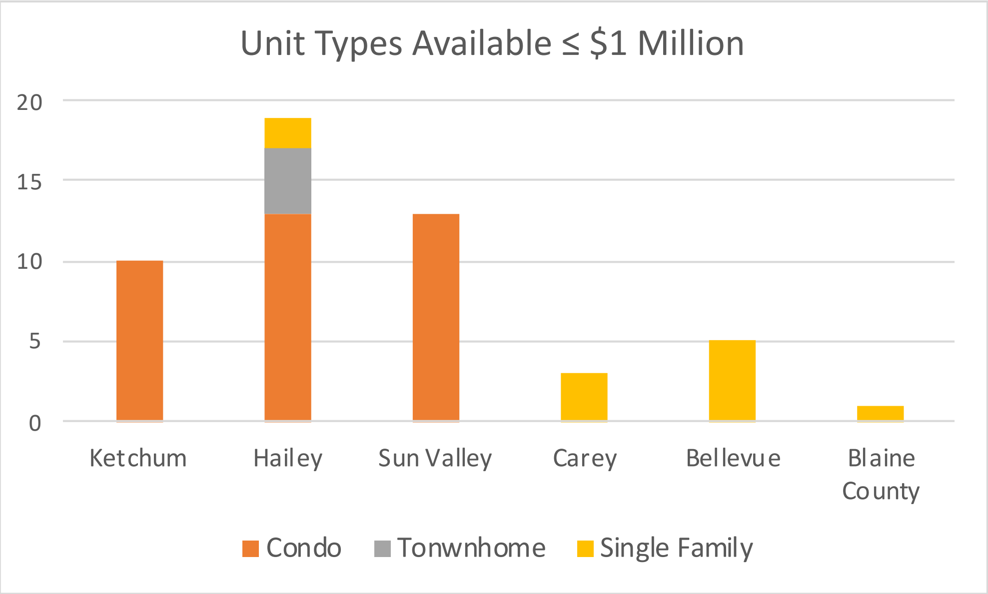
- Limited (10 units)
- 1- 2 BR Condos
- Largely 1970s Construction
- <1,300 sf

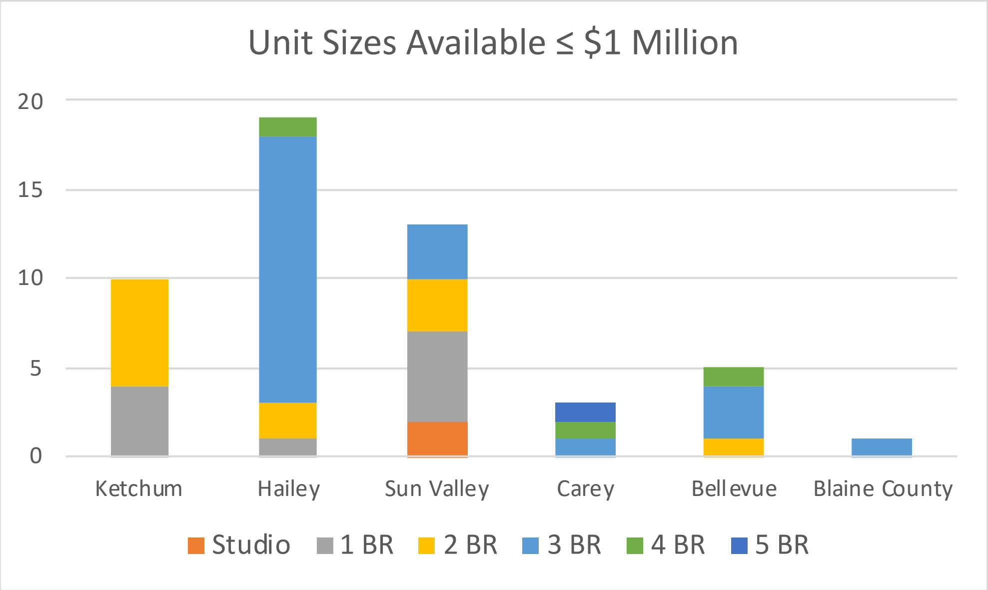
Hailey

- Mix of Condos, Townhomes, Single Family
- Majority 3 BRs, ~1,000- 2,000 sf
- Mixed age construction

Rest of County

- Condos (Sun Valley), Single Family
- Majority 3 BRs, ~1,000- 2,000 sf
- Mixed age construction





