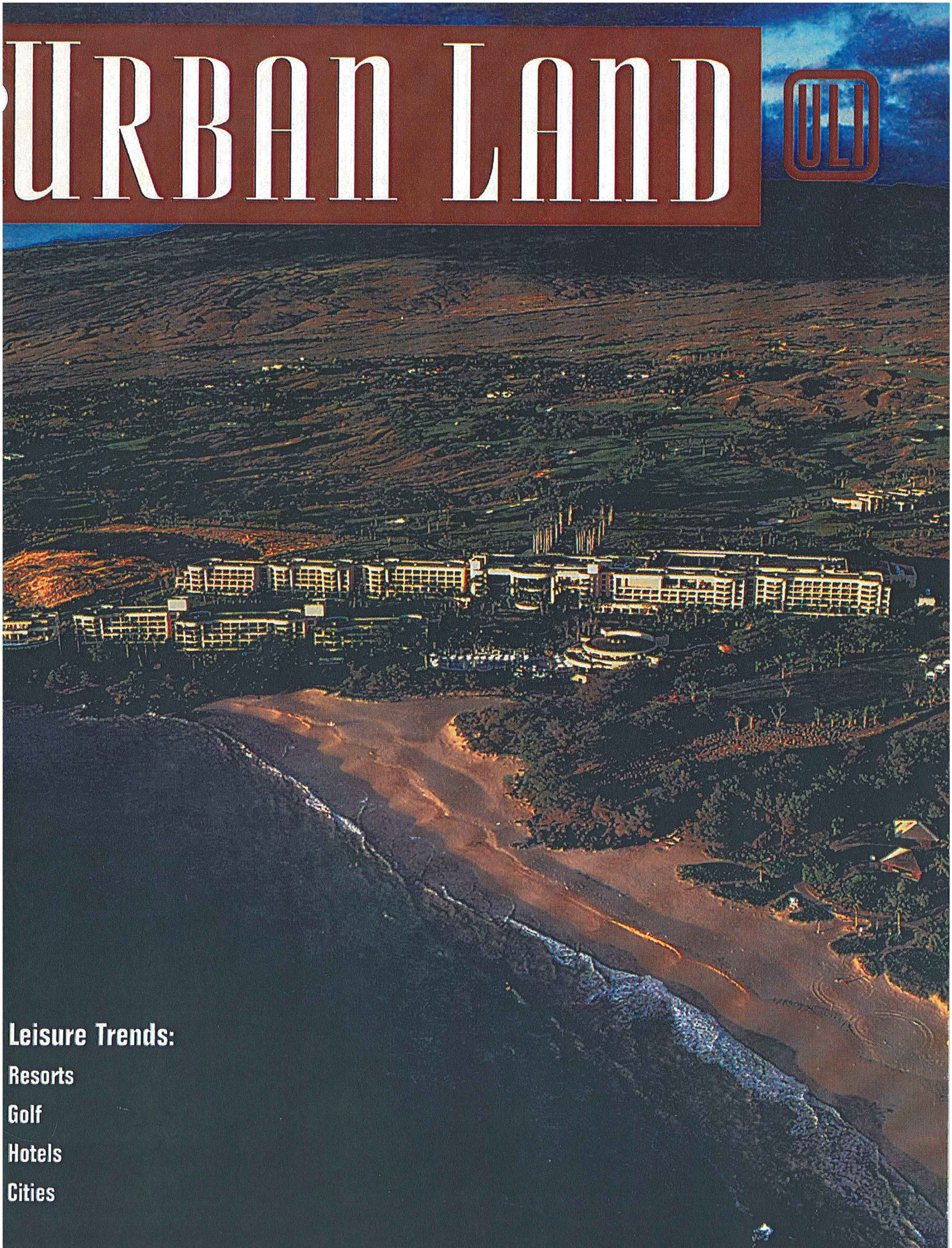
URBAN LAND

ULI



Leisure Trends:

Resorts

Golf

Hotels

Cities

A Strategic Approach to Affordable Housing in Resort Communities

JIM HEID

> **Increasingly, developers and business operators of resort communities view affordable housing as essential to their success.**

Discussion about the recent growth in resort community populations has centered on the loss of open space, increased traffic, more crime, and other social problems. More and more, however, talk is shifting to a new topic—affordable housing—as these communities face rapidly rising housing costs that are a growing threat to their long-term economic viability.

