MAKING MISSOULA HOME

A Path to Attainable Housing

January 30,2018

Missoula Organization of REALTORS®
Connecting Home & Community

Werwath Associates
COMMUNITY DEVELOPMENT CONSULTANTS

TABLE OF CONTENTS

1. *Executive Summary*

Recognizing the growing issues of housing affordability facing the greater Missoula area, in the winter of 2016-2017 the Missoula Organization of REALTORS® began assembling both private and public-sector partners towards the goal of commissioning a study to analyze the housing market conditions and provide recommendations for strategies to promote more housing affordability.

In March 2017, Werwath associates was retained to collect data and research that characterized the demographic and housing market conditions, analyze the current state of housing affordability, survey both housing consumers and the building industry, analyze both regulatory and non-regulatory housing development constraints, and to provide concise recommendations for new strategies to increase housing affordability.

The process of compiling this report included a deep review of housing, workforce, and demographic information from the Census and local sources, over 30 stakeholder interviews (see Appendix I for a complete list), a review of housing market and housing development cost data, as well as a review of key regulations impacting housing development for both the City of Missoula and Missoula County.

The process of compiling this report was overseen by a diverse advisory group that included representatives from the city, county, building industry, REALTORS®, lenders, local businesses, and planning/engineering fields who met four times throughout the process of drafting the report to provide feedback on report drafts as well as to provide overall feedback on the approach and direction of the project. In addition, the drafts were reviewed by affordable housing service providers including the Missoula Housing Authority, Homeword, and NeighborWorks Montana, who provided invaluable feedback. There was also broad community and industry support for this project, and continued support around implementation is what will be required to create systems-level change in the various areas that impact housing affordability.

This project would not be possible without the direct support of our project partners including the City of Missoula, Missoula County, the Missoula Area Chamber of Commerce, Missoula Building Industry Association, and the Missoula Economic Partnership. Additional sponsorship support was provided by First Security Bank, Edgell Building, Pew Construction, Territorial LandWorks, St. Patrick Hospital, First Interstate Bank, the National Association of REALTORS®, and the Montana Association of REALTORS®. We would also like to recognize the time and valuable input volunteered by our advisory group members: Collin Bangs, Clint Burson, David

Edgell, Janna Geier, James Grunke, Ruth Hackney, Scott Hansen, John Horner, Merry Hutton, Mike Nugent, Pat O'Herren, Eran Pehan, Tom Pew, Jason Rice, Nicole Rush, Sam Sill, and DJ Smith.

KEY HOUSEHOLD AND DEMOGRAPHIC DATA

The City's population grew by 5.8% between 2010 and 2015, greater than the nation as a whole, while the county only grew at 2.1%. This was coupled with a trend towards smaller households. Over the last five years, growth in housing stock has largely kept up with household growth in terms of the hard data, despite growing qualitative indicators that housing supply is shrinking.

The labor force has grown 2,500+ persons in the last 10 years and unemployment is low at 3.8%. Nearly half of City of Missoula households (47%) are considered "low income" by federal standards (compared to 35% nationally). Missoula is not aging as fast as the rest of the country with 62% of the population between the ages of 20 and 60.

The housing market has clearly rebounded to pre-recession levels. County-wide building permits reached a 10-year record of 930 in 2016, up from 225 in 2010. To be able to afford the 2017 median sales price home at $268,250, a family would need an income of around $70,000 a year. The total number of home sales have exceeded the peak volume from 2007 in 2017 with 1,543 sales in the Missoula Urban Area.

Most alarmingly, sales of all home types under $200,000 decreased 40% from 2007 to 2016 and sales of detached homes below $200,000 have decreased 46% in the last two years
In April of 2017, home sales listings in the city showed only two detached homes and two townhomes under $200,000. During the same time, there were just 28 condominiums below $200,000 in the city. Meanwhile, higher end housing priced above $300,000 is growing at a rapid rate, replacing more affordably priced market segments. The homeownership rate in Missoula is 19% below statewide average and 16% below national average. Rental housing vacancy rates remain very low at 2.9%, well below the 5% standard for stable market.

HOUSING AFFORDABILITY ANALYSIS

Housing affordability is a rapidly growing issue for both renters and entry-level homeowners. Countywide, there are over 17,000 households that are "cost burdened," meaning they pay more than 30% of their income for housing. In the city, 41% of households (12,000+) are cost burdened. This phenomenon is concentrated disproportionately among renter households with 55% of renter households cost burdened countywide. This is even more acute in the city where 69% of all renters and three-quarters of renters below $35,000 are cost burdened.

There are significant and growing affordability gaps for both rental and homeownership. The largest gaps are for rental affordability for people below 50% of the area median income (AMI) with affordability issues all the way to 70% AMI. Larger apartments serving families are priced too high for families as high as 80% AMI.

Entry-level detached homes were found to be unaffordable to people below approximately 100% AMI, which represents just over 50% of the population. In the past year, townhomes met some need for below 80% AMI homeownership, but inventory is low and insufficient to meet overall demand. Because of their fees, condos were found to be slightly less affordable than townhomes.

The demand for homeownership was quite high and there are potentially as many as 6,000 renter households in the county below 120% AMI that are aspiring homeowners. But there is little available housing priced to meet this demand and with increasing prices, few prospects to increase the supply meeting their needs in the future without direct interventions.

CONSUMER SURVEY FINDINGS

To better understand the perspectives of the general public regarding the housing market and their perceptions of affordability, a public survey was conducted. The survey was published online and promoted by a range of partners in this project, as well as being offered in paper format at seven physical locations (the Missoula Organization of REALTORS®, Missoula Public Library, Homeword, Currents Aquatics Center, the Missoula County Fairgrounds, Missoula County Community and Planning Services, and the Missoula County Commissioners Office). The survey was open from August 7th until September 11th, 2017 and the response was robust with a total of 861 electronic responses and 78 paper responses submitted.

Key findings include that 42% of renters reported their housing doesn't meet their needs and that price and small size were the primary issues with existing rental housing. There were a range of obstacles to ownership identified including finding a home with an affordable price, lack of down payment, and finding a home in a preferred location.

Respondents were also asked about their consumer preference for housing type, with detached housing being the most preferable over townhomes or condos. When asked to rank those between type and location, consumers say they would prefer a rural detached home over a townhome or condo in the urban core of the city.

Housing affordability was a widely perceived problem both in the city and county. Among respondents, 41% said that the city is somewhat meeting affordable housing needs, and 45% said needs are not being met at all. The perceptions of affordability in the county are only slightly better, 43% said the county is somewhat meeting affordability needs, and 34% said needs are not being met at all.

There was wide consensus around the willingness to pursue community-level strategies addressing housing affordability. A massive majority (92%) either strongly agreed, agreed, or were neutral with the idea of local governments providing development incentives for affordable housing creation. The other two popular ideas were the direct investment of public funding and donation of public land for new affordable housing.

SUMMARY OF CONTRAINTS

The following list represents the top-level summary of the primary constraints uncovered through the report process. This list is by no means inclusive of every factor in the community that has influence over the housing market economy. Rather these represent the key themes that emerged from the research, analysis, and over 30 interviews conducted as part of the process of creating this report. To draw connections between constraints and subsequent recommendations, these issues are categorized similarly to the recommendations to follow.

Regulatory Environment

- City has not completely aligned its land use codes with the goals of infill and providing affordable housing
- No performative standards for private developers to meet community housing needs
- Land conservation requirements impacting development costs and ultimately, affordability
- State subdivision regulations are burdensome, particularly in the county without base zoning and local processes are layered on top of that
- No clear long-term or strategic approach to annexation
- Infill land use policies at odds with neighborhood preservation
- Limited land zoned dense enough for affordable development
- Lack of city/county alignment around growth policy and definitions of infill, tension between providing housing choice for both urban and rural areas

Housing Development

- High up-front or uncertain infrastructure requirements
- Rising development cost driven by labor shortage and material cost inflation
- Neighborhood push-back to infill development
- Limited models for below-market rate homeownership development being deployed
- No meaningful incentives or clear performative standards for meeting ownership housing needs
- City and county land is restricted due to infrastructure challenges
- Limited land for housing development
- Health Department regulations uncertain
- Low-Income Housing Tax Credit allocation on state level is erratic
- No base level zoning in the county
- Uncertainty in development review processes

- Developers feel infrastructure requirements are costly and unpredictable

Capacity Building

- No means of communication among real estate industry, banking, nonprofit, and public sector
- Collaboration between public/private/nonprofit sectors not being fully leveraged

Program Development

- Lack of community level understanding of housing needs, types of affordable housing, and income ranges served by various housing programs
- Non-governmental organizations need additional financial support to expand into new areas

Funding

- No recurring local source of funding for housing construction
- Potential threats to federal funding
- Perception of high tax rates in the city
- No mechanisms for recapturing and recycling affordable housing funding

OPPORTUNITIES and RECOMMENDATIONS SUMMARY

The following recommendations represent a culmination of the top priorities for affordable housing responses in the community. The recommendations are broken down into specific actions which may have additional components described in the narrative. The descriptions contained below are abbreviated summaries of the more detailed recommendations contained in Section 10 of this document. These recommendations are meant to serve as a menu of options, which still need to undergo community conversation and policy making processes to see which strategies fit with community values, and how best to implement them.

<u>Regulatory Environment Recommendations</u>

As has been discussed throughout this report, the regulatory environment is a critical factor impacting housing affordability, both in the way that land use codes and development review processes directly influence construction costs and densities, but also for the potential for well-designed affordable housing policies to promote new housing approaches and amplify existing resources. In many ways, local policy sets the stage for broader community responses to affordability needs and can serve to coordinate the various stakeholders who must all contribute to comprehensive community solutions.

1.1 Create a coordinated set of affordable housing development incentives tied to home price and rent targets

The following represents a list of options for regulatory incentives that could be used to leverage affordable housing production or increase the natural affordability of new homes.

Regulatory Incentive Options	
Deferral or Subsidization of Impact Fees	A deferral of impact fees is one of the tangible ways that a local government can directly reduce the hard costs associated with development. A full deferral of impact fees for homeownership units serving households below 80% AMI, and rental projects serving households below 60% AMI should be considered. This type of incentive can also be considered for income qualified households who are building their own home. Under state law, this type of mechanism needs a funding source to pay the impact fees at the time of construction, which also ensures that impact fee funds are not overburdened and costs are not passed on to developments paying full fees. These fee waivers should be secured with a recapture mechanism which is due upon resale, and the original amount of fees paid back into a trust fund mechanism (see Recommendation 5.1).
Targeted Partial Financing of Infrastructure for Affordable Homes	The city and county should consider providing low-cost or deferred loans for infrastructure to housing developments providing affordable rental housing serving households below 60% AMI and for sale housing serving households below 80% AMI. For rental developments, these could be secured with lien and be recycled at the end of an affordable compliance period or left in the unit to create a permanent affordability mechanism. For homeownership projects, the initial investment could be structured to act like a down payment source for the eventual buyer. A funding source would have to be identified for this purpose (see Recommendations 5.1, 5.3).
Waiver of Development Review and Permit Fees	A waiver of development application and review fees for projects that build affordable housing could have a modest impact on the hard development costs. Similarly, waiving building fees for affordable units could also have a positive benefit on development costs of individual homes built by low- and moderate-income families. The cost of providing this incentive could be provided upfront by an affordable housing funding source or would otherwise be borne by administrative overhead in applicable city or county departments that currently rely on fees to offset staff costs. Options include deferring all fees for developments that create affordable units, or deferring fees according to the percentage of affordable housing created. Whether fees are paid up front or simply deferred, these should be recaptured at resale.
Reduction of land set-asides	This approach could be structured several ways. For subdivisions, a reduction in park land could create an additional lot or lots for building below market income and price restricted units, actually adding a lot to development where one doesn't currently exist. This type of sizeable community investment should only be considered for housing meeting needs of households below 80% AMI.

	In TED development in the city, a waiver of parkland set-aside should be considered for projects that provide a significant portion or all of the development at prices affordable up to 120% AMI, or a smaller percentage of homes at deeper affordability levels.
Density Bonus	The current density bonuses offered in the City of Missoula are limited to a small number of zoning categories that already have relatively high density and only for the provision of long-term deed restricted properties. The city should consider redesigning the density bonus to make it apply to more zoning categories and tie it to specific pricing and income targets and other affordability approaches beyond permanent affordability. In the county, density bonuses for affordable housing should be prioritized over other density bonus criteria.
Reduced Street/Sidewalk Infrastructure	The current streets infrastructure in the City of Missoula focuses on a complete streets approach with wide boulevard street requirements. This can place a considerable infrastructure burden on smaller infill projects. The city should consider convening a study group that include City staff and local planners, architects, engineers, and builders to assess the ways in which narrower streets and/or right of ways could be allowed in specific types of developments and added to a suite of regulatory incentives.
Expedited Review for Projects that Build Affordable Housing	Expedited review of development review applications should be considered for all departments (planning, engineering, building) for homeownership projects that provides housing that serve households below 120% AMI and rental projects below 60%AMI. This could prove a valuable incentive, especially when development review entities are experiencing high volume of applications for review. This should be paired with analysis to identify ways to shorten review times for subdivision applications.
Reduced Minimum Setbacks	Currently some zoning categories in the city and county include generous setback requirements. Consider adding a reduction in setbacks as part of a package of incentives for affordable housing production. This would be particularly beneficial in the city where reducing front and back setbacks should be considered in more zoning districts. County zoning should consider setback reductions in all zoning districts with densities high enough to support affordable development (8DU+).
Reduced Parking Requirements	While the city's parking requirements already allow for reduced parking for certain affordable housing developments, there are still situations where allowing further reduced parking may be beneficial. The city should consider reducing parking requirements for small infill projects, particularly those with ample on street parking to allow those sites to achieve higher densities. The county should consider reductions similar to those applicable within the city for the urbanized area, particularly in East Missoula.

1.2 Consider proactive rezoning to densities that support affordable housing

Currently both the city and county have relatively little land area that is zoned at densities that allow developers to achieve affordable pricing. To increase the supply of developable land in targeted growth areas, a coordinated rezoning analysis should be undertaken with the goal of proactively rezoning land suitable for new housing development meeting affordable pricing and rent levels.

1.3 Reduce restrictions on development of Accessory Dwelling Units (ADUs) and explore innovative models for their construction

Accessory Dwelling Units (ADUs) are one of the only strategies for distributed densification of existing residential neighborhoods that can add new rental units at smaller scale without disrupting the character of established neighborhoods. ADU development is currently highly constrained in the city land use code. The most successful approaches have eliminated design guidelines, increased maximum allowable square footage, allowed development by-right without a public hearing and approval by a governing body, eliminated parking requirements, and waived development impact and permit fees.

1.4 Coordinated city and county regulatory response to affordable housing needs

County development in the urban periphery and the city's "grow inward" policies are at odds. While there are many tensions between the city and county, there is widespread agreement on the need to address affordable housing issues. Key to this are several action items.

1.4-1 Affordable Housing Program Development Collaboration

The city and county should collaborate on affordable housing program development, particularly in the regulatory environment, to ensure that there is as much alignment among policies as possible.

1.4-2 Coordinated Annexation Policy and/or Regulatory Alignment

The city and county should work to develop a coordinated annexation policy that could add developable land in the city in appropriate growth areas and align future land use, zoning categories, and infrastructure requirements.

1.4-3 Collaborative Management of Urbanized Area of the County

The city and the county should seek a coordinated urban growth approach and consider the creation of an extra-territorial zone that would be collaboratively managed by the city and county through intergovernmental agreement.

1.5 Advocate for changes to state-level policies impacting affordable housing

There are several ways in which changes to state level policy could potentially benefit housing affordability, including state subdivision rules and property tax abatement for affordable housing projects, as well as potentially for individual consumers who benefit from below market rate housing through homeownership programs.

Housing Development Recommendations

At their core, affordability challenges arise from a higher demand for housing than is being supplied in a given market. There are at least several thousand potential homebuyer households in the Missoula market that have few or no options for affordable home purchases. Aggressive strategies are needed to support new housing development from the public and private sectors, which engage both for-profit and nonprofit development entities.

2.1 Analyze city and county land assets for potential housing development that serves low- and moderate-income households

There are multiple land assets that could be invested in the creation of affordably priced housing and land could be leveraged to produce significant affordable housing if the right partnerships are established.

2.2 Create a plan for targeted infrastructure development

Both the city and county should consider adapting or creating plans and identify funding sources to develop appropriate infrastructure in targeted growth areas. This is particularly true for the county, where development density is severely limited without sewer and water systems.

2.3 Identification and planning of high opportunity development sites

One way to potentially alleviate neighborhood concerns about affordable housing infill development is to undertake community-led planning processes for high opportunity sites that have above average potential for housing development that meets community needs.

2.4 Better leverage Low Income Housing Tax Credits

One of the most impactful resources for affordable rental housing development is the Low Income Housing Tax Credit (LIHTC) Program. The city should work to formalize a coordinated strategy for municipal support of LIHTC projects to ensure the highest level of potential success with future applications as possible, and an approach that ensures an application in every annual round. The county should also consider support of projects through land donation or other mechanisms if suitable multi-family sites can be identified in the urbanized area.

2.5 Create multi-family housing design standards

One of the strongest tensions that exists in infill development is the impact of larger multi-family developments on existing neighborhoods. If large amounts of lower quality or visually unappealing multi-family housing is developed, coordinated pushback can develop to future multi-family development. Enhanced multi-family design standards that are also conscientious of their impact on development cost could help make infill more tolerable to existing neighborhood and mitigate NIMBY attitudes, while avoiding a pendulum response against future dense rental housing development.

2.6 Create more predictable infrastructure standards for developments

Interviews with local developers indicated that discretionary infrastructure requirements arising during development review processes had the potential to add considerable cost to developments, increasing pre-development uncertainty. Excessive infrastructure requirements drastically alter the overall financial feasibility of a project. Both the city and county should explore ways to make infrastructure standards balanced and limit the total amount of discretionary infrastructure required in a given project so developers can have more certainty about their development costs and less financial risk.

2.7 Incentives for Townhome Exemption Development (TED) regulation

The Townhome Exemption to state subdivision rules has proven a powerful tool for developers seeking to produce modestly priced housing. The city should consider modifications to the TED program to incentivize affordable developments including open space and landscaping requirements as well as changes to conditional use requirements.

<u>Capacity Building Recommendations</u>

To address the growing needs for housing services, both public and private stakeholders should work to expand the capacity of existing service providers and developers while working to identify gaps that can be addressed with new service models.

3.1 Convene diverse public/private sector working group to implement housing policy and program goals

The city has already convened working groups to begin the development of new affordable housing policies. Successful models from other communities have convened diverse groups of public and private sector stakeholders to work towards a strategic plan for systematically addressing affordable housing needs, and it's critically important that the city and county work collaboratively and coordinate these efforts. Adding a county government stakeholder to the city's working group is essential.

3.2 Expand CDFI capacity to administer local affordable housing financial tools

Community Development Financial Institutions (CDFI) are a special type of financial organization that can play a critical role in promoting access to housing. NeighborWorks Montana is a certified CDFI and has an affordable housing development fund. The public sector should pursue ways to increase the amount of resources available for this gap funding source, while also exploring new models for consumer financing products including employer funded down payment assistance.

3.3 Work with local nonprofit partners and the development community to expand the approaches to affordable housing development

Currently the primary structure for affordable for-purchase housing is the creation of "permanently affordable housing" under the City of Missoula land use code. While this type of long-term, equity restricted housing is a very successful model, there are other models that could be deployed to meet gaps in the current housing market and provide more flexibility to future housing programs. Permanently affordable housing is generally best for addressing the needs of the lowest-income households that require significant subsidy to be able to afford a home. Nonprofit mixed-income housing development can provide a very important contribution to the availability of affordable housing with an entrepreneurial approach that needs little ongoing investment once an initial critical mass of operations has been attained.

3.4 Collaboration to grow local construction capacity

One of the major factors impacting housing development costs locally is a lack of skilled labor and qualified subcontractors. The city, university, nonprofits, and building community should work together to create a coordinated program to support the expansion of the skilled labor pool in the construction industries.

<u>Program Development Recommendations</u>

It is clear from the analysis in this report that there are both needs and opportunities for new housing programs to serve both the city and county. Program development requires significant up-front work and investment but will yield ongoing benefits once established. Core to this will be the ongoing evaluation of programs and their impact in the community that should guide the larger response to affordability needs.

4.1 Clearly define an assessment framework and data tracking for impacting affordable housing needs

A critical first step for creating a systemic approach to affordable housing programs is to have a very clearly defined understanding of housing needs, as well as data-driven benchmarks for annual housing production goals to impact those needs. These should include rental and home pricing targets that are tied to key income levels that are updated annually with a standardized methodology. Goal setting should also be coupled with the collection of key housing statistical data that measures the gap between housing costs and wages on an annual basis, as a way to gauge macro-level impacts and direct resources to shifting and emerging housing needs. As part of this initiative, the city and county should collaborate in developing a process for gathering more detailed rental housing data for the urbanized area of the city.

4.2 Grow consumer programs provided by nonprofit service providers

Missoula has a strong array of nonprofit housing service providers as well as a large market segment of potential future homeowners.

4.2-1 Business Plan for Meeting Homebuyer Needs

As a first step in growing access to affordable housing, local governments should work with the real estate industry and housing services providers to undertake a business planning process that hones in on the detailed needs of this group of prospective homeowners to understand their actual needs and obstacles to ownership.

4.2-2 Expand Homebuyer Education and Down Payment Assistance Resources

The primary programmatic consumer interventions are homebuyer education, homebuyer counseling focused on credit repair, as well as down payment assistance programs. Interviews indicate that demand for homebuyer education currently outstrips providers' capacities to deliver classes and down payment assistance will be critical for supporting the consumer side of expanded housing availability from other programs.

4.2-3 Leverage Existing Housing Service Provider Administrative Capacity

As new local housing programs are deployed, rather than duplicating existing private sector capacities within local governments, housing services providers should be engaged to supply administrative support that could include activities such as income certification, documentation around program-assisted purchases, as well as potentially managing technical aspects of filing liens, and managing payoffs.

4.3 Affordable housing community education and advocacy campaign

In Missoula, there is an inherent tension between the goals of dense infill, increasing affordable housing, and the interests of existing homeowners. Many long-time residents, particularly existing homeowners, can be disconnected from the challenges that working-class community members face around housing. This disconnect from the realities of current community housing conditions can lead to a lack of community-level support for housing investments, and hinders growth and development that meets critical housing needs.

4.3-1 Affordable Housing Educational Campaign

The city, county, housing development community, and business leaders should collaborate to develop an education campaign designed to raise the level of awareness in the community about community challenges around housing affordability.

4.3-2 Form Housing Advocacy Coalition

The other critical aspect of supporting more housing growth is to develop an infrastructure for direct advocacy around new housing policies, new programs, and community responsive housing development. The direct beneficiaries of affordable housing programs often face much higher obstacles to participating in public processes so new constituencies such as large employers should be engaged to promote affordable housing policies and developments.

4.3-3 Expand Public Sector Outreach to Affordable Housing Constituencies

Acknowledging the inherent obstacles working class families face to public participation, and the differential stakeholdership in public processes that exist between existing homeowners and renters, local governments should work to proactively gather broader community input on affordable housing policy and land use review cases.

4.4 Develop Affordable Housing Preservation Programs

One of the most important ways to ease affordable housing constraints is to ensure that existing affordable housing is preserved.

4.4-1 Mobile Home Preservation Strategy

Mobile homes are one of the most threatened types of affordable housing. Strategies should be developed to preserve existing mobile home parks.

4.4-2 Affordable Multi-Family Preservations

Existing affordable multi-family rental is one of the community's most important affordability assets. In the city, a coordinated program to ensure the long-term preservation of existing affordable developments should be investigated.

4.4-3 Affordable Homeownership Preservation

Land trusts are a very effective model for acquiring and converting existing housing to permanently affordable homeownership units.

Funding Recommendations

The most effective approaches to addressing community housing needs require some level of direct public sector financial investment. While identifying new funding sources and mustering the political will to make public investments in housing is never easy, direct financial contribution to affordable housing activities leverage extremely high returns.

5.1 Create a housing trust fund and explore options for local funding sources

5.1-1 Create Affordable Housing Funds

One of the most versatile and effective tools for the ongoing support of affordable housing is the creation of a dedicated public fund. This mechanism is vested with a county or municipality and is regulated by a set of specific policies and procedures that both defines the uses of the fund (such as down payment assistance programs, energy efficiency retrofits and infrastructure assistance for housing development) and the solicitation, application, and allocation process through which the funds are managed. With proper structuring, the fund can become a portfolio asset that builds over time and allows the leveraging of other outside resources.

5.1-2 Identify Sources of Capital to Support the Housing Fund

To be effective, an affordable housing fund must have significant financial resources. This could include a reoccurring funding source such as bonds (Recommendation 5.2) or other permanent municipal sources.

5.2 Pursue a bond issue for affordable housing

In many ways, the Missoula community is reaching a critical moment around housing affordability and dramatic increases to affordable housing development need to occur urgently. One of the primary and fastest ways to support increased access to affordable housing is through the direct provision of funding for housing development and down payment assistance. One of the best tools for generating affordable housing funding is a bond issue. Elected officials, housing staff, and key community stakeholders should begin working to design a bond that includes diverse and effective funding mechanisms that can be a long-term asset for the community. It should be noted that there are widespread community perceptions that taxation is already high within the city, so an affordable housing bond campaign would have to be well designed, targeted to real needs, and implemented effectively. There should also be exploration of combining the purposes of a bond with other community priorities such as open space or agricultural conservation.

5.3 Better leverage Tax Increment Financing to support housing goals

The Missoula Redevelopment Agency (MRA) has proven very effective at deploying tax increment financing (TIF) to support redevelopment goals. This resource and expertise could prove a powerful tool to help support the creation of new affordable housing as well. This structure of TIF investment could be tied to the affordability definitions and goals discussed in Recommendation 4.1, which would provide the MRA a clear set of frameworks from which to assess potential TIF-supported housing development activities.

2. *Defining Housing Affordability in Missoula*

Definitions of affordability vary from community to community and among the range of housing types. As such it is always practical to define these terms as used in this report.

At its core, housing "affordability" is measured by the ratio between a given household's income and the portion of that income paid for a housing expense. Typically, the measure used to define affordability is a housing payment that does not exceed 30% of a household's gross income. This definition comes from the US Census Bureau's definition of "Cost Burden" and it applies across the income spectrum.

In every community, there are a range of incomes represented, and the key question is: at what income levels are various types of housing (rental and ownership) affordable using the 30% housing payment standard? For this we can work backwards from real housing costs to compare and understand how incomes and housing prices interact.

Incomes and Affordability

The most widely used income standard used across communities is the US Department of Housing and Urban Development's Area Median Income (AMI) standard. This formula approximates, but because of other adjustment factors, does not mirror the median income statistics from the Census Bureau, where half the population would fall below that median figure. This can be seen in the discrepancy between the HUD AMI numbers and Census family median and household median incomes depicted below in Figure 1.

It is important to distinguish between Census household and family definitions. Family median income is defined as two or more people related by birth, marriage, or adoption residing in the same housing unit, whereas a household is defined as all people who occupy a housing unit regardless of relationship. For the purposes of understanding the mortgage capacity of a given family, the family median is a superior metric to use because it is based on a family income, which is typically the economic unit that purchases a home. Household median is a much better metric for understanding the rental capacity of a given household, which far more often includes non-related persons who choose to cohabitate, as is the often the case with roommates sharing a larger house or apartment. A large discrepancy between family and household median incomes typically indicates a large number of single-person households and/or younger households, both of which tend to have much lower incomes.

HUD median incomes and their derived income limits are based on Census median family incomes, which are then adjusted formulaically to account for inflation. They are published with an aggregate median ($71,200 in this case) and at different percentage levels (30%, 50%, 80% etc.) which are adjusted for family size, with larger income allowances for larger families. The HUD AMI income limits are the basis of qualification for nearly all federal housing assistance programs, and the majority of local communities adopt this standard as well. Generally, the most common upper income limit for federal rental programs is 60% AMI and 80% AMI for homeownership assistance programs.

The interconnection between AMI and housing affordability is discussed in much more detail later in the report, but it is important to frame understandings of how these numbers impact housing resources like down payment assistance for consumers, or even up-front development subsidies used to assist the construction of below-market rate housing. HUD assigns terms to different levels of income within the AMI spectrum.

Figure 1. Census and HUD Household Income Benchmarks

City of Missoula household median income, 2016	$42,389
Missoula County household median income, 2016	$46,371
City of Missoula family median income, 2016	$67,229
Missoula County family median income, 2016	$66,985
HUD area median income 2017	$71,200
HUD 80% of AMI level, family of three, 2016	$47,450
HUD 50% of AMI level, family of three, 2016	$29,700
HUD 30% of AMI level, family of three, 2016*	$20,420

Source: Census ACS 2016 5 year, Department of Housing and Urban Development

Those below 30% AMI are considered "Extremely Low Income" include both low wage working families as well as "special needs" households, meaning that they may need more than just housing to become economically stabilized. This often includes homeless assistance programs, and deeply subsidized rental housing, often called "transitional housing" for people coming out of homelessness, unemployment, or who have a disability that limits their income and may require additional social services.

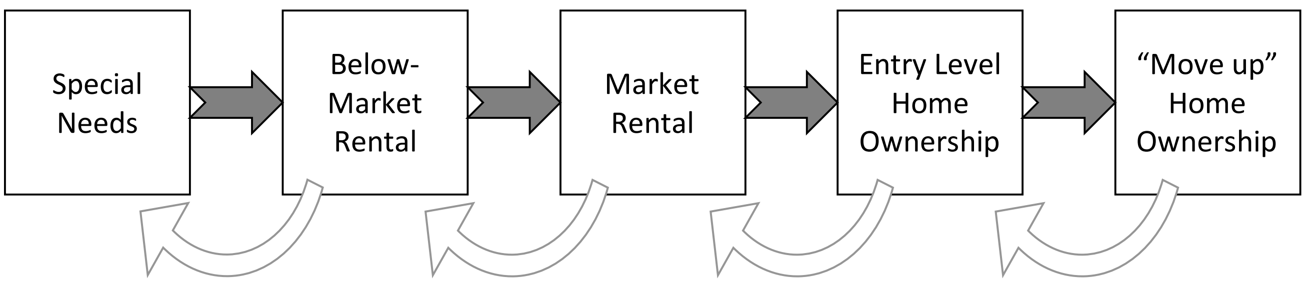
HUD describes households below the 50% AMI threshold as "Very Low-Income." These households often cannot find affordable market rate rental or ownership opportunities and are typically doubled up in market rental units, or residing in below market-rate rental properties. It is interesting to note that this is the typical income level served by Habitat for Humanity homeownership programs which leverage below market home prices, sweat equity, and zero interest mortgages to create very low monthly payments affordable at this income level.

Between 50% and 80% AMI is considered "Low-to-Moderate Income." It is at this level you often begin to find income levels high enough to support homeownership scenarios, but often with homebuyers needing additional support such as down payment assistance, homebuyer training, special first-time homebuyer mortgages or a combination of all these resources to be financially sustainable. At the higher end of this income spectrum, in the best-case scenarios, households can find access to affordable homeownership opportunities in the open market, although many higher cost communities offer subsidized homeownership opportunities for this income group due to lack of options in the open market.

The highest income tier typically defined by HUD is 80-120% AMI and is considered "Moderate-Income." Generally, households in this income group can find homeownership opportunities on the open market even in many higher cost communities, but very often may need additional financial assistance such as down payment or closing cost assistance to access quality housing that meets their needs. This is often also called "workforce housing" although many in the housing planning field find this term vexing because of simple fact that so many of the people represented in the lower incomes groups are also members of the "workforce."

The Housing Spectrum

A critical foundational component of understanding the housing planning field lies in how incomes levels and housing types interact. The graphic below depicts a spectrum of housing types starting with the lowest incomes on the left and working up through various types of housing ending with market rate homeownership. In the housing planning field, we tend to think about incomes and housing type as a spectrum that requires fluidity amongst groups which is dependent on healthy supply at all income levels.



The graphic above attempts to, in a simple way, describe how these types of housing and income levels interact. A disruption at one step in the housing spectrum can have corollary impacts in other sectors of the housing market. For instance, a lack of reasonably priced rental opportunities can make it difficult for a family to save for the necessary down payment and closing costs required to purchase a home and also crowd rental housing stock, which can raise rental costs community-wide. Consequently, having more housing available at moderate price-points can sometimes help free up lower-cost housing in the community.

Housing Terminology

Subsidized housing is a common term that is often used interchangeably with low-income housing, public housing, or Section 8 housing, and refers to rental housing that receives federal, state, or local funding and either has below market rent rates or subsidies that cover the difference between what a family can afford and the actual rental rates in a given project. In reality, this is a very general term that refers to any type of housing that receives funding in exchange for targeting particular incomes or restricting sales prices or rents. Another type of affordable rental housing is Low Income Housing Tax Credit financed projects that receive a subsidy at the development stage in exchange for providing set rent levels through a mandated affordability compliance period.

Public Housing is a very specific type of housing operated by a Housing Authority, usually a quasi-governmental entity of the local municipality that manages housing assets such as older apartment complexes typically built in the 1960s and 1970s as well as the Section 8 rental voucher program. Now called the Housing Choice Voucher Program, this unique tool is a direct subsidy that pays the difference between a given household's affordable housing payment at 30% of income and the market cost of a rental. These can sometimes be attached to specific multi-family properties, but are also applied to market rate rentals that meet certain pricing and quality standards. Non-project based vouchers are also "mobile" meaning they can move from unit to unit with a family, and in many cases, actually leave the community altogether if a family chooses to move.

The Missoula Housing Authority is an incredibly competent organization engaged in a range of sophisticated affordable housing development activity, including homeownership programs. In the past five years the housing authority has created 162 new units of affordable housing and preserved another 330 to ensure they remain affordable in perpetuity. They helped 20 families build their own homes and enter into homeownership. Their development efforts are often in partnership with other for-profit and nonprofit entities, and rely on a wide variety of funding sources including their own unrestricted development fund. In 2012, they created an in-house construction entity which gives them the opportunity for better control over quality of construction and tenant relationships.

First-time homebuyer is a technical term defined by FHA as someone who has not owned a home in the last three years, or is a displaced homemaker, or resident of substandard housing that cannot be brought up to code. While not strictly defined by income level, first-time homebuyer programs, such as down payment assistance and mortgage programs, typically limit access to these programs to low- and moderate-income households.

As mentioned above, workforce housing is a popular term that has arisen in the last two decades as a response to the often-negative connotations of the term low-income or affordable housing. It is also generally used to denote homeownership for moderate-income households. As mentioned above, the usage of this term to denote programs for moderate-income housing discounts the fact that many members of lower income groups are in fact part of the workforce. Another term for entry-level homeownership is "attainable housing", avoiding any of the stigma or confusion associated with other types of affordable housing programs, although this too could be applied to a range of incomes and housing types. In this context, it is primarily meant to represent homeownership in the 60-120% AMI range.

In the subsequent sections, we will describe in detail the current demographic and housing market conditions and analyze these conditions within the context of affordability.

3. Demographic Profile and Trends

Household and Population Trends

Missoula's population grew by 5.8% between 2010 and 2015, from 65,383 to 69,190—a rate of growth greater than the nation as a whole. Of the seven Montana cities with 2015 populations greater than 10,000, only Helena and Great Falls grew more slowly, while the populations of the five others grew faster than the national average. The Missoula County population outside the city limits grew much more slowly, with an increase of 2.1%, adding 871 new residents.

The number of households in Missoula grew much faster than the population in the same time period—more than double the national average—adding more than 1,500 households within the city limits and an additional 900 households outside the city. The reason for this disparity between population and household growth is somewhat unclear, although it should be noted that the real number increase in households roughly equates to the real number increase in population, especially in the county outside city limits.

