

FORT DRUM REGIONAL LIAISON ORGANIZATION

FORT DRUM AREA

HOUSING STRATEGY UPDATE

October 2006



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Introduction:

In May 2004, the major expansion of Fort Drum was announced. Based on total of 15,740 soldiers then expected to be in place at Fort Drum by June 2005 - and the resultant need for additional housing - the Fort Drum Regional Liaison Organization (FDRLO) commissioned a housing Market Analysis, completed in March 2005. Shortly thereafter, the FDRLO Housing Task Force implemented a Five Year Housing Strategy, targeting resources to put necessary housing in place. The six recommended housing development strategies addressed both the affordable and market rate housing segments, as appropriate.

While the aggressive use of existing state and federal affordable housing programs were included as part of the overall strategy, most of the need was for multi-family housing, which clearly required special funding to ensure financial feasibility and mitigate market risk. New York State, Jefferson County and Development Authority of the North Country responded by establishing a \$9 million revolving loan fund for construction of multi-family housing, and a strong start has been made towards meeting that need.

We are now two years into the five year strategy. The community must continue to recalibrate housing strategies and identify resources required to implement them. Accordingly, FDRLO recently commissioned an updated housing Market Analysis, and has developed this Housing Strategy Update to guide housing development activities over the next three years, after which the market is expected to stabilize.

Background:

Since the announcement of a third brigade in 2004, Fort Drum's projected end-strength had grown from 15,740 soldiers to 17,532. In addition, 56% of those arriving are now expected to bring families, up from 43%.

By mid-year 2005, the area housing market was at full capacity with few vacancies. Rents had risen an average of \$50-\$100 per month and for-sale housing prices had increased as much as 30%. By the end of 2005, a large deployment of soldiers from Fort Drum provided some relief to the housing market. At that time, over 125 military families were living in the Syracuse area due to a lack of available housing around Fort Drum. Also, many military families of newly assigned soldiers did not come to Fort Drum in 2005; rather they plan to move when deployment ends in 2007. Finally, several hundred units of housing have been built as a result of both public and private sector actions during this period. As a result, recent surveys indicate that the housing market has temporarily stabilized.

This situation is expected to change dramatically in the spring 2007 with the return of the deployed soldiers and the arrival of accompanying family members, and severe short-term housing shortages are anticipated before delivery of committed housing units on and off-post is realized in 2007-09.

Estimated Additional Housing Need:

Estimated Housing Need	
Current Estimated Housing Demand (2006)	2,105 units
Less: Housing Committed Since March 2005	
• Additional On-Post	(616) units
• Additional Community Housing	<u>(576) units</u>
Current Estimated Housing Need – October 2006	913 units

The net need of 913 units assumes that all of the above noted 1192 on and off-post housing units are actually in place. Unmet need is calculated based on additional soldiers and military families (growth) and those families currently housed inadequately (mobility) (see housing Market Analysis for detailed discussion).

It should be noted that almost 58% of total demand is from households at or below 90% of median income.

Housing Demand by Income Band			
Income Band	<u>Below 60%</u>	<u>60% - 90%</u>	<u>Market</u>
	<u>(Units)</u>	<u>(Units)</u>	<u>(Units)</u>
Family Housing	Up to 140	Up to 255	Up to 250
Single Housing	0	Up to 135	Up to 135
TOTAL	Up to 140	Up to 390	Up to 385

This is a significant increase in demand for affordable housing since the March 2005 Market Analysis, up from 51% of total. This increase in affordable housing demand clearly has housing strategy implications.

The Market Analysis finds that about 10% of housing need can be met by new single family housing, 85% by new multi-family housing and 5% through multi-family rehabilitation:

Housing Demand by Housing Type	
New Construction – Multi-Family	Up to 773
Rehabilitation – Multi-Family	Up to 50
Homeownership	Up to 90
TOTAL	Up to 913

It should be emphasized that the Market Analysis is a conservative one and does not anticipate further expansion of Fort Drum or additional growth in the market. Clearly, flexibility must continue to be the watchword for both community and military policy makers addressing this dynamic housing market.

The Approach:

The FDRLO's six housing strategies address the immediate need for short-term housing production, and target appropriate public resources to accomplish it. It should be emphasized however, that **on-going, long-term, housing rehabilitation programs - including owner-occupied rehabilitation and moderate rental rehabilitation - must be aggressively pursued in addition to housing production.** Area non-profit housing agencies have traditionally delivered these affordable rehabilitation programs. The North Country HOME Consortium's 2006 Consolidated Housing Plan estimates that there are 7,549 low-moderate income families living in substandard units in the region. While no specific goals for continued rehabilitation of occupied units have been laid out in this plan, the FDRLO recognizes that, in order to improve overall housing standards in the region, **both housing production and on-going rehabilitation of occupied units must both be actively pursued.**

We pointed out in the 2005 strategy plan that while current market rents do not support new construction, as demand pushes rents toward those construction feasibility levels, additional affordable housing need will in fact be created. The results of the updated Market Analysis prove this to be true. While housing supply has increased, so too has affordable housing demand, to 58% of total. Based on developer initiatives over the past 18 months, it remains clear that area housing needs cannot be satisfied by market forces alone. Our goal is to satisfy these needs without undue market disruption and widespread displacement of the affordable housing population.