Ten to 20 years ago, a large pool of labor was always available to resort communities in the form of young baby boomers glad to take a year or two off and suffer through substandard living conditions simply to be part of the "resort lifestyle." Housing affordability was not a significant issue. Today, however, both the communities and their labor forces are maturing, presenting a dilemma for the individuals who, as members of the local community and the labor pool, require quality quarters for their young families. More of the aging U.S. population is moving to these communities either full-time or part-time, thanks to the improved business flexibility afforded by telecommunication or more active retirement accompanied by better health. Prices of limited land or existing housing stock are being driven up by new residents whose wealth exceeds that of existing local residents. The result is an ever-widening gap in purchase power between new residents who move in, bringing their high expectations of community and lifestyle services with them, and longtime local residents, as well as employees of local businesses, who cannot afford to live where they work.

While housing affordability is not a problem unique to resort communities, one byproduct of the problem is that as local residents and workers move farther and farther away from resort centers, the communities' economic potential is weakened. Unlike traditional metropolitan communities and exclusive suburbs, the resort economy thrives only when businesses deliver what their market demands: innovative amenities provided in a spirit of good service. If resort area employees cannot find decent housing they can afford, the resort community can no longer sustain its economy. A shortage of affordable housing leads to disgruntled and surly employees who are forced to choose between long commutes and substandard local housing; high levels of employee absenteeism and turnover; increased operating costs for businesses as they must offer higher wages to get the labor they need; and the potential liability faced by owners who have too few staff to operate with safety measures intact.

This problem is especially evident in the intermountain west, where it is not possible to develop affordable housing in the next village over the hill, as it is in many eastern communities. A combination of difficult topography, limited infrastructure, and large federal landholdings makes it difficult for new development to occur within 15 to 20 miles of employment centers. As a result, employees in western mountain communities must travel up to 60 to 80 miles each way to work, often in bad weather and on treacherous roads. This pattern of commuting to more affordable housing brings additional impacts to these idyllic communities and their region. Air quality in sensitive airsheds deteriorates rapidly as the number of vehicle trips in and out of the community increases. Social problems such as increasing crime rates and family and alcohol abuse are brought on by long work days, often at low-paying jobs, made longer by commutes to and from distant housing. Consequently, communities that avoid proactive resolution of the affordable housing issue often find themselves reacting to the impacts of unhappy employees, providing increased security and police services, more family counseling services, and greater subsidies to daycare and mass transit programs.

With resort communities positioned to grow well into the next two decades, many resort towns that have not yet had to deal with affordable housing issues soon will have to do so. It is therefore far more cost-effective to plan for the inevitable by creating a strategic approach to the problem than to wait until it reaches the crisis proportions faced by many resort communities today.

There are several common threads to the affordability problem facing American resort communities. By recognizing and dealing with the following three issues, resorts can realize solutions.

Land Costs. In resort communities, land costs represent upwards of 60 to 70 percent of total housing prices. In other suburban or urban settings, the more traditional average is 25 to 30 percent of final prices. In the end, requiring some level of affordable housing in new market-rate developments using excess public lands, or buying down land costs with subsidies from taxes or bonds, are key to achieving realistic solutions.

Construction Costs. In the communities studied, a 10 to 20 percent premium is added to

Two Approaches to Affordable Housing: Aspen and Vail

Two communities that offer an interesting contrast in their approach to providing affordable housing are Aspen and Vail, Colorado.