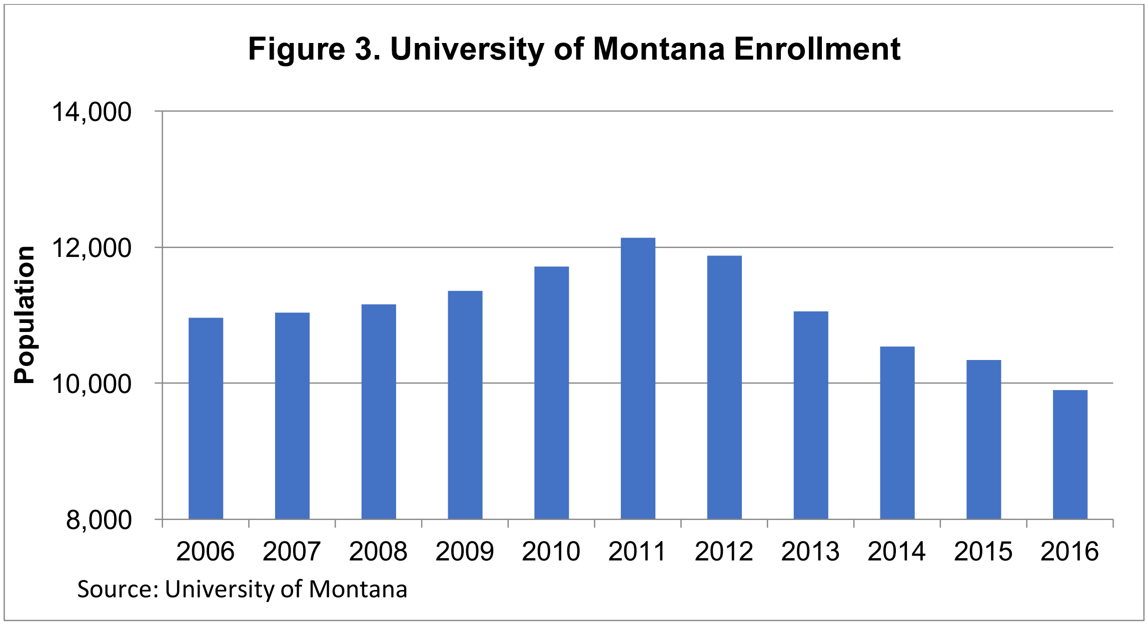
Figure 2. Population and Housing Units 2015

	City of Missoula	County
Population	69,190	111,966
Households	29,860	46,624
Total housing units	31,668	51,056
Seasonal housing units	288	2,168
Percentage vacant, year-around	4.8	4.4
Percent renter occupied	52.1	41.6
Percent owner occupied	47.9	58.4

Source: 2011-2015 American Community Survey 5-Year Estimates

During the same period, there was an increase of housing supply roughly equated to the increase in population and households. The number of housing units increased from 30,329 to 31,668 within the city limits, an increase of approximately 1,300 housing units. An additional 746 housing units were added in the county outside of city limits. By implication, changes in Missoula's population, households, and housing supply indicate a trend towards single-person households, especially in renter-occupied units as indicated by a decreasing average household size among renters. While seasonal or short-term housing does not appear to be a major contributing factor, the changes may be related to housing trends among University of Montana students, which make up nearly a sixth of Missoula's population.

Mitigating a likely greater increase in Missoula's population has been a slow decline in the number of students enrolled at the University of Montana. Enrollment has declined by 15% since 2010, a net decrease of more than 1,800 students. University of Montana had an enrollment of 9,903 students in 2016, the first time the university has had below 10,000 students in at least the past 10 years. See Figure 3, below.



Missoula has a relatively small minority population. According to 2011-2015 American Community Survey estimates, the city's population includes 0.7% African Americans, 2.4% Native Americans, 1.5% Asians and 3.5% Hispanics/Latinos of any race. The only significant changes in the minority population over the previous 5 years was an approximately 500-person increase in the Hispanic/Latino population and an approximately 400-person decrease in the Native American population.

Age Profile of Population

During the period between 2010 and 2015, Missoula city did not experience a notable change in the age profile of its population. Unlike many other communities around the country, Missoula city did not experience significant aging of its population during that period, and actually experienced the reverse. The number of people aged 60 or older only edged up from 14.8% to 16.8% of the population, whereas in the county there was a slightly larger increase from 16.3% to 18.9%. As one can see from the chart below, Missoula city has larger percentage of its population aged 15-39 compared to the county, while in contrast the county has a larger proportion of its population aged 40-79.

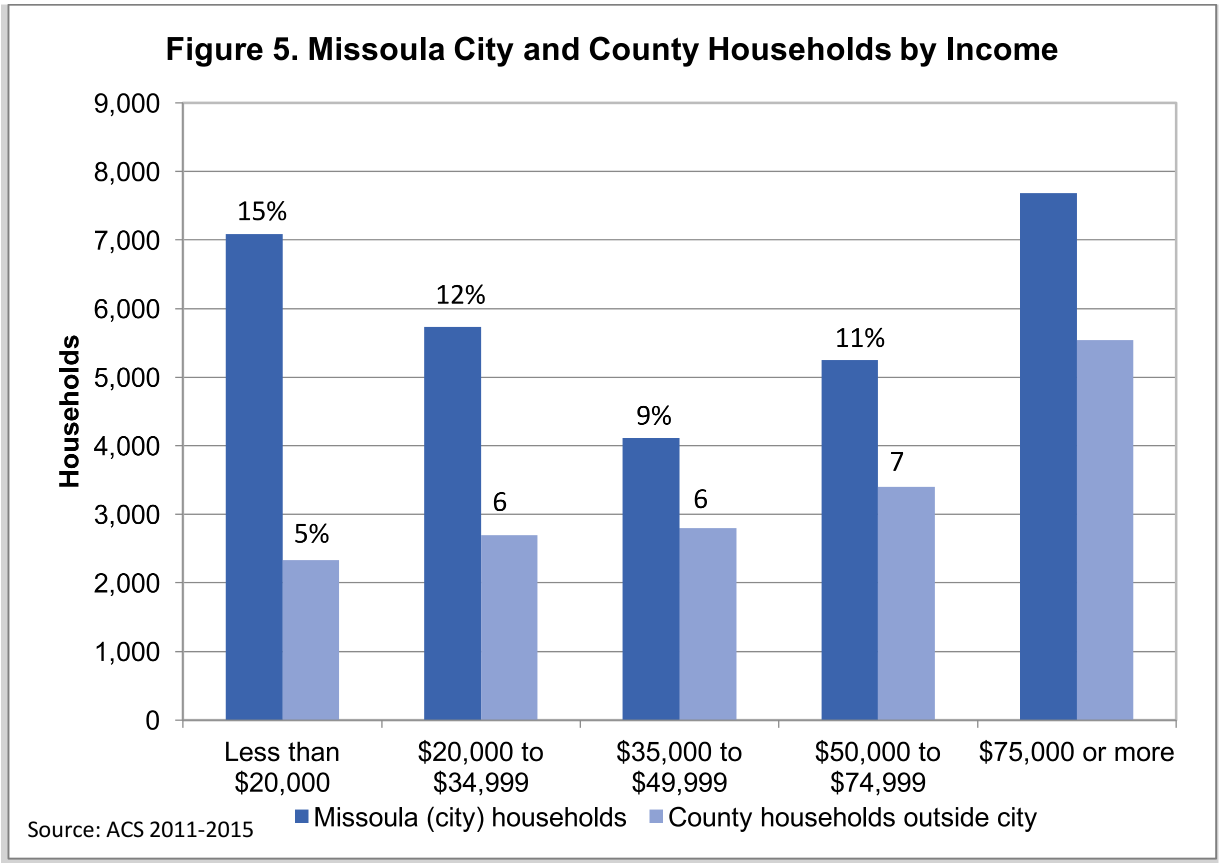
Figure 4. Age Profile of Missoula City and County

	City		County	
	2010	**2015**	**2010**	**2015**
0-14 years	14.8%	15.1%	16.8%	16.4%
15-19 years	7.9%	7.3%	7.6%	6.6%
20-24 years	15.9%	14.4%	11.6%	11.6%
25-39 years	23.2%	23.3%	20.5%	21.8%
40-59 years	23.3%	23.0%	27.1%	24.8%
60-79 years	11.1%	12.6%	13.3%	15.4%
80 years and over	3.7%	4.2%	3.0%	3.5%

Source: Census, ACS Community Survey 2011-2015

Income Distributions

Compared to the county outside Missoula, households in Missoula have much lower incomes. See Figure 5 below. As defined by the U.S. Department of Housing and Urban Development (HUD), about 47% of Missoula households are considered "low-income"—meaning that they have incomes at or below 80% of the area median income (AMI) as calculated by HUD.



As mentioned earlier in the report, there is a discrepancy between the HUD Area Median Income limits and the true median income as reported by the Census. This results from several factors including that HUD's "area" for calculating median income is larger than Missoula city and a different methodology is used that has adjustment factors. The Census tally of households with less than $20,000 annual income closely equates to HUD's "Extremely Low Income" group, defined by HUD as those having incomes at or below 30% of area median income. This group comprises a significant 24% of Missoula's households.

It is important to note that HUD's Area Median Income (AMI) standard for Missoula is lower than the median household income for both Missoula city and county as reported in the latest American Community Survey estimates. The HUD AMI standard is important to consider for planning purposes because 80% of area median income is the typically the upper income limit used to determine eligibility of homebuyers for mortgage assistance programs funded by HUD. The HUD AMI level for a three-person household is the closest comparison to the Census median incomes, since the average family size in Missoula County is about 2.5 persons.

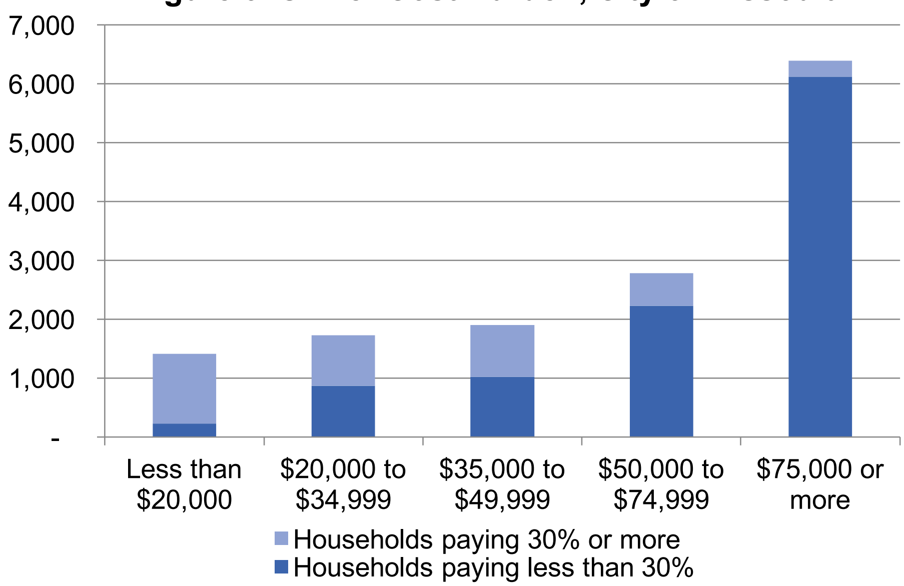
Housing Cost Burdens

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 2005 and 2015 American Community Survey data.

Countywide, we see a total of 17,176 households paying more than 30% of their income for housing. The majority of these are concentrated in renter households with 55% cost burdened, compared to just over 26% for homeowners. A total of 12,021, or 41%, of households in the City of Missoula paid over 30% of their incomes for housing costs, according to the latest American Community Survey estimates. Of these, about two-thirds—or 8,267 households—were renters. More than half of all renter households in Missoula were cost burdened, compared to 26% of homeowners. It is important to note that these numbers do not include households with no income and no housing payment, which are roughly 1% of the population.

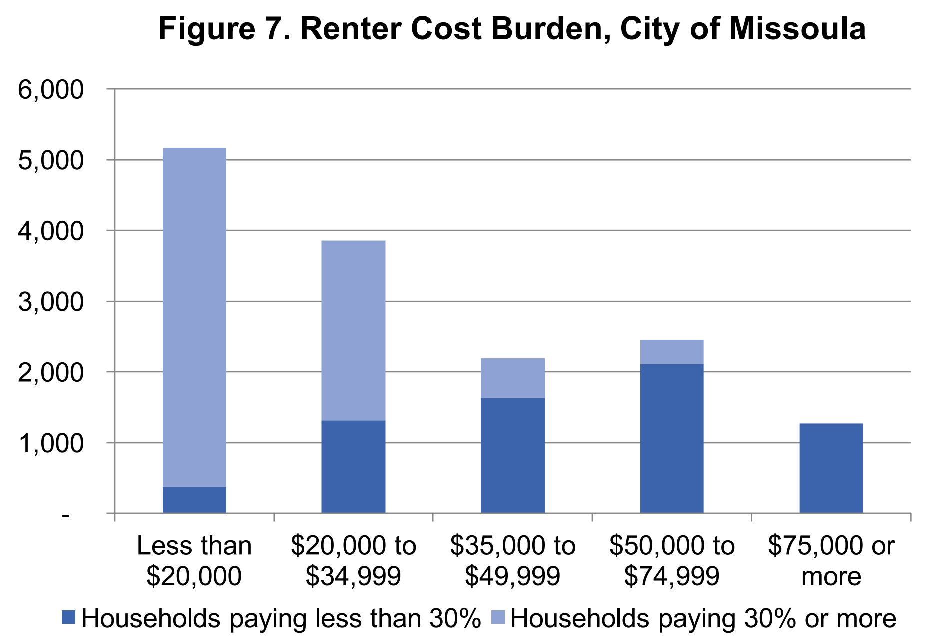
Cost burdens are concentrated among renters and homeowners with incomes under $35,000—who make up more than three-quarters of all households paying over 30% of income for housing. See Figures 6 and 7.

Figure 6. Owner Cost Burden, City of Missoula



Source: Census Bureau, ACS 2015

Despite reductions in housing costs that occurred during the economic downturn, 1,600 more Missoula households were cost burdened in 2015 as compared to 2007. Rents and sale prices have increased since 2010, continuing a decade-long trend in housing cost increases outstripping income growth.



Source: Census Bureau, ACS 2015

A greater percentage of households are cost burdened in the City of Missoula compared to the national average (41% vs. 35%). While cost burdens are evenly split between renters and owners nationwide, cost burdened households are much more likely to be renters in Missoula (at a ratio of approximately two cost burdened renters for every cost burdened homeowner). Cost burdens are also much more concentrated among households with incomes less than $35,000 in Missoula compared to national averages – while 65%, or approximately two-thirds of cost burdened households nationwide are in this income range, 78% of cost burdened households in Missoula are in this income range.

4. *The Workforce, Economy, and Overall Housing Demand*

Employment Trends
Missoula County experienced slight gains in employment from 2005 to 2007, driving an increase in the number of households and helping to fuel real estate development. Then, from 2008 through 2010, there was a steep drop in the number of employed people in the county. Still, there were 3,244 more persons employed countywide in 2015 compared to 2005, according to the U.S. Bureau of Labor Statistics (BLS).

This begs the question of how the number of households in Missoula increased by 16% since 2007, while the city's workforce increased by only 5% and the population increased by only 6%.

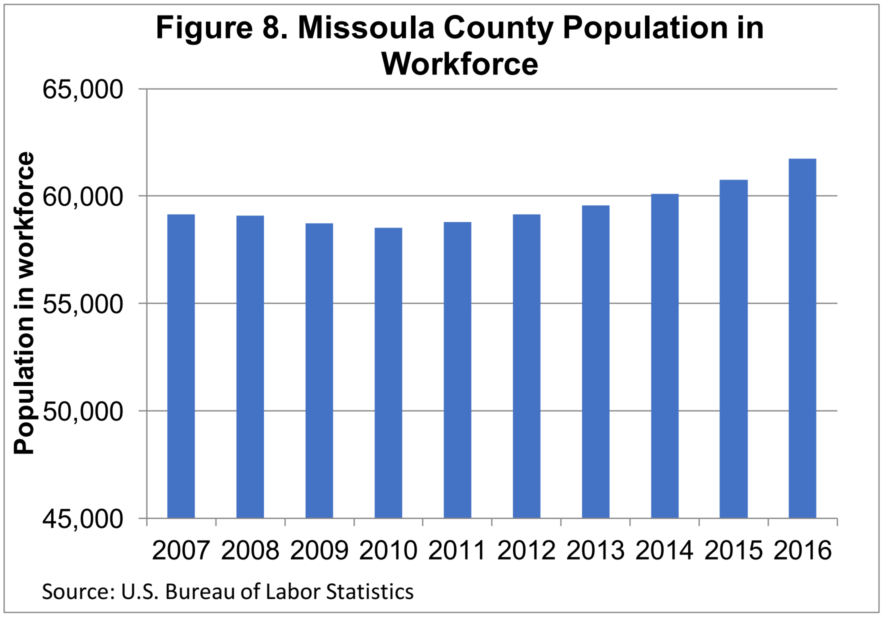
Typically, the three trends track more closely together. Declines in employment from 2007-2010 explain some of the difference—people became unemployed or withdrew from the workforce but for the most part have apparently stayed in the community. More of the disparity is explained by shrinking sizes of households—household formation (and housing demand) is increasing faster than population growth.

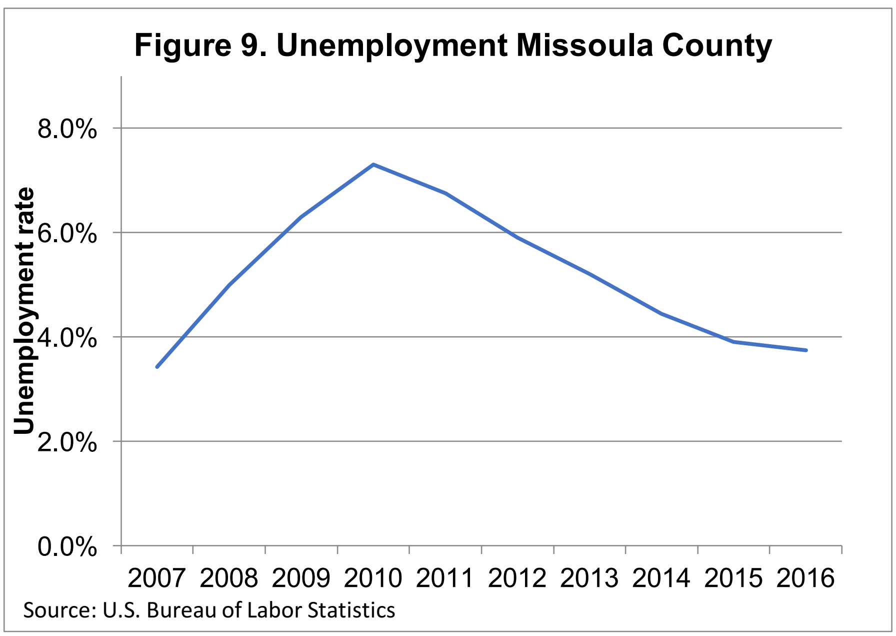
What does this mean for future demand for housing, housing costs, and affordability in Missoula? Naturally, strong household growth driven by underlying employment growth tends to drive up housing costs—as occurred in Missoula up to 2007—while slow growth or declines in number of households translates to reduced demand for housing and tends to stabilize or reduce housing costs.

The dramatic rise in unemployment from 2007-2010 very likely led some households to leave Missoula—although there are no reliable statistics to confirm this. Several residential builders who were interviewed related that many construction companies went out of business during the recession, leading to an exodus of construction workers to other parts of the country, in particular to North Dakota's booming oil and gas fields.

Reliable year-to-year employment data is available for the Missoula Metropolitan Statistical Area but not for the city itself. Countywide, the number of persons in the workforce increased from 59,157 in 2007 to 61,741 in 2016, meanwhile employed persons increased from 57,129 in 2007 to 59,431 in 2016, but not in a steady trend. From 2007 to 2010, the workforce declined by 622 persons—see Figure 8. In 2011, the decline ended with an upward trend that continues today representing an overall growth in labor force of 2,584 workers or around 4% over that 10-year period.

The countywide unemployment rate as of 2016 was 3.8%, the same as it was in 2005 after having reached a 10-year peak of 7.3% in 2010. This is lower than the national unemployment rate of 5.3% in 2015 and 9.6% in 2010.





Loss of employment—as well as the threat of losing jobs—clearly contributed to a dramatic fall-off in demand for homes and rental units during the recession years. While there is no doubt pent-up demand for bigger, better, or more affordable housing, there is no strong indication at this time for predicting significant future demand based on employment and household growth alone. Rather, the demand will likely be driven by people seeking more affordable housing costs, or renters who desire to become homeowners.

Local Economy and Growing Sectors

Aside from the recent recession, Missoula has seen a long-term trend of economic growth paired with moderate population growth. Primary growth drivers are a major university, a regional hospital, plentiful opportunities for outdoor recreation, tourism, and the overall attractiveness of the community. The University of Montana is the largest single employer in Missoula.

Providence St. Patrick Hospital and Providence Medical Group is the second largest employer and largest private employer, with more than 1,500 employees. Data provided by the hospital indicates that there has been significant growth since 2014, with a total increase of 239 full-time equivalents or a growth rate of 18.7% in just over two years. See Figure 10 for a list of the ten largest employers in Missoula County.

Much of the growth in industry sectors during the 2000s was exactly what is expected in a community that benefits from tourism, a university, and a major regional hospital. Most of the employment increases were in education, health care, restaurants, lodging, and administrative services—a mix of higher-paying professional jobs and lower-paying service jobs. See Figure 11 and Figure 12 for statistics on Missoula County's workforce by industries and occupations.

Figure 10. Largest Employers Missoula County

	Size
University of Montana	3065
Providence St. Patrick Hospital	1450
Montana Rail Link	1167
Missoula County Public Schools	1124
DirecTV Customer Service Center	935
Community Medical Center	916
Missoula County	878
Walmart Stores, Inc.	585
Forest Service	584
Opportunity Resources, Inc.	579

Figure 11. Occupations of Missoula County Workforce

	Number of employed	Percentage	Change since 2007
Classifications			
Management, business, science, arts	23,134	39.1%	4,286
Sales and office	13,822	23.4%	-1,458
Service	12,154	20.6%	2,223
Natural resources, construction, maintenance	5,619	9.5%	346
Production, transportation, material moving	4,374	7.4%	-1,061

Sources: 2005-2007 American Community Survey 3-Year and 2011-2015 American Community Survey 5-Year

It should be noted that Figure 11 and Figure 12 describe the number of civilians in Missoula County over age 16 who are employed either full-time or part-time, some of whom hold down more than one job. The industries and occupations represent the primary jobs that were reported.

Figure 12: Missoula County Workforce by Industry

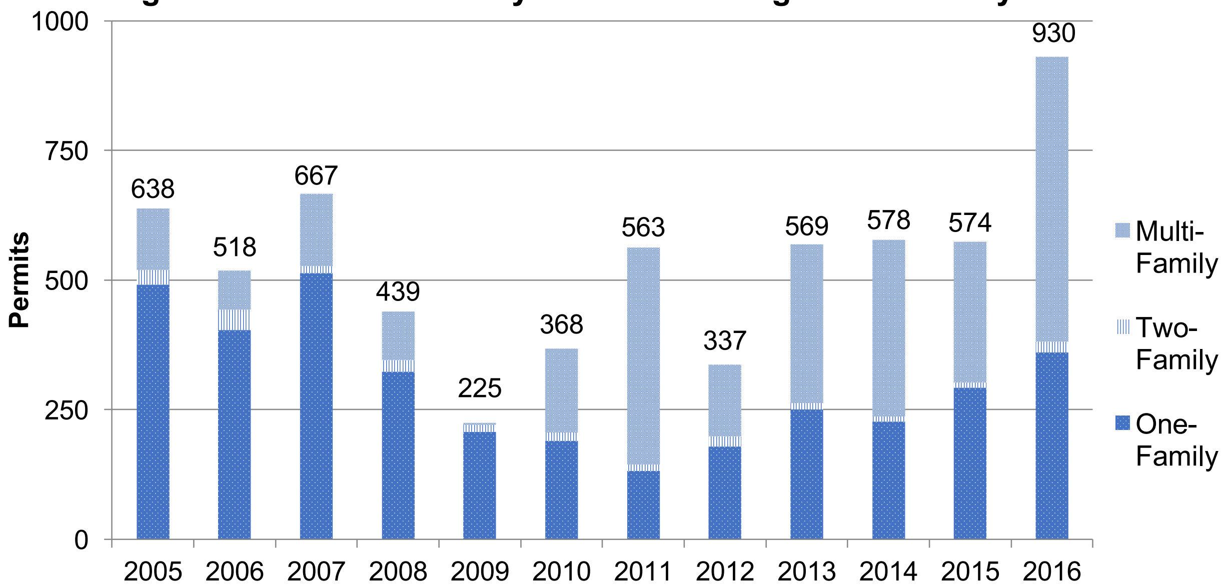
Classifications	Number of employed	Percentage	Change since 2007
Educational services, health care, social assistance	15,814	26.8%	2329
Arts, entertainment, recreation, lodging, food services	7,528	12.7%	1083
Retail trade	7,299	12.3%	-712
Professional, scientific, mgmt., administrative, waste mgmt.	6,203	10.5%	1255
Construction	4,212	7.1%	-21
Other services, except public administration	2,988	5.1%	720
Finance, insurance, real estate, rental and leasing	2,847	4.8%	-288
Public administration	2,253	3.8%	274
Manufacturing	2,240	3.8%	-796
Agriculture, forestry, fishing and hunting, and mining	2,239	3.8%	442
Transportation and warehousing, and utilities	2,173	3.7%	-166
Information	1,931	3.3%	373
Wholesale trade	1,376	2.3%	-157

Sources: 2005-2007 American Community Survey 3-Year and 2011-2015 American Community Survey 5-Year

5. Housing Market Profile and Trends

Housing Construction Activity
The Census Building Permit Survey, an estimate of building permit activity, is helpful for looking at the long-term trends in housing construction activity. Construction activity was high in the mid-2000s, and then fell off sharply after 2007. The peak year for construction starts was 2007, when permits were issued for 667 housing units. This is about one-sixth more than were built in 2015 and triple the average annual starts in 2009. See details of these construction trends in Figure 13 below.

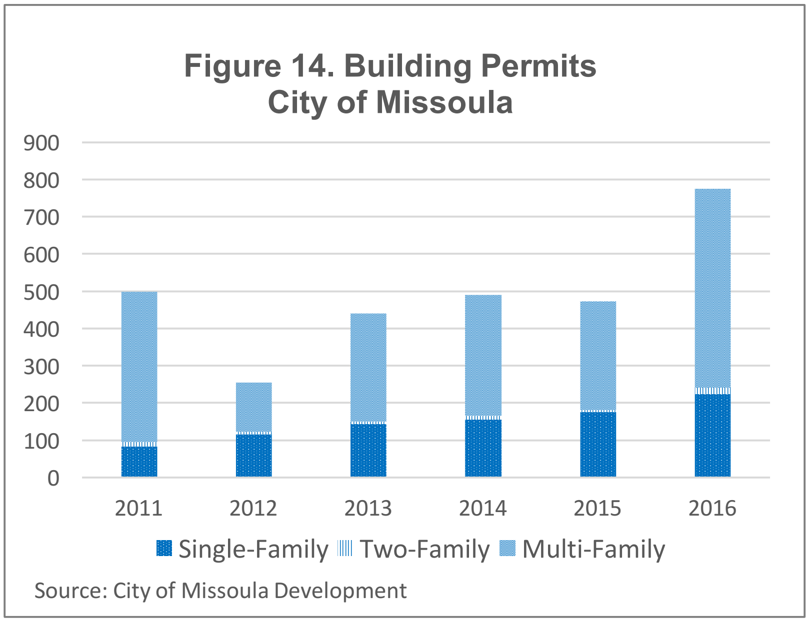
Figure 13. Missoula County Census Building Permit Survey Data

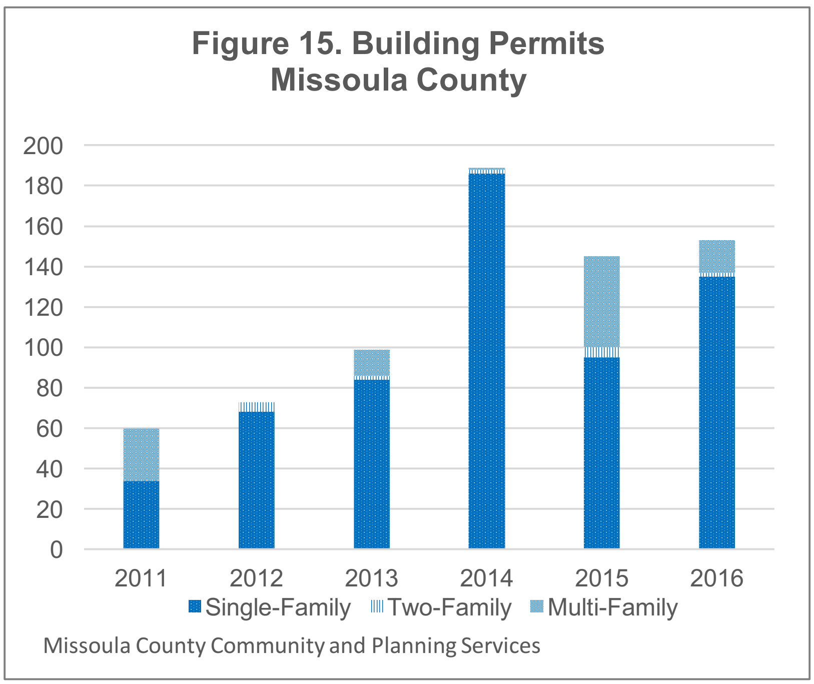


Source: Census Bureau, Building Permits Survey

Construction starts of residential buildings with three or more units show a different trend: demand for these units nearly quadrupled in 2011 compared to 2005, and continue to remain at relatively high levels. This reflects a high demand for multi-unit for-sale and rental housing, possibly related to student housing, but perhaps also reflecting emphasis in local planning on denser infill development and a reported lack of financially feasible single-family lots for development.

Numbers for 2016 show a total of 930 permits issued with 550 permits for multi-family units—a 50% increase over the total number of permits in the previous year. The large number of



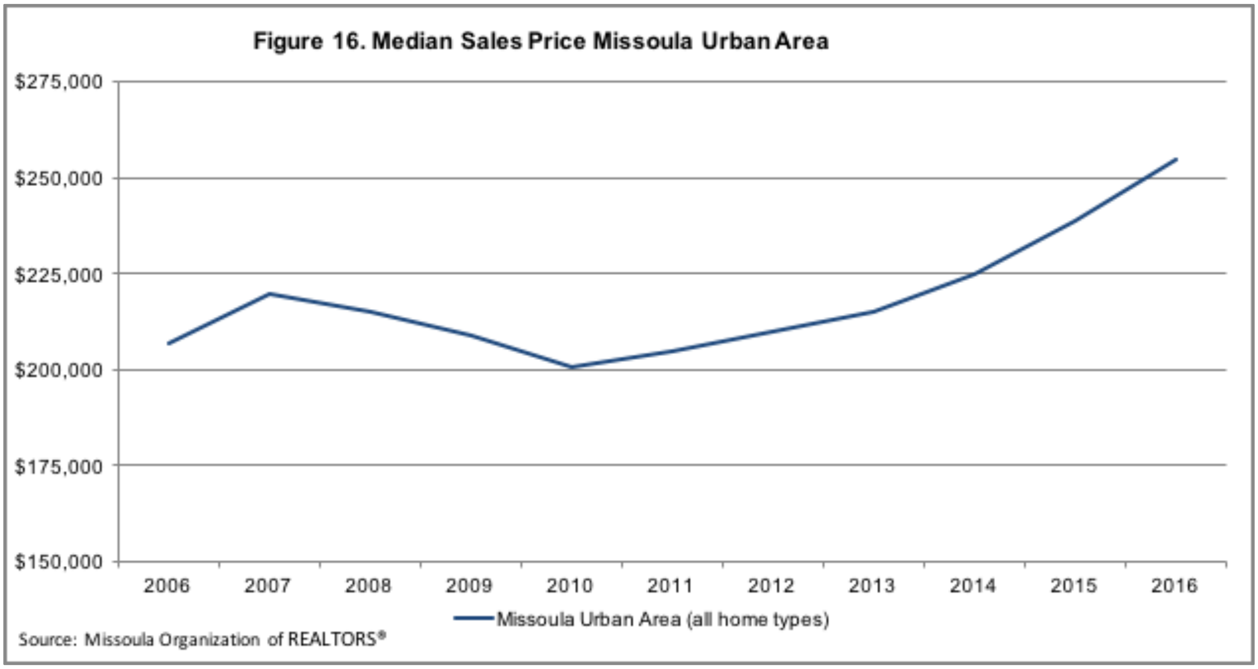


multi-family units are reflective of several large developments, including student housing projects.

When we look at more detailed data provided by the city and county, we largely see alignment with the data from the Census.

When the permit data is separated into city and county permits, we see that the majority of building activity for the most recent year is within the city, with 775 residential permits as compared to 153 in the county.

Home Sales Activity and Prices
Likewise, home sales activity in the Missoula Urban Area was strong in the mid-2000s and then declined, but not to the same degree as construction starts. The Missoula Organization of REALTORS® (MOR) defines the Urban Area as the City of Missoula, its neighborhoods including Rattlesnake, Downtown, University, Fairviews, South Hills, Pattee Canyon, Lewis and Clark, Miller Creek, Blue Mountain, Big Flat, Orchard Homes, Mullan Road, Grant Creek, Lolo, Bonner, East Missoula, and Clinton. The Missoula Urban Area does not encompass Frenchtown, Seeley Lake, the Swan Valley, Potomac, and Turah. MOR provided sales volume data in various price categories for 2007, 2011, and 2016 from its Multiple Listing Service and median sale prices for 2006-2016—shown in Figures 16 and 17 below. While a reliable indicator of sales trends, it should be noted that these statistics do not include homes sold privately and some homes sold directly by builders.



The median sale price of all residential homes peaked in 2016 at $255,000, compared to the recent low in 2010 of $200,500—a 27% increase. The $55,000+ increase in median sales price indicates that more than half of homes are beginning to be out of the reach of many working-class and entry-level professional workers, which we will explore in more detail in the affordability analysis portion of this report.

Figure 17. Missoula Urban Area Sales

	2007	2011	2016
Sale Price			
Under $150,000	170	174	110
$150,001-$200,000	405	251	232
$200,001-$275,000	429	258	470
$275,001-$350,000	199	112	300
$350,001-$425,000	87	49	148
$425,001 +	102	33	132
Total	1392	877	1392

Source: Missoula Organization of REALTORS®

Similar to the impacts of the housing bubble and subsequent economic downturn in other communities, the MLS home sales data shows a robust 1,392 home sales in 2007 and 877 sales in 2011—a decline of 37%. Interestingly, this peak number from 2007 was the exact same number of home sales just recorded for 2016. Most notable in this data is the decrease in sales under $200,000 from 41% of all sales in 2007 to just 25% in 2016, despite robust growth in lower-cost townhome and condo segments.

More detailed data by type of unit was analyzed for 2014, 2015, and 2016. Sales of detached homes experienced only a 10% increase between 2014 and 2016, while condo and townhome sales increased much more dramatically. At the same time, there was a marked decrease in single-family detached dwellings sold in the entry-level categories. Figure 18 indicates that single family homes below $250,000 shrunk from 57% of single-family sales in 2014, to 40% just two years later. More dramatic decreases were observed in the under-$200,000 category with this segment of the market decreasing from 29% to 14% in the same time period.

Figure 18. City Residential Detached Home Sales

	2014	2015	2016
Sale Price			
Under $200,000	204	170	110
$200,000-$249,000	199	244	196
$250,000-$350,000	196	265	283
$350,000+	102	120	180
Total Sales	701	799	769

Source: Missoula Organization of REALTORS®

Figure 19. Missoula City Townhome Sales

	2014	2015	2016
Sale Price			
Under $200,000	36	37	35
$200,000-$249,000	10	13	39
$250,000-$350,000	5	6	14
$350,000+	3	0	4
Total	54	56	92

Source: Missoula Organization of REALTORS®

Figure 20. Missoula City Condo Sales

	2014	2015	2016
Sale Price			
Under $200,000	82	76	93
$200,000-$249,000	9	16	21
$250,000-$350,000	8	7	18
$350,000+	4	4	11
Total	103	103	143

Source: Missoula Organization of REALTORS®

Figures 19 and 20 show the number of sales of condos and townhomes at various price points. In 2016, 93 condos and 35 townhomes were sold for under $200,000 a significant increase of 39% and 70% respectively over the three-year period.

It is safe to assume that condos and townhomes are likely taking the place of many of the sub-$200,000 single-family homes which are disappearing from the market, although these housing types tend to have much higher proportion of investment or non-owner-occupied housing. This also likely reflects builders choosing development types that may be approved through review processes that are less burdensome than the subdivision review process. But it is important to note that homes created through the Townhome Exemption, the common workaround for a cumbersome subdivision process, produces both detached and attached homes.

Current For-Sale Inventory

To better understand the current market conditions for homeownership opportunities we analyzed a point-in-time snapshot of current real estate listings for Missoula. Figures 21, 22 and 23 depict the current MLS listings as of April 18th 2017.

As might be expected based on recent sales trends, current listing data reflects an extreme tightening of single-family home availability with only 30 units under $250,000 county-wide, 8% of single-family listings, and only nine total listings below $200,000, representing a strikingly small 2.5% of all single-family listings. Of those seven listings, only two were within the city limits of Missoula.