*As of March 22, 2023

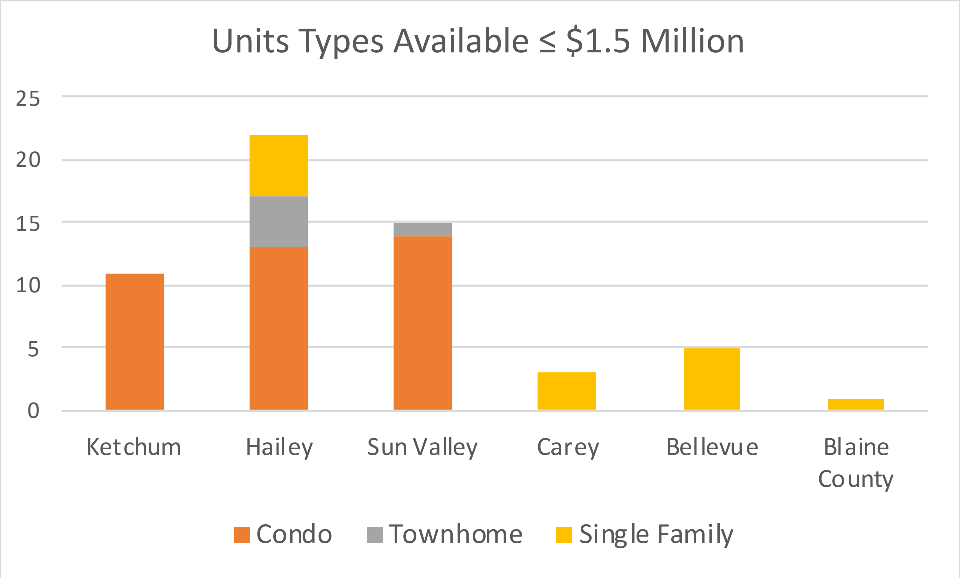
LOCAL INVENTORY - SUB $1.5 MILLION

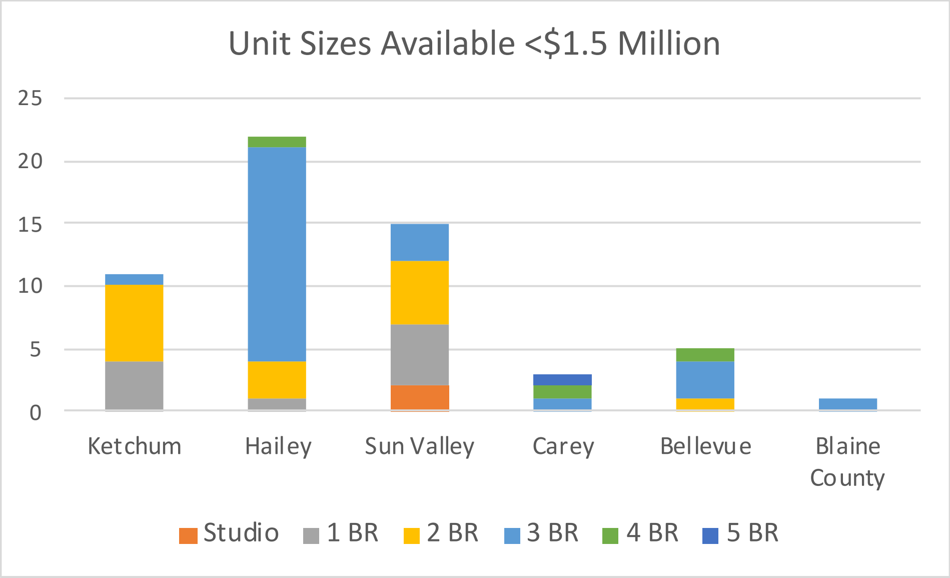
Ketchum

- + 1 3BR condo

Rest of County

- +3 SFs in Hailey
- +2 Condos in Sun Valley





*As of March 22, 2023

$1 MILLION PROPERTY EXAMPLE

$1M
home price

30%
down payment

6.75%
interest rate

$4,540
monthly payment
does not include taxes, insurance, HOA fees

$89,000
2023 BLAINE COUNTY MEDIAN FAMILY INCOME

To be affordable, no more than 30% of income recommmended on housing costs.

$155,660 - $181,600
annual income needed (30% - 35% range)

175 - 200%
Blaine County median income

APPRECIATION CAP

- **Protects Public Investment**
  - One-time public grant
  - Ensure long term affordability + limits price creep
  - Buys down unit price for future owners, not just first
- **Tracks with Average Annual Appreciation**
  - 3-4% maximum annual appreciation
  - Follows an index (CPI is typical)
- **Balance Affordability and Wealth Creation**

APPENDIX SLIDES

How is the restriction's value determined?

- Depends on details of restriction and home value
- Typically 10-20% for a "workforce" / "local" restriction

Option 1: Formula with Maximums

- Example: 15% of the appraised value, not to exceed $100,000

Option 2: Evaluation and Negotiation

- Appointed advisory body negotiates with homeowner
- Consider variety of factors: unit type, location, how unit meets goals and needs of community

Program Eligibility: Deed-Restriction Terms

Residency and Local Employment

- Resident: Year-round (own or rent)
- Worker: Average 30 hours / week for local business
- Retiree: Provisions for retirement

Income

- "Locals" programs often have no limit
- Minimum % of household income earned locally
- Category-based limits (Maximum % AMI)

Assets

- "Locals" programs typically have no limit
- Maximum % of sale price
- Category-based limits

Other Property

- Some prohibit owning other residential property

Limits on Appreciation

- **Index-Based Formulas**
  - Inflation (CPI)
  - Prime Rate / Interest Rates
  - Growth in AMI
- **Income-Based (BCHA Method for Income-category Units)**
  - Based on income needed to pay mortgage, fees, etc. within established income category
- **None - Market Establishes Price**
  - Common in peer “locals” programs
  - Restriction has impact on market appreciation