Our experience over the past 18 months, and the increasing cost of construction and related infrastructure, reaffirm that housing production must continue to:

1. Be community-based, focusing on rehabilitation and new construction in neighborhoods where state and federal housing resources can be made available;
2. Be oriented toward infill construction, where possible, to minimize land and infrastructure costs;
3. Involve a cross section of municipalities and housing agencies as conduits for state and federal funds and as housing deliverers;
4. Be a flexible mix of strategies which can be adjusted as market reaction becomes evident.
5. Contribute to the economic revitalization of communities in the Fort Drum market area.

Six Housing Strategies:

Six housing strategies appropriate to both the nature of this market and the resources available to address it were identified in 2005. These strategies were intended to address both military and civilian housing needs over a five year period. Significant progress has already been made in reducing the overall net demand to 913 units. While the six housing strategies remain substantially the same going forward, the degree to which public resources will be made available for each will change based on market conditions.

1. **Single Family Acquisition And Rehabilitation:**

This strategy includes the redevelopment of vacant and for sale distressed single family homes throughout the area. The Jefferson-Lewis Board of Realtors currently lists 25 single family homes with an asking price of \$50,000 or less, and on the market over 180 days. These homes are likely in substandard condition. Most are located in the City of Watertown. In addition, the County and City each sell over 50 tax delinquent parcels at auction each year. Recent discussions with Neighbors of Watertown suggest that some of these properties could be acquired, rehabilitated and sold prior to tax sale. A small scale project of this type has been operated for several years in the City by Neighbors of Watertown, the Development Authority of the North Country and the City of Watertown. By targeting additional resources, the program could be expanded throughout the Fort Drum housing area.

Strategy Update: A significant number of substandard units still remain on the market and for sale. Several area municipalities and non-profit housing agencies have received funding from existing state and federal affordable housing programs in the past two annual funding cycles to further this strategy. Also, Fannie Mae recently announced two programs available in the Fort Drum area to assist in the purchase/rehab of existing homes. Neighbors of Watertown will administer one of those programs. They estimate renovating and selling up to 10 homes per year over the next three years. The other program will provide low-cost, long-term mortgages to homebuyers to help renovate additional substandard single family homes at affordable prices appropriate for the emerging market.

2. Single Family Infill Sites:

Emphasis will be placed on promoting single family housing production in neighborhoods within the City of Watertown and villages and hamlets throughout the area. Many of these municipalities have available land and infrastructure to add new housing units within existing neighborhoods. The challenge is building affordable homes at selling prices within the range of values of other homes in these neighborhoods. While selling prices are rising, many lots are in distressed neighborhoods where prices are far below current construction costs. A combination of affordable designs, public land assembly, property tax abatements and first time/affordable homebuyer assistance will be required to implement this strategy. It will help deter sprawl and provide a catalyst for community revitalization throughout the area.

Strategy Update: This strategy has proven challenging given the relatively low selling prices of existing homes in many substandard neighborhoods compared to the cost of new construction. The Development Authority of the North Country partnered with the Watertown Local Development Corporation to initiate a single-family pilot program by building six modest homes in the City of Watertown. The units are priced between \$139,000 and \$159,000. Sales even in this lower price range have proven challenging. Emphasis must be placed on lower cost designs, public land assembly and property tax abatements in order to significantly reduce the cost of each unit and provide a saleable housing product.

3. Single Family Subdivision Development:

A portion of growing housing demand must be met through production in single-family subdivisions. While subdivision development is evident in most area communities, developments typically target higher priced, larger homes (\$200,000+). Current demand is for modestly priced new homes, under \$150,000. In order to achieve those price levels, subdivision plans will need to include relatively low land and infrastructure cost, tighter lot density, smaller home sizes, and first time/affordable homebuyer assistance. Communities will need to consider public/private infrastructure partnerships to minimize improved lot costs. Potential sites will be inventoried and assessed to determine those best suited for affordable housing development.

Strategy Update: Over the past 18 months there have been over 245 housing units added in the immediate market area as reported in the FDRLO Market Study. The majority of these units are single family homes. The FDRLO's market study indicates there is a need for up to 90 additional single family homes.

The continued challenge will be for developers to work with communities as outlined above to provide single-family housing priced below \$150,000.

We are seeing some trade-up buyers, and as typically less expensive existing homes are sold, market supply is increased. Trade-up, however, has limited market potential and will not likely yield a significant number of additional units. Given the positive response from private developers and the reduced need for additional single-family homes, no additional public resources are necessary to sustain this strategy.