Figure 21. Listings Detached Homes

	City	County
Listing Price		
Under $200,000	2	7
$200,000-$249,000	11	10
$250,000-$350,000	38	64
$350,000+	74	158
Total Listings	125	239

Source: Missoula Organization of REALTORS® April, 2017

Figure 22. Listings Condominium

	City	County
Listing Price		
Under $200,000	28	4
$200,000-$249,000	5	0
$250,000-$350,000	16	0
$350,000+	7	0
Total Listings	56	4

Source: Missoula Organization of REALTORS® April, 2017

Also in line with recent trends of growth in the condo and townhome sector, the vast majority of affordably priced listings were of this housing type. As is expected, the majority of condos are found within the City of Missoula, with 28 units priced below $200,000 and an additional five priced between $200,000 and $250,000. There was a total of only four condos listed in the county.

Townhome production in the city also appears to be supplying a significant portion of attainable for-sale housing, with 24 units priced below $250,000 but, similar to single-family homes, only two units listed under $200,000.

Figure 23. Listings Townhome		
	City	County
Listing Price		
Under $200,000	2	0
$200,000-$249,000	22	1
$250,000-$350,000	7	2
$350,000+	7	1
Total Listings	38	4

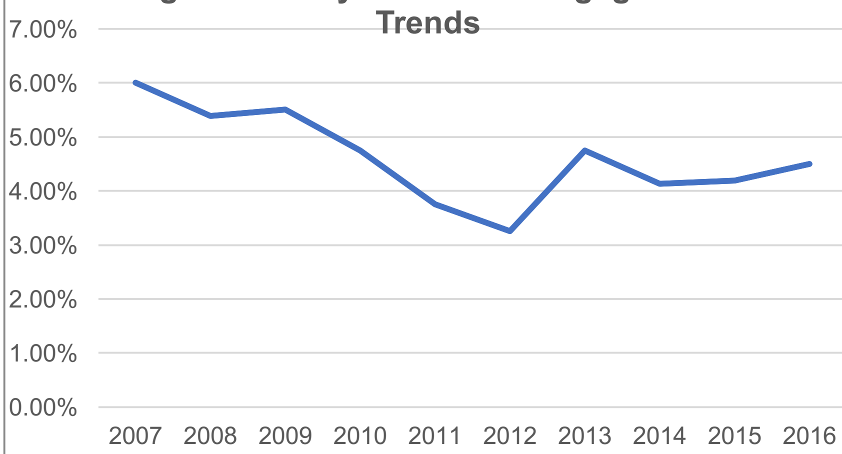
Source: Missoula Organization of REALTORS® April, 2017

Taken together, this means that there were only four fee-simple homes with asking prices below $200,000 listed within the city at the time of analysis. This signals a strong need to explore more options for entry-level housing development as many working-class families are being priced out of homeownership and limited to condo ownership. It is also important to note that additional condo association fees are included in mortgage calculation and lower the buying power of consumers when compared to homes without association dues, which functionally make their sales prices higher than they appear as listed. This can further be complicated by a lack of mainstream mortgage financing for many new construction condo projects, which can also suppress pricing.

Financing Accessibility

A critical component of affordable homeownership rests with the availability of mortgage financing. The rate of loans can dramatically impact buying power, and minimum down payments and closing costs can present a significant obstacle to many working-class families. Following the housing crisis in the late 2000s, many lenders greatly tightened their underwriting criteria to a point where government backed loans through the Federal Housing Administration became the only option for many buyers.

Figure 24. 30-year Fixed Mortgage Rate Trends



Source: First Security Bank, First Interstate Bank, MIssoula, MT

The downside is that these loans carry higher closing costs, and require mandatory mortgage insurance which lasts between 11 years and the life of the loan, depending on the size of down payment. This expense adds considerable monthly cost to the loan and reduces the amount a borrower can qualify for. While non-FHA conventional mortgages also carry mortgage insurance for situations where buyers have down payments below 20% of the home's value, this can be removed once 20% equity can be demonstrated in the property through reappraisal.

In recent years, lending has begun to normalize and long-term fixed interest rates, while not at their historic lows, have been favorable. Figure 24 shows a ten-year trend of 30-year fixed interest mortgage rates with the current rate at 4.5% which offers moderate-income buyers significant mortgage leverage.

Financing for condos remains very difficult with both Fannie Mae and Freddie Mac backed loans which both require a very high percentage of owner occupants to issue mortgages within a given project. This has the practical impact of eliminating conventional financing for new condo projects until they are significantly occupied. FHA will back loans in projects with lower owner occupancy of 35% for existing projects and 30% for new construction, but this still remains a significant obstacle to accessing financing in newly built condo developments.

Interviews with local lenders revealed a number of loan products focused on first-time and lower-income homeowners. The Montana Board of Housing offers first mortgages with lower rates (3.5% at the time of interview) and more flexible credit underwriting than traditional mortgage products. In addition, there were sources available for down payment assistance to help mortgage and income-qualified homebuyers with upfront costs of the loan, although as is typical of most communities. In addition, there were sources available for down payment assistance to help mortgage and income qualified homebuyers with upfront costs of the loan.

One pattern reported in interviews with both lenders and other real estate industry professionals was the need for more down payment assistance options targeting people whose incomes are too high to qualify for federally funded programs (typically limited to 80% AMI) to target gaps at the 80-120% AMI range. This finding was not echoed by affordable homeownership providers who say they typically have more down payment assistance than they can utilize, due to a lack of homes priced at levels that also meet program guidelines for debt ratios. The sources for down payment assistance include Montana Community Development Corporation HomeNow program, which serves households up to 100% AMI and has no income limits if the home is being purchased in one of Missoula's four majority low-income census tracts as well as several programs from NeighborWorks Montana that serve both low- and moderate-income households up to 125% AMI.

Existing Housing Conditions

It is difficult to gauge the extent of need for housing rehabilitation. The Census only tallies the number of housing units without complete plumbing or kitchen facilities. The number of those housing units decreased from 604 to 433 in Missoula between 2010 and 2015—representing 1.4% of the total housing stock, as compared with 1.3% nationwide. These numbers may or may not represent substandard housing conditions. The data could indicate a decrease in "single-room occupancy" type housing which have shared bathrooms and limited cooking facilities.

The housing stock in the City of Missoula city is significantly older than the housing stock in the county outside of city limits. While 57% of houses in the county outside of city limits were built in 1980 or later, this only represents 39% of the city's housing stock. Nearly one in five homes in the City of Missoula were built before 1950.

Overcrowding is not a significant problem in Missoula. Only 122 dwelling units were reported by the 2015 American Community Survey to have more than 1.5 occupants per room—a decrease of 55 dwelling units compared to the tally in the 2011 survey. This condition occurred in less than half of 1% of the housing stock, compared to 1% nationwide.

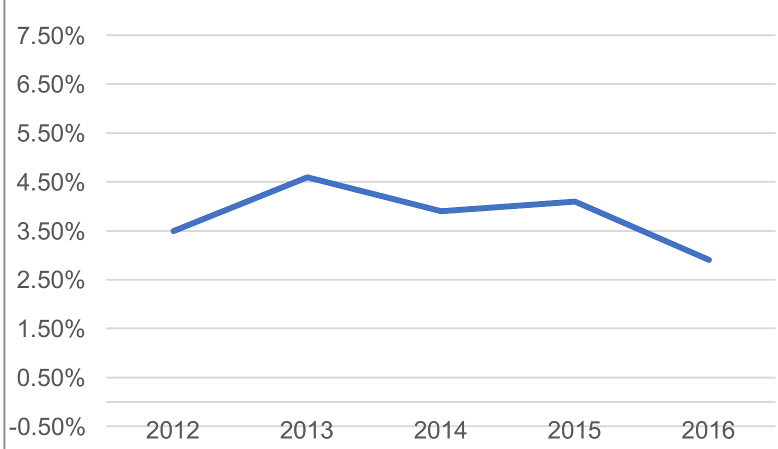
Rental Housing

There are a number of factors creating pressure on the Missoula rental market. Aside from population and job growth, the large student population at the University of Montana also creates steady pressure on the supply of rental housing combined with a growing trend of short-term rentals enabled through internet services such as Airbnb and VRBO.

Large student populations create a higher demand for housing that is often not based on the economic conditions present in the local community, which can inflate rents. Student populations are also generally willing to co-house with multiple roommates, which makes their total payment capacity significantly higher than that of a single parent with children. But students also create large amounts of seasonable variability in the housing market with highly variable vacancy rates depending on the time of year.

The strongest indicator of rental housing demand is rental vacancy rates. Multi-year data shows that vacancy rates have consistently been below 5% average in the period analyzed since 2012. Markets with less than 5% vacancy are generally considered constrained and in need of additional rental housing stock. It is important to note that while the overall vacancy rate has remained below 5%, the quarterly analysis shows occasional spikes above 5%. Looking just at two-bedroom multi-family units shows a 2016 annualized average vacancy of just 2% with December 2016 reporting a 0% vacancy. An important caveat

Figure 25. Rental Vacancy Rates



Sourec: Western Montana Chapter of NARPM to the vacancy numbers provided by the National Association of Residential Property Managers is that they do not differentiate between properties with below-market rents, or project-based rental subsidies. Quite likely vacancy rates in below-market properties are functionally zero, with slightly higher vacancy rates in market properties. This important differentiation should be considered in future rental market studies.

Figure 26. Rental Vacancies City and County

	2013	2016	Change
Rental Vacancy Rates			
Missoula City	4.6	2.9	37%
Total Vacant Rental Units			
City of Missoula	288	97	-66%
Missoula County	2168	1597	-26%

Source: Western MT Chapter of NARPM

Data from the HUD Policy Development and Research Comprehensive Housing Market Analysis publication from November of 2016 reports a county-wide vacancy rate of 4.8%— still tight, but not as tight as data from multi-family properties within the city. This analysis projects a need for 730 new units of rental housing to keep up with current demand. Current projections indicate that approximately 500 units are underway, primarily a large student housing project, which should go a long way to easing the current demand crunch but not enough to significantly impact the large number of cost burdened renters. Significantly more rental units are approved and should begin construction in the near future.

Still, many lower-income renter households in Missoula face affordability challenges. According to the latest American Community Survey estimates, there were 2,546 renter households with incomes between $20,000 and $35,000 a year paying more that 30% of their income on housing. In addition, there are another 4,797 cost burdened renter households with incomes below $20,000 a year, which yields a total need for more affordable rental housing at more than 7,300 households. Renters at or below 60% of the area median income (approximately $26,000 for an individual or $33,000 for a family of three) are the target market for below-market-rate rental housing funded through the federal Low Income Housing Tax Credit (LIHTC) program. Because of variability in how funds are allocated by the state, it is difficult to infer from past production from LIHTC program investments in Missoula what the future pipeline of projects will be, although there are highly competent nonprofit developers working in this sphere in Missoula and projects in the planning phase.

Another factor impacting rental housing availability is short-term rentals. Census statistics for the City of Missoula indicate that there were 288 units in 2015, up from 97 in 2010, a nearly 200% increase in just 5 years. Census data indicates that there are over 2,000 short-term rental or seasonally-occupied housing units located in Missoula County, but the majority of these are likely cabins and vacation properties. A survey of listings on the two most popular short-term rental websites, Airbnb.com and VRBO.com indicate 218 and 143 listings, respectively. But it is impossible to infer from these numbers an accurate current total since many hosts list their properties on multiple sites. Given the size of the community, this is a relatively small proportion of the overall rental units in the community and a much smaller number than many more "resort" style communities.

Mobile homes are a very viable affordable housing option for many who live in the greater Missoula area. They also offer a critical step between renting and ownership for many lower income households. There are major issues facing the preservation of existing mobile home developments, including strong development pressures to convert to other more profitable uses. Consideration should be made for how to preserve existing mobile home properties which serve low income families and provide relatively dense residential density. Some possible solutions include looking at the provision of infrastructure or even exploring models for mobile home parks of the future that could include much more energy efficient and livable options such as tiny homes.

It is worth noting the ways in which rental housing and ownership housing interplay. In markets where there is scarce supply for entry-level homeownership opportunities, we often see a constriction at the top end of the rental market with many moderate-income households forced to rent due to lack of affordable homeownership opportunities. This has the negative impact of constraining rental supply and increasing the cost of rental housing due to the higher payment capacity of the moderate-income renter households. This tends to disproportionately impact the lowest income renters, as they are the most impacted by increased pricing. While there is not data that can prove a corollary relationship such as this in the greater Missoula area, the steady decline in homes priced below $250,000 suggest this could be a potential risk of not aggressively working to satisfy the entry-level homeownership demand.

Comparisons with Other Geographic Areas

To contextualize the housing market in Missoula among other geographies, we review the 2015 Census ACS Community Survey data, which while differing from more recent and more detailed local data, is effective for drawing comparisons.

According to this data, the City of Missoula has a lower median household income than Missoula County, Montana or the nation. Yet the median home value was higher than the median home values nationwide, statewide in Montana, and in the comparison cities of Billings and Great Falls.

Higher home values combined with a lower median income make Missoula an expensive place for the typical household to buy a home. Figure 27 indicates that the median family income Missoula family would have to pay nearly 3.6 times its annual income for a median-valued home. This compares with a much more affordable ratio of 2.7 nationwide and 3.1 statewide in Montana.

In line with this, the percentage of homeowners with high housing cost burdens is higher than in the nation as a whole, statewide, or in the comparison cities.

Figure 27. Selected Income and Housing Statistics for Missoula and Other Areas (2015)

	City of Missoula	Missoula County	Billings, Montana	Great Falls, Montana	State of Montana	United States
Median household income	$65,377	$65,463	$66,212	$57,410	$61,271	$66,011
Median home value	$238,200	$239,700	$191,200	$160,900	$193,500	$178,600
Median rent	$763	$769	$762	$613	$711	$928
Renters paying over 30%	53.1%	51.8%	45.5%	43.1%	41.8%	47.9%
Homeowners paying over 30%	26.3%	26.1%	21.1%	19.1%	23.2%	26.0%
Rental vacancy rate	3.6	3.7	4.7	7.3	6.2	6.4
Homeowner vacancy rate	1.5	1.1	0.9	1.7	2.1	1.9

Source: 2011-2015 American Community Survey 5-Year Estimates

The Missoula median rent was lower than the national median, but higher than the median rents statewide in Montana and in Great Falls. Missoula's rental vacancy rate in 2015 was considerably lower than the national and statewide rates, as well as the comparison cities. In balance, this data further indicates relatively strong demand for rental units in Missoula.

6. *Affordability Analysis*

Income and Pricing Definitions

In this section of the report household income, demographic, and housing market data are analyzed to approximate the current needs and gaps in affordability for both renters and future homeowners.

Generally, for renters, industry standard-setters such as HUD consider an affordable rental housing payment to be at or below 30% of a household's gross income, the same standard used by the Census to determine Cost Burden. For low- and moderate-income homebuyers, there is no such "official" standard. However, nonprofit and local government programs assisting homebuyers set various affordability benchmarks for housing payments—typically at or near 30% of income. For the purpose of this report we have used the standard of 31% of gross income which is used by FHA for their mortgage programs, the most liberal fixed-rate mortgage financing available to consumers. The definition of "housing payment" comes from the underwriting rules of mortgage lenders. It typically includes mortgage principal and interest payments, real estate taxes, homeowner's/hazard insurance, private mortgage insurance and any condo/homeowner association fees.

Using these guidelines, affordable rents and home prices can be determined for any income level. HUD and most housing agencies use percentages of the area median income (AMI) for the purposes of designing, operating, and qualifying households for housing assistance programs, and as such it is a critical measure to use for analysis within the larger context of federal and local housing programs in Missoula. The reason these income standards are used, particularly for homeownership programs, is that they are based on Census figures for median family income, which most closely approximates the household economic unit that would be purchasing a home.

Figure 28. Incomes by 2017 HUD AMI Levels for Missoula MSA

	Number of Persons in Household:					
% AMI	1	2	3	4	5	6
50%	$23,100	$26,400	$29,700	$32,950	$35,600	$38,250
65%	$30,030	$34,320	$38,610	$42,835	$46,280	$49,725
80%	$36,900	$42,200	$47,450	$52,700	$56,950	$61,150
100%	$46,200	$52,800	$59,400	$65,900	$71,200	$76,500
120%	$55,440	$63,360	$71,280	$79,080	$85,440	$91,800

Source: US Department of Housing and Urban Development

HUD adjusts AMI levels to compensate for household size and sets benchmarks at various percentages of the median income used as thresholds for housing program eligibility. As a result of these adjustments, larger households have higher income limits, while smaller household have lower income limits. The City of Missoula and its affordable housing partners, along with most other communities receiving federal housing funding, use these income standards. By comparison, an analysis of median income numbers as reported by the Census (Figure 29) can show how these number interact and compare to existing housing programs and income restricted housing funding resources. It is important to note that the Missoula MSA includes the entire county area.

Figure 29. Census and HUD Household Incomes

City of Missoula family median income, 2016	$68,947
Missoula County family median income, 2016	$66,686
Missoula MSA Area Median Income, 2017	$71,200

Source: Census American Community Survey, HUD Policy Development and Research

When these numbers are compared, the HUD definition of area median income for the Missoula MSA is approximately five thousand dollars higher than the actual median family income reported by the Census ACS Survey for 2016. What this implies is that unlike the true Census median income figures where half of families' incomes fall above and below that level, a slightly larger proportion of households fall below the 100% AMI median level. This is because HUD AMI is calculated from the Census median family income, and adjusted upward to account for inflation and wage growth. For instance, the 2017 HUD AMI figures are based on the 2014 ACS median family income for Missoula County.

Rental Housing Affordability

Rental housing is critical for lower income community members and students, as well as newly recruited workforce and the growing population of people who either wait longer to purchase a home or have decided not to purchase a home at all. Households below 65% of AMI generally do not earn enough to create a sustainable homeownership situation, although there are some notable exceptions to this, including programs like Habitat for Humanity which target households at or below 50% AMI.

Households below 60% AMI qualify for below-market rental housing created through the Low-Income Housing Tax Credit program, which is one of the few sources for affordable rental housing construction and is allocated based on a statewide competition for funding and is typically highly competitive.

Figure 30 below shows affordable rents at 30% of gross income for various household sizes and HUD AMI income levels.

Figure 30. Affordable Rent Levels By 2017 AMI and Household Size						
	Number of Persons in Household:					
% Median	1	2	3	4	5	6
30%	$347	$396	$445	$494	$534	$574
50%	$578	$660	$743	$824	$890	$956
80%	$923	$1,055	$1,186	$1,318	$1,424	$1,529
100%	$1,271	$1,452	$1,634	$1,812	$1,958	$2,104

When these figures are compared to average rents, gaps in the market can be more clearly identified. Figure 31 below shows the AMI level at which the average rent, by housing type and bedroom, become affordable. For the purposes of this comparison household sizes were assumed to be one person per bedroom to account for single adult headed households.

Figure 31. Comparison Rents and Area Median Income					
	Studio	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom+
	1	1	2	3	4
Houses (2016)*	$533	$714	$892	$1,117	$1,388
Affordable AMI	46%	62%	68%	75%	84%
Duplex (2016)*	$550	$614	$783	$1,084	$1,283
Affordable AMI	48%	53%	59%	73%	78%
Multi-Unit (2016)*	$569	$625	$743	$858	$1,162
Affordable AMI	49%	54%	50%	58%	71%
Multi-Unit (Market 2017)	$751	$812	$968	$1,046	N/A
Affordable AMI	65%	70%	73%	70%	N/A
Source: Western Montana Chapter NARPM, Gill Associates *Likely includes both rent restricted and market rate properties					

One source of rental housing data is the Western Montana Chapter of the National Association of Rental Property Managers rental survey. Looking at this data, the rental rates they appear generally affordable to a large segment of the population, with the largest gaps showing for very low-income household below 50% AMI. This shows a strong overlap with the below-market rental segment which typically serves households below 60% AMI but with an emphasis on households below 50% AMI. It should be noted that detailed information regarding the types of properties reporting in this survey was not available at the time of publication.

But a recent rental comparative report produced in November 2017 for a local affordable housing developer shows market rate rents all considerably higher than those from the NARPM survey. The last row in Figure 31 shows the average rents by bedroom composition from a market rate rental survey of 954 units across seven multi-family projects located in the City of Missoula. This shows much lower affordability numbers, and a considerable affordability gap between below-market rental (serving household below 60% AMI) and average rent affordability, which hovers around 70% AMI. The comparison of the two sources for rental data also revealed considerable variation, with the difference between market rents and below-market/market rents ranging from $40 to $497. It should also be noted that the market data is almost a full year newer which may indicate relatively rapid increases in market rents, an observation that was related anecdotally by several people during the process of researching this report.

The threshold where rental housing appears to become more challenging is for larger families—those needing 3- and 4-bedroom houses. Here we see the affordable rent level push up to the 80% AMI level for all but multiplex apartments. These average rent numbers are much more likely to reflect actual market conditions since there are few below-market rent multi-family units with three and four-bedroom configurations.

Rental housing vacancy rates also reflect a tightening of the market for larger rentals with the most recent rental vacancy numbers showing a 2.7% vacancy for 3-bedroom units and a 0% vacancy for 4-bedroom units. Again, vacancies rates below 5% are considered very tight markets that should expect continued inflation of rental rates.

The corollary negative impact of higher rents for larger homes is that it often creates a larger economic burden on moderate income renters, who don't qualify for any formal affordable rental programs. This can disrupt a family's ability to save up the necessary down payment and closing costs required to purchase a home, creating an obstacle to ownership even when homes are available at affordable purchase prices.

Luckily, there is a fairly robust pipeline of rental housing production with city staff reporting approval of over 700 beds in a mix of traditional apartments and "pod" style shared student housing 2016, with 530 beds/units permitted in that same year.

The pipeline of new rental units from larger multi-family projects, particularly those targeting student populations, will help partially address the growing rental housing needs and could potentially relieve some larger rental currently being shared by multiple renter households.

This is also an important opportunity to closely track the impact of rental prices and vacancy rates to get a better idea of how this type of additional inventory impacts overall needs. In other similar communities, it has been found that student housing that targets higher rents doesn't tend to have as much of a positive impact on market rate rental housing affordability.

Taken together, this suggests a need for more rental housing development targeting very low-income households, as well as projects serving larger families. However, to address long-term needs, a variety of strategies need to be developed to address continued rental housing development that includes a focus on family rental housing in large-scale high-density developments, as well as more distributed smaller-scale development approaches. As always, there is a high need to continue investments in subsidized and below-market rental for very low- and moderate-income households through the Low-Income Housing Tax Credit Program or other sources.

Homeownership Affordability

For homeownership, the typical measure of affordability is the purchase price of the home. Using HUD AMI levels and assumptions based on the current Federal Housing Administration mortgage loan underwriting, affordable home prices were calculated for households of various sizes at four key income levels and various home types. The goal of this analysis was to calculate affordability gaps between these income levels at multiple family sizes and the assumptions for entry-level prices for various bedroom configurations and home typologies (detached, townhome, and condo).

The calculation for entry-level home prices, used to show gap shown in Figures 32, 33 and 34 below, are based on a median sales price of the lowest quartile of sales for 2017 through November 15, for each home type and bedroom configuration. This establishes a replicable methodology for determining a starting point from which to calculate the homeownership gap. It is important to note that changes in variables used to calculate home price can have a major impact on the affordable purchase price, particularly increases in interest rates, which are historically low. For the purposes of this analysis we used 4.5% as the interest rate assumption, adding a slight cushion to current rates. This model also assumes that the buyer pays all closing costs out of pocket, but any buyer contribution towards down payment would be part of the gap figure.

The four income levels represented in the affordability calculations were chosen because these are common boundaries used for defining types of homeownership assistance. Households between 65-80% AMI typically need significant financial assistance through either deeply discounted homes, large amounts of down payment assistance, or both. These households qualify for federal housing assistance and typically will rely on homes produced through not-for-profit housing development or for-profit developers with significant incentives such as donated land and waived development fees.

Households in the 80-120% range are on the cusp of current market affordability levels. But it is not until the 100% and 120% ranges—and at larger family sizes— that you start to see affordable pricing that is currently available in the open market.

Figure 32. Detached Home Prices and Affordability Gap by AMI Levels						
Household Size	1	2	3	4	5	6
Entry-Level Price	$159,585	$175,000	$220,125	$245,000	$245,000	$245,000
65% AMI	$98,883	$114,682	$123,746	$137,213	$152,606	$167,999
Gap	$(60,702)	$(60,318)	$(96,379)	$(107,787)	$(92,394)	$(77,001)
80% AMI	$129,568	$149,924	$163,291	$181,391	$200,494	$218,947
Gap	$(30,017)	$(25,076)	$(56,834)	$(63,609)	$(44,506)	$(26,053)
100% AMI	$172,832	$200,424	$216,916	$240,402	$266,725	$297,406
Gap	$-	$-	$(3,209)	$(4,598)	$-	$-
120% AMI	$219,942	$254,264	$276,909	$306,901	$339,328	$371,754
Gap	$-	$-	$-	$-	$-	$-

Figure 32 shows the calculated affordable mortgage amounts for detached homes at various income levels and family sizes. These calculations assume one family member per bedroom for all categories but the largest families, who are calculated based on four-bedroom home prices due to the small number of five and six bedroom houses at entry-level prices.

As is often the case in higher cost communities, there is a significant gap at the 65% AMI level, ranging from just over $60,000 for a one-person household to the largest gap, just over $107,000 for a four-person household. For context, a three-person household at 65% AMI is the equivalent of $38,610 a year, or $18.56 an hour for a single wage-earning household. To achieve affordability for this income group will require layering of several affordability approaches, including direct subsidization of affordable housing development with both federal and local sources, in additional to the likely need for layering down payment assistance to achieve an affordable mortgage level.

There are still significant gaps at all household sizes at the 80% AMI level as well. These gaps range from a low of just over $26,000 to a high of over $63,000 for a four-person family. A three-person household at 80% AMI would have an annual income of $47,450, or an hourly wage of $22.81. This income range is closer to what can be achieved with local funding, a regulatory incentive-based approach to private sector production of below-market rate homes, or the layering of several down payment assistance sources. But there are few options on the open market for households earning at this level, even with down payment assistance alone.

It isn't until we get to the 100% AMI level that we begin to see mortgage capacity that surpasses the entry-level home prices, with only the three and four-person households needing $5000 or less of down payment to close the affordability gap. No gap was observed for households at 120% AMI.

Because home type is a critical question for consumers, industry stakeholders, and policy maker alike, similar affordability gap analysis were also conducted for townhomes and condominiums. For these two additional housing types, the same formula for entry-level pricing assumptions were used, along with calculations for homeowner's association dues, which are considered part of your debt payment for mortgage purposes.

Figure 33. Townhome Prices and Affordability Gap by AMI Levels

Household Size	1	2	3	4	5	6
Entry-Level Price	$109,000	$133,750	$200,000	$240,750	$240,750	$240,750
65% AMI	$98,469	$113,680	$125,487	$135,526	$150,919	$166,312
Gap	$(10,531)	$(20,070)	$(74,513)	$(105,224)	$(89,831)	$(74,438)
80% AMI	$132,073	$150,947	$165,032	$179,704	$198,610	$217,458
Gap	$-	$-	$(34,968)	$(61,046)	$(42,140)	$(23,292)
100% AMI	$179,489	$204,991	$221,091	$238,715	$265,435	$292,457
Gap	$-	$-	$-	$(2,035)	$-	$-
120% AMI	$226,599	$258,831	$281,661	$305,611	$338,038	$370,464
Gap	$-	$-	$-	$-	$-	$-

Figure 33 shows an improved affordability scenario for townhomes when compared to detached home prices with much lower entry-level prices, particularly in the one-bedroom segment. It should be noted that there were relatively small sample sizes that make up the baseline entry-level cost. Even with the greatly enhanced affordability, fairly significant gaps exist at the 65% AMI level, particularly for larger families. Affordability extends to the smaller households at the 80% AMI level, with larger affordability gaps ranging from around $35,000 to upwards of $65,000 for four person households. A small gap exists for four person households at 100% AMI, but again at a level that would normally be considered a modest down payment for a home at that price level. Again, similar to detached homes, no gap was observed at the 120% AMI level for townhomes.

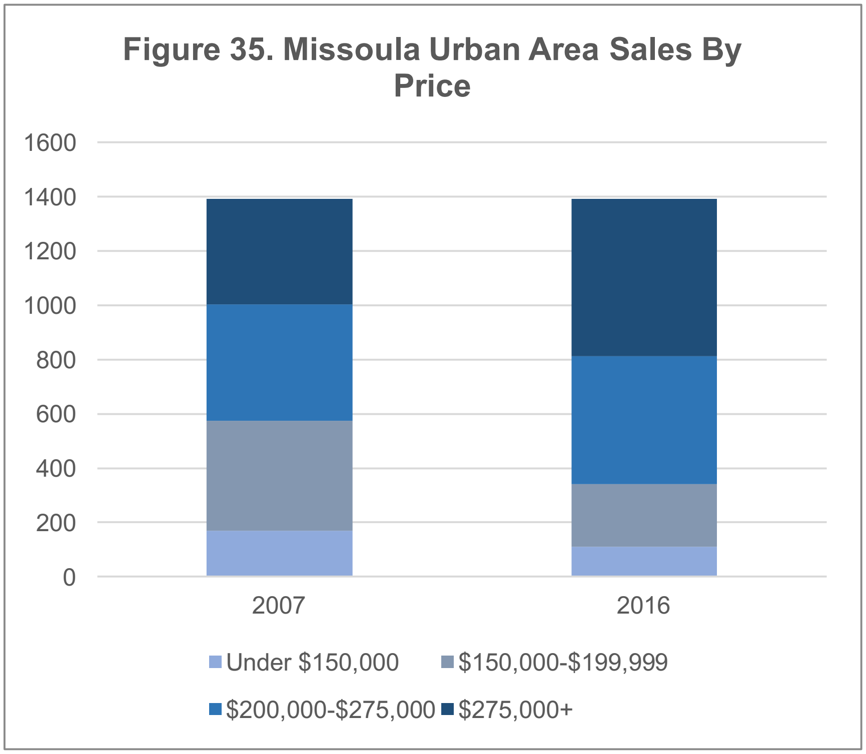
Figure 34. Condo Prices and Affordability Gap at AMI Levels				
	Number of Persons in Household:			
Household Size	1	2	3	4
Entry-Level Price	$121,000	$130,000	$160,000	$160,000
65% AMI	$82,283	$101,095	$118,490	$137,465
Gap	$(38,717)	$(28,905)	$(41,510)	$(22,535)
80% AMI	$113,758	$137,307	$157,771	$184,538
Gap	$(7,242)	$-	$(2,229)	$-
100% AMI	$159,258	$191,352	$218,698	$251,838
Gap	$-	$-	$-	$-
120% AMI	$206,368	$245,192	$279,268	$319,036
Gap	$-	$-	$-	$-

Figure 34 shows an affordability gap analysis for condominiums units at the same income levels as the previous two analyses. For this scenario, only households through four members were considered as there were too few four-bedroom condos either listed or sold in the MLS system to warrant analysis. While priced much more affordably than detached homes, buying power is also limited with condo units, which often carry significant association premiums which reduce buyers' mortgage capacity. For the purpose of this analysis, an average of homeowners association dues was calculated by bedroom size for sales through November 15, 2017. While demonstrating much smaller affordability gaps than those seen with detached housing, they are still greater than the current affordability levels seen in townhome pricing. It is also important to note that condos that do not meet lender guidelines for first mortgage financing can require much higher down payments or cash buyers, which significantly suppresses market price.

At the 65% AMI level, gaps ranged from approximately $22,500 to $41,500. Approaches to fill these affordability gaps would still require layering of at least two affordability approaches including direct subsidy, regulatory incentives, and/or down payment assistance.

At the 80% AMI level, we see gaps ranging from just over $2,200 to around $7,250, the former small enough to be covered by a modest down payment, the latter likely requiring some form of down payment assistance for the average household, especially when an additional 2-3% in closing costs is considered. No gaps are observed at either the 100% or 120% AMI range for condominiums at this time.

It can also be helpful to compare the above affordability assumptions to the snapshot of sales activity discussed earlier in the report in an effort to understand longer term trends in affordability. Looking at a 10-year snapshot of countywide sales in 2007 and again in 2016, we see some interesting patterns that suggest shrinking affordability. Figure 35 expresses home sales by pricing segment.



What is clear, is that even with relative affordability in the condo and townhome segments, housing priced below $150,000, which roughly equates to affordability for a family of 2 at 80% AMI, has decreased considerably. Sales of all home types below $150,000, went from 170 units in 2007 to just 110 units in 2016, a 35% decrease and just 8% of the overall market share.

Even larger decreases are observed in the $150,000-$199,999 segment with a 43% drop over the 10-year period, resulting in a decrease from a 29% to 17% market share since 2007. This pricing segment roughly equates to the purchasing power of the various family sizes at 100% AMI, a key segment of the labor force.

Homes in the $200,000-$275,000 range, which are affordable to 1-3 person households at the 120% AMI level, actually increased a modest 10% in that 10-year period and represent a healthy 34% of the market.

But what is truly striking is the rapid expansion of the high-end home market. Sales of homes over $275,000 increased 49%, jumping from 388 units in 2007 to 580 in 2016, becoming the largest pricing segment representing 42% of all sales, a 14% increase in market share.

Another way of analyzing affordability is to look at sales price trends. At the top level, annual median sales price is helpful to gauge the overall direction of the housing market. As discussed earlier in the report, the median home sales price has increased from a low of $200,500 in 2010 to the 2016 median of $255,000. This represents a 27% increase. To better understand what this means in terms of affordability, it would take an income of about $65,000 a year to afford a home at the 2016 median price, a level equal to about 120% AMI for a family of two.

One indication that Missoula is relatively better off than many peer communities facing similar affordability challenges is the comparative median sales price levels and increases over the last three years. Figure 36 depicts the median family income and median sales price of single-family homes in five communities and the recent median trend.

Figure 36. 2014 and 2016 Median Family Income and Median Sales Prices

	Median Family Income	2014	2016	% Increase
Missoula, Montana	$65,377	$225,000	$255,000	13.3%
Flagstaff, Arizona	$66,796	$315,900	$369,000	16.8%
Bozeman, Montana	$69,356	$287,000	$335,000	16.7%
Durango, Colorado	$77,383	$365,000	$415,000	13.7%
Santa Fe, New Mexico	$60,301	$299,150	$312,588	4.5%

Source: Gallatin Association of REALTORS, Santa Fe Association of REALTORS, Greater Durango Association of REALTORS, Missoula Organization of REALTORS, 2015 American Community Survey Estimates

Missoula's median home sales price is the lowest among four peer communities analyzed at $255,000. But if the rapidity with which median sales prices have increased over the last three years continues—a rate of approximately 4.4% a year— the median home price will exceed $300,000 within 4 years. In fact, year-to-date sales numbers for the period ending October 31st, 2017 indicate a median sales price in the urban area of $269,000, which represents a 5.5% increase over the previous year's median sales price in the first nine months of the year. Total year-to-date sales for 2017 have also surpassed the total sales for 2016 by over 118 units, and exceeded the 2007 market high. In addition, average listing time has dropped from 138 days in 2016 to 118 days in 2017. All signs of significant market tightening.

Housing Demand

At the most macro level, we can make broad assumptions about housing demand based on the homeownership rate statistics. Figure 37 shows a comparison of homeownership rates among various peer communities.

Figure 37. Homeownership Rates

Missoula, Montana	48%
Flagstaff, Arizona	45%
Bozeman, Montana	44%
Durango, Colorado	49%
Santa Fe, New Mexico	61%
Bend, Oregon	58%
Montana	67%
United States	64%

Source: 2015 American Community Survey

At 48%, the City of Missoula has one of the lowest homeownership rates among peer communities, with only Flagstaff and Bozeman demonstrating lower homeownership rates. This is significantly lower than Missoula County, which has an ownership rate of 58.4%. When compared to the state as a whole, this represents an ownership gap in the city of over 19%, and a 16% gap when compared to the national rate of homeownership. It is worth noting that communities with large student populations tend to have lower homeownership rates, but in this case, student population alone does not completely account for the lower rate of homeownership.

This report is particularly interested in access to affordable home purchase opportunities, so there is a focus on renter households, who are the largest pool of future homebuyers. Figure 38 analyzes the most feasible housing strategies for renter households at various income tiers, along with the estimated number of Missoula renter households in those income groups broken down into city and county residents. It should be noted that Census demographics do not perfectly align with median income benchmarks, so characterizations based on exact AMI income ranges are not possible.