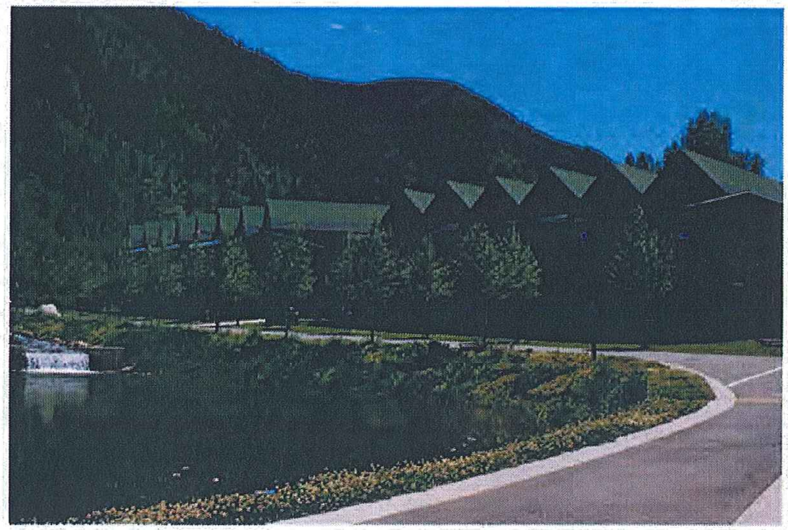
Since its climb to fame began in the 1940s, Aspen, a small community of 7,000 residents, has always exemplified the resort community lifestyle. Originally an 1880s mining center, the town saw its rebirth as a ski attraction in the early 1930s. It grew quietly through the 1940s, developed as a resort area that combined recreation, spiritual growth, and education. The success of these ideals brought new residents, whose desire to limit growth led to even more restrictive policies, including the Pitkin County growth management plan during the 1970s. This plan, one of the earliest and most holistic approaches to growth management, established a limit on the number of new housing units that could be constructed each year. Recognizing that limiting supply would directly affect housing affordability, the town and county concurrently created the Pitkin Housing Agency to assure an adequate supply of affordable units for local employees.

To some, this agency stands as the best example of one community's attempt to deal with the affordable housing problem; to others, it is the worst example of government intervention and social engineering. Regardless of one's viewpoint, the agency's ability to create affordable housing is undeniable. Since its inception in the mid-1970s, the agency has directly or indirectly developed over 1,500 rental and for-sale affordable units.

By contrast, Vail grew out of a vision to create a new master-planned resort community. Begun in the 1960s, the resort was designed around a European village theme and built on a site that offered little more than a spectacular setting and the promise of good access. Driven more by real estate and recreation principles than Aspen's altruism, the town has grown successfully into a full-time community for more than 3,000 residents. Its government has remained small and has stayed out of the affordable housing arena by mandate of the local constituency. In the absence of public intervention, Vail Associates, the major employer, with over 3,500 people on its payroll, has had to take a more active role. The company currently manages more than 600 housing units either through master leasing or direct ownership and management.

Although they are two very different towns, Aspen and Vail face the same dilemma. Escalating land and housing values have brought on increasing housing shortages for employees, and both towns are slowly becoming weekday ghost towns—communities filled only on weekends and holidays when their largely second-home populations are present. Day-to-day businesses and even volunteer organizations are finding it increasingly difficult to survive due to the lack of a full-time resident population. This reality has led to very different but equally successful solutions.

Few events exemplify Aspen's commitment to the arts and culture as does its summer music festival. For over 25 years, students from around the world have traveled to Aspen to study, practice, and perform with conductors and musicians of international renown. In the early years, students lived with local residents, enjoying affordable housing while contributing to the town's ambience as a music center.



JIM HEID/EDAW

Marolt Ranch provides an affordable housing solution to participants in the Aspen summer music festival.