4. Multi-Family Rehabilitation:

The need for additional rental stock can be partially addressed through rehabilitation of existing units. A recent review of assessment rolls shows over 900 rental units in the City of Watertown alone with assessed values under \$40,000. The City assessor indicates that rental properties assessed at this level likely have serious deferred maintenance. A similar list was prepared by the County Real Property Office for all villages in Jefferson County shows over 500 rental units at similar low assessments. The recent Demand Analysis prepared for the FDRLO suggests that there are a significant number of substandard rental units currently being occupied. The Demand Analysis points out that as new rental units are produced these substandard units will likely be vacated. This strategy focuses on rehabilitation of substandard units in order to reduce the need for new construction, and, to stimulate neighborhood improvement.

Strategy Update: As vacancy rates have significantly fallen and rents have increased, some rehabilitation of existing units has occurred. Area non-profit housing providers have been successful in applying for and receiving affordable housing funds for moderate rehabilitation of occupied, substandard units. However, those units requiring substantial rehabilitation or the adaptive reuse of non-residential buildings (i.e., resulting in new unit creation) require more substantial public resources. Recent substantial rehabilitation projects in Carthage and in Watertown show an average per-unit cost of \$220,000 compared to new construction costs of about \$135,000. While this strategy of pursuing state and federal affordable housing funds to rehabilitate substandard units should be re-doubled, each project should be considered on a case-by-case basis to determine the most efficient use of limited public resources.

5. Multi-Family Infill Sites:

The community will develop small scale multi-family projects (25 or fewer units) which can be used as infill housing in the City of Watertown and surrounding villages and hamlets. Possible infill areas will be inventoried and analyzed for development suitability. Initial financial modeling shows a need for affordable design and operating costs well below those typical of larger scale projects. Economies could be achieved if local developers undertake projects on a build/own/manage basis, and with public land assembly and property tax abatement. Given these economies, modeling shows an additional need for soft loan subsidy of about \$15,000 per unit.

Strategy Update: This strategy has shown only minimal results in the market. Local developers/owners are hesitant to build additional units for fear of large fluctuations in vacancy over time. These small scale projects also do not achieve the economies of scale that larger projects do on a per unit basis and do not have as many financing options available as larger projects. Still, recent financial modeling incorporating increased construction costs shows a soft loan subsidy of \$25,000 per unit could create financially feasible projects of this type.

6. Large Scale Rental Development:

Production of larger scale rental projects will address the primary housing need. However, current market rents do not justify private investment, especially in light of escalating construction costs. The community must look to develop larger scale projects using funding sources which target family incomes across all identified income ranges. Credit enhancement programs through SONYMA, HFA and USDA Rural Development should be pursued. In addition, Federal and State Low Income Housing Tax Credits can provide equity to these projects and are appropriate to market demographics. Financial modeling of a typical 100 unit project suggests an additional need for soft loan funds of approximately \$10,000/unit.

Strategy Update: This strategy has shown good results to date. With the establishment of a \$9 million subordinate loan fund, known as the Community Rental Housing Program (CRHP), and the use of housing tax credits through the State, several hundred units have been funded. The FDRLO market study indicates that most of remaining housing demand is for multi-family rental units. Given the rising cost of construction over the previous two years, the average soft loan subsidy amount has increased from \$10,000/unit to approximately \$15,000/unit. With less than \$2 million in available CRHP funding remaining, additional must be secured.

Continued Implementation:

It will take aggressive use of existing state and federal housing programs, the highly coordinated efforts of involved municipalities and housing agencies, and continued special funding assistance to achieve a stabilized market in the Fort Drum area.

FDRLO has made a good start in coordinating the efforts of municipalities and housing agencies. We have made significant progress in using available resources including the establishment of the \$9 million Community Rental Housing Program. Over the past two years 576 off-post housing units have been completed, are under construction or funded. In addition, there are another 318 units pending commitments bringing that total to 894 potential units. This leaves approximately \$1.9 million uncommitted in CRHP funds which will likely yield another 100 rental units - far short of the additional units required as outlined in the FDRLO's Updated Market Analysis. Additional resources will be needed to help bridge that gap:

The results of the previous two-year period are outlined in the table below. It should be noted that the 894 units reported does not include any units being developed on Fort Drum.

2005 - 2006 Off-Post Housing Progress Report Fort Drum Housing Area			
	Total	Single - Family	Multi - Family
2005-2006 Housing Units Committed	576	245	331
Commitments pending	318	-0-	318
Total	894	245	649
Total Public Funding	\$ 10,000,000	\$ 1,000,000	\$ 9,000,000
Total Private Funds - Leveraged	\$ 120,490,000	\$ 41,875,000	\$ 78,615,000
Total Investment	\$ 130,490,000	\$ 42,875,000	\$ 87,615,000

Moving Forward:

Clearly, in order to meet additional demand for housing, additional resources will be required. Given the significant demand for multi-family housing units, additional subordinate financing and tax credits will be necessary. The next step in implementing this strategy will be to work with involved stakeholders at all levels of government to identify traditional and non-traditional housing resources to meet remaining housing needs. Moving forward, this will require flexibility and continued monitoring by community stakeholders.