Figure 38: Analysis of Affordable Housing Opportunities for Renters

Income Range	# of City Households	# of County Households	Key Housing Strategies
$0-$14,999	5,159	1,630	The upper end of this income range roughly equates to the 30% AMI limit for a family of three and Includes a large percentage of renter households. With few options on the open market. The priority for this group is building new subsidized rental units, but requires substantial grants, rent subsidies, and below-market-rate investments to achieve affordable rent levels.
$15,000-$34,999	7,659	3,396	Renter households in this income range roughly equate to 60% AMI on the upper end, and can be feasibly assisted through federal rental housing development programs such as the Low-Income Housing Tax Credit program, and have limited homeownership opportunities through construction and deep subsidization of low-cost homes by nonprofits.
$35,000-$49,999	5,746	3,855	Market rents are beginning to be affordable to this group. Many would-be homeowners in this group have few affordable options. The upper income range is approximately 80% AMI for a family of three. This group may have limited options with rural homes or condos in the city.
$50,000-$74,999	5,246	3,403	Would-be homeowners have limited options for condos or townhomes on the open market. More market rate rental housing is affordable. Upper limit approximately 120% AMI.
$75,000 or more	7,685	5,541	Would-be homeowners in this group have limited options for detached homes, and more options for condos and townhomes. Virtually all rental housing is affordable to this income group, if available on the market. However, this affordability could be eroded in the future if home prices rise faster than incomes or mortgage interest rates increase significantly.

Source: American Community Survey 2011-2015 5-Year Estimates

As can be seen from the breakdown of households, there are nearly 7,000 households earning below $15,000 a year. While a significant portion of this income group includes students who likely receive outside assistance for housing costs, there are still a number of households in this group who are either at risk of homelessness or are transitioning out of unstable housing situations. There are extremely limited options for assisting this group of renters, either with rental vouchers or specialized housing designed to serve people with such low incomes.

In the $15,000-$34,999 income range, there are 11,055 households countywide, with the majority (7,659 households) living in the city. Again, this group may be comprised of a significant number of students, but there is still a sizable portion of people in this group who are low-wage working households. At the lower end of the income spectrum, this group often requires some form of rental assistance or below-market rental housing to avoid being cost burdened. As we get closer to the top of the income group at 60% AMI—the upper income limit for Low-Income Housing Tax Credit rental housing— households should start to find rental housing that is affordable in the open market for all but three- and four-bedroom housing units.

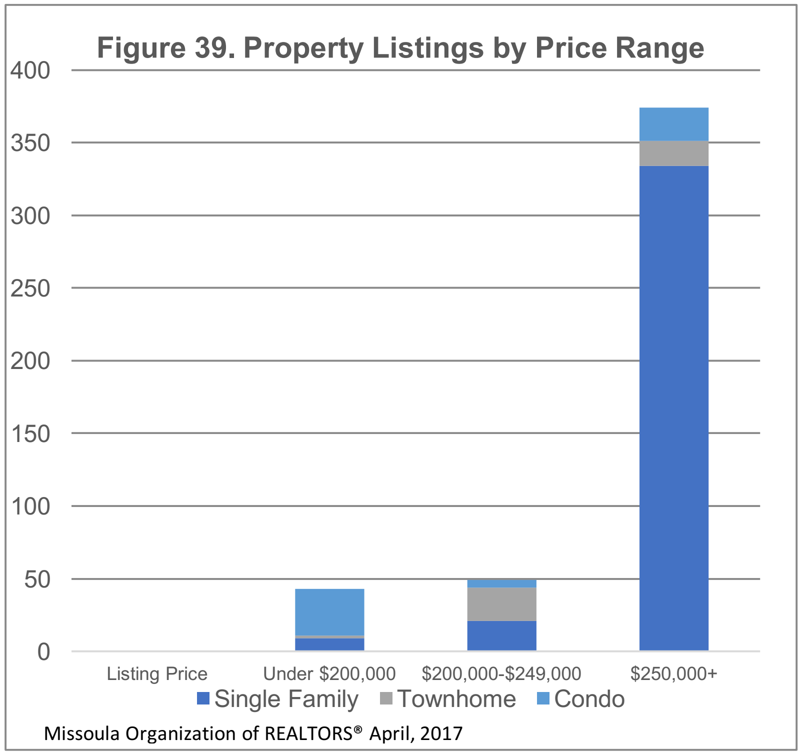
Households at the upper end of this income category may also be aspiring to homeownership with their options limited to deeply discounted housing opportunities, far deeper discounts than are available through existing down payment assistance programs alone. Generally, the only way to achieve affordable home prices for this group is through nonprofit driven housing development models that leverage significant external subsidy.

The $35,000-$49,999 tier includes 5,746 renters in the city, and an additional 3,855 in the county. This is the prime group of renters that are strong candidates for homeownership but likely struggle to find housing on the market that is affordable. The target price range for this group is around $150,000, a price range that is rapidly diminishing in the open market. If only 1/3 of this group desired to purchase a home, this would represent 3,200 potential buyers.

In the housing consumer survey described later in this report, it was found that 79.5% of renter households were interested in purchasing a home. The median income of the renter group was around $36,000 a year, which is at the low-end of this income category but still implies a significant unmet demand.

The next income group at $50,000-$74,900, which roughly equates to 80%-120% AMI, is often referred to as “missing middle” housing and encompasses 5,246 households in the city and another 3,403 households in the county. Again, if just 1/3 of households in this income group desired to purchase a home, this would yield 2,882 potential homeowners. The range of affordable home prices for this group run from around $150,000 at the lower end to around $285,000 at the upper end.

Current Housing Availability



When we compare these numbers to county-wide housing availability on the Multiple Listing Service, we see a stark divide between affordable home prices and homes available on the open market. Figure 39 shows the number of units listed in three price ranges. It is immediately apparent that there is a massive weighting towards homes over $250,000, price levels that are out of reach for all but the largest five and six person households at the 100% AMI level. In fact, there were only 43 units under $200,000 available countywide, of which 32 were condos, nine were detached homes, with just two detached homes available within city limits. Availability in the $200,000-250,000 range was only slightly more robust with 49 units listed. Of these, there were 21 detached homes, almost evenly split between city and county, and 23 townhomes, all but one of which was within the city limits.

The listing data signals an even more dramatic situation than presented in the previous sales data. Homeownership opportunities, particularly for larger families, or those seeking to own a detached home, are becoming increasingly hard to find. This observation was reinforced by the consumer survey, which has a prevalence of people noting the need for detached housing with yards, as well as larger three and four bedroom houses. Urban infill single-family homes were identified as the most desirable future housing type for this renter group.

It is important to note that the relationship between rental and homeownership is corollary. Lack of affordable rental opportunities can be a significant obstacle to home purchase, even if modestly priced homes are available on the market. High rental rates, hold families back from saving the necessary down payment and closing costs required to purchase a home and in the most extreme cases can cause families to accumulate consumer debt, which constrains their mortgage capacity. Conversely, a lack of affordable ownership opportunities can artificially hold higher income households in rental housing situations even though they may have sufficient credit and savings to purchase a home. This can create a demand-driven rental housing shortage that leads to rapid inflation of rental rates, driven in part by the supply shortage, but also by the higher payment capacity of moderate-income renters. Left unchecked, this ultimately hurts the lowest income renters who become priced out.

7. *Consumer Survey Results*

A critical lens for understanding housing market sentiment, community attitudes, and particularly issues of housing demand is the consumer perspective. To make sure this report adequately represents consumers, and to ensure opportunity for community input in the process of developing recommendations, we developed a community survey. The survey contained 25 questions designed to gather information on a range of topics from respondents' income and household characteristics, to their preferences around housing and perception towards approaches to dealing with Missoula's growing housing affordability issues.

The survey was published online and promoted by a range of partners in this project, as well as being offered in paper format at seven physical locations (the Missoula Organization of REALTORS®, Missoula Public Library, Homeword, Currents Aquatics Center, the Missoula County Fairgrounds, Missoula County Community and Planning Services, and the Missoula County Commissioners Office). The survey was open from August 7th until September 11th, 2017. The response to the survey was robust with a total of 861 electronic responses and 78 paper responses submitted.

Income and Household Characteristics

Respondents to the survey were weighted slightly towards owners at 56.8% of respondents. Of those, 4.9% indicate that they owned multiple residences in the Missoula area. This left a renter response rate of 43.2%, or 395 households.

Incomes for current owner households were nearly twice that of renter households, with a median reported income of $74,000, versus $36,000 for renters. The household makeup of owner respondents skewed heavily towards two-income households, at 54.1%, with just 21.8% reporting as one-income households. Six percent of owners identified as female headed households, 15% as retired, 1.5% as disabled, and .4% of owners identified as students.

The largest group of renter households identified as single-income, representing 36.1% of respondents, although this was nearly even with two-income households at 34.9%. Renter respondents showed more disabled households at 4.3%, as well as more female headed households at 8.4% than the owner segment. Nearly 9% of renter respondents identified as students, and just 4.3% identified as retired.

A large majority of survey respondents (73.4%) indicated that they live within city limits. This proportion was even higher among renter households, 82.7% of whom report that they live in the city. The vast majority of respondents work within the City of Missoula (84%). It is possible that these numbers are skewed given that some people living near the urbanized area of Missoula may not know whether they technically live within city limits.

Figure 40. Owners by Age Range

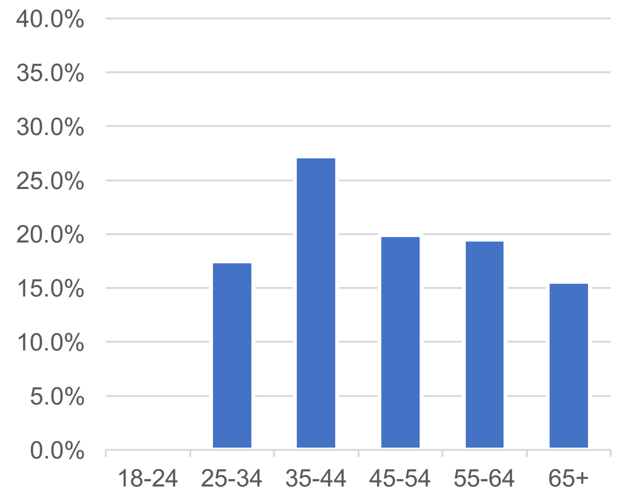
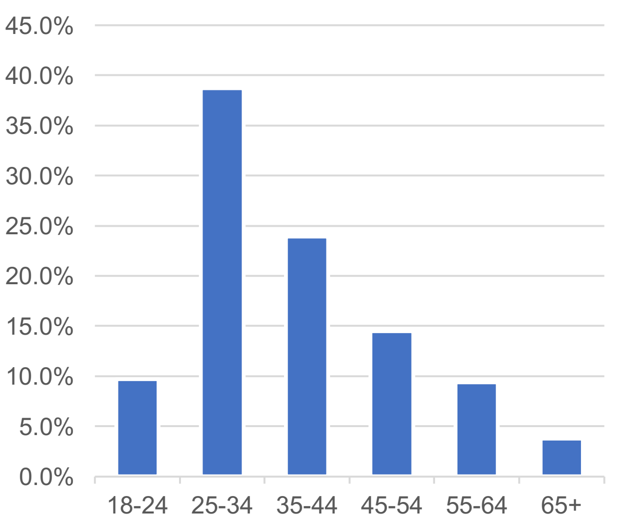


Figure 41. Renters by Age Range



Respondents appear to be well-distributed along the age spectrum (see Figures 40 and 41). The largest age group for renter households was the 25-34 tier with 38.7% of renter households falling into that range. In general, renter households skewed younger with 62.2% of respondents falling between the ages of 25-44. This suggests a large number of people in the prime workforce age range are renters. Only 3.8% of renter respondents reported being aged 65 or older.

Owner households are fairly evenly distributed among the age ranges, with the exception of the 18-24 tier which represented only 0.4% of owners. The largest group of owners fell in the 35-44 age range, at 27.2% of respondents. The remaining ranges were fairly evenly split with population segments between 15% and 20% for each category. The overall age breakdown of ownership suggests that Missoula has enjoyed very broad-based access to homeownership.

With only 4.4% of total respondents (9.7% of the renter group) falling into the youngest age tier of 18-24, this suggests little skewing of the survey results by student populations.

The median housing cost for renters was $797.50 a month, with owners reporting significantly higher at $1170.00 a month. Interestingly, 14.8% of owners reported having no housing cost suggesting a significant amount of long-term legacy homeownership.

Reported housing type (Figure 42) revealed that 74.1% of homeowner households live in a single-family home in or near the city, with 13.0% of respondents living in rural single-family homes. Townhomes accounted for only 3.5% of ownership types and condominium ownership was similar at 3.9%. Manufactured homes in the county represented only 3.5% of all ownership, while manufactured homes in the city represented only 1.6% of ownership situations.

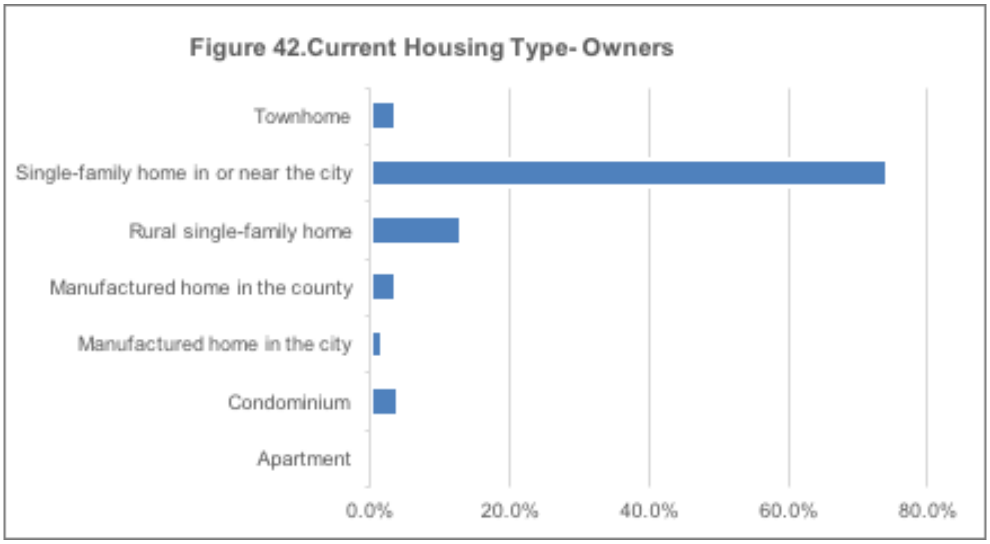
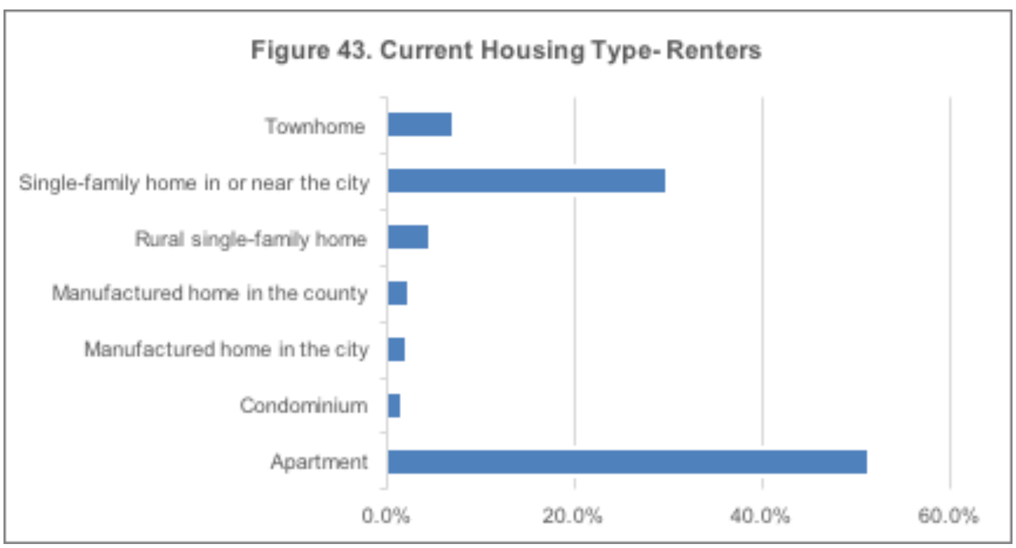


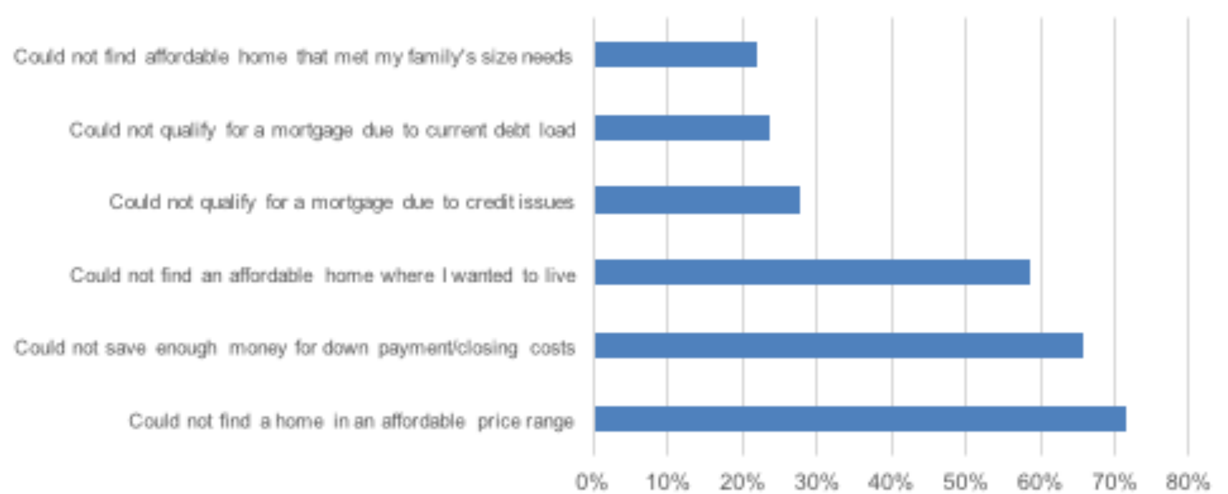
Figure 43 below depicts the breakdown of renter housing situations. Renters were more evenly split among the most common housing types, but weighted towards apartments with 51.4% reporting that type of housing. Single-family homes in the city made up the next largest segment of renter housing types at 30%, with townhomes following at 7.1%, rural single-family homes at 4.8% and condominiums at 3%. Manufactured homes in the county made up only 3.1% of renter housing, and 1.9% in the city.



Future Homeowners Preference
To gather more detailed information about potential future homebuyers, we asked a specific set of questions to households that identified as renters. An astoundingly high 79.5% of renter households reported that they wanted to buy a home. Renters who responded “no” to a desire for home purchase were asked why not. This yielded 81 responses with some of the most common responses being that respondents didn’t want to have to worry about the high costs of maintenance, or weren’t sure if they would stay in Missoula long term. Several respondents cited uncertain work environments or the mismatch between wages and housing costs as their obstacles. Nearly one quarter of respondents appeared to have given up on owning a home because they perceived prices as being at a level they would never be able to afford given their income level.

Interestingly, of the nearly 80% of renter households who reported a desire to own a home, only 26.3% indicated that they had tried to purchase a home. When asked why they hadn’t tried, there were nearly 300 qualitative responses. The trend of these responses leaned heavily towards cost as the discouraging factor.

Figure 44. Obstacles to Home Purchase



A subsequent question attempted to quantify barriers to homeownership, and respondents were asked to identify one or more obstacles to home purchase that they had personally faced in the past and select from a list of six options. Figure 44 shows a wide range of potential barriers and suggests that potential buyers are often facing multiple obstacles to home purchase. The most common response, at 71.4% of respondents, was the inability to find a home in an affordable price range. This was followed closely by inability to save the necessary down payment and closing costs at 65.8% of respondents. It is worth noting that according to the National Association of REALTORS® Aspiring Home Buyers Profile, 87% of non-homeowners believe that a down payment of 10% or more is required to purchase a home, when in reality 60% of home purchases are financed with less than 6% down payment.

Another insightful statistic was that 58.5% of respondents cited not being able to find an affordable home in the area they wanted to live. This was followed with inability to qualify for a mortgage due to credit issues (27.6%), inability to qualify for a mortgage due to debt load (23.5%) and inability to find an appropriately sized home (22%).

When broken out by age groups, some predictable trends emerged, namely that younger households—who typically have less developed credit, less savings or equity, and often carry significant debt from college—face more obstacles to ownership.

The youngest age group (18-24) was more than twice as likely to cite down payment and closing costs as an obstacle to homeownership, with more than half of respondents reporting having experienced this. This decreased slightly to 43% in the 25-34 age group and dropped to around 25% for people age 35-64. Only 12% of people over 65 cited this as an obstacle.

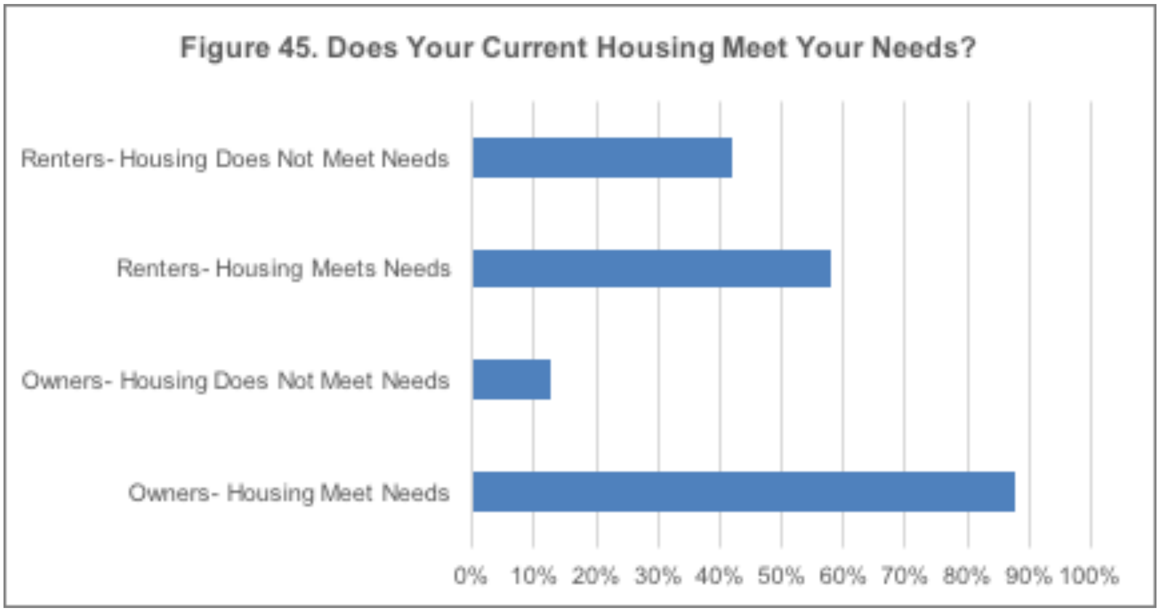
Similar patterns were seen with issues of mortgage qualification. Thirty percent of the youngest age group cited credit qualification as an obstacle, which dropped to 13% in the 25-34 age group, and 15% for the 35-44 group. Only 11% of respondents age 45-64 indicated this was an issue as compared to 6% for those 65 or older.

Debt-driven mortgage qualification issues were smaller still, at 20% for the youngest age group and 15% for 25-34 year olds. Debt obstacles to homeownership steadily decreased as age increases with only 10% 35-44 year olds, 7% of 45-64 year olds, and 4% of those 65+ citing this as an issue.

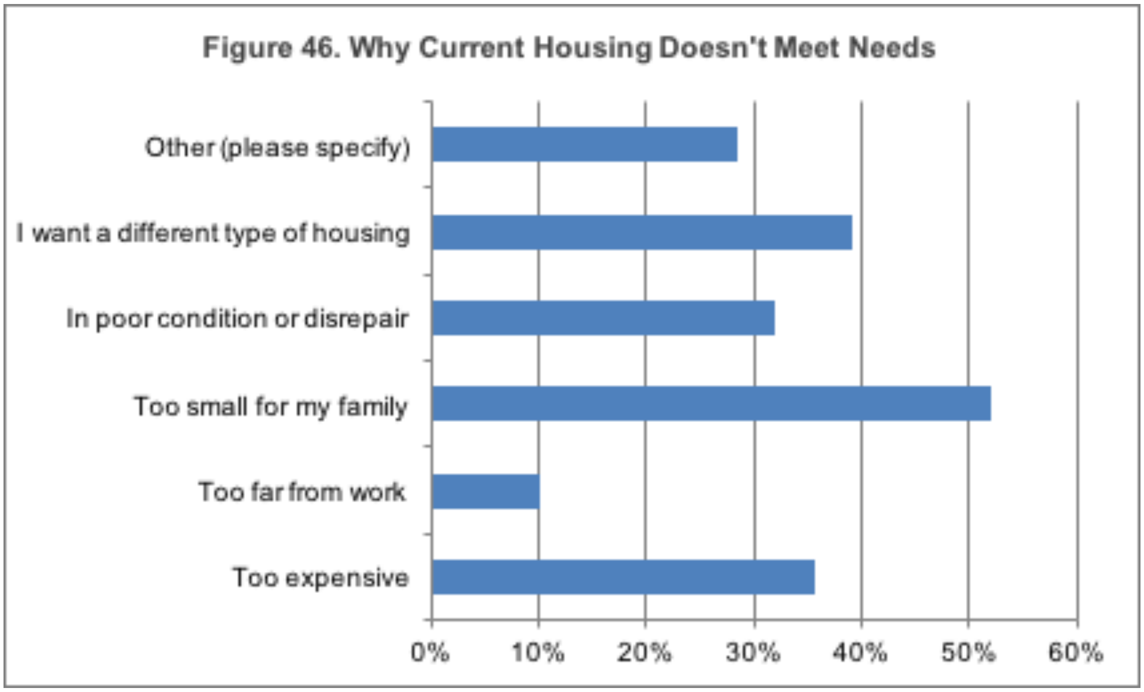
Home prices were an obstacle for 64% of the 18-24 age group, 45% of the 25-34 age group and leveled off around 30% for 35-64 year olds. Only 12% of households 65 and older indicated price as an obstacle.

Location was also a greater obstacle for the youngest age group with 48% of the 18-24 year olds citing that as an issue. This dropped to 40% for 25-34 year olds and levelled off between 22-24% for ages 35-64. Only 10% of those 65 and older saw this as an obstacle.

Size of home was not a common issue with respondents, but the largest group to identify this issue was 25-34 year olds at 15% of respondents. Most other groups hovered around 10% with only 2% of those 65 and older citing this as an issue.



Survey respondents were also asked how well their current housing met their needs and the results are depicted in Figure 45. A large majority, 87.6% of homeowners reported that their current housing met their needs, with only 12.4% reporting that their current housing did not. Renter households were much more split, with 42.1% saying that their current housing did not meet needs. Respondents who indicated that their housing did not meet needs were given multiple options to choose from including cost, location, size, condition, and type of housing. Size of housing was the most prevalent issue, followed by desire for a different type of housing, and cost of current housing. The results of that question are shown in Figure 46.

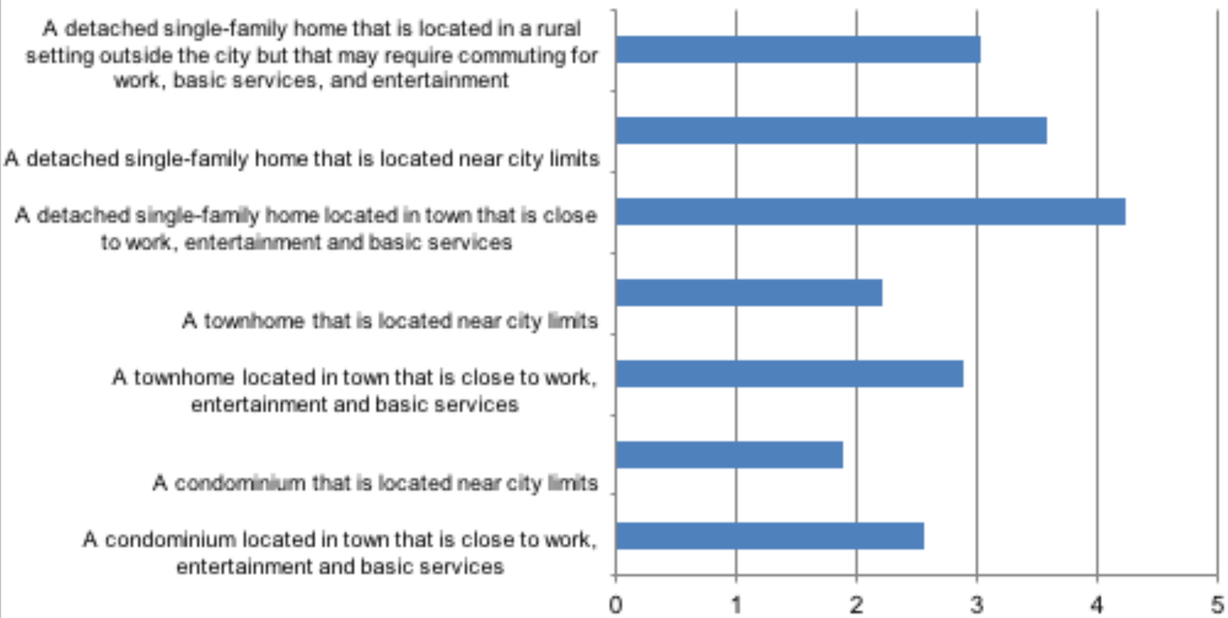


Renters were more than four times more likely to cite expense of current housing as an issue, likely reflecting both their generally lower income levels, and the tendency for rents to increase over time, as compared to the more stable costs of a mortgage. Renters were more than twice as likely to cite location or size as an issue when compared to homeowners. As was consistent with many of the subjective renter responses, housing condition was a much bigger concern for renters, who were five times more likely to cite this as an issue. Similarly, housing type was an issue for renters at nearly 3 times the rate that it was for homeowners.

Respondents who indicated that their housing did not meet their needs were asked to identify, in their own words, why their current housing was inadequate. Most common consistent responses were related to location, needing a larger home, or desire for a yard. When asked to identify the type of housing that would better meet their needs, need for three- and four-bedroom homes, yards for children, pets and gardens, and location were cited. This included a desire for more land and seclusion than offered in the city, as well as locations closer to amenities. Several respondents referenced wanting a single-level home that could accommodate them as they aged or ADA compliant housing.

Respondents (both renters and owners) were also asked to rate the desirability of various housing types on a scale of one to five (one being least desirable and five being the most desirable) to achieve a clearer idea of consumer housing preference. This is especially important given some of the dynamic tension between the “grow inward” policy and its reliance on denser housing development to achieve the kind of infill contemplated in community plans. Consumers were asked to rate various housing types (detached, townhome and condo) including those located in town, at the "city limits", and rural locations (Figure 47).

Figure 47. Desirability Rating of Various Housing Types



The most desirable option by a healthy margin was detached single-family homes located close to the urban core of the city. This response received an average rating of 4.23 among all respondents, with 504 people, or 57.8% of respondents, ranking it as the most desirable. A total of 80.2% of respondents rated this housing type as either 4 or 5 on the desirability scale and only 4.9% (43 respondents) rated it as the least desirable choice.

This was followed in popularity by detached homes located at the city limits, which received an average score of 3.59, with 244 respondents (28%) rating it as most desirable. A total of 62% of respondents rated this as either a 4 or 5 on the desirability scale, while 11% indicated that this would be their least desirable housing option.

Detached homes outside the city were the next most desirable among all housing types, with an average rating of 3.03 and 175 respondents (20.2%) rating it as most desirable. A total of 42.1% percent of respondents rated it as either 4 or 5 on the desirability scale, with 22.9% indicating that it was the least desirable housing type.

Townhomes located in the city were the fourth most popular housing type with a favorability rating of 2.88 and 101 respondents (11.7%) rating it as most desirable. A total of 32.4% rated it as 4 or 5 on the desirability scale, with 175 respondents or just over 20% rating as the least desirable option.

Condominiums located in the urban core received an average 2.55 favorability rating, with 89 respondents (10.2%) rating as a most desirable housing type. A total of 38% of respondents rated it as either a 4 or 5 on the desirability score. A strong 275 respondents (31.6%) rated this housing type as the least desirable.

Townhomes located on the urban fringe were the second least favorable option with a 2.19 favorability rating and only 27 respondents (3.1%) rating it as most desirable. A total of 14.5% rated it either 4 or 5 on the desirability score and 294 respondents, (34.1%) rated as the least desirable.

Condominium at the urban fringe were rated as the least desirable housing type, with a 1.87 average favorability rating and just 17 respondents (1.9%) rating it as the most desirable housing type. A total of 9.7% of respondents rated it as either a 4 or 5 on the desirability scale. A total of 294 (34.1%) of respondents rated this as a least desirable housing type.

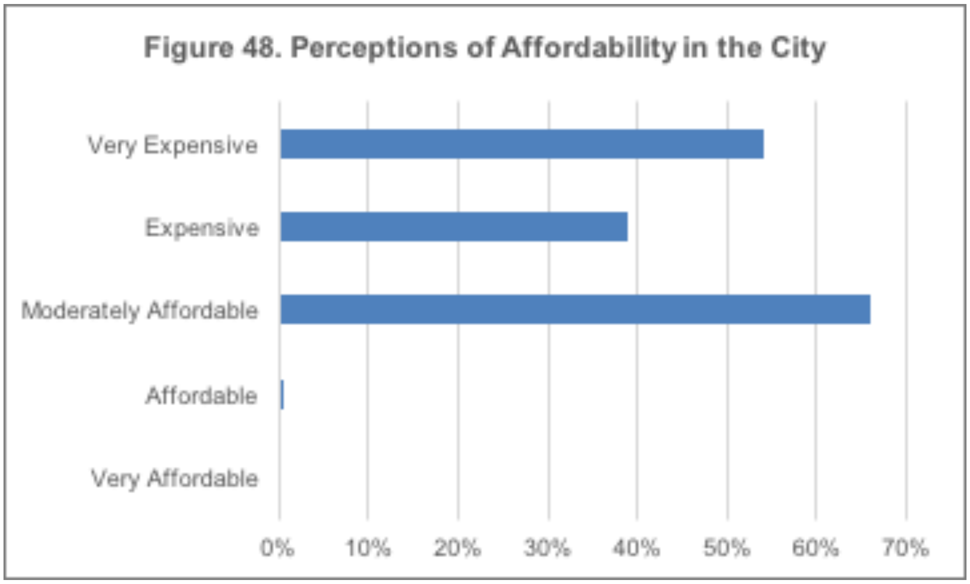
Interestingly, the scores for nearly all housing types were very similar among renters and owners, with the largest variation being in the perception of rural detached housing, which was slightly more popular with renters with a 3.17 desirability rating, as compared to current owners who rated it at 2.92.

Taken together this shows a strong preference among consumers toward single-family detached homes, particularly those located in the urban core of the city. This suggests that families would generally prefer a single-family home in the urban fringe, or even rural parts of the county before they opted for a condominium or townhome. This is very much in line with many of the qualitative responses that indicated need for larger homes and yard for pets and children.

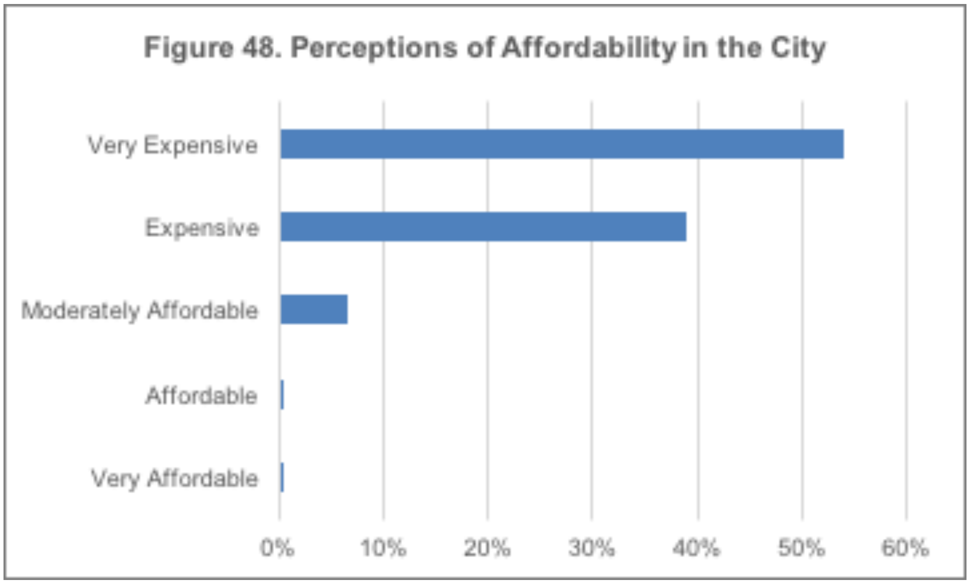
In the absence of single-family detached housing options, townhome and condominium housing in the city was the next best option for consumers. These findings also suggest that condominium and townhome units in the urban fringe or outside the urban area are not very popular with consumers.

Community Housing Attitudes
In the last section of the survey, respondents were asked to provide their attitudes towards housing in Missoula and provide feedback about what they think the best strategies are for addressing affordability issues. Respondents were asked to rate various statements on a scale of one to five, similar to the housing preference questions.