MAROLT HOUSING, ASPEN, COLORADO

Project Description: seasonal housing developed by public agency
Product Type: modified single-room occupancy
Number of Units: 100 units (100–300 beds)
Site Size: 4.3 acres (developed), 63 acres open space
Density: 1.5 (gross), 23 dwelling units per acre (net) developed: 1988–1990
Project Cost: $6.5 million
Developers: Aspen/Pitkin County Housing Authority (APCHA) Music Associates of Aspen (MAA)
Planner/Landscape Architect: DesignWork shop, Inc., Aspen, Colorado
Architect: Harry Teague Architects, Aspen, Colorado
Contractor: Colorado First Construction

continued on next page

construction costs when considerations include remote locations, limited pools of skilled labor, and the short construction seasons experienced in some mountain areas. Ironically, one of the other major contributors to construction cost premiums is the lack of affordable housing . . . resulting in higher costs to contractors who must pay higher subsistence charges to imported labor. One successful solution has been prefabricated construction to limit requirements for skilled labor and reduce exposure to seasonal weather fluctuations.

Community Resentment. Some residents of resort communities perceive affordable housing as fostering unwanted community growth, environmental degradation, expensive public subsidies, increased traffic, and a heavy burden to community services. In reality, a lack of affordable housing often contributes more to these issues than the construction of new housing. In addition, with growth inevitable given current demographic trends, avoiding the construction of affordable housing will not make the problems go away; it will only make them worse. It is savvy issues management that can help accelerate the public approvals process and hold down development costs.

Communities that have successfully addressed the affordability problem have used a complex variety of programs. However, all successful solutions emerge from a similar array of components such as private and public partnerships, land write-downs or donations, innovative construction technologies, and long-term management and afford-

---

continued from previous page

Residents would stroll through town to the sound of young musicians practicing classical and contemporary scores.

However, in the early 1980s, many residents found the economic temptation of summer and winter rentals too much to pass up. As a result, housing became increasingly scarce for students until the only available options were in communities 20 to 40 miles away. Music Associates of Aspen, the program's nonprofit sponsor, considered seeking an alternate location to Aspen that was more affordable to the students. Faced with the possibility of losing one of its most cherished institutions, however, the community rallied to develop **Marolt Ranch**.

The 100-unit complex consists of 14 buildings. It provides 300 beds in summer and 100 in winter, a main cafeteria, and a series of practice rooms. Aspen Music Associates master leases all 100 units from June through August for its students. During fall and winter, the units are rented to seasonal workers who come in to service the fall and winter tourist trade. Dave Tollen, project manager with the Aspen/Pitkin County Housing Authority (APCHA), says that the project is fully leased earlier each year. For 1995, the complex was leased out by the end of September 1994.

To make the project affordable, several community inducements were offered. The land is leased from the city, at a minimal cost. Convenants on the remaining site provide perpetual open space surrounding the project. Financing was provided through a combination of general obligation and revenue bonds approved by the voters. APCHA manages the property, which is funded through community taxes and a real estate transfer tax. Aspen's extraordinary real estate market provides almost $2 million per year to the APCHA for operations and new project development.

Lake Creek Village is an innovative model of affordable housing developed with an eye toward maximizing the best attributes of all components: a developer who brought entrepreneurial skill and knowledge to package the deal; a public agency that facilitated approvals and funding strategies; and a use that provided financial support and long-term tenant potential.

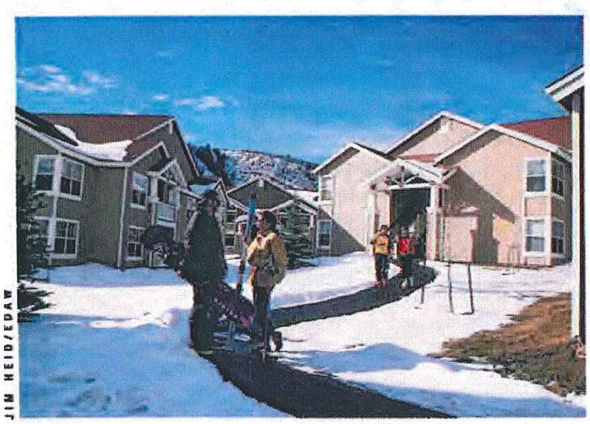
As part of a new golf course community project in Edwards, Corum identified an unproductive site that had little value to the project's developer but great potential to the community for affordable housing. By optioning the property at a favorable price, Corum was able to get land below traditional market values, and the golf course community's developer was able to secure a more favorable set of approvals for his project. Working with the county, Corum helped to organize a new nonprofit housing authority to develop the site into a 300-unit apartment community. Using a provision of the IRS code known as the 63-20, the authority issued tax-exempt bonds for the project, leading to 100 percent debt financing. Local resort operators Vail Associates, Cordiellera, and Arrowhead bought junior debt issues to make the offering of unrated bonds more attractive within the capital markets. In the end, the $23 million project was issued in three tranches, with the first tranche bought by an institutional investor at 8.25 percent, tax-exempt. For their role in providing credit enhancements, the three resorts received housing credits that were applied against the county's newly enacted affordable housing requirements for resort expansion projects, plus a very favorable 11 percent tax-exempt return.

Since opening in spring 1994, Lake Creek has reached 95 percent occupancy. Rates are set by the housing authority's board, which includes representatives from the county, Corum, and the three supporting resorts. Board members set rates that are affordable for the community's employees, but at a price that will assure the project's viability. In the end, this project avoids direct public subsidies without compromising the price of housing. —JH

LAKE CREEK VILLAGE, EDWARDS, COLORADO
(A Bedroom Community 10 Minutes West of Vail)

Project Description: entrepreneur-led, not-for-profit partnership
Product Type: one-, two-, and three-, bedroom rental apartments
Number of Units: 270
Site Size: 31 acres
Lot Coverage by All Uses: 9.2 acres
Density: 8.6 (gross), 29.3 (net)
Developed: 1993–1994
Project Cost: $25,380,000
Developer: Corum Real Estate Group, Inc., Englewood, Colorado
Architect: Paul T. Bergner, Denver, Colorado
Contractor: Shaw Construction, Grand Junction, Colorado

A 63-20 nonprofit housing authority manages Lake Creek Village, outside of Vail, Colorado.



JIM HEID/EDAW

FIGURE: AFFORDABLE HOUSING IN RESORT COMMUNITIES: A PARTNERSHIP FRAMEWORK

PLAYERS	ISSUES: Community Context	Local Attitudes	Development Costs	Project Financing	Continued Affordability
Public	•Vision •Community Plans •Intergovernment Agreements	•Issues Management •Open-Space Plans •Growth Management Plan	•Mandatory Programs •Buy-Downs •Open-Space Donations	•General Obligation Bonds •Revenue Bonds •Real Estate Transfer Taxes •Sales and Lodging Taxes	•Housing Authority •Deed Restrictions
Users	•Leadership in Raising Issues	•Information Conduit to Employees and Community	•Land Subsidies •Land Dedications	•Credit Enhancements •Financial Subsidies •Master Leasing •Purchase of Subordinated Debt	•Subsidies •Internal Management
Developer	•Market Research •Product Knowledge	•Proactive Planning Process	•Land Swaps •Land Donations	•Innovative Structures •Equity •Conventional Financing	•Market Controls

ability assurance programs. Common elements of successful programs include:

Deed Restrictions. At the heart of any long-term affordable housing solution are deed restrictions placed on housing units. Rentals and purchases are limited to a defined segment of the population, usually employees (generally defined as individuals working 30 or more hours per week, nine months of the year) in either the defined community or the surrounding county or region.

Early Recognition of the Problem. Many communities or developers of resort communities view employee housing as community infrastructure, as important to the success of the resort as sewer, water, and amenities. Appropriate zoning and land use codes to address affordable housing and minimize the impact to the development community should be developed and institutionalized early in the community's evolution.

Broad Funding Strategies Adopted Early. Real estate transfer taxes generate funds for affordable housing from the economic dynamic that fuels the problem—land price escalation; entertainment and lodging taxes generate income by taxing those services that create the majority of low-paying jobs; and dedicated sales taxes help holistic programs such as transit, affordable housing, daycare, and open-space management.