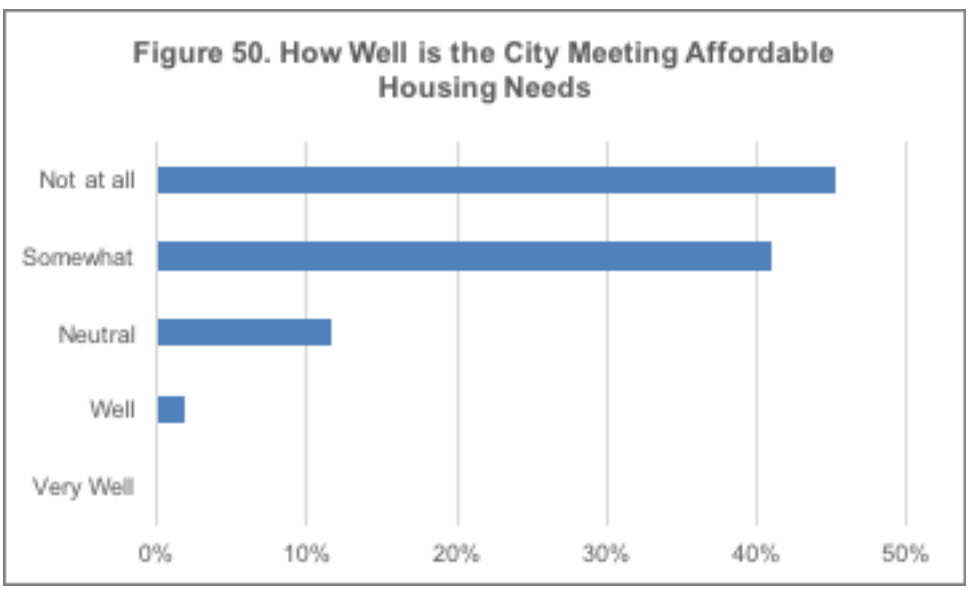
The first two questions asked respondents to rate their perception of housing affordability in the City of Missoula and Missoula County, and the results are striking (Figure 48 and 49). For the city, 92.6% rated housing as very expensive or expensive (53.85% and 38.6% respectively). A total of 58 respondents rated it as “moderately affordable” (6.6%) and just eight respondents rated it as affordable or very affordable. County residents were slightly more likely to view the city to be more expensive, with over 95% of that subgroup identifying the city as expensive or very expensive.



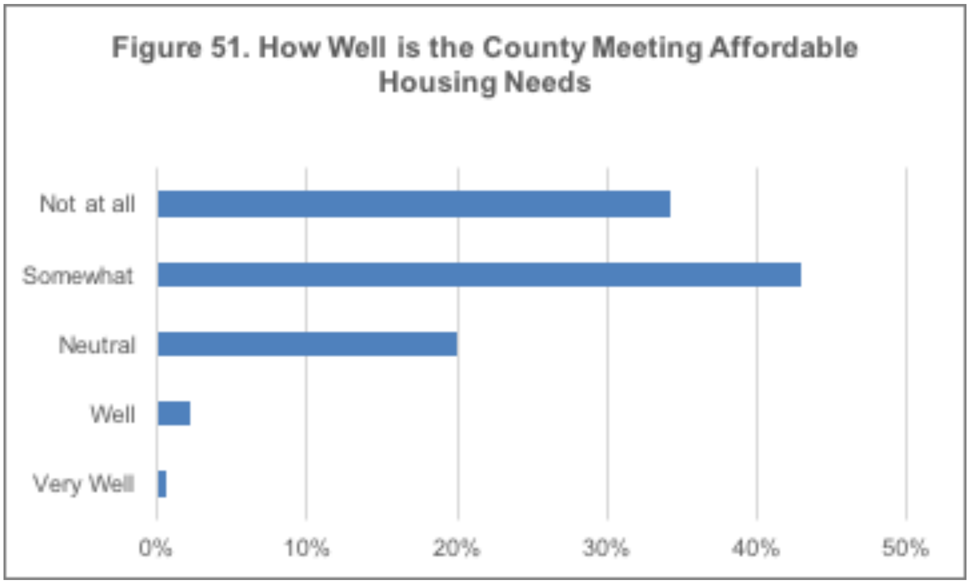
Missoula County fared somewhat better in perceptions of affordability with 59.2% viewing the county as either expensive or very expensive, but it is interesting to note that only 11.7% rated it as very expensive. A solid 33.5% rated the county as moderately affordable. A total of 7.2% rated Missoula County as affordable or very affordable (55 and 7 respondents respectively). When broken out into city and county residents, county residents were much more likely to see the areas outside the city as more expensive, with 74.4% viewing it as expensive or very expensive.



The survey also asked about perceptions of how well local government entities were meeting their affordable housing needs with a range of responses offered from “not at all” to “very well.” In general, current perceptions are that the city and county are not doing enough to support affordable housing in the community.

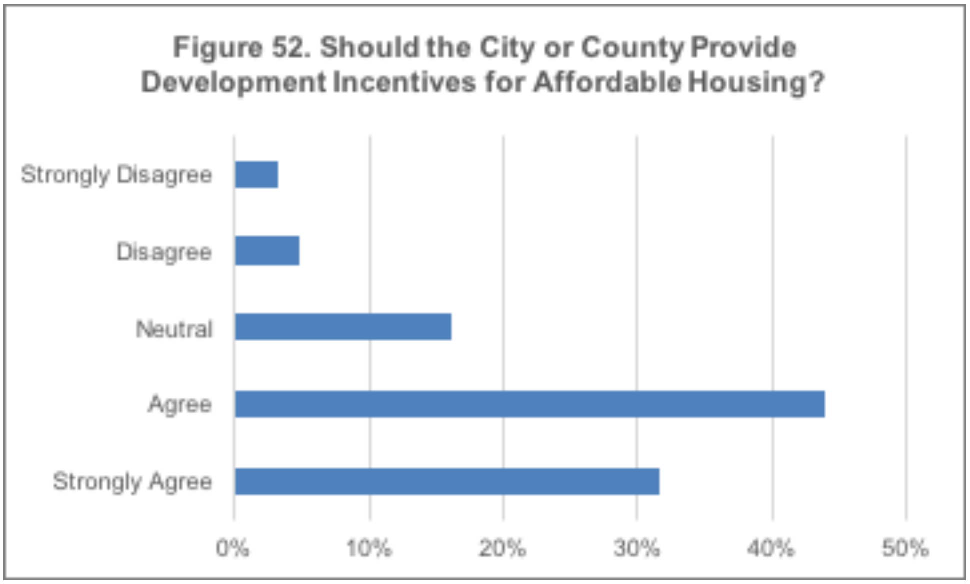


When asked about affordable housing in the city, just two respondents thought the city was doing very well, and only an additional 16 respondents rated the response as “well”. Together these barely make up 2% of respondents, see Figure 50). By contrast 41% of respondents rated the city as somewhat addressing the affordability issues with 45.4% saying that the city was "not at all" addressing needs. No significant variation was observed between city and county responses to this question.

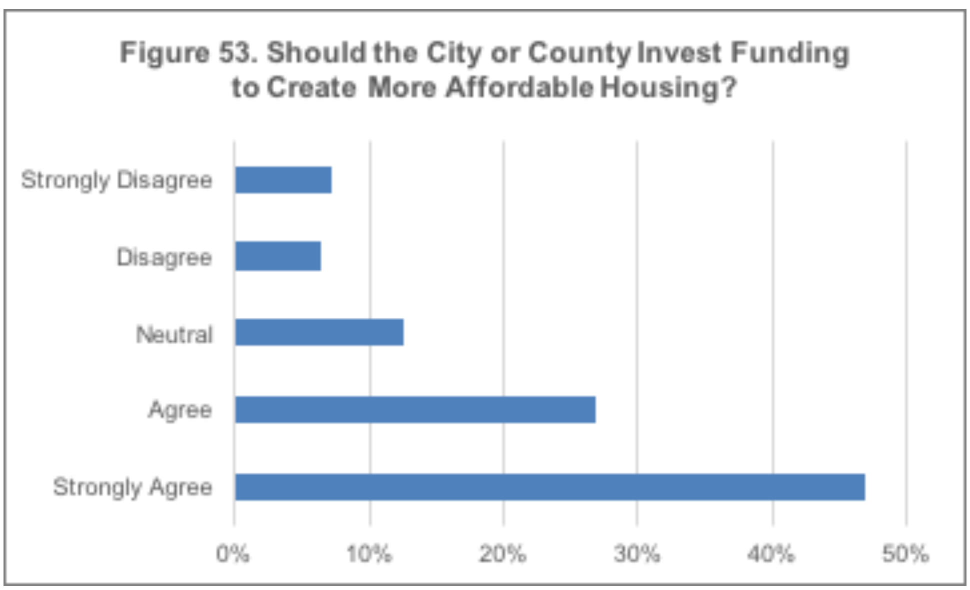


The perception of Missoula County's response to affordable housing was seen as being only slightly better (Figure 51), with 24 respondents giving a rating of very well or well, to addressing affordable housing needs. A slightly larger margin, 43.1%, perceived that the county was somewhat dealing with affordability issues, with a smaller margin (34.3%) saying the county was not addressing affordability issues at all. Residents of the city viewed the county's response to affordable housing needs slightly better than county residents, but not by a significant margin.

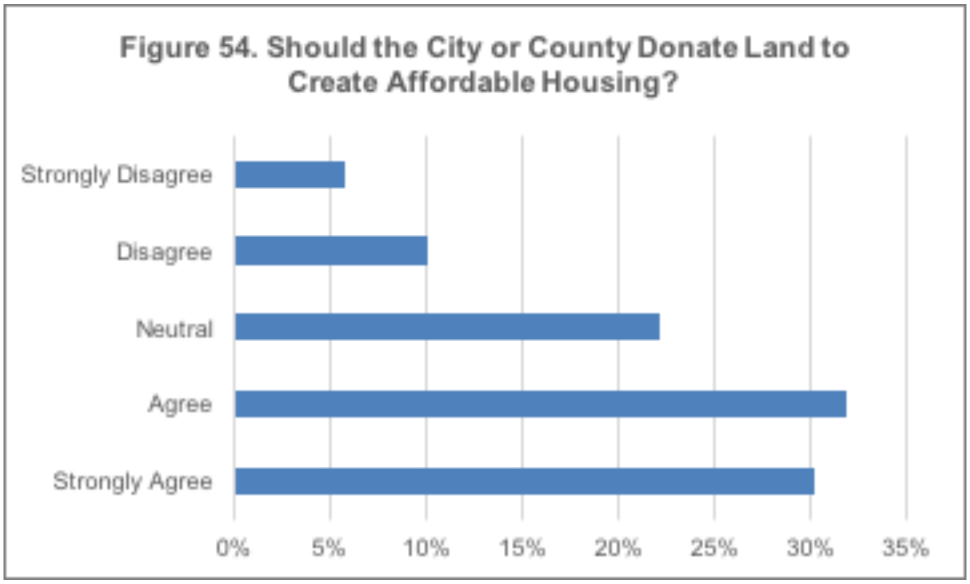
The survey also attempted to gauge the community's attitudes towards three common types of responses to support affordable housing development including investing funds, donating land and creating regulatory incentives. The results are depicted in Figure 52.



The most popular strategy for public sector driven approaches to addressing affordable housing was "the community should provide development incentives for affordable or attainable housing that is clearly defined by target sales prices." A total of 91.8% of respondents indicated that they strongly agreed, agreed, or were neutral about this strategy, with only 72 respondents indicating that they disagree or strongly disagree with that strategy. Residents of the city were slightly more likely to favor this approach, with 92.7% either neutral, agreeing or strongly agreeing, as compared to 87.4% of county residents.



The second most popular strategy was the direct investment of funding towards the creation of affordable housing (Figure 53). Forty-seven percent of respondents indicated that they strongly agreed with this statement, and a total of 86.4% indicated that they either strongly agreed, agreed, or were neutral about it. A slightly larger margin of people indicated that they disagreed or strongly agreed with the idea, at 6.5% and 7.2% respectively. City residents were significantly more likely to support this idea than county residents with 88.5% indicating that they were either neutral, agreed, or strongly agreed, while only 77.7% of county residents responded similarly.



The last approach to addressing housing issues was for the city or county to donate underutilized or undeveloped land (not including parks or other city open space) for development of affordable housing (Figure 54). While ranked third among the three strategies proposed, this was still a popular approach with 84.2% of respondents replying that they strongly agreed, agreed, or were neutral about the idea. This approach had the largest margin of people opposed to the idea with 15.8% of people saying they disagreed or strongly disagreed with the idea. Again, city residents were more likely to support this idea, with 86.4% indicating that they were either neutral, agreed or strongly agreed with this approach, as compared to 76.2% in the county.

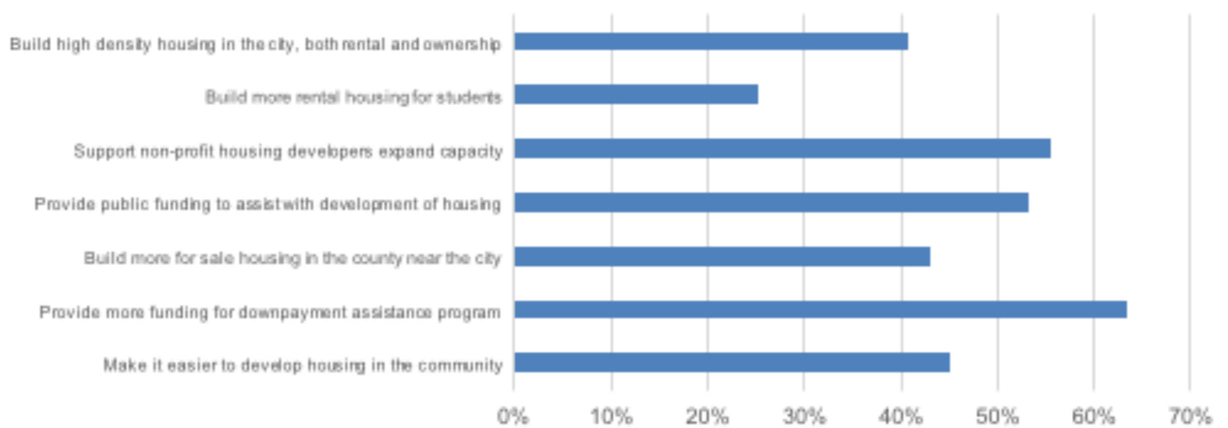
Lastly, respondents were asked about their attitudes towards affordable housing and potential approaches to solving Missoula's increasing housing affordability issues (Figure 53). Respondents were asked to identify what they think are the best strategies among seven options. Respondents were also provided an opportunity to submit their own ideas.

The most popular strategy, having been selected by 63.5% of respondents, was to provide more funding for down payment assistance programs. This approach was viewed more favorably by people living in the city, with 64.9% selecting this option, as compared to 58.2% of county residents.

More than half of respondents, 55.4%, said that increased support to affordable housing development nonprofits was the best approach with just over 5% more city residents supporting this idea than county residents. Close behind was providing public funding to assist with the construction of more affordable homes and apartments, which was selected by 53.2% of respondents. This idea was considerably more popular with city residents, with 56.2% supporting this option, as compared to only 43.5% of county residents.

Making it easier to develop housing in Missoula was identified by a slight minority, at 45.1% of respondents. There was only a slight difference identified between city and county resident's responses, with an additional 2.2% of county residents selecting this option.

Figure 55. Best Ways to Meet the Community's Affordable Housing Needs



Next in ranking was the concept of building more high-density housing in the city for both ownership and rental, which was identified as a best strategy by 40.8% of respondents. Again, this concept was favored by city residents at a higher rate of 41.7%, as compared to 37% of county residents.

Increasing development in the areas of the county near the city was selected by 34.1% of respondents. Interestingly, this is the only strategy that was significantly more popular with county residents than city residents, with just shy of 10% more county residents (41.9%) selecting this option.

The least popular strategy was building more student housing in the city which was selected by only 25.2% of respondents, and was in last place, even behind the "other" category. This strategy was chosen by 4% more city residents than county residents.

Among the respondent submitted ideas there were 259 responses which revealed several trends that covered the range of ideas one would expect to see from free market approaches to increase governmental regulatory controls on housing. One of the most common responses was that work had to be done to raise incomes, including references to higher minimum wages, and attracting higher paying industries. Another very common response was to lower property taxes. Several respondents suggested that more funding or a "housing trust fund" was needed. The idea of mandatory inclusion of affordable housing in new development, often called inclusionary zoning, came up several times, as did suggestions for more governmental control of rental markets through rent controls and more enforcement property standards for landlords. Another theme that emerged was around regulating or taxing the second home and investment home market.

On the other side of the spectrum, a number of people suggested free market approaches such as easing the regulatory environment, and decreasing or eliminating development fees. A number of respondents suggested deploying innovative development models, such as very high-density detached housing, tiny homes and more general dense infill. Several respondents also noted that they felt the recent development of high-density multi-family housing has had negative impacts on neighborhood character and traffic and that other types of high density approaches should be explored.

A copy of the paper survey format and the complete list of this and other open-ended survey responses can be found in Appendix II.

8. Housing Development Regulatory Context

A central focus of this project and report has been to analyze the regulatory context for housing development. The purpose of this assessment is to analyze the current land use regulatory environment to explore opportunities to streamline development approvals or create stronger incentives for developing housing that addresses unmet housing needs and gaps in the current housing market. This section of the report provides an overview of key aspects of city and county land use regulatory policies that have the potential to impact housing affordability. The documents reviewed as part of this assessment included zoning codes and rezoning procedures, subdivision processes, infrastructure requirements, and growth policies for both the city and county.

It goes without saying that land use regulations and development review by local government are critical aspects of protecting the health and safety of residents, as well as shaping long-term growth in a way that protects natural resources and preserves qualities of existing neighborhoods while maintaining the character of the community. But land use codes and development review processes have a substantial impact on housing development costs, and there are almost always ways to increase efficiencies and lower development costs without creating adverse impact.

Within housing development there are two primary factors that impact both affordability and the overall willingness to undertake development activity: uncertainty and time. Housing development is an inherently risky endeavor. Regardless of how well modeled a development's costs are, unforeseen or unexpected challenges arise that can involve large sums of money. There are numerous potential situations where even a single digit percentage change in budget can create six-figure cost implications when undertaking larger developments. Under these conditions developers seek to mitigate risk by seeking as much certainty as possible in their development scenarios. But complex and inconsistently applied land use and development review processes can introduce large amounts of uncertainty into a development. In a worst-case scenario, when margins are thin and a project presents too much uncertainty, developers will simply not undertake the development because of the potential for financial failure, even if there is significant need and demand in the community.

The other central challenge of housing development is time. We've all heard the expression that "time is money." This is never truer than in the housing development context. Most land development approaches involve either legal agreements called "purchase options" or debt financing on the land, both which require monthly carrying costs which can be very costly, particularly for larger developments. With much of Montana, and indeed the entire country, experiencing a robust housing recovery, shortage of subcontractors, general labor, and material supplies, a year delay in development because of land use review can result in substantial increases in hard development costs, further increasing development risk.

At this point in the analysis, it is also incredibly important to note that development costs alone do not dictate pricing. Supply and demand are the most central drivers of housing prices. In markets with very limited supply of for sale housing, pricing will be driven by the buying capacity of those with the highest incomes and what they are willing to pay, which can diverge quite significantly from building cost and local wages.

With buying capacity in desirable communities like Missoula increasingly driven by outside income factors (retirees, second home buyers, or incomes generated outside the community) housing developers and builders become incentivized to work at increasingly higher price segments, again reducing risk. This is especially true in development contexts where there are shortages of key housing development elements such as limited developable land, limited labor, or limited funding capacity (nearly all of which are present in the Missoula market to varying degrees). What the general public rarely understands is that developers and builders don't typically make large profit margins on the housing they build, with 10-15% of construction cost being a normal profit range for most modest production housing development. This hardly represents a windfall when one considers the large amount of risk involved with the process.

In markets where developers and builders are limited in how many homes they can build in a given year, and their level of profit is relatively limited, it only makes basic business sense to target a higher segment of the market to hopefully deliver a larger margin return, and a healthier cushion against risk.

But through smart regulatory frameworks, and incentive-based approaches that ameliorate risk and promote more activity at the entry-level of the market, strong public-private development approaches to expanding housing affordability can be achieved.

Lower hard development costs don't necessarily translate into lower sales prices, but hard development costs do establish the minimum of what the lowest cost home can be sold for. This is particularly important for non-market rate driven housing approaches, or incentive-based approaches that try to balance below market housing production with meaningful benefits for developers to offset loss in profit.

This framework for this review represents a combination of first hand nonprofit driven affordable housing development experience, as well as analysis and comparison of the varied land use codes from many peer communities. In this context, this review can only offer the top-level outside perspective and impartial analysis, as land use codes are ultimately a product of their community and reflect their values around growth and development. It is our hope to draw relationships between these practices and their impact on housing development cost, and to provide innovative ideas for how regulatory mechanisms can be updated, simplified, and incentivized to be as little a barrier to affordable housing production as possible, while still protecting the health and welfare of citizens and maintaining the quality of life and community character that makes places like Missoula so desirable.

City of Missoula Regulatory Environment

The City of Missoula has what could be described as a highly developed and complex land use regulatory environment. This includes a complex zoning code, thoughtful growth management planning documents, and a proactive approach to dealing with future development. The most direct way that land use development regulations impact housing is through the zoning and subdivision processes. Because of the volume and complexity of the land use regulatory environment in the city, this analysis focuses on the aspects of these codes that have a strong and direct impact on housing affordability.

City of Missoula Zoning Code

The City of Missoula has 35 zoning districts including both commercial and residential classifications. Generally, the zoning regulations show a very high level of sophistication and reflect the city's current growth policy focus on dense inward growth in the city. There are a number of ways that zoning has the potential to impact housing cost and ultimately affordability. The following analysis breaks out the various components of zoning and assesses them in the context of affordability including density, allowed uses, setbacks, infrastructure, land set asides, development review, rezoning processes and fees.

The primary way that zoning impacts housing affordability is through unit density, which is typically measured in housing units allowed per acre. This ultimately dictates how many housing units can be built on a given parcel of land. Because land and infrastructure costs (roads, sewer, water, etc.) are such major components of overall housing development costs, the number of units that can be developed on a parcel has a strong impact on the minimum possible cost of development. More units on a given parcel means that fixed site costs (land, infrastructure, architecture, financing etc.) can be spread out among more units resulting in a lower per-unit cost.

There are a number of zoning categories in Missoula which allow for residential densities up to 43 units per acre, a unit density that is more than sufficient for achieving economies of scale necessary to achieve the highest level of affordability for both rental and homeownership development. The city has several zoning districts well suited to affordable development including, RM1.5 and R3, which allow 14 units per acre and 29 units per acre, respectively. The newest zoning category, RM2, allows for 12 to 23 units per acre and was specifically designed to meet the needs of more dense infill development. This is very advantageous because previously, developers would have had to apply for zoning density far beyond what was needed to achieve their desired or optimal project density. This type of "over zoning" leads to criticisms that developers could always change their proposal and move forward with projects that are out of scale for the neighborhood once their rezoning is approved.

While there are eight residential zoning designations that allow for 14 units per acre or higher, together these only comprise around 10% of the city's total land area. Although it should be noted that residential development is also allowed in commercial zones. This is the case in many communities where higher density housing is not considered compatible with existing neighborhoods. But residential development on commercial land can have negative impacts on development cost, as often commercially zoned land is costlier than residentially zoned parcels. There is also the potential for residential uses to increase demand for commercially zoned land, which could negatively impact the availability of land for commercial development. Regardless, the trend of residential development on commercial land should be tracked for indicators that suggest tightening of commercial land markets such as rapid price inflation.

Zoning Amendments

Because the supply of densely zoned residential land is relatively small compared to the overall land area of the city, developers must often rely on rezoning processes to achieve density needed for entry-level home development.

Rezoning is guided by the future land use designation map, which shows the city's intentions towards future growth and development and supports zoning adjustments that are compatible with that area. Of the five residential future land use designations, two support densities high enough to support future affordable housing development, Residential Medium High Density (12-23 units per acre) and Residential High Density (24+ units per acre).

When compared to other communities, this approach is relatively development friendly when compared to processes where developments have to amend both the future land use designation and the zoning in sequence, which is a more time consuming, costly and uncertain process. The fact that the future land use designation map includes areas already designated for high density development means that developers enter into a rezoning process with top level support from the city growth policy perspective. Future land use designation does not in itself guarantee a zoning adjustment, particularly in situations where there is strong neighborhood pushback to density and infill.

The one deeply challenging aspect of municipal rezoning processes is a state law that allows for "protest petitions." This process allows for 25% of property owners located in a proposed rezoned area, or within 150 feet of that area, the ability to require a supermajority vote by the elected body for zoning amendment cases, rather than the simple majority required in other cases. This has the practical impact of allowing a relatively small number of people to promote interests that may not benefit the larger community. It can also create the unintended consequence of incentivizing development in places where there are few surrounding neighbors, which is generally at odds with the city's inward-focused growth policy.

Planned Unit Development

The other allowable model for alternatives to traditional zoning or a zoning adjustment would be the Planned Unit Development (PUD) overlay process. PUDs are designed to allow for more flexibility in design of subdivisions, where alternative approaches to strict interpretation of the code allow for better meeting of community needs such as the protection of natural resources, mixed use development, or affordable housing. PUDs are processed as a zoning amendment and are reviewed concurrently with a preliminary development plan application.

Generally, PUDs can be an effective way to achieve increased affordability by allowing for higher densities, reduced setbacks, and other design flexibilities that can enhance affordability. Currently, the PUD process specifically references affordable housing as a one of the community goals that warrant a PUD overlay approach, requiring projects to demonstrate that they will serve at least 20% of the project with housing affordable to households below 80% of the area median income.

While a good start toward incentivizing affordable housing, it doesn't appear that this particular mechanism is being utilized commonly enough for the goals of affordable housing, especially with the relative ease of a Townhome Exempt Development process. However, the idea of allowing for a specific set of land use incentives, including increases in density and more flexibility in development, could be paired with new incentives to address more clearly defined housing goals, potentially under the TED standards.

Accessory Dwelling Units

Accessory dwelling units, also called guest houses, mother in-law quarters, or fonzie flats, allow existing property owners to add an additional housing unit to an already developed property. The goal of this policy is to meet city planning goals of adding rental housing stock and densifying existing neighborhoods, while preserving the existing character of neighborhoods. When implemented correctly, ADUs can be a very effective distributed strategy for adding to modestly-priced rental housing stock.

While aspects of the city regulations governing the creation of ADUs reflect a progressive view towards their place in contributing to access to affordable rental housing, the level of regulatory review and oversight is onerous and appears to value the perspective of protecting existing neighborhoods over the need for new housing and densifying the urban core of the city.

For example, the rules governing what type of ADU can be placed in what zoning district very much reflect exclusionary biases with ADUs being differentiated between lower and higher density districts, with ADUs only allowed in low density zoning districts with a conditional use approval. The conditional use process carries a $899 fee plus the cost of mailing notifications to neighbors, and ultimately has to be approved by the governing body facing pressure from neighbors who receive mandated notice. ADUs cannot be built on a lot that is smaller than is allowed by that zoning category but they also don't count towards land area. The size of ADUs is limited to maximum of 600 square feet, a size at which it is very difficult to build a two-bedroom unit, which precludes ADU's as being sufficient for a single parent headed household with child. A dedicated on-site parking space is required, along with brining any non-conforming parking up to current standards, requiring a total of three on-site parking spaces, a significant amount of lot area.

This seems to reflect a general exclusionary housing trend in the city where lower density districts, typically established neighborhoods, have effectively exempted themselves from including affordable development. This is also demonstrated in other city affordable housing regulations such as the Permanently Affordable Density Bonuses which are also not allowed in lower density zoning districts. It is ironic given that these lower density districts often present the best opportunities for infill or ADU development.

The last two burdensome requirements of ADUs are an owner occupancy requirement, and the requirement that ADU's obtain a permit annually. It is typically challenging to finance an ADU without significant equity in the home, so taken together, these obstacles are likely burdensome enough to dissuade the average homeowner from taking on the development of an ADU.

Lessons learned from Portland Oregon, which has pioneered ADUs as an infill strategy, can be instructive. Historically, Portland had experienced modest ADU development around 25-35 units or less a year, an incredibly small amount in a community with nearly 150,000 existing housing units. In 2010, wanting to further promote ADU development, they waived development impact fees. This corresponded to an immediate jump of an additional 100 units the first year implemented. In the years since then, the city has gone further and began allowing ADU's by right if they meet ADU guidelines (no conditional use permitting), waived most design guidelines, allowed for two-story ADUs, increased the maximum size to 75% of the main dwelling with a cap at 800 square feet, eliminated parking restrictions, and eliminated the owner-occupancy requirement. This resulted in a record number of ADUs being applied for, 615 in 2016, and an anticipated total of 2,200 new ADUs permits by the end of 2018.

The take away from this case example is that ADU production is closely tied to the level of regulation placed on the development process. Burdensome and complex regulatory processes significantly stifle ADU development. To be a serious strategy for increasing access to distributed infill rental housing, communities must consider removal of stringent regulations designed to appease NIMBY elements in the community, in favor of progressive housing approaches that will actually deliver results with minimal impact to overall community character. This is particularly critical for the City of Missoula and the emphasis on inward growth, which cannot be achieved in earnest without distributed densification such as this.

Parking Requirements

Chapter 20.60 provides requirements for off-street parking for various housing types. In general, these requirements take affordable housing production into consideration and include reduced parking requirements for subsidized housing in detached, townhome, and lot-line configurations, as well as reduced parking requirements for senior and subsidized multi-dwelling developments. Interviews with multi-family developers indicated that the current standards allowed projects to go below the amount of parking needed for the practical operation of multi-family developments.

One incongruity in the code is that single-family development requires a minimum of two parking spaces, regardless of square footage, whereas multi-family units only require one dedicated space for units smaller than 850 square feet. This means that smaller detached housing would be held to a higher parking standard than a similarly sized multi-family unit. To address this, city staff has proposed amending parking regulations to allow for one parking spot for single-family dwellings below 600 square feet which could help promote dense development of smaller homes. The city should also consider linking the number of parking spaces to the number of bedrooms in a unit in an attempt to scale parking more closely with actual use patterns.

Lot Setback Requirements

The City of Missoula's zoning provides standards for minimum setbacks required for new development. In general, these setback requirements are flexible enough to not be a hindrance to affordable development. Provisions for reduced setbacks are also allowed in cluster, conservation, and permanently affordable development types. Any future changes to affordability incentives should continue to include flexible setbacks requirements, particularly for smaller infill developments. One potential change would be to allow for more flexibility with front and rear setbacks in more zoning districts.

City of Missoula Subdivision Regulations

As with all government entities, subdivision processes in Montana are governed at the top level by state regulations for general subdivision criteria and sanitation, which are then implemented on the local level with an additional layer of local policy and administrative review requirements. The primary cost concerns for developers undertaking a subdivision process are the overall timeline (holding costs), infrastructure requirements (both the cost of professional services and eventually building infrastructure), and uncertainty regarding total achievable densities in the project, where variability in the total number of allowable lots can have a large impact on the per-lot costs and subsequent affordability.

Subdivision in Montana is a complex process and the regulations governing subdivisions in the City of Missoula are represented in a 135-page document last updated in 2010. Within the code, as per Montana Statute, subdivisions are separated into two major classifications with different requirements: minor subdivisions pertaining to developments of five or fewer lots, and major subdivisions of six or more lots. For the purposes of this analysis, major subdivisions are the primary consideration for affordable housing development, as smaller scale multi-unit development is better served through townhome exemption development and, due to the inherent cost involved, minor subdivisions are unlikely to be a significantly impactful approach for increasing housing affordability.

City subdivision regulations outline the general provisions, design standards (discussed below as part of the larger city infrastructure requirements), application and review procedures, and submittal requirements. The application for subdivision includes a 20-page application form which is substantially similar to the Missoula County subdivision format. The subdivision application submission is in an electronic format, with minimal paper copies which is generally beneficial for decreasing ancillary cost for application.

Maximum timelines for review responsiveness are mostly dictated by state law. When noticing and other minimum timeline requirements are taken into consideration, the maximum number of business days the city can take to review a subdivision is 145 business days. This maximum review requirement does not include the time to prepare submissions nor does it account for projects submissions which are deemed deficient, triggering additional time for resubmission review.

Another critical aspect impacting affordability are land set-asides such as open space requirements which reduce the number of developable lots. The subdivision rules allow for graduated open space set-asides that are scaled based on the size of development and also allow for a fee in lieu process. Often open space set-asides in smaller developments yield community spaces that are underutilized and become a maintenance burden for the homeowner's association. Reduction in open space requirements could be a valuable incentive for enhancing affordability within a project.

Despite being an arduous and costly process, increased efficiencies and incentives built into the subdivision process are unlikely to have a major impact on affordability in and of themselves. But when combined with other incentives, they can be an effective tool for motivating developers to provide housing at lower cost. A critical aspect of any incentives built into the subdivision regulations would need to include a more formally defined set of criteria for housing meeting community affordability needs.

Probably the single biggest way that subdivision rules could be modified for the benefit of more affordable housing production is to lobby the State of Montana to amend and streamline the state requirements for subdivision. There are also opportunities in the design of the city-level process for subdivision review to streamline the subdivision process and reduce uncertainty for developers.

Townhome Exemption Developments

In 2011 the Montana State Legislature amended state law to create a workaround for lengthy and often costly state mandated subdivision review processes which in the City of Missoula are referred to as Townhome Exemption Developments (TEDs). The term townhouse in this context does not necessarily pertain to the classic building type known as a townhome, which often describes multiple residences with multiple floors and private yards with shared walls often called row houses. In this case the townhome exemption can apply to detached residences and duplexes as well. The basic concept of the townhome exemption is that it essentially allows for subdivision-like development, as long as it complies with the underlying zoning.

In the City of Missoula, Townhome Exemption Developments have emerged as an efficient and cost-effective way of circumventing the subdivision process for smaller developments. As TED developments have grown larger, and begun to look much more like traditional subdivisions, the city has increasingly applied rules that require more review and set- asides found in traditional subdivisions. This includes concerns about parks and trail connections, consideration of public transportation, and increased neighborhood input on development.

As a result, the city adopted rules that provide for public notice, open space set-asides, design standards and a conditional use approval processes with mandated public hearings. In many ways, these policies are still seeking to strike a balance between the flexibility and affordability created by the TED process, while still working to make sure that larger scale development is compatible with neighborhoods and provides for the basic infrastructure and quality of life elements required in subdivisions. Developers, for their part, argue that given the price increases for land and steadily increasing construction costs, TED development is the last option for developing affordable ownership opportunities at any scale in the community. Of particular issue are set-asides for park and open space within smaller developments. As discussed later in this report, one planning engineer reported an increase in hard costs of nearly $6,000 per lot as a result of the 11% set-aside of open space in a small subdivision, the result of a loss of four home lots that otherwise would have helped spread out the fixed cost of land and infrastructure within the project.

Another major issue identified by developers that impacts costs with TED projects is that there has been confusion over which of the city's additional zoning standards apply to certain TED projects, including standards for multi-dwelling, townhouse, bicycle parking, and landscaping. Particularly noteworthy is the application of general site landscaping standards to two-unit residential dwellings in TEDs. These standards had the impact of nearly doubling the total landscaping costs of one development budget reviewed as part of this study. The city should disconnect TEDs from general site landscaping standards and clarify which of the other additional zoning standards apply to TEDs.

One potential opportunity to strike a balance in favor of affordability would be to increase the size of TED that triggers the building specific standards and conditional use approval process in non-multi-dwelling zoning districts. These allowances could also be tied to meeting certain pricing targets that address community needs.

Infrastructure Requirements

There are two primary ways in which infrastructure requirements impact development: the extent of infrastructure required by engineering and design standards, and the discretionary site-specific application of those standards. Where infrastructure negatively impacts housing affordability, are situations when design standards such as wide streets and sidewalks significantly decrease the number of units achievable in on a given parcel, or when the total amount of discretionary site-specific infrastructure significantly increases the overall development cost. The latter can also significantly increase perceived development risk and dissuade development of more challenging infill parcels with narrower profit margins.

Generally speaking, infrastructure design standards for the City of Missoula are on par with other small urbanized cities with well-developed land use codes. But in interviews with developers, there was a common sentiment that infrastructure standards were unpredictably applied and at times excessive given the scale of development. This was seen as having a significant negative impact on overall affordability. To help promote development of more difficult infill parcels and to ensure that infill developments are maximizing allowable density, both critical factors impacting affordability, the city should consider establishing ways for developers to have more clear expectations for the extent and cost of discretionary infrastructure requirements.