Implementing an Affordable Housing Program. Implementation is far more difficult than simply identifying the issues and solutions. While some of the solutions are common from community to community and project to project, the implementation structure is unique to each situation. While there is no singular way of structuring successful projects, the public/private partnership framework can serve as a universal model for implementation. The above figure describes this concept and should be used by communities early in their development, as townspeople, officials, and developers wrestle with the issue of affordability.

This framework relies on a division of responsibilities among three different players or roles. While each role can be played by separate individuals or agencies, in some cases, a single agency may play two roles (i.e., public and developer). What makes this model unique to resort communities as opposed to traditional metropolitan areas is the strong presence of a definable user, the business owner who can become a willing partner, benefiting from the development of housing that is affordable to his or her employees. In turn, the developer provides a valuable community service while gaining financial assistance from the user in the form of long-term master leases, purchase of subordinated debt, land donations, or direct participation in the project's development and financing.

The public facilitates the project's realization, and solves a community problem.

Once identified, the partnership can rely on a number of creative tools to form an affordable housing program. These include:

Land Banking. By including sites for affordable housing in early community land use planning strategies, or private development proposals, and by carrying the costs in other market-rate units, the need for public subsidies is limited. In communities reaching maturity that have not provided adequate sites prior to buildout, public subsidies are often equal to 50 percent of the overall project cost.

Public Lands. Some communities are using public lands for affordable housing, packaging development of affordable units with open-space preservation. Combining open-space conservation and affordable housing units often resolves two issues concurrently and shows recognition that open-space and growth control often fuel the affordability crisis. In certain instances, land that is part of existing community open-space programs, or is part of

continued on page 81

RESORT HOUSING *continued from page 37*

the public utility or municipal district holdings is used for the development of employee housing.

Inclusionary Zoning or Market Approach. Requires that a certain percentage of affordable housing units be constructed as part of the overall development program. In current programs, this number ranges from 15 to 30 percent of the total approved unit count. Developers who provide affordable units are often granted increased densities, infrastructure assistance, or accelerated approval times. The cost of affordable units are written down and "subsidized" through the market-rate units, with limited development costs to the overall community.

Resident Accessory Units. In some areas where large second-home units are constructed, communities require that "caretaker" or accessory units be built concurrently. This solution provides the community with affordable housing at no cost and assures a local resident base that will live year-round in a neighborhood of seasonal houses. Conversely, the homeowner gains a small income stream from the unit's rental, as well as a caretaker who provides varying degrees of security and property care.

Free-Market/Submarket. Several communities are experimenting with a "submarket free-market" approach. Privately developed employee housing units are sold on the open market to the highest bidder who can meet employee qualifications.

Proponents of this program theorize that housing will reach a level of acceptable pricing based on what local employees can afford, without the need for community pricing intervention. However, some communities that have recently instituted such programs underestimated the pent-up demand at the time of implementation and are finding that this approach works only if the supply of new units can keep pace with market demand. Otherwise, new units are immediately bid up beyond the reach of most local employees who do not have substantial savings or other financial support.

Nonprofit Development Corporations. One of the most interesting programs being used in some Colorado resort communities takes advantage of IRS statute 63-20, which allows the issuance of tax-free bonds to acquire, develop, and operate housing under an approved nonprofit housing corporation. A public authority can initiate and sponsor the nonprofit corporation's formation, with a private development entity undertaking the project for a fee and often a long-term management contract. Local users who benefit from close-in affordable housing for their employees can provide credit enhancements necessary to make the unrated bonds attractive to the capital markets.

The real focus of discussion on affordable housing in resort communities should not be whether it is necessary, but rather when it will be needed. Given the current demographic shifts projected through the next two decades, the problem is sure to increase. However, with foresight and creative partnering of key players, communities can provide cost-effective housing solutions that will assure the long-term success of both their local economy and quality of life. ❖

Jim Heid *is a principal and director of development for EDAW, Inc., San Francisco–based landscape architecture and planning firm. He wrote this article from research conducted during preparation of his master's thesis, earned at MIT's Center for Real Estate. The complete document is available from ULI as Working Paper #645.*