As part of the development of any incentive program for affordable housing production, the city should also analyze infrastructure standards to see if there are modifications to infrastructure standards that could be made that would help lower hard development costs without significantly decreasing the quality and neighborhood compatibility of new development. Discretionary request from city development review for additional infrastructure in a given project should also be assessed for their impacts on affordability, recognizing that the negative community benefit of lost affordability may outweigh the community benefit from more ancillary infrastructure investments exacted from developers. The city should also consider an analysis of infrastructure design standards impact on developer's ability to achieve full density when compared to the underlying zoning.

Development Fees

Land use review fees for the City of Missoula are somewhat higher than some similar sized communities, but also reflect the higher level of complexity found in the land use codes and the additional staff work that is required to administer those rules. The primary development related fees that impact scaled housing development are shown below in Figure 56.

Complete subdivision fees (preliminary plat, final plat, engineering review, and per unit fees) range from $309 per unit for the largest subdivisions (41+) to $3,482 for a two-unit subdivision, with a six-unit project coming in at $1,317 per unit. This significant weighting of cost towards smaller developments would seem to be at odds with the city's goal of promoting smaller infill projects.

Figure 56. City of Missoula Development Fees	
Zoning Compliance Permit Fees (multi-unit project)	$532.00
Conditional Use Fees (larger TED projects)	$1,853.00
Conditional Use Fees (accessory dwelling unit)	$899.00
Design Review Fee	$1,332.00
Boulevard Variance	$1,159.00
Rezoning (1+ acre)	$4,965.00
Planned Unit Development (1+ acre, prelim and final fee)	$10,352.00
Subdivision 1-5 lots (all fees and per lot fee range)	$6,964
Subdivision 6-10 lots	$7,900-$8,788
Subdivision 11-20 lots	$8,952-$10,446
Subdivision 21-40 lots	$10,571-$12,680
Subdivision 41+ lots	$12,668+

Building permit fees are just under $2,000 for a $200,000 home not including mechanical, electrical, plumbing, grading, sewer connection, and water connection fees, which add at least $1,000 in cost. Impact fees for transportation and "other" range from $1,405 for homes under 1,200 square feet. to $2,424 for structures larger than 3,200 square feet.

Taken together, impact and permit fees do represent a sizable cost. While not enough to completely fill affordability gaps alone, the city should consider creating a mechanism to offset or defer fees by paying them from affordable housing funding sources in exchange for commitments to achieve certain levels of affordability. Mechanisms to recapture and recycle these funds should be implemented as a way of creating a perpetual resource to support affordable housing development.

City of Missoula Growth Policies

The City Growth Policy is a comprehensive document intended to anticipate growth through 2035. This document includes a number of objectives and recommendations that directly relate to housing and particularly affordable housing. The document quantifies the need for between 9,000 and 14,000 new housing units, also citing the need for a wider variety of housing types meeting the needs of growing and diverse populations.

This document includes well-developed affordable housing recommendations that both examine the intersection of affordable housing and land use, as well as economic development and existing community processes. Of particular importance within this policy document is the goal of focusing growth inwards, with strong desire for infill and multi-dwelling development.

Many of the "Actions and Outcomes" in the plan are critically important for balancing infill goals with affordable housing needs. The figure below highlights the action items that are relevant to issues of housing affordability, while providing brief analysis from the affordable housing perspective. Also included are several recommendations for future action items to consider for inclusion in subsequent updates to the growth policy.

Action Theme 1.0 Best Practices/Guidelines/Benchmarks	
1.12 Identify best practices for buildings that reduce impervious surfaces including possible changes to land development regulations.	Increased regulatory requirements for permeable surfaces could increase development costs, although in some cases alternative methods could yield cost savings. Any process should consider impacts to development cost in their analysis.
Future Consideration: Critically missing from this section of the growth plan action are action items focused on regularly measuring community housing affordability and quantifying the impacts of programs and public investments in affordable housing.	

Action Theme 2.0 Coordination - Partnerships	
2.24 Develop a process for neighbors and developers to work together on multi-dwelling infill projects.	This type of infill is critical for providing affordable rental housing options and meeting city goals for urban densification, but neighborhoods often impede this type of development. Working with neighborhoods on issues such as design guidelines while educating neighborhoods about the positive impacts of this type of housing should facilitate more of this type of growth.
2.25 Work with University of Montana and private developers to address student housing needs.	Students place a significant burden on rental housing stock. With ample land assets, the University should be engaged around student housing development (as well as workforce housing development). Private student housing developments should be tracked for impact on overall rental conditions, as they often target the higher end of student housing market which can have a limited impact on overall rental housing conditions.
2.32 Facilitate the acquisition of land and the use of publicly-owned land for affordable housing.	This is one of the most direct ways that local governments can directly create more housing affordability. Structures should be considered to leverage city land contributions to generate ongoing resources for affordable housing and long-term community benefit from investment.
Future Consideration: While addressed in several ancillary ways, critically missing from the specific partnership action items are the development of public/nonprofit/for-profit collaboration to address housing affordability needs in the community. Almost all successful community level responses to affordable housing needs require close collaboration between these entities.	

Action Theme 3.0 Education	
3.2 Continue to have city agencies conduct outreach and workshops with the development community.	Working to narrow the gulf between the development community and city regulators can have beneficial impacts on affordability particularly when shared goals and understandings can be achieved.
3.15 Provide education and outreach on issues associated with housing affordability.	Many existing homeowners are insulated from the rapidly tightening housing market. Broad community education about community housing affordability needs, benefits, and approaches should be one near-term top priority action for the city.
3.19 Provide renter and homebuyer education including information on financial resources and technical resources for home improvements.	To ensure a healthy affordable housing market, it is critical that there are qualified households ready to purchase lower cost housing, especially housing produced through publicly supported housing models. Consumer surveying also suggests that many people are not aware of the existing housing programs or even what is required to purchase a home.
Future Consideration: Stigma and lack of understanding of the various types of affordable housing by the wider community can create significant obstacles to new development that would offer enhanced affordability options in the community. This is particularly true of existing homeowners who are often both active in local governance issues, and detached from the current state of housing needs in the community. It is critical to grow awareness around the benefits of public investments in affordable housing, which can ensure ongoing community support for new housing programs while also promoting inclusionary housing development in all areas of the city.	

Action Theme 4.0 Funding - Finance	
4.1 Support financing tools to promote affordable housing such as financing bonds, tax increment financing, loans, and housing trust etc.	Creating new funding sources to support affordable housing development should be a top priority. Investments in affordable housing yield highly leveraged, exponential benefit to the community in increased economic activity, job creation, not to the mention the immeasurable financial and social benefits for families residing in new affordable housing. Care should be taken to make sure financial investments in housing are recycled and reinvested in projects addressing housing needs for the long-term.
4.5 Update impact fees to cover the full impact of development.	Increases in development fees increase housing costs. Any increases in fees should consider the impacts on overall affordability and mechanisms to offset development fees for housing meeting affordability needs should be developed.
Future Consideration: Affordable housing funding goals should include long-term or reoccurring funding sources so long-term planning and sustained investment in housing affordability can be achieved. Mechanisms should also be developed to recycle, protect, and grow investments in affordable housing such as a city housing trust fund.	

Action Theme 5.0 Incentives - Subsidies

5.15 Consider reduced permitting fees in exchange for deed restricted affordable housing units.	Permit fee reductions or deferral alone are not likely substantive enough to create the level of affordability needed to meet gaps in the current market. But when combined with other incentives, these types of direct financial benefits can be an important leverage point.
5.16 Expand first time homebuyer programs such as down payment assistance, etc.	Interviews with providers suggest a high demand for homebuyer education beyond what is currently available in the community. Expanded down payment assistance will be a critical component of the overall affordable housing program approach, especially when new affordable housing development begins to come online as well as to insulate against potential cuts in federal sources.
5.22 Offer incentives and assistance in developing below market rate and affordable housing in the downtown consistent with the downtown plan.	Infill projects are generally more costly than greenfield development. Targeting affordable housing incentives to prioritize the types and locations of development that are priorities for the city can ensure that housing development is meeting a range of community needs. This approach also ensures that affordable housing is being included in all areas of the city.

Action Theme 6.0 Infrastructure – Buildings – Land Acquisition	
6.5 Develop additional safe, affordable and permanent housing for low-income, homeless families and seniors such as small multi-dwelling housing with services/subsidy, transitional housing, housing cooperative, micro-apartments, graduated senior housing communities, etc.	Supporting the spectrum of housing needs is essential for an overall healthy housing market. Recent shrinking affordability tends to impact the lowest income households most acutely. Extremely low-income renters and the homeless are also least likely to be represented in the political process, so extra work and resources should be prioritized for serving these groups.

Action Theme 7.0 Planning Studies	
7.20 Conduct analysis to determine costs-benefit of regulations to the development and their effects on affordable housing.	In many ways, this study serves as the initial step of this work, but more work must be undertaken to develop a full set of incentives which are tied to affordability benchmarks.
7.26 Develop a policy guide to address closing the gap between income and the cost of housing.	This is a critical component of a comprehensive approach to increasing affordable housing and the acknowledgement that housing affordability is not simply a function of purchase prices and rental rates, but the gap with wages is key.

Action Theme 8.0 Programmatic	
8.21 Enact policies that provide local housing agencies and nonprofits the ability to purchase subsidized property.	Subsidized land purchases are one of the strongest leverage points for creating new affordable housing. When possible, open requests for proposals should be used to maximize leverage of assets and make sure proposals are targeted towards identified community needs. Subsidized land should also be considered as a way to catalyze long-term self-sustaining affordable housing development approaches.

Action Theme 9.0 Regulatory – Permitting – Design Standards	
9.2 Consider zoning tools to address affordable housing or the high cost of housing such as reduce minimum lot size, density bonuses for affordable units, mobile homes, neighborhood PUDs, mixed-use developments, cottage homes, etc.	The city has already created new zoning districts that deal with key missing densities for affordable housing production, but the density bonus allowances in the city zoning code are not adequate. The city should work to add more clear definitions of the type of affordable housing as needed (rental, income levels, price points etc.) as well considering broadening the range of zoning categories where they can be applied, particularly lower density neighborhoods where prohibition of the density bonus works as an exclusionary housing policy. Allowing townhomes by right in more districts is one potential way to address this.
9.7 Reduce parking requirements to promote transit-oriented design (housing and development).	Parking requirements add significant cost to development, but current code is very flexible and provides for reduced parking for affordable projects. Caution should be paid to not creating overly-lenient parking requirements that push parking offsite and into neighborhoods, which could create more community resistance to infill affordable development.
9.31 Adopt form-based zoning in appropriate areas.	Form-based code has the potential to increase residential densities, positively impacting affordability. But poorly executed form-based code can add subjectivity to the development review process which can have a negative impact on affordable development. Incentives for affordable housing should be considered as part of any form- based code approach.

Action Theme 10.0 Spatial Relationships – Land Development Patterns	
10.1 Identify areas in the city where it would be appropriate to rezone land for compact, small lot single-dwellings or townhomes	Low availability of densely zoned land is one of the primary development constraints in the community. Proactive rezoning could help remove uncertainty for developers and could make existing vacant properties that are currently overpriced in the current market financially feasible if higher densities were attainable. This action would also demonstrate the city's commitment to its infill policies rather than relying on developers to undertake costly and uncertain rezoning processes.

10.2 Develop an annexation policy that identifies growth areas in the urban fringe consistent with Focus Inward, and establishes recommended zoning and development standards.	This is one of the highest priority macro-level action items from the plan. While studies suggest there is enough developable land, the practical reality is that dense growth will have to occur in some areas of the urban fringe. The city needs to work closely with the county to develop a clear annexation strategy that aligns city/county zoning and infrastructure standards and is backed up with strategic infrastructure investment. The city cannot afford to tackle its growth issues without bringing the county into the discussion.
10.3 Identify appropriate areas in the community to develop high density housing.	Identifying areas where dense development can occur is critical for lowering the threshold for new development. But if poorly implemented this can also lead to exclusionary policies if existing homeowners are given too much power in the process. Any community process should include proactive outreach and inclusion of potential beneficiaries of future housing development.
10.6 Identify areas in the city where it would be appropriate to rezone land to allow for a diverse mix of housing types.	Some of this work has already taken place and is reflected in the more densely zoned future land use designations. The city should consider the next step of proactive rezoning to maximize the potential for new development and lower housing costs.

Overall the City of Missoula Growth Policy's approach to affordable housing is advanced and considers the broad set of conditions impacting affordability. But critical to the ability for these principles to have tangible impacts on affordability, and to ensure that the city's grow inward policies do not inadvertently constrain housing development and negatively impact housing affordability, the city must work more proactively towards the expeditious implementation of many of these housing related action items.

Affordable Housing Policy

The city's primary affordable housing mechanism is the Permanently Affordable Development designation. This policy is allowed in six of the denser zoning categories, and effectively functions as a density bonus that allows for between 10-20% increase in overall project density for providing between 30% and 50% of the project as "permanently affordable housing."

There are several issues with this policy when analyzed in the context of affordable housing. At the top level, it does not define affordability other than defining that it must serve households 80% of area median income. This definition lacks methodology to establish maximum pricing under which this density bonus could be awarded. The policy is restricted to detached homes and townhomes in residential districts that already allow for relatively high densities, the lowest being 16 units per acre. This makes any increase in density for an ownership project nearly impossible to achieve given other site constraints such as parking, streets and parks requirements. Lastly, the definition of permanently affordable housing is not defined. This can be problematic for several reasons. First, to be permanently affordable, yet allow for appreciation and asset development for low-income households, additional funding is often needed to keep a home's resale price stable. Second, while well-structured and managed permanent affordability models such as land trusts, or permanent deed restriction approaches can be one effective strategy for affordable housing, the most robust community affordability strategies typically use multiple approaches to affordability.

Some of the limitations to permanent affordability are the complexity of managing the resale of homes, and the ongoing funding required to pay out equity increases for original buyers. Permanent affordability models also tie the community's investment in affordable housing to a single housing unit regardless of the quality of its construction or its long-term compatibility with affordable housing program homebuyer families.

Diverse strategies for affordable housing production typically utilize a variety of long-term affordability methods, which also utilize recapture models that allow once affordable homes to be sold as entry-level market rate homes and recoup the community's initial investment, and often a proportion of the increase in value, into an affordable housing fund. This way the community maintains the flexibility to choose to reinvest in a given home, or realize its initial investment, and reinvest that recaptured funding into new affordable housing activities. This is particularly important for being able to direct affordable housing resources to areas of the highest need, which may not always be homeownership.

Missoula County Regulatory Environment

Missoula County encompasses a wide range of development contexts ranging from extremely rural unincorporated communities with little infrastructure to the urbanized area around the City of Missoula, which is in many ways indistinguishable from the city itself. This presents a challenging task for the creation of a regulatory environment that is responsive to the highly diverse needs within the county, as well as the competing priorities of conserving natural resources, being responsive to existing resident's views of neighborhood character, while also being responsive to the growth and affordable housing needs of the community.

Missoula County Zoning Code

Missoula County zoning ordinance includes 15 core zoning districts with nine residential zones and a number of rural, overlay, citizen initiated, and special zoning districts. Despite the well-developed zoning code, the vast majority of the county (over 93%) is not yet zoned, meaning it cannot take advantage of several of the more streamlined land use processes such as multi-unit development under the Condominium and Townhome Exemption process.

Residential zoning districts allow for densities up to 36 units per acre with density bonuses up to 45 units per acre allowed in a planned unit development (PUD) or when other density bonus criteria are met. Residential developments are also allowed in commercial zoning categories allowing for housing development in all but the industrially zoned areas of the county. Densities up to 43 units per acre are allowed in Neighborhood Commercial, General Commercial, and

Community Commercial districts. The various densities allowed under county zoning cover a range of development densities that are sufficient to satisfy a range of housing development types affordable in both rental and homeownership configurations.

Density bonuses vary by zoning category under PUD and range up to 200% in the lowest density districts. In non-PUD development, they are dictated by various density bonus criteria and can be combined up to a maximum 50% bonus. To be eligible for a density bonus, projects must be in the urban service areas and meet one of seven criteria for a 20% bonus as well as undergo a mandated neighborhood notification and public meeting. Among the bonus criteria are increases in density for projects where 75% of the land has separate legal descriptions, projects where 50% of units are detached homes with 900 square feet or less of ground floor living area, housing meeting the needs of low- and moderate-income households, cluster/open space developments, adaptive reuse of historical structures, neighborhood commercial use within development, and connection to wastewater treatment and collection systems.

The two density bonus criteria that have the opportunity to impact housing affordability are the small footprint criteria and housing serving low- and moderate-income categories. The code stops short of providing a clear definition of how service to low- and moderate-income households is measured (such as income levels or price points) but does define an affordability period of 15 years. The density bonus is also somewhat diluted by allowing so many other opportunities to achieve bonuses that do not impact affordable housing. This suggests the need both to clarify definitions of projects benefiting low- and moderate-income households, as well as potentially adjusting the structure of other density bonus criteria to make housing affordability a higher priority criterion.

The zoning code allows for a range of residential types broken out into categories of detached, two-unit, and multi-unit (3+) development. Detached development is allowed in all residential zoning districts. Two-unit development is not allowed in four of the least dense residential districts and multi-unit development is excluded in seven of the nine residential zoning districts and is a conditional use in all five zoning categories where it is allowed. Multi-unit development also requires buffering from adjacent detached residential development as well as an architect's certification that the building design is harmonious with "neighborhood buildings, topography, and natural surroundings."

The lack of a zoning category that allows by-right development of multi-unit structures presents an opportunity to remove an obstacle to multi-family development in one or more appropriate high-density zoning districts, although conditional use approval in the county is an administrative process which is less of an obstacle than a public hearing approval process. The other subjective requirement that could be clarified is a requirement that an architect certify design compatibility, which could be replaced with a performative design standard that would also remove potential subjectivity from the multi-unit development process.

Underlying zoning are future land use designations, which the county is in the process of analyzing. Annexed land can only be zoned to 1.5 times the density shown in the future land use designation. Increasing densities in future land use designation changes should be a central consideration for areas in the urban fringe that have a reasonable likelihood of being annexed into the city.

Parking Requirements
Parking requirements in the county are reasonable with scaled parking requirements based on the number of bedrooms in a dwelling. Requirements range from one to two spaces per unit for multi-family projects with two spaces required for detached and two-unit structures. There is certainly room to provide reduced parking requirements for smaller projects where on-street parking is available and there is transit connectivity, particularly for projects in the urbanized area.

Lot Setbacks Requirements
Residential zone setback requirements range from 50 feet front, rear, and side in the least dense zones, to 25 ft. front, 5 ft. side, 25 ft. rear in the two most dense zones (CR-2 and CR-3). Relatively dense detached development is where setbacks can have a significant impact on overall project densities or constrain the home footprint, and consideration should be given to reductions in setback requirements, particularly in the C-R1 (eight units per acre) zone. For example, a 5,445-square foot lot (maximum lot size at eight units per acre) shaped as a square dedicates nearly 75% of the buildable area to setbacks leaving only 1,320 square feet for the building footprint.

Special Zoning Districts
The county zoning regulations have several location specific rural zoning districts as well as "citizen initiated" zoning districts that can be created by petition by 60% of landowners within a defined area of at least 40 acres. Of these the most challenging to future housing affordability is the low-density designation for the Target Range area, which has a maximum density of one unit per acre and does not allow density bonuses available in other zoning districts. Given the proximity to the City of Missoula, the surrounding urban fabric, and the availability of sewer infrastructure, this area would normally be a natural candidate for denser future housing development that could support affordable housing. Given the strong neighborhood driven low-density zoning, this policy is essentially exclusionary to affordable housing creation and constraining growth on the west side of urbanized Missoula.

Fees
Land use review fees for Missoula county are slightly more affordable than in the city. The primary fees that would impact multi-unit development are shown below in Figure 57.

Figure 57. Missoula County Development Fees	
Zoning Compliance Preview Detached, Duplex/Multifamily	$100/$150
Conditional Use Fees	$50-$450
Growth Policy Amendment	$6,000
Rezoning	$4,000
Planned Unit Development	$6,500
Rural Zoning District	$5,000
Subdivision 1-5 lots	$5,914
Subdivision 6-10 lots (all fees and per lot fee range)	$6,828-$7,228
Subdivision 11-20 lots	$7,778-$9,128
Subdivision 21-40 lots	$9,228-$11,128
Subdivision 41+ lots	$11,178+

Complete subdivision fees (preliminary plat, final plat, fire review, and per unit fee) range from a low of $272 a lot for the largest subdivisions (41+) to over $2,957 for a two-unit subdivision. Similar to city fee structures, there is a significant weighting of cost towards smaller developments, although the potential for structuring a fee waiver scheme for development meeting certain pricing targets could provide significant incentive for builders to provide more housing at more affordable prices.

Missoula County Subdivision Regulations

Application for a major subdivision (6 units or more) is a 17-step regulatory process that starts with an optional consultation and moves through a variety of administrative review steps and culminates in public hearings before the planning board and governing body. This process has state mandated time limitations for review and response at various stages of submission and maximum review times range from between 145 and 175 working days (the equivalent of 29-35 work weeks). While on its face, this is a relatively expeditious review window for the amount of information and the level of review involved, there are still aspects of review that can significantly lengthen the amount of time it takes to achieve an approved subdivision. This is particularly true for more subjective aspects of subdivision design. This issue typically arises when an initial submittal is found to not meet non-performative criteria, such as the extent of infrastructure including road connections to adjacent or future development, which then require significantly more time and professional expenses for a redesign and resubmittal. Anecdotal information from several developers suggested that the practical amount of time needed for a full subdivision application can be a year or more, often for even simple lot splits.

Where possible, subdivision processes should be streamlined and include as many clear performative standards as possible, particularly for site design and infrastructure to ensure expedient processing and minimal professional fees and holding costs, which drive up housing costs. The County Growth Policy includes actions to reduce turnaround times below state mandated minimums and seeks to streamline review where possible. Other similar communities have implemented streamlined and expedited subdivision review for projects including affordable housing components and this should be considered for any future changes to the county subdivision process. A clearer definition of housing meeting the needs of low- and moderate-income households should be included in the regulations.

Infrastructure Requirements
In general, county infrastructure requirements are generally reasonable with most components not dramatically impacting affordability. In fact, code provides for flexible conditions such as reducing sidewalk widths which can help increase density.

Roadways are one area that could be examined. Currently, regulations call for 12-foot travel lanes with eight-foot parking. A significant infrastructure expense, narrower roadways, such as a reduction to 10-foot travel lanes and six-foot parking lanes, would help decrease overall development costs as well as ongoing maintenance for owners. Additional benefit could also be realized by helping to slow traffic within developments.

The most common issues with infrastructure related by housing developers were the timelines and uncertainty of wastewater approvals from the Missoula City-County Health Department, which enforces state water quality standards as well as local regulations.

One of the primary concerns for developers are set asides for non-residential uses such as parkland and agricultural conservation. Generally, the parkland requirements are consistent with other communities in Montana allowing for fees in lieu and a variety of methods of compliance with park set asides. Less consistent are policies for setting aside agricultural lands, which do not have a formal written policy, yet subdivision language does include vague sections referencing agricultural land conservation and mitigation. This issue is only likely to grow in future years, so strategies that balance needs for conservations with housing affordability need to be addressed.

Condominium and Townhome Exemption Developments
As within the City of Missoula, there is a subdivision exemption in place for land that has been previous subdivided. The Condominium and Townhome Exemption Developments (C-TED) offer a streamlined development review option. Submittals for a C-TED are minimal with the most rigorous requirement being an application for “special exception”, a process involving a public hearing and decision by the County Board of Adjustment which applies to single-family projects of six or more units and multi-unit project of 10 units or greater. Projects must also comply with underlying zoning, space and bulk requirements, and county road standards.

This approach to multi-unit development is very beneficial for affordable housing with the main limits being the overall lack of previously subdivided land where this type of development could take place. An analysis of previously subdivided land and its underlying zoning densities with the goal of making zoning changes to support more dense development could prove very beneficial to moving vacant parcels to development.

Planned Unit Development

Planned Unit Development (PUD) in the county is a zoning classification intended to allow developers more flexibility in their design approach to adapt development patterns in a way that better serves the community than the requirement posed by the current underlying zoning. This includes providing for more flexibility in the layout, design and types of housing permitted in a single development, along with better protection of resources and more appropriate utilization of the underlying landscape. The PUD process is essentially a type of rezoning with a hearing before the Consolidated Planning Board who then makes a recommendation to the governing body. If approved by the governing body, the proposed PUD has one year to submit a subdivision application, after which if no application for subdivision has been received, the parcel reverts to its original zoning classification.

In general, PUD development offers a level of flexibility to overcome any inherent obstacles to affordability contained in the underlying zoning such as setbacks, density, and unit types. In many cases municipalities may include housing affordability as an explicit purpose for PUD development and outline specific opportunities for creating affordability that are encouraged with PUD development. The underlying requirement that PUDs undergo a subdivision process after PUD designation means that there is still significant uncertainty in both the final design, density and timeline for development, which can be a significant impediment to affordable development.

County Growth Policies

In 2016, Missoula County adopted a significant update to the Growth Policy to address the complicated task of directing a coherent approach to growth and development across a large county with diverse needs, landscapes, and levels of urbanization.

The three core themes of the plan, Landscapes, Livelihoods, and Communities, offer a framework for the growth plan that considers macro-level environmental factors, the importance of economic health (particularly when land-based), and the cultural fabric that makes up the several unique communities within the county boundaries.

For the purposes of this analysis, the County Growth policy has been reviewed in the context of its responsiveness and potential impact on affordable housing. The organization of the document provides a number of top level “Goals,” which are further broken down into “Objectives” and “Actions” with a corresponding timeframe for implementation and responsible entities.

Overall, the Growth Policy includes a number of Goals, Objectives and Actions that could potentially benefit housing affordability and better meet the needs across the housing spectrum. There are also a smaller number of Objectives and Actions that have the potential to negatively impact housing affordability if not implemented well, or mitigated sufficiently. The following analysis breaks out specific goals and analyzes their potential impact on housing affordability, and where appropriate, offers suggestions to ensure the best possible outcomes for housing affordability.

Objective 1.1 Develop and implement regulatory and non-regulatory strategies to conserve vital natural resources and environmental functions.	
1.1.2 Update or develop land use designation maps, area and issue plans, zoning and other projects using priority resource areas. This could include the use of overlays.	An update to land use designations will better guide growth and create more clear standards for landowners and developers. Proactive rezoning to increase density in appropriate areas could positively impact housing affordability.
1.1.5 Update subdivision regulations to provide standards that minimize and mitigate impacts to natural resources.	This recommendation could have a potential negative impact on affordability. Reductions in developable area have significant impacts on affordability. Any new standards must be clear and performative and provide offsets for additional land set asides.

Objective 6.1 Support initiatives to expand digital communications and develop clean technologies throughout the county.	
6.1.3 Adopt a county policy to require broadband conduit be included in projects in county right-of way and private road easements in subdivisions for future expansion where appropriate.	While an important consideration, this has the potential to create additional infrastructure costs for developers. Potential per unit cost impact should be assessed and incentives considered.

Objective 7.1 Conserve agricultural lands and timberlands	
7.1.3 Revise subdivision regulations to address impacts to agriculture and to conserve important agricultural soils.	This has great potential to negatively impact affordability depending on how it is implemented. An unfunded land conservation mandate can greatly increase per unit costs within subdivisions. Mechanisms to financially offset these negative affordability impacts should be developed rather than being expected of developers who then pass higher costs on to consumers.

8.1 Protect and enhance the rural character that exists in much of the county, maintaining a clear distinction between urban and rural areas.

8.1.1 Review and update land use designation maps where there is community interest to accommodate growth, while protecting vital natural resources.	This action's reliance on "community interest to accommodate growth" has the potential to negatively impact affordability if NIMBY concerns outweigh community level needs and accepted planning principles around growth.

8.2 Provide opportunities for varied land uses in and around existing communities.	
8.2.1 Update area plans and zoning regulations to accommodate modern development types for urban and rural areas.	This action should be high priority, as new zoning categories and ability to pursue more innovative and denser development types that do not clearly fit into current zoning regulations are an important aspect of addressing housing affordability issues.
8.2.2 Work with landowners and residents to develop area plans and apply zoning standards to guide community growth.	Lack of zoned land is a considerable hindrance to new housing development. Increasing zoned land in growth areas would be beneficial to affordability, but only if allowed densities are appropriate for supporting housing development that meets community affordability needs.
8.3.1 As part of land use and other plans, identify and communicate where development is encouraged and discouraged.	Clear understandings about where growth and development are encouraged can help reduce risk for developers and promote growth in appropriate areas.
8.3.2 Explore opportunities for zoning with density standards.	Increased density will be a critical component of supporting future housing affordability.

9.1 Support increased infrastructure capacity, services and amenities in and around existing communities where appropriate.	
9.1.4 Create and support policies that require developers and new users to pay their proportional share of the costs necessary to serve new development.	Adding new costs to development will create negative impacts on affordability, although waiver or deferral of fees can be used to leverage affordability.

10.1 Facilitate the development of a variety of housing types including housing that is affordable to all segments of the population.	
10.1.2 Identify areas for housing development through land use designation mapping and area planning to accommodate the projected housing needs.	This is a high priority action that can help guide many other recommendations in the plan including infrastructure placement and future rezoning actions.
10.1.3 Work with local communities to revise or initiate new zoning to accommodate the projected housing needs.	This would be highly beneficial to housing affordability as long as densities are sufficient to support housing affordability. Empowerment of NIMBY elements could lead to artificially low densities and negatively impact affordability.

10.1.4 Research and create an incentive program for private development of housing for underserved groups.	Likely the highest priority action item with potential for beneficial impacts on housing affordability.
10.1.5 Seek and utilize creative financing tools and public funding to provide housing for underserved groups.	This is a high priority action to support growing gaps between housing development costs and affordability needs.

Objective 15.1 Provide simple, clear and flexible land use and development regulations, procedures and forms.	
15.1.3 Set up a regular meeting of agency personnel to review development applications. Explore options to incentivize early comment from agencies and resolution of conflicting comments.	Shortening and streamlining development review processes positively impacts affordability by lowering holding costs and incentivizes new development by decreasing uncertainty in review processes.
15.1.4 Establish targets to process development applications more quickly than required under state law.	This has high potential to utilize streamlined development review as an incentive around meeting affordability goals.

Objective 15.2 Provide enforcement of development regulations that is reasonable and adequate.	
15.2.1 Development rules will be enforced using common sense.	Overly stringent application of subjective aspects of development rules generally creates negative impacts on housing affordability.

Objective 16.1 Maintain compatible policies, coordinated services and regular communication with the City of Missoula.	
16.1.1 Maintain and update as needed the city county inter-local agreement that guides coordinated planning efforts	Better coordination around growth in the urban fringe will help increase access to developable land and decrease current constraints on housing development.
16.1.2 Maintain an agreement for review of plans and projects in the Missoula urban fringe.	Alignment of both zoning and infrastructure requirements will positively impact affordability by reducing development uncertainty and risk.

The strategies in the Growth Policy generally support the goals of increasing access to affordable housing. Still, the potential for well-intentioned aspects of the growth policy to have unintended negative impacts on affordability is high. Requiring new development to carry the burden of land and resource conservation without density offsets or direct financial support for lost developable land has a significant impact on affordability.

Access to increased housing affordability within the county could also be a stronger theme within the plan. It is not uncommon for public processes such as this to under-represent the needs of affordable housing constituencies, who often face greater barriers to public process participation and generally have lower stakeholdership than homeowners and businesses. Future 5-year revisions to the Growth Policy document should dedicate more effort and analysis to housing affordability as one of the frameworks within which all other goals are assessed as housing affordability will only be a growing issue for the community going forward.

9. Non-Regulatory Housing Development Context

A critical component of understanding the opportunities for expanded housing affordability relates to the basic non-regulatory conditions that impact housing development costs. These include the cost and availability of developable land, infrastructure and construction costs, the ability and cost to finance construction, and the availability of mortgage financing. Hard costs of construction do not alone dictate sales prices, but they do set the minimum cost at which at which a home can be built.

Developers interviewed for this study related that they felt there was a "perfect storm" of factors driving recent cost increases: construction labor shortages, shortages of skilled trade subcontractors, material cost increases, increasingly complex building codes and infrastructure requirements, and inflating land costs.

By analyzing and understanding these cost factors and their trends over time, elected officials and the broader public can better understand the constraints under which builders and developers work, and hopefully uncover potential strategies to positively impact housing affordability.

Land Cost and Availability

One of the largest single costs in housing development rests in the cost of land. The City of Missoula is in many ways constrained in terms of land availability. Lack of a clear annexation policy, differential attitudes between the city, county, and residents regarding growth and development at the fringe of the city, the costly and time-consuming state mandated subdivision review process, and neighborhood opposition to new development in certain areas mean that the supply of developable land is limited.

Several interviewees indicated that they felt there were ample developable lots in the city, but that those previously entitled subdivisions were bought at peak market and not financially feasible to develop with the current increases to hard development costs.

In interviews with developers, the lack of affordable land for development was the most common issue cited as constraining more affordable housing development. Another common issue cited was the fear of neighborhood opposition to infill development that made developers cautious about existing infill parcels.

To establish clearer metrics of the cost and value of land and its impact on overall housing affordability, we analyzed sales of raw land recorded in the Multiple Listing Service. For the Missoula Urban Area there has been a marked increase in the number of single lot sales from 33 in 2010 to 175 in 2016 (Figure 58). The median sales price of lots, while varying during that period, has generally hovered around $85,000.

Figure 58. Residential Lot Sales Missoula Urban Area				
Year	Lot Sales	% Change	Median Price	% Change
2010	33	-8.3%	$86,000	21.0%
2011	33	0.0%	$92,000	6.5%
2012	47	29.8%	$55,000	-67.3%
2013	83	43.4%	$75,000	26.7%
2014	89	6.7%	$85,000	11.8%
2015	133	33.1%	$85,500	0.6%
2016	175	24.0%	$85,000	-0.6%
Source: Missoula Organization of REALTORS®				

For housing development purposes, it is tracts of land with multiple lots that are important for housing development at scale, and particularly affordable housing development. Subdivision approvals and sales of larger tracts of land help us understand the overall land development context from a regulatory angle. Although there is a reported increase in subdivision activity during the current year, particularly in the county, the creation of new home lots through the approval of new subdivisions has been very slow in recent years (Figure 59) with only 13 new lots created in the city or county in the three-year period of 2014-2016.

Figure 59. Subdivision Approvals Missoula and Missoula County					
	2013	2014	2015	2016	2017
County Subdivision	6	1	1	1	5
County Lots Approved	95	3	1	6	61
City Subdivisions	2	0	0	1	3
City Lots Approved	4	0	0	2	34
Total Residential Lots	99	3	1	8	95
Source: City of Missoula Development Services, Missoula County Community and Planning Services					

It is important to take into consideration that the Townhome Exemption allows for the development of multiple homes where supported by base zoning, so subdivision activity alone does not tell the whole story. Figure 60 shows the number of permits, not lots, pulled in the last four years representing a significant portion of overall development in the city, highlighting the importance of this mechanism.

Figure 60. Townhome Exemption Permits Missoula				
	2014	2015	2016	2017
City of Missoula	33	165	60	99
Source: City of Missoula Development Services				

Looking at sales activity in the Multiple Listing Service of parcels large enough to sustain scaled housing development between 2014 and the third quarter of 2017, we find very small number of transactions. In the city, there were only 12 sales during that period of parcels .5 acres or larger with zoning that could support the development of multiple units. There were 18 multi-family parcel sales during that same period in the city.

The lack of zoning in the county and practice of large parcels being used for single home lots makes It more difficult to assess the parcels that are appropriate to support subdivision development. This type of analysis is further complicated because there is no indication in the MLS reporting system of whether parcels have access to any of the basic infrastructure needed to support subdivision development.

Looking at current land availability as expressed by MLS listings taken in a snapshot from October 23, 2017, there were a total of 90 land listings in the City of Missoula, of which there were only three that could support scaled home development. The two within city limits are 11 acres zoned R5.4 (8 units per acre) listed for $487,000 and eight acres zoned RT10 (4 units per acre) listed at $500,000.

County listings again present challenges for determining which lands can be subdivided, versus just being large home lots. There were a total of 349 residential land listings and one multi-family listing. Focusing in on the areas of Seeley Lake, Bonner, Frenchtown, Lolo and Missoula (outside city limits), there were 9 properties that were large enough to support multi-unit development. Of these, only two were explicitly advertised as multi-lot subdivisions. One featured 61-lots and no road or utility infrastructure installed. This results in a per lot cost of $14,000 if acquired at list price. The property had been listed for 419 days. The second listing was 100 acres zoned R215 and CRR1 listed for $3.9 million.

The largest and most complex development parcel is 105+ acres spanning both city and county jurisdictions located on Hillview Way, listed at $16 million. The large property is comprised of approximately 65 acres within the city and another 40 acres outside of city limits. The property has a variety of zoning designations with densities ranging from county C-RR3 (4 units per acre) through city RM0.5, which allows up to 87 units per acre. If the development was built to maximum density it could yield as many as 3,800 new units of housing, although reaching maximum density will be difficult and so the parcel is unlikely to yield the full number of possible units.

The variety of densities also present a good opportunity for a balance of various price points that could potentially serve a range of income levels. The size and cost of the parcel is likely beyond the scale of what can be taken on by a local developer with limited financial capacity and ability to carry the overhead on such an expensive parcel, so development will likely fall to a consortium of local entities or a larger out-of-state firm.

Several developers shared development costs from either recently completed developments or developments that will start imminently. Two provided current data on land costs that could be imputed to a per-lot cost. One project located in the city, with density of just under 6 units per acre, will have a raw per-lot cost of approximately $14,930 or $82,692 per acre. A moderate density subdivision in the county arrived at a land cost of $17,750 per lot, or approximately $92,000 per acre, which included carrying costs and professional fees during the entitlement process of nearly $2,000 per unit. These were compared to raw land costs at several previously completed developments to gauge increases in cost over time.

Figure 61. Historic Land and Lot Costs

	Development	Cost Per Acre	Cost Per Lot	Density
1996	Inverness Place	$42,300	$8,500	5/acre
2001	Davis Street	$56,500	$9,700	6/acre
2003	Wheeler Drive	$65,000	$11,150	4/acre
2006	3rd Street	$100,000	$25,000	4/acre

The best comparison with current city lot costs based on density is Davis Street which was developed at the same density as the current city lot cost example above. This represents a per-lot increase of $5,230, a 54% increase in cost since 2001.

It is clear from the market analysis that there are very few options for developable land either listed or changing hands within the MLS system, and that the price of land is steadily increasing, even as the density in projects increases over historic levels. What developable land there is in the county almost all needs costly infrastructure and subdivision processes. The small number of multi-lot parcels within the city are seeking peak pricing. It should be noted that not all land sales are captured by the MLS system, but at this level of activity the MLS data still indicates a need for additional land resources to support ongoing housing development.

Infrastructure

Infrastructure costs are one of the primary cost drivers cited by local housing developers. In this instance, we are considering infrastructure to be the costs of all shared aspects of the project (roadways, open space etc.), utilities, site grading, storm water, landscaping, carrying costs during installation, and the professional services to design those aspects of the project. The cost of infrastructure is driven by both increases in material and labor costs, as well as increasing infrastructure standards required in development of any scale including subdivisions and Townhome Exemption Developments.

Again, real cost data was gathered from several developers that helps us understand current infrastructure costs, and in the case of one developer, the change in the cost of infrastructure over time.

Figure 62. Comparative Infrastructure Development Costs			
Description	**1996**	**2006**	**2016**
Sewer	$58,242	$93,000	$153,700
Water	$36,260	$87,000	$168,000
Street	$43,800	$133,000	$267,500
Curbs	$7,600	$38,000	$45,000
Sidewalks	$5,100	$49,000	$74,200
Strom Drainage	N/A	$78,000	$37,000
Landscaping	$20,000	$20,000	$40,000
Engineering	$28,000	$66,000	$182,000
Carrying Cost (10%)	$19,900	$56,400	$96,740
# of lots	15	26	53
Per lot cost	**$14,593**	**$23,862**	**$20,078**

Figure 62 above depicts the infrastructure costs for three developments spanning 20 years, all developed by the same builder. This shows a current per-unit infrastructure development cost of approximately $20,078. This is approximately $3,800 lower than infrastructure costs from 10 years ago, which is almost certainly attributable to the economies of scale from the much larger and denser project being undertaken in 2016. One aspect worth noting is the doubling of landscaping costs under the 2016 which utilized the TED development process which required general site landscaping standards.

Another project in the city that is currently in the final pre-development stages, provided infrastructure cost estimates that indicated a per unit infrastructure cost of nearly $32,570 per unit, at a density of six units per acre. The planning consultants who prepared the cost estimates also calculated the cost to provide the park and open space requirements, which took the place of several home lots that would have amortized the fixed infrastructure and land costs across more units, raiseing the per unit infrastructure costs $5,785 per unit.

The only example of a recent county project with infrastructure development yielded a per unit infrastructure cost of $19,468, on par with the level of cost seen in the larger scale city development.

There are several unique factors present in the county which present constraints and cost considerations. Much of Missoula County is treated as a closed basin. New appropriations of water for development generally need to be mitigated, because exempt from mitigation wells for individual homes are no longer permitted at a density suitable for scalable housing development. The state’s process for transferring a water right for mitigation is unpredictable, lengthy, and costly. This has had a significant chilling effect on development in Missoula County outside of the municipal water service area. Further, challenges posed by sanitation review by the City-County Health Department and the state Department of Environmental Quality were a frequent issue cited by developers as factors that introduced cost uncertainty and development review time delays into projects.

Construction Costs

Construction costs make up the bulk of housing development costs and have increased dramatically in the last 20 years. As previously mentioned in this report, there are a number of factors working in the Missoula market, as well as nationally, to drive up the hard costs of construction.

Contractors interviewed for this report repeatedly cited a lack of skilled labor as one of their major constraints, which also meant that they had to pay much higher wages to retain skilled employees. This factor is amplified in Montana by the strong draw created by higher paying jobs in the Bakken oil fields. Data from the Federal Reserve Bank of Minneapolis indicates that the average weekly wage in Bakken Counties (both Montana and North Dakota) during the first fiscal quarter of 2017 was $1,190, down from a peak of $1,442 in the first quarter of 2015. For comparison, the most recent wages numbers from 2017 are 50% higher than wages in non-Bakken counties in Montana.

Labor shortages and high labor costs aren't an issue unique to the Missoula market. According to the June 2016 survey of nine key homebuilding trades by the National Association of Homebuilders, the percentage of builders experiencing some or serious shortages of labor has skyrocketed to 56% from a low of 21% in 2012. These shortages are most acute among the rough, finish and framing contractors with each reporting some or serious shortages at a rate of 72%, 70%, and 68% respectively.

Another labor factor that both drives costs and functions as a significant constraint on production are shortages of skilled trades such as electricians, plumbers, and HVAC subcontractors. Builders surveyed as part of the national study indicated that 78% had experienced some or serious shortages of rough carpenters, 56% for plumbers, and 55% for electricians.

The impacts of these labor shortages are manifold. Most common was the need to pay higher wages or receiving increased bids for work, which were reported by 75% of survey respondents. A further 68% reported having to increase home prices, 64% reported difficulty completing projects on time, 28% reported turning down projects, and another 28% reported that shortages made some projects unprofitable.

The other two major factors increasing construction costs are increasingly complex building codes and materials cost. The International Building Code is updated in three-year cycles, which do not typically trend towards less costly or complex building requirements.

Construction costs, and particularly material cost inflation, do not follow typical consumer inflation measures. Material cost inflation is very much a product of the very specific market demands as well as macro-supply factors. We are currently in a time where a post-recession building boom is creating high demand, which will be further impacted by large events such as the hurricane rebuilding in Gulf States and Puerto Rico.

We were provided hard construction cost data for the same three developments that were depicted in the infrastructure development scenario above. Again, these were three developments undertaken by the same builder over the last 20 years, and show the dramatic escalation of construction costs during that time.

Figure 63. City of Missoula Homeownership Unit Construction Cost

Description	**1996**	**2006**	**2016**
Permits	$500	$1,798	$1,410
Sewer Permits	$350	$1,400	$1,470
Impact Fees	$-	$741	$1,086
Utilities	$50	$650	$2,570
Architect	$475	$1,500	$7,041
Excavation, Concrete	$9,316	$15,935	$34,897
Framing, Roofing, Siding, Windows, Doors	$19,001	$33,635	$55,794
Heating, Plumbing and Electric	$10,085	$17,145	$28,786
Insulation, Drywall, Painting, Trim, Gutters	$9,654	$12,718	$13,949
Cabinets, Floor Covering, Fixtures	$5,525	$7,870	$11,933
Holding Cleaning, Insurance, Miscellaneous	$1,485	$3,012	$12,672
Total	**$56,441**	**$96,404**	**$171,608**

In the period between 1996 and 2006, the per unit construction costs increased nearly $40,000, a 71% increase during that 10 years period. In the subsequent 10 years between 2006 and 2016, construction costs increase an additional $75,000, a 78% increase over the 2006 costs and a massive 204% increase over the 1996 costs. It should also be noted that these construction numbers do not include any profit or overhead for the developer, which typically range from 10-15% of the construction costs.

Financing Availability

The last major component of housing development is financing, which impacts development costs, the ability to undertake scaled housing development, and the ability to dispose of completed houses to consumers. As with most communities, construction financing is significantly harder to secure now than in the past. Banks look for much higher equity levels in projects and often require developers to have buyers secured prior to the start of construction.

Developers indicated that infrastructure financing was the type of funding that is most difficult to secure. This is not unusual, as this is a high-risk point in the development process. This also presents a significant leverage point if a public funding source was found to support infrastructure development. This has successfully been deployed in other communities to leverage commitments for lower sales prices, and can also be converted into down payment assistance at sale.

Consumer mortgage financing is now more stringent than in the run-up to the economic downturn. This leads to higher credit score requirements and higher private mortgage insurance premiums, which lowers buying power. The best ways to support consumer access to mortgage financing is through homebuyer training and counseling, as well as providing down payment assistance resources.

One of the other innovative models deployed in other communities is to create a secondary mortgage funding source designed to provide up to 20% of the purchase price of a home, which eliminates the need for private mortgage insurance and significantly increases buying power. These loans can also be structured to carry market interest and require monthly payments, meaning the investment is continually recycling and growing through time. This model has been successfully deployed by nonprofit Community Development Financial Institutions as a way of supplementing grant-based down payment assistance programs. Because the loan pool is constantly recycling and growing over time, it has proven to be a very effective model for employer funded housing programs, with large employers funding pools specifically for their employees. If structured correctly, the capitalization of the loan pool can be taken as a tax deduction by for-profit entities investing in this type of program.

Nonprofit Development Capacity

When analyzing issues of housing affordability, the role played by nonprofit housing organizations is particularly important. Nonprofits can leverage additional resource to fill gaps that market rate developers cannot achieve. These activities can take the form of partnerships with for-profit development entities, as well as stand-alone nonprofit development.

There are several very competent and savvy affordable housing organizations operating in the Missoula area that cover a range of housing needs and types. Specific consideration should be paid to working to expand the scope and impact of current nonprofit providers. This could take the form of increased funding, land donations, as well as technical assistance to undertake new approaches to housing development, particularly to homeownership oriented development. Several models exist for mixed-market rate nonprofit development approaches that use modest market rate homes to subsidize below-market housing in the same developments. This provides dual benefits to the community in that it addresses two key needs at once: entry-level market rate housing and below market homeownership opportunities. Best of all, this can be structured as a sustainable model, because once operating at scale it requires little external financial support to keep the model working perpetually if managed effectively.

10. Recommendations

INTRODUCTION

The following chapter summarizes a range of constraints and opportunities as well as affordability strategies categorized into five key areas: Regulatory, Housing Development, Capacity Building, Program Development, and Funding. These recommendations endeavor to lay out next steps for working towards a more comprehensive community level response to addressing the critical housing affordability issues facing the greater Missoula area.

At their core, issues of housing affordability are a function of housing supply and demand, with a complex set of variables impacting the final home price or rental rate that consumers must bear. With little ability to affect the demand side of the problem, we are left with few options but strategies that seek to increase consumer access to housing and to grow the supply of modestly priced homes as a way to impact affordability within the community. But not all housing supply is equal in its ability to impact affordability. With such rapid growth at the upper end of the market, proactive measures should be squarely aimed at increasing the number of modestly priced and below-market rate homes and rental units with the public and private sector collaborating towards this effort.

Meaningful and sustainable approaches for achieving increased housing affordability, and preserving what affordability currently exists in the community must be collaborative and utilize a diversity of strategies. Solutions must be straightforward and pragmatic in their implementation, as well as measurable against clearly articulated community goals.

There is no single solution to affordability issues, and the approaches listed below represent a range of strategies, some of which will work better than others. The following recommendations represent a menu of potential tools and ideas that must undergo public conversation and policy making processes that assess these ideas within the context of values and priorities of the Missoula community.

It is also of critical importance to recognize that land use deregulation is not in and of itself a strategy for solving a supply-side housing affordability problem. But regulatory and other development incentives can be powerful tools to help mitigate risk for the private sector, which when offered in exchange for meeting clearly defined housing affordability goals, can foster strong collaborative public/private affordability approaches.

We must also be mindful of the possibility that well-intentioned policies can have unintended consequence, again highlighting the paramount need for clearly defined community housing needs and goals for increased housing affordability, down to the number of units, their pricing and rent levels, as well as mechanisms for ongoing comprehensive assessment of their effectiveness. This ensures that inefficient or ill-performing strategies can be abandoned, and resources redirected to new or more successful ones. This type of iterative program development design ensures that limited community resources and programs are being directed to areas of with the highest impact on evolving housing needs.

SUMMARY OF CONSTRAINTS IMPACTING AFFORDABILITY

The following list represents the top-level summary of the primary constraints uncovered through the report process. This list is by no means inclusive of every factor in the community that has influence over the housing market economy. Rather these represent the key themes that emerged from the research, analysis, and over 30 interviews conducted as part of the process of creating this report. To draw connections between constraints and subsequent recommendations, these issues are categorized similarly to the recommendations to follow.

Regulatory Environment

- City has not completely aligned its land use codes with the goals of infill and providing affordable housing
- No performative standards for private developers to meet community housing needs
- Land conservation requirements impacting development costs and ultimately, affordability
- State subdivision regulations are burdensome, particularly in the county without base zoning and local processes are layered on top of that
- No clear long-term or strategic approach to annexation
- Infill land use policies are at odds with neighborhood preservation
- Limited land zoned dense enough for affordable development
- Lack of city/county alignment around growth policy and definitions of infill, tension between providing housing choice for both urban and rural areas

Housing Development

- High up-front or uncertain infrastructure requirements
- Rising development cost driven by labor shortage and material cost inflation
- Neighborhood push-back to infill development
- Limited models for below-market rate homeownership development being deployed
- No meaningful incentives or clear performative standard for meeting ownership housing needs
- City and county land is restricted due to infrastructure challenges
- Limited land for housing development
- Health Department regulations uncertain
- LIHTC allocation on state level are erratic
- No base level zoning in the county
- Uncertainty in development review processes
- Developers feel infrastructure requirements are costly and unpredictable

Capacity Building

- No means of communication among real estate industry, banking, nonprofit, and public sector
- Collaboration between public/private/nonprofit sectors not being fully leveraged

Program Development

- Lack of community level understanding of housing needs, types of affordable housing and income ranges served by various housing programs
- Non-governmental organizations need additional financial support to expand into new areas

Funding

- No recurring local source of funding for housing construction
- Potential threats to federal funding
- Perception of high tax rates in the city
- No mechanisms for recapturing and recycling affordable housing funding

OPPORTUNITIES AND RECOMMENDATIONS

The following recommendations represent a culmination of the top priorities for affordable housing responses in the community. The format of these recommendations is broken down into specific actions which may have additional components described in the narrative. Each action also identifies which jurisdiction it applies to, as well as the target beneficiaries that the actions should be tuned to address.

1. REGULATORY ENVIRONMENT RECOMMENDATIONS

As has been discussed throughout this report, the regulatory environment is a critical factor impacting housing affordability, both in the way that land use codes and development review processes directly influence construction costs and densities, but also for the potential for well-designed affordable housing policies to promote new housing approaches and amplify existing resources. In many ways, local policy sets the stage for broader community responses to affordability needs and can serve to coordinate the various stakeholders who must all contribute to comprehensive community solutions.

1.1 Create a coordinated set of affordable housing development incentives tied to home price and rent targets	
Applicable Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership <120% AMI
Collaborators	Nonprofit developers, For-profit developers, Homebuilders, REALTORS®

The only affordable housing development incentives currently in the code within the city and county regulatory frameworks are density bonuses. As discussed throughout the report, there are a number of potential regulatory incentives that could be applied to housing development, but no single incentive alone is substantial enough to fill affordability gaps. The combination of incentives can be scaled based on the level of affordable housing being provided. For instance, some incentives could be provided for housing meeting missing entry-level homeownership products, where very deep incentives would be tied to below market rate housing. But regardless, incentives should be offered in exchange for clear performative standards of affordability and any community investments, financial or otherwise, need to be secured through long-term affordability mechanisms. Incentives regimes should also be made available for new rental housing serving low-income families as well as transitional housing and other homeless serving projects.

The following figure includes a list and discussion of a range of possible types of incentives. Again, the ultimate structure of any incentive program will be the product of a political and community process, with decisions being made about what types of incentives, investments, and trade-offs the community is willing to make in exchange for enhanced affordability and the preservation of economic diversity.

Regulatory Incentive Options	
Deferral or Subsidization of Impact Fees	A deferral of impact fees is one of the tangible ways that a local government can directly reduce the hard costs associated with development. A full deferral of impact fees for homeownership units serving households below 80% AMI, and rental projects serving households below 60% AMI should be considered. This type of incentive can also be considered for income qualified households who are building their own home. Under state law, this type of mechanism needs a funding source to pay the impact fees at the time of construction, which also ensures that impact fee funds are not overburdened, and costs are not passed on to developments paying full fees. These fee waivers should be secured with a recapture mechanism which is due upon resale, and the original amount of fees paid back into a trust fund mechanism (see Recommendation 5.1).
Targeted Partial Financing of Infrastructure for Affordable Homes	The city and county should consider providing low-cost or deferred loans for infrastructure to housing developments providing affordable rental housing serving households below 60% AMI and for sale housing serving households below 80% AMI. For rental developments, these could be secured with lien and be recycled at the end of an affordable compliance period or left in the unit to create a permanent affordability mechanism. For homeownership projects, the initial investment could be structured to act like a down payment source for the eventual buyer. A funding source would have to be identified for this purpose (See Recommendations 5.1, 5.3).
Waiver of Development Review and Permit Fees	A waiver of development application and review fees for projects that build affordable housing could have a modest impact on the hard development costs. Similarly, waiving building fees for affordable units could also have a

	positive benefit on development costs of individual homes built for or by low- and moderate-income families. The cost of providing this incentive could be provided upfront by an affordable housing funding source or would otherwise be borne by administrative overhead in applicable city or county departments that currently rely on fees to offset staff costs. Options include deferring all fees for developments that create affordable units, or deferring fees according to the percentage of affordable housing created. Whether fees are paid up front or simply deferred, these should be recaptured at resale.
Reduction of land set-asides	This approach could be structured several ways. For subdivisions, a reduction in park land could create an additional lot or lots for building below market income and price restricted units, adding a lot to development where one doesn't currently exist. This type of sizeable community investment should only be considered for housing meeting needs of households below 80% AMI. In TED developments in the city, a waiver of parkland set-aside should be considered for projects that provide a significant portion or all of the development at prices affordable up to 120% AMI, or a smaller percentage of homes at deeper affordability levels.
Density Bonus	The current density bonuses offered in the City of Missoula are limited to a small number of zoning categories that already have relatively high density and only for the provision of long-term deed restricted properties. The city should consider redesigning the density bonus to make it apply to more zoning categories and tie it to specific pricing and income targets and other affordability approaches beyond permanent affordability. In the county, density bonuses for affordable housing should be prioritized over other density bonus criteria.
Reduced Street/Sidewalk Infrastructure	The current streets infrastructure standards in the City of Missoula focus on a complete streets approach with wide boulevard street requirements. This can place a considerable infrastructure burden on smaller infill projects. The city should consider convening a study group that include City staff and local planners, architects, engineers, and builders to assess the ways in which narrower streets and/or right of ways could be allowed in specific types of developments and added to a suite of regulatory incentives.
Expedited Review for Projects that Build Affordable Housing	Expedited review of development review applications should be considered for all departments (planning, engineering, and building) for homeownership projects that that serve households below 120% AMI and rental projects below 60% AMI. This could prove a valuable incentive, especially when development review entities are experiencing high volumes of applications for review. This should be paired with analysis to identify ways to shorten review times for subdivision applications.
Reduced Minimum Setbacks	Currently some zoning categories in the city and county include generous setback requirements. Consider adding a reduction in setbacks as part of a package of incentives for affordable housing production. This would be particularly beneficial in the city where reducing front and back setbacks should be considered in more zoning districts. County zoning should

	consider setback reductions in all zoning districts with densities high enough to support affordable development (8DU+).
Reduced Parking Requirements	While the city's parking requirements already allow for reduced parking for certain affordable housing developments, there are still situations where allowing further reduced parking may be beneficial. The city should consider reducing parking requirements for small infill projects, particularly those with ample on street parking to allow those sites to achieve higher densities. The county should consider reductions similar to those applicable within the city for the urbanized area, particularly in East Missoula.

1.2 Consider proactive rezoning to densities that support affordable housing	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership <120% AMI
Collaborators	Nonprofit Developers, For-Profit Developers, Homebuilders, REALTORS®, Community

Currently both the city and county have relatively little land area that is zoned at densities that allow developers to achieve affordable pricing. The city's future growth area map is a good start towards this goal, but developers still must undertake considerable risk and cost to rezone properties before development. To increase the supply of developable land in targeted growth areas, a coordinated rezoning analysis should be undertaken with the goal of proactively rezoning land suitable for new housing development meeting affordable pricing and rent levels.

The county's current analysis of the future land use map should take into consideration that annexed land can only be zoned to 1.5 times the density of the existing land use designation. Changes that create more land designated for higher density housing will create the possibility that more affordable housing could be produced. The county should also undertake an analysis of previously subdivided land within the urbanized area of Missoula and consider rezoning to move those undeveloped parcels to market. Local governments should work with the development community to arrive at shared understandings of the densities needed to support affordable homeownership and rental housing development.

1.3 Reduce restrictions on development of Accessory Dwelling Units (ADU's) and explore innovative models for their construction	
Jurisdictions	City
Target Beneficiaries	Market Rental
Collaborators	Interested Homeowners, Homebuilders

Accessory Dwelling Units (ADUs) are one of the only strategies for distributed densification of existing residential neighborhoods that can add new rental units at smaller scale without disrupting the character of established neighborhoods. ADU development is currently highly constrained in the city land use code, requiring a conditional use approval and an annual permit. Data from other communities shows that the less ADU construction is constrained in the code, the more they are utilized by existing property owners. Some communities have gone so far as to create programmatic models for the construction of ADUs targeting high need populations. In one model, a homeowner can have an ADU built free of charge if they agree to allow it to be occupied by a transitional homeless person for five years. At the end of the five years, the homeowner owns the unit outright with no other obligations.

The most successful approaches have eliminated design guidelines, increased maximum allowable square footage, allowed development by-right without required public hearing and approval by a governing body, eliminated parking requirements, and waived development impact and permit fees.

The city should consider eliminating the conditional use rules that make it hard to develop ADUs in lower density districts and consider other fee waivers, and design relaxations to promote their development. The less constrained by regulation, the more impactful a potential strategy for infill rental housing.

1.4 Coordinated city and county regulatory response to affordable housing needs	
Jurisdictions	City, County
Target Beneficiaries	All
Collaborators	Landowners, Development Community, Housing Providers, REALTORS®, Community

The tensions between county development in the urban periphery and the city's "grow inward" policies are at odds. The county feels that the current policy ignores the reality that a significant portion of the housing in the city was once part of the county and that trend is likely to continue. Likewise, the city lacks a comprehensive annexation policy that could help guide land use in areas that are currently part of the county.

While there are many tensions between the city and county, there is widespread agreement on the need to address affordable housing issues. Key to this are several action items.

1.4-1 Affordable Housing Program Development Collaboration
The city and county should collaborate on affordable housing program development, particularly in the regulatory environment, to ensure that there is as much alignment between city and county policies to support housing affordability as possible, so that programs can leverage and support each other, and developers have the predictability that comes from relative parity between programs.

1.4-2 Coordinated Annexation Policy and/or Regulatory Alignment
The city and county should work to develop a coordinated and longer-term annexation policy that could add developable land in the city in appropriate growth areas. This process should also work to align zoning categories and infrastructure requirements between the two jurisdictions and clarify a coordinated approach towards agricultural conservation that isn't based on case-by-case development set-asides.

1.4-3 Collaborative Management of Urbanized Area of the County
The city and the county should seek a coordinated growth plan that allows for complimentary development types that meet the full range of housing needs and types. One potential solution would be the creation of an extra-territorial zone that would be collaboratively managed by the city and county through intergovernmental agreement with representation of both city and county governing bodies.

1.5 Advocate for changes to state-level policies impacting affordable housing	
Jurisdictions	City, County, State
Target Beneficiaries	All
Collaborators	State Elected Leaders, Housing Policy Advocacy Groups, REALTORS®

There are several ways in which changes to state-level policy could potentially benefit housing affordability. As mentioned repeatedly in the report, state-level subdivision rules are costly and time consuming, adding considerable cost to developments and likely constraining the amount of developable land. This would be particularly impactful in areas of the county that are not eligible for the Townhome Exemption.

Another opportunity is to seek enabling legislation to deploy property tax abatement for affordable housing projects as well as potentially for individual consumers who benefit from below market rate housing through homeownership programs. This particular issue should be approached delicately, as the potential to invite scrutiny and negatively impact current tax policy is a consideration. Other communities that share growing issues with housing affordability should be approached to participate in a coordinated advocacy approach to make changes to these state-level policies.

2. HOUSING DEVELOPMENT RECOMMENDATIONS

At their core, affordability challenges arise from a higher demand for housing than is being supplied in a given market. There are at least several thousand potential homebuyer households in the Missoula market that have few or no options for affordable home purchases. Aggressive strategies are needed to support new housing development from the public and private sectors, which engage both for-profit and nonprofit development entities.

2.1 Analyze city and county land assets for potential housing development that serves low- and moderate-income households	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership <120% AMI
Collaborators	Development Community

There are multiple land assets that could be invested in the creation of affordably priced housing. The recent acquisition of the water company by the city increases the amount of land assets available that could also be considered for this purpose. This land could be leveraged to produce significant affordable housing if the right partnerships are established. Typically, for development of publicly-owned property, a competitive process for donation of the land is the most preferable approach, ensuring the highest impact for the municipal investment, and also allowing room for new and innovative approaches. A land donation could also be used to catalyze a mixed-rate affordable housing development model discussed in Recommendation 3.3.

An inventory of public land assets is underway for the city, and the county should begin a similar process with a focus on affordable housing development compatibility. Once potential land is identified, consider working with the development community to assess feasibility as well as community planning processes that blend strategies for addressing affordable housing needs, while also working to meet broader community goals such as model innovative mixed-use projects that are scalable and achieve the full densities of the underlying zoning or blend agricultural conservation with dense housing development.

2.2 Create a plan for targeted infrastructure development	
Jurisdictions	City, County
Target Beneficiaries	All
Collaborators	Multiple

One of the major obstacles to new housing development at scale is the up-front pre-development and infrastructure costs. Both the city and county should consider adapting or creating plans and identify funding sources to develop appropriate infrastructure in targeted growth areas. This is particularly true for the county, where development density is severely limited without sewer and water systems. Another area of potential infrastructure investment would be to develop a stormwater master plan for the areas north of Mullan Road west of Broadway.

2.3 Identification and planning of high opportunity development sites	
Jurisdictions	City, County
Target Beneficiaries	Rental <60%, Market Rental, Homeownership <120% AMI
Collaborators	Landowners, Nonprofit and For-Profit Housing Developers, REALTORS®, Community

One of the inherent tensions in new housing development lies in mistrust of developers by neighborhoods, especially in the planning and entitlement process. One way to potentially alleviate some of these concerns is to undertake community-led planning processes for high opportunity sites that have above average potential for housing development that meets community needs. To achieve this, a shared definition of what factors constitute "high opportunity" must be created. In some communities, local governments have gone so far as to acquire these sites and lead the planning process themselves, and at the end of the process, offer those parcels for sale with clear pre-approved development plans that have broad community buy-in.

One particular area of focus should be infill sites in areas with higher potential for conflicts with the existing neighborhood, such as parcels in low-density single-family neighborhoods.

2.4 Better leverage Low Income Housing Tax Credits	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI
Collaborators	Multi-Family Housing Developers

One of the most impactful resources for affordable rental housing development is the Low-Income Housing Tax Credit (LIHTC) Program, which can bring millions of dollars of subsidies into the community with just one successful project.

The small number of 9% tax credits statewide means that multiple sources must be blended to meet the needs of the lowest income families. The process of assembling a competitive LIHTC project is both costly and not without risk, but the chances of a successful reward can be bolstered by direct community support through land or other financial contributions to projects. The city, which already works in concert with affordable rental development partners, should work to formalize a coordinated strategy for municipal support of LIHTC projects to ensure the highest level of potential success with future application as possible, and an approach that ensures an application in every annual round. The county should also consider support of projects through land donation or other mechanisms if suitable multi-family sites can be identified in the urbanized area.

2.5 Create multi-family housing design standards	
Jurisdictions	City, County, State
Target Beneficiaries	Rental
Collaborators	Multi-Family Developers, Community

One of the strongest tensions that exists in infill development is the impact of larger multi-family developments on existing neighborhoods. If large amounts of lower quality or visually unappealing multi-family housing is developed, coordinated pushback can arise to future multi-family development. Enhanced multi-family design standards that are also conscientious of their impact on development cost, could help make infill more tolerable to existing neighborhood and mitigate NIMBY attitudes, while avoiding a pendulum response against future dense rental housing development.

Any process to arrive at design standards needs to be balanced with the costs of compliance. This should take into consideration that smaller projects have less ability to absorb these types of costs. One approach would be to convene a working group of land use staff, developers and neighborhood stakeholders to work collaboratively on guidelines. The county multi-family regulations have ambiguous language about neighborhood compatibility, which may be better served by baseline performative design standards as well. Approaches that balance enhanced design standards with other offsets or incentives for developers should be a priority.

2.6 Create more predictable infrastructure standards for developments	
Jurisdictions	City, County
Target Beneficiaries	All
Collaborators	Housing Developers

One of the primary costs in any large development is the infrastructure. Interviews with local developers indicated that discretionary infrastructure requirements arising during development review processes had the potential to add considerable cost to developments, increasing pre-development uncertainty. Excessive infrastructure requirements drastically alter the overall financial feasibility of a project. Both the city and county should explore ways to make infrastructure standards balanced and limit the total amount of discretionary infrastructure required so developers can have more certainty about their development costs and less financial risk. Consider creating a metric in the land use review process that can identify situations where infrastructure requirements are an obstacle to achieving the density allowed by base zoning and that analyze discretionary infrastructure requirements in the context of their impact on affordability.

2.7 Incentives for Townhome Exemption Development (TED) regulation	
Jurisdictions	City
Target Beneficiaries	Homeownership <120% AMI
Collaborators	Development Community

The Townhome Exemption to state subdivision rules has proven a powerful tool for developers seeking to produce modestly priced housing. Currently townhome exemption projects in the city with more than five units located in non-multi-dwelling zoning districts require a conditional use approval from the city council. The city should consider increasing the size of TED project that can receive administrative approval, which could also be tied to achieving affordable housing pricing limits. This type of differential treatment between lower and higher density zoned areas shows a disconnect between stated inward growth policy and its implementation within the land use. The city should also consider changes to offset requirements for open space. This could include a by-right cash-in-lieu option or waiver of requirements in exchange for affordability targets. These waivers could be combined within the with other livability measures such as pedestrian and bicycle right-of-ways that create more public permeability in new development, but require smaller land set asides. This type of approach may actually provide more benefit to neighborhoods than small underutilized pocket parks that can end up under-maintained and place long-term financial burdens on homeowners' associations. Lastly, removing the requirement that TEDs meet general site landscaping standards can also help lower infrastructure costs for projects.

3. CAPACITY BUILDING RECOMMENDATIONS

To address the growing needs for housing services, both public and private stakeholders should work to expand the capacity of existing service providers and developers while working to identify gaps that can be addressed with new service models.

3.1 Convene diverse public/private sector working group to implement housing policy and program goals	
Jurisdictions	City, County
Target Beneficiaries	All
Collaborators	Development Community, Banks, Housing Service Providers, REALTORS®

Missoula is facing growing housing affordability challenges. The city has already convened working groups to begin the development of new affordable housing policies. Successful models from other communities have convened diverse groups of public and private sector stakeholders to work towards addressing a strategic plan for systematically addressing affordable housing needs, and it's critically important that the city and county work collaboratively and coordinate these efforts. Adding a county government stakeholder to the city's working group is essential.

Systematically addressing community housing needs will also require new forms of collaboration between the city, county, land use staff, nonprofits, lenders, REALTORS® and developers. Bringing all these entities together around implementing a clear set of strategic goals will leverage their various talents and can help create robust and long-term solutions to housing issues.

At the core of all strong housing affordability programs are strong partnerships. Probably the greatest advantage to developing strong public/private/nonprofit partnerships is that multiple resources can be leveraged to create comprehensive responses to identified needs.

Nonprofit organizations are uniquely positioned to bridge the differences between the public and private sectors by offering services that aren't profitable enough for the private sector to pursue while being less encumbered by regulation than the public sector. Nonprofits can also mimic many for-profit housing development activities, using mixed income housing development of higher quality homes to support the subsidization of homes serving low- and moderate-income households while also bringing unique funding sources to the table. They can also collaborate with for-profit developers to leverage unique resources to achieve affordability within larger for-profit driven projects. Likewise, for-profit developers could also contribute developable lots to nonprofit developers, which could then be counted as a charitable contribution for tax purposes.

Private sector businesses also play a significant role in leveraging additional services and funding, and may be able to carry out certain activities more cost effectively than nonprofits. For instance, private developers may be able to develop homes more quickly and less expensively than nonprofits due to their asset base, economies of scale, and inherent efficiency. Lenders, REALTORS®, insurance agents, and title officers are all critical for making sure affordable workforce homes that are built through programs can be accessed by consumers and also play a critical role in education and outreach to consumers.

Collaboration among public/private/nonprofit entities can also provide access to larger funding sources not available to individual nonprofits, or create the opportunity for risk sharing among several financial entities to enable larger scale projects than any one institution would typically undertake.

3.2 Expand CDFI capacity to administer local affordable housing financial tools	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership <120% AMI
Collaborators	CDFI, Large Employers

Community Development Financial Institutions (CDFI) are a special type of financial organization that can play a critical role in promoting access to housing. CDFIs are regulated by the Department of the Treasury and have access to special funding sources to undertake regulated lending activities with the goal of providing services not provided by traditional financial institutions at more flexible rates and terms. The stated mission of the CDFI program is "to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States." A CDFI can originate home mortgages as well as other types of housing loan products such as construction financing, long-term debt for rental projects, and even down payment assistance programs for consumers.

NeighborWorks Montana is a certified CDFI and has an affordable housing development fund. The public sector should pursue ways to increase the amount of resources available for this gap funding source, while also exploring new models for consumer financing products. One particular area of opportunity is employer-funded down payment assistance programs that could be managed by the CDFI, helping bring new resources to the affordable housing sphere while creating a significant long-term housing asset and hiring perk for employers.

3.3 Work with local nonprofit partners and the development community to expand the approaches to affordable housing development	
Jurisdictions	City, County
Target Beneficiaries	Homeownership <120%, Market Rate Homeownership

Collaborators	Nonprofit Housing Developers, For-Profit Housing Developers

Currently the primary structure for affordable for-purchase housing is the creation of "permanently affordable housing" under the City of Missoula land use code. While this type of long-term, equity restricted housing is a very successful model, there are other models that could be deployed to meet gaps in the current housing market and provide more flexibility to future housing programs. Permanently affordable housing is generally best for addressing the needs of the lowest-income households that require significant subsidy to be able to afford a house. The main drawback to this program model is that it invests a significant amount of resources into a given home, with no long-term flexibility for reinvestment of those community resources.

Nonprofit mixed-income housing development can provide a very important contribution to the availability of affordable housing with an entrepreneurial approach that needs little ongoing investment once an initial critical mass of operations has been attained. This model typically functions by developing mixed-income housing projects with a majority of units being priced at levels affordable to low- and moderate-income households, with the remaining development priced as entry-level market rate homes. The profits from the market rate homes are used to cross-subsidize the homes sold at discount prices. The discounts offered to low- and moderate-income homebuyers can be structured as land-trusts, permanent deed restricted housing, or secured through second mortgages, which can be used to recapture subsidy funds. The latter approach should be considered as part of any new affordable development because it preserves the flexibility to exercise a right of first refusal at sale and preserve the unit as affordable, or if desirable recoup the subsidy and reinvest in new affordable housing activities.

The main challenge of creating this type of model is that it takes significant up-front investment to catalyze a stable ongoing operation. Donation of city land or the leveraging of donation of a 25-35-unit tract within a larger private subdivision could provide enough resources to establish this as a sustainable model capable of ongoing development operation. The benefit of this approach is that it can leverage public sector investment, but is not dependent on ongoing local or federal support to sustain the model once operational.

3.4 Collaboration to grow local construction capacity	
Jurisdictions	City, County
Target Beneficiaries	Workforce
Collaborators	Educational Institutions, Missoula Building Industry Association, Developers, REALTORS®

One of the major factors impacting housing development costs locally is a lack of skilled labor and qualified subcontractors. There are several factors impacting this, including the exodus from the industry during the economic downturn and the labor draw from the Bakken oil fields. The city, university, nonprofits, and building community should work together to create a coordinated program to support the expansion of the skilled labor pool in the construction industries. This could include job training and apprenticeship programs and also leverage federal funding through programs like the Department of Labor's Youthbuild grant, which provide young people with paid construction industry training while working on community affordable housing projects. Another goal should be to expand the capacity of the local building community to meet the future needs of housing, including more complex and dense housing types than are currently being undertaken by local developers.

4. PROGRAM DEVELOPMENT RECOMMENDATIONS

It is clear from the analysis in this report that there are both needs and opportunities for new housing programs to serve both the city and county. Program development requires significant up-front work and investment but will yield ongoing benefits once established. Core to this will be the ongoing evaluation of programs and their impact in the community that should guide the larger response to affordability needs.

4.1 Clearly define an assessment framework and data tracking for impacting affordable housing needs	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership<120% AMI
Collaborators	Housing Service Providers, Developers, REALTORS®, Other

A critical first step for creating a systemic approach to affordable housing programs is to have a very clearly defined understanding of housing needs, as well as data-driven benchmarks for annual housing production goals to impact those needs. These should include rental and home pricing targets that are tied to key income levels that are updated annually with a standardized methodology.

The public and private sector partners should create annual goals for housing production at various income levels and price points that can be used as a way of analyzing progress as well as measuring the efficacy of programs and investments. Goal setting should also be coupled with the collection of key housing statistical data that measures the gap between housing costs and wages on an annual basis, as a way to gauge macro-level impacts and direct resources to shifting and emerging housing needs.

As part of this initiative, the city and county should collaborate in developing a process for gathering and assessing more detailed rental housing data for the urbanized area of the city. An upgraded annual rental housing survey will be critical in measuring the state of the rental housing market which currently relies on imperfect data. This could be done in collaboration with NARPM's current survey efforts or a new survey approach. At a minimum, this survey should gather rental and vacancy rates across the market and identify multi-family projects with cost and vacancy data collected for various bedroom configurations. This annual survey should also differentiate between subsidized and market rate developments to see if there are diverging trends in the market. This data will be very beneficial for tracking impact on the overall rental market conditions that occur due to additions to housing inventory. This will also be helpful in measuring the impact of large projects such as for-profit student housing developments which can have a variable impact on the larger rental market.

4.2 Grow consumer programs provided by nonprofit service providers	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership <120% AMI
Collaborators	Nonprofit Housing Services Providers

Missoula has a strong array of nonprofit housing service providers as well as a large market segment of potential future homeowners. The following implementation steps are intended to leverage and expand existing capacity to meet growing needs and respond to the potential housing services environment.

4.2-1 Business Plan for Meeting Homebuyer Needs
As a first step in growing access to affordable housing, local governments should work with the real estate industry and housing services providers to undertake a business planning process that hones in on the detailed needs of this group of prospective homeowners to understand their actual needs and obstacles to ownership. From this understanding of detailed needs, a business plan could be created that targets those needs by expanding existing programs or developing new programs where needed.

4.2-2 Expand Homebuyer Education and Down Payment Assistance Resources
The primary programmatic consumer interventions are homebuyer education, homebuyer counseling focused on credit repair, as well as down payment assistance programs. Interviews indicate that demand for homebuyer education currently outstrips providers' capacities to deliver classes. As part of a formal structure of organizational support from local governments to housing providers, funding should be allocated to expand the current availability of homebuyer education and counseling programs.

Another critical obstacle for any potential homebuyer is saving the funds needed for the down payment and closing costs required for a mortgage loan. There are currently several down payment assistance programs deployed locally, but some of the sources needed are threatened at the federal level. With down payment assistance needs up to approximately 100% AMI, a local funding source would help support increased housing production through other recommendations in this plan. A local source for down payment assistance would also help ensure this type of program continues even if federal resources for down payment assistance were terminated. The program should be structured so that it is funded at a minimum level annually with repayments of past assistance recaptured at sale and recycled into a trust fund mechanism. This will ensure a steadily growing pool of down payment assistance funding perpetually into the future.

4.2-3 Leverage Existing Housing Service Provider Administrative Capacity
As new local housing programs are deployed, rather than duplicating existing private sector capacities within local governments, housing services providers should be engaged to supply administrative support that could include activities such as income certification, documentation around program-assisted purchases, as well as potentially managing technical aspects of filing liens and managing payoffs. This work could be structured as a fee for service or supported through general administrative funding, which will minimize duplication of administrative roles and help expand non-governmental affordable housing capacity.

4.3 Affordable housing community education and advocacy campaign	
Jurisdictions	City, County
Target Beneficiaries	All
Collaborators	Housing Service Providers, Development Community, Large Employers, Missoula Economic Partnership, REALTORS®

In Missoula, there is an inherent tension between the goals of dense infill, increasing affordable housing, and the interests of existing homeowners. This isn't something unique to this community as opposition to infill development is common in the Mountain West. But intelligent growth and infill development are necessary if communities are to maintain housing opportunities for a diversity of incomes. Many long-time residents, particularly existing homeowners, can be disconnected from the challenges that working-class community members face around housing. This disconnect from the realities of current community housing conditions can lead to a lack of community-level support for housing investments, and hinder growth and development that meets critical housing needs.

4.3-1 Affordable Housing Educational Campaign
To address this gap in current community-level understanding of housing needs, the city, county, housing development community, and business leaders should collaborate to develop an education campaign designed to raise the level of awareness in the community about community challenges around housing affordability. This campaign should elegantly relate the current community housing needs, effective approaches to addressing needs, as well as the negative impacts from the loss of economic diversity. This type of broad community education is an important component of supporting new housing development as well as any future local government investments in housing, such as bonds or city housing programs.

4.3-2 Form Housing Advocacy Coalition
The other critical aspect of supporting more housing growth is to develop an infrastructure for direct advocacy around new housing policies, new programs, and community responsive housing development. The direct beneficiaries of affordable housing programs often face much higher obstacles to participating in public processes. This is especially true when compared to more established, economically stable households who often oppose new development, particularly infill in their neighborhoods. Furthermore, to advocate for themselves in affordable housing processes, potential beneficiaries of new affordable housing would essentially have to stand in front of their highest local elected officials and self-identify as low-income in public hearings. Not to mention the obstacles to motivating people to advocate for new housing developments that they may or may not be directly benefiting from.

A broad group of stakeholders should work to grow a housing advocacy coalition that can provide political support for affordable housing programs and developments. This advocacy group can gather and represent the perspectives of people who have higher obstacles to participation. Entities such as business leaders and industry groups can play an important role representing the needs of their employees. When combined with support from housing service providers, community advocates, and interested community members, a true critical mass to support affordable housing can be developed.

4.3-3 Expand Public Sector Outreach to Affordable Housing Constituencies
Acknowledging the inherent obstacles working class families face to public participation, and the differential stakeholdership in public processes that exist between existing homeowners and renters, local governments should work to proactively gather broader community input on affordable housing policy and land use review cases. A good example can be found in Seattle, which after realizing that land use review processes favored wealthier existing homeowner's perspectives, created an office of neighborhood outreach that works proactively to gather input from underserved constituencies that do not have the same access to participation in public processes. This has helped balance land use and policy discussions and promoted more infill projects, reversing a decades-long trend of exclusionary housing policies in existing neighborhoods.

4.4 Develop Affordable Housing Preservation Programs	
Jurisdictions	City, County
Target Beneficiaries	All
Collaborators	Housing Service Providers, Developers

One of the most important ways to ease affordable housing constraints is to ensure that existing affordable housing is preserved. Preservation can mean many different things depending on the type of housing being considered and can include rehabilitation of existing housing, land trusts that acquire and preserve housing affordability long term, as well as strategies to preserve mobile homes.

4.4-1 Mobile Home Preservation Strategy
Mobile homes are one of the most threatened types of affordable housing. Owners of mobile homes also face a higher chance of exploitation due to the precarious situation of often owning a housing unit, but not the land that sits beneath it. Strategies should be developed to preserve existing mobile home parks. One leverage point is to provide funding for improvements to part infrastructure in exchange for long-term controls for space rental rates. If sufficient capital is available, acquiring parks to ensure their long-term viability may be another approach. The most potentially impactful approach for families that own their mobile homes would be to consider creating a small lot subdivision where mobile homes could be placed permanently and converted to real property with mortgages.

4.4-2 Affordable Multi-Family Preservations
Existing affordable multi-family rental is one of the community's most important affordability assets. In the city, a coordinated program to ensure the long-term preservation of existing affordable developments should be investigated. Preservation in this context typically means acquisition or acquisition and renovation. This could include providing local funding to close gaps or leverage outside funding such as Low Income Housing Tax Credits for projects nearing the expiration of their affordability requirements.

4.4-3 Affordable Homeownership Preservation
Land trusts are a very effective model for acquiring and converting existing housing to permanently affordable homeownership units. While the acquisition of homes for this purpose can be capital intensive, if undertaken by a nonprofit entity that holds ownership to the land, it is the initial land cost which ends up being the capital burden. This way the homebuyer is only responsible for the cost of the structure, significantly reducing the overall price of homeownership. Once established this program could also accept estate donations as a less capital-intensive way of adding new homes to the land trust stock.

5. FUNDING RECOMMENDATIONS

The most effective approaches to addressing community housing needs require some level of direct public sector financial investment. While identifying new funding sources and mustering the political will to make public investments in housing is never easy, direct financial contribution to affordable housing activities leverage extremely high returns. For example, the City of Albuquerque's Workforce Housing Trust Fund is supported by a recurring bi-annual bond issue and has leveraged nearly $200 million in affordable housing construction activity from just

$30 million in investment. Moreover, this public investment has returned $2.5 million in tax revenue to the city, and generated nearly 1,200 jobs in the last 14 years. A funding mechanism is also a critical tool for incentivizing the private sector to better meet gaps in housing production that are not currently incentivized in the market.

5.1 Create a housing trust fund and explore options for recurring local funding source	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership <120% AMI
Collaborators	Nonprofit Developers, For-Profit Developers

5.1-1 Create Affordable Housing Funds

One of the most versatile and effective tools for the ongoing support of affordable housing is the creation of a dedicated public fund, often referred to as a housing trust fund. This mechanism is vested with a county or municipality and is regulated by a set of specific policies and procedures that both defines the uses of the fund (such as down payment assistance programs, energy efficiency retrofits, and infrastructure assistance for housing development) and the solicitation, application, and allocation process through which the funds are managed.

The city and county should create this type of fund through an ordinance that describes the range of eligible uses and the general procedures for soliciting potential projects. A competitive solicitation process ensures that only the highest performing activities will be funded, increasing the leverage of public resources, as well as the efficiency and innovation of new programs. The fund can also be used to address the gap in third-party funding sources. Most importantly, a trust fund mechanism insulates community affordable housing resources from changes in political environment that might otherwise result in a reprioritization of housing or reallocation of housing funding.

Some of the specific uses of a fund such as this that were outlined in this report include the up-front costs associated with deferred permit and impact fees, as well as direct infrastructure support funding and down payment assistance loans.

This mechanism can also serve as a repository for funds generated or recycled from past affordable housing investments. For instance, income from the sale of public land or the repayment of a down payment assistance or other housing subsidies are types of funding that can perpetuate a trust fund. With proper structuring, the fund can become a portfolio asset that builds over time and allows the leveraging of other outside resources.

5.1-2 Identify Sources of Capital to Support the Housing Fund

To be effective, an affordable housing fund must have significant financial resources. This could include a reoccurring funding source such as bonds (Recommendation 5.2) or other permanent municipal sources. Some communities tie affordable housing to funding to real estate transactions, tax increments, or impact fees for high-end development.

5.2 Pursue a bond issue for affordable housing	
Jurisdictions	City, County
Target Beneficiaries	Rental <60% AMI, Homeownership <120% AMI
Collaborators	Development Community, Housing Service Providers, REALTORS®, Community

In many ways, Missoula is reaching a critical moment around housing affordability and dramatic increases to affordable housing development need to occur urgently. One of the primary and fastest ways to support increased access to affordable housing is through the direct provision of funding for housing development and down payment assistance. One of the best tools for generating affordable housing funding is a bond issue. Elected officials, housing staff, and key community stakeholders should begin working to design a bond that includes diverse and effective funding mechanisms that can be a long-term asset for the community. It should be noted that there are widespread community perceptions that taxation is already high within the city, so an affordable housing bond campaign would have to be well designed, targeted to real needs, and implemented effectively. There should also be exploration of combining the purposes of a bond with other community priorities such as open space or agricultural conservation. A public campaign for a bond issue could be a perfect task to be taken on by the type of advocacy groups described in Recommendation 4.3.

Potential uses of bond funding could include the provision of infrastructure for income and price-restricted new development, or down payment assistance for low- and moderate-income households that is designed to meet unique demographic and housing market needs, potentially targeting incomes up to 120% AMI.

5.3 Better leverage Tax Increment Financing to support housing goals	
Jurisdictions	City, County, State
Target Beneficiaries	All
Collaborators	MRA, City, Developers

The Missoula Redevelopment Agency (MRA) has proven very effective at deploying tax increment financing (TIF) to support redevelopment goals. This resource and expertise could prove a powerful tool to help support the creation of new affordable housing as well. This structure of TIF investment could be tied to the affordability definitions and goals discussed in Recommendation 4.1, which would provide the MRA a clear set of frameworks from which to assess potential TIF-supported housing development activities.

Appendix I. Interview List

Perry Ashby	Local Developer
Collin Bangs	Local Developer
Ellen Buchanan	Missoula Redevelopment Agency
Clint Burson	Missoula Chamber of Commerce
Jean Curtiss	Missoula County Commissioner
Lori Davidson	Missoula Housing Authority
Andrea Davis	Homeword
John DiBari	Missoula City Council
Jennie Dixon	Missoula County
Dave Edgell	Edgell Building
John Engen	Mayor, City of Missoula
Jamie Erbacher	Missoula County
Janna Geier	Missoula Building Industry Association
James Grunke	Missoula Economic Partnership
Mike Haynes	City of Missoula
Adam Hertz	ERA Realty
John Horner	First Interstate Bank
Merry Hutton	Providence St. Patrick Hospital
Gwen Jones	Missoula City Council
Nick Kaufman	WGM Group
Sheila Lund	First Security Bank
Laval Means	City of Missoula
Pat O'Herren	Missoula County
Eran Pehan	City of Missoula
Tom Pew	Pew Construction
Jason Rice	Territorial Land Works
Nicole Rowley	Missoula County Commissioner
Dave Strohmaier	Missoula County Commissioner
Nate Tollefson	Local Developer
Bryce Ward	University of Montana

Appendix II. Consumer Survey

This survey is being conducted as part of a larger project to better quantify housing needs and identify strategies to address housing affordability issues in the greater Missoula area. Data gathered through this process is an important tool for better understanding the housing market from the point of view of consumers and is 100% confidential.

Thank you for taking the time to complete this survey.

Three randomly selected people will win $50 gift certificates for completing the survey.

For more information contact Daniel at dwerwath@werwathassociates.com or 505-467-8340.

1. How many people are in your household?

Adults

Children

Extended Family

Non-family members

Disabled Family Members

2. What is your estimated total annual income before taxes are taken out?

3. Where do you work?

- Within Missoula City Limits
- Within Missoula County, but not within Missoula City Limits
- Outside Missoula County
- I don't know

4. Where is your primary residence?

- Within Missoula City Limits
- Within Missoula County, but outside Missoula City Limits
- Outside Missoula County
- I don't know

5. What is your age range?

- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65+

6. Which best describes you?

- Student
- Retired
- One-income household
- Two-income household
- Disabled
- Female Headed Household
- Other

7. How much do you pay per month for housing (rent or full mortgage payment but not including utilities)?

8. Which of these best describes the type of housing you currently reside in?

- Apartment
- Condominium
- Townhome
- Single-family home in or near the city
- Rural single-family home
- Mobile/Manufactured home in the city
- Mobile/Manufactured home in the county

9. Do you rent or own your home?

- Rent
- Own a primary residence
- Own multiple residential properties

10. Do you want to buy a home?

- ○ Yes
- ○ No (If not, why not?)

11. Have you tried to buy a home in Missoula before?

- ○ Yes
- ○ No (If not, why not?)

12. Have you faced any of the following obstacles to buying a home before? (Mark all that apply)

- ☐ Could not save enough money for down payment and closing costs
- ☐ Could not qualify for a mortgage due to credit issues
- ☐ Could not qualify for a mortgage due to current debt load
- ☐ Could not find a house in an affordable price range
- ☐ Could not find an affordable home where I wanted to live
- ☐ Could not find an affordable home that met my family's needs due to size
- ☐ Other (please specify)

13. Does your current housing meet your needs?

- ◯ Yes
- ◯ No

14. Why does your current housing not meet your needs? (check all that apply)

- [ ] Too expensive
- [ ] Too far from work
- [ ] Too small for my family
- [ ] In poor condition or disrepair
- [ ] I want a different type of housing than I currently reside in
- [ ] Other (please specify)

15. What type of housing would better meet your needs and why?

16. Please rate the desirability of these potential housing scenarios on a scale of 1-5:

(for the purposes of this question condominium refers to an attached unit where the land is not owned and much of the ongoing maintenance and common areas are managed by a condo association. Townhomes refer to homes with a designated lot that are attached to an adjacent home or homes. Single-family home is a traditional detached home on an owned lot)

	1 (Least Desirable)	2	3	4	5 (Most Desirable)
A condominium located in town that is close to work, entertainment and basic services	○	○	○	○	○
A condominium that is located near city limits	○	○	○	○	○
A townhome located in town that is close to work, entertainment and basic services	○	○	○	○	○
A townhome that is located near city limits	○	○	○	○	○
A detached single-family home located in town that is close to work, entertainment and basic services	○	○	○	○	○
A detached single-family home that is located near city limits	○	○	○	○	○
A detached single-family home that is located in a rural setting outside the city but that may require commuting for work, basic services, and entertainment	○	○	○	○	○

Tell us about your views.

17. How affordable is housing in the City of Missoula?

Very Expensive	Expensive	Moderate	Affordable	Very Affordable
○	○	○	○	○

18. How affordable is housing in Missoula County outside the city?

Very Expensive	Expensive	Moderate	Affordable	Very Affordable
○	○	○	○	○

19. How well do you think the City is meeting its affordable housing needs?

Not at all	Somewhat	Neutral	Well	Very Well
○	○	○	○	○

20. How well do you think the County is meeting its affordable housing needs?

Not at all	Somewhat	Neutral	Well	Very Well
○	○	○	○	○

21. Creating more housing affordability is something that the City or County should directly invest funding in.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
○	○	○	○	○

22. The City or County should donate vacant or underutilized land (not parks) to address housing affordability issues.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
○	○	○	○	○

23. The community should provide development incentives for affordable or attainable housing that is clearly defined by target sales prices.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
○	○	○	○	○

24. What are the best ways to meet the community’s housing needs? (Select all that apply)

- [ ] Make it easier to develop housing in the community
- [ ] Provide more funding for down payment assistance programs
- [ ] Build more for sale housing in the county near the city
- [ ] Provide public funding to assist with constructing more affordable homeownership and rental opportunities
- [ ] Support non-profit groups to expand their housing construction capacity
- [ ] Build more rental housing to address student housing needs
- [ ] Build more high density housing in the city for both ownership and rental
- [ ] Other (please specify)

25. Please share any additional thoughts or comments:

Thank you for sharing your input! We look forward to sharing the results of this study soon.

To anonymize survey responses we've created a second page for contact information.

If you would like to enter the drawing for local gift certificates, or to stay informed about project developments please follow this link:

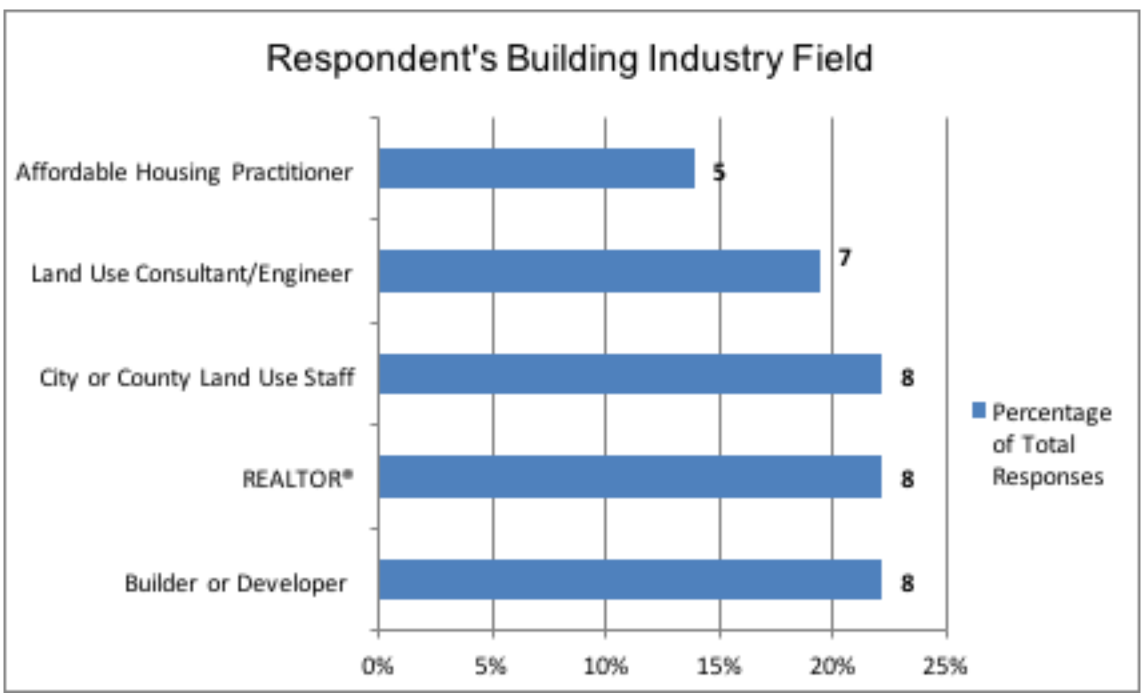
https://www.surveymonkey.com/r/missoulacontact

Appendix III. Building Industry Survey

As part of the larger project to identify strategies that can lower building costs and enhance housing attainability in Missoula, we conducted a small sample survey of people from the building and development fields. Options in the survey were developed based on a combination of ideas identified during the review of local building regulations, interviews, as well as best practices from other communities. The goal of the survey is to gather input from the sectors that will be critical to delivering future approaches for lower cost housing and to gather their subjective opinions about the potential for various approaches and is not intended to be an empirical study.

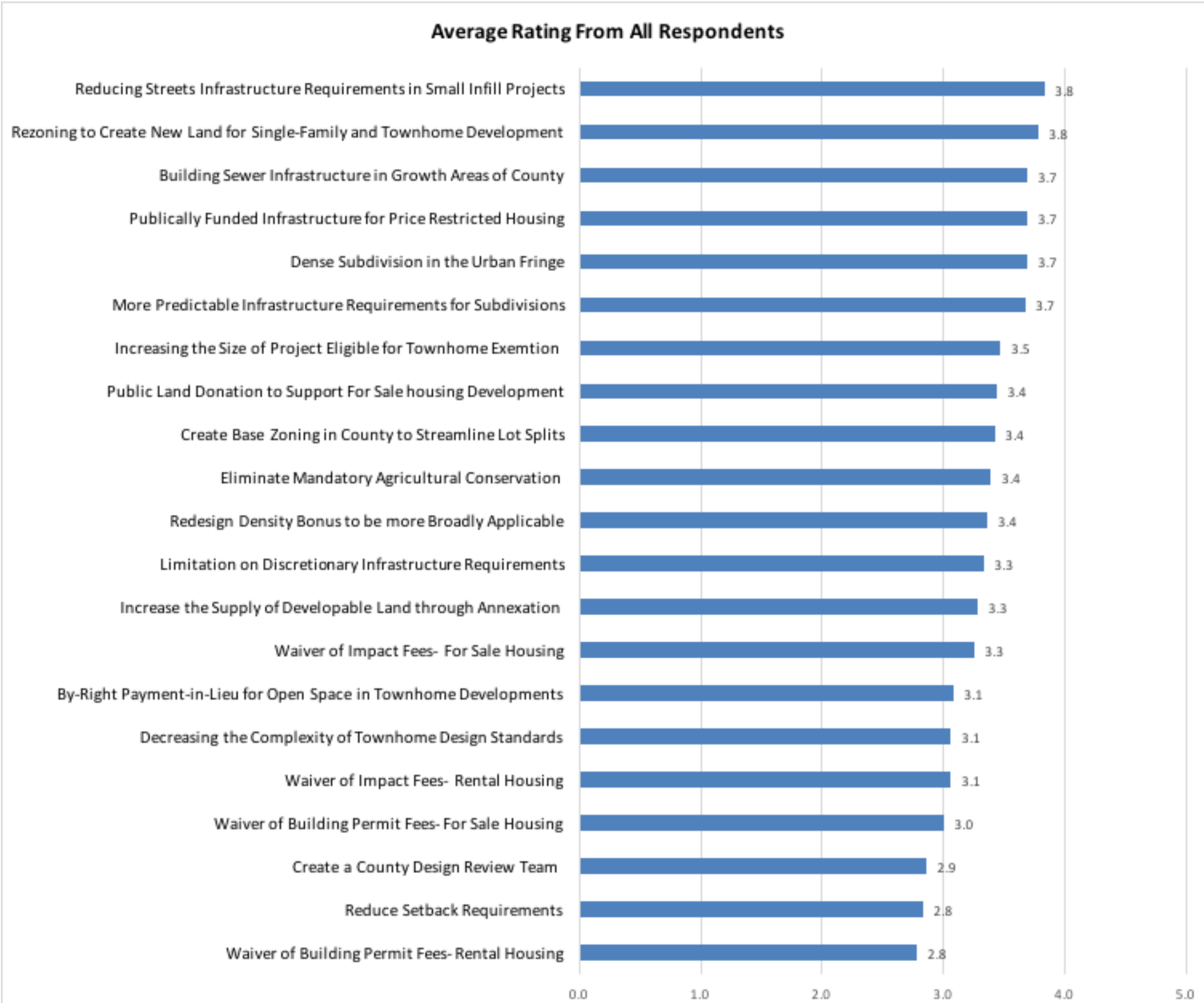
Respondents
The survey was completed by 36 people from six categories including affordable housing developer/practitioners, developers/builders, city or county land use staff, REALTORS® working in land development, land use planning consultants/engineers, and lenders.

We received roughly equal responses from all groups (7-8 respondents), with the exception of lenders, which garnered no responses, and affordable housing providers which had five responses.



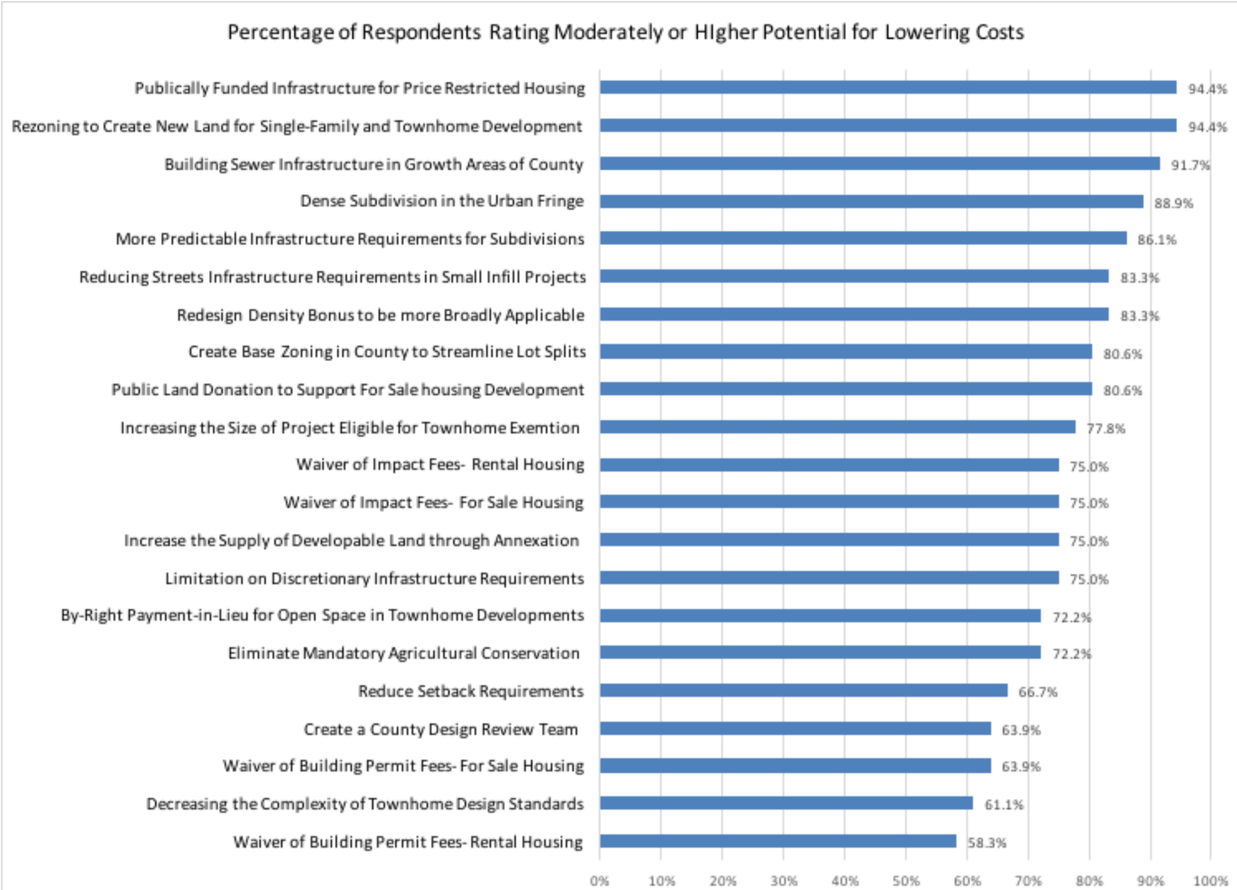
Ranked Choices All Respondents

Respondents were asked to rank various strategies for lowering housing development costs from 1 (no potential for lowering costs) to 5 (very high potential for lowering costs). To analyze the results, we looked at both the total weighted average of each strategy (shown below).



For reference, an average rating of 3 represents a "moderate potential for lowering costs." Nearly all the strategies presented has an average score of at least 3. Below a question by question analysis is presented, that shows how various groups of respondents ranked each option.

Another important way of looking at the strategies is to rank strategies based on the percentage of respondents ranking them as "moderate potential for lowering costs" or better (rating of 3 or higher).



By grouping respondents' attitudes based on moderate or better rating, a different ranking of potential strategies is revealed.

To better understand the varying perspectives and priorities amongst the various respondent groups, we also ranked the top three strategies for each group and their relative average scores.

Affordable Housing Practitioner

Provision of Up-Front Infrastructure	4.4
Land Donation and Direct Funding	4.2
Redesigning Density Bonus	4.0

Builder or Developer

Reduce Road Infrastructure for Infill	4.3
Creating more Predictable Infrastructure Requirements	4.0
Allowing Dense Subdivision in the Urban Fringe Areas	4.0

REALTOR®

Creating more Predictable Infrastructure Requirements	4.8
Reduce Road Infrastructure for Infill	4.5
Base Level Zoning in County	4.4

Land Use Staff

Provision of Up-Front Infrastructure	3.6
Building Infrastructure in Growth Areas of the County	3.6
Proactive Rezoning	3.4

Land Use Planner Engineer

Building Infrastructure in Growth Areas of the County	4.1
Land Donation and Direct Funding	4.1
Provision of Up-Front Infrastructure	4.1

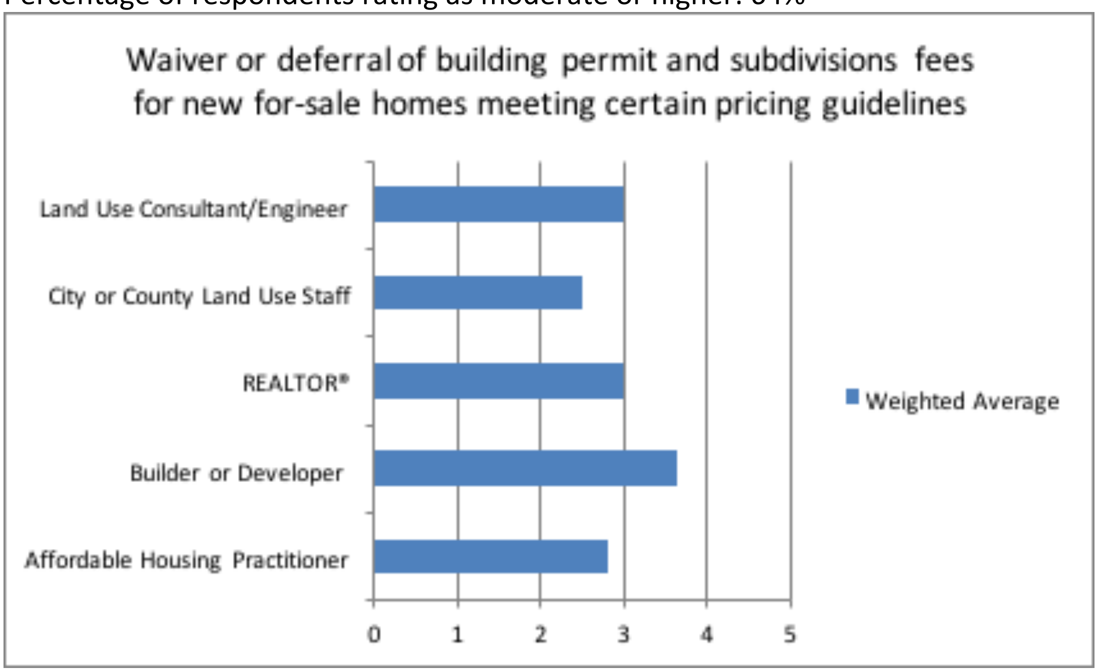
Weighted Averages by Respondent Group

The following represents each question with the total weighted score, the percentage rating of moderate or higher, as well as weighted average rating broken out by respondent group.

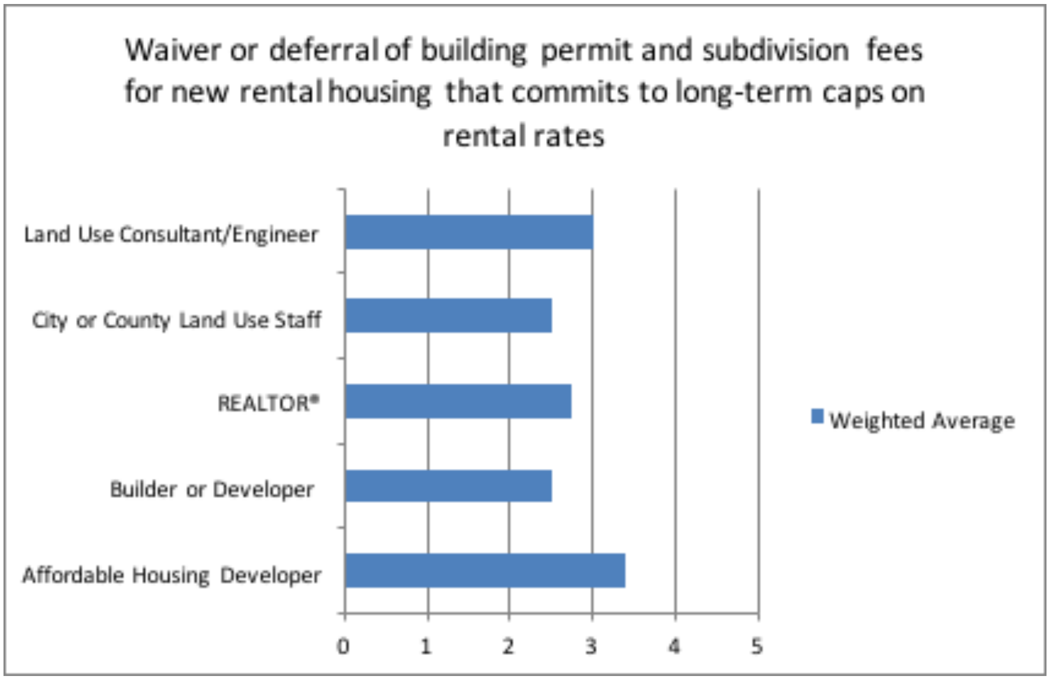
Question 2

Total Weighted Score: 3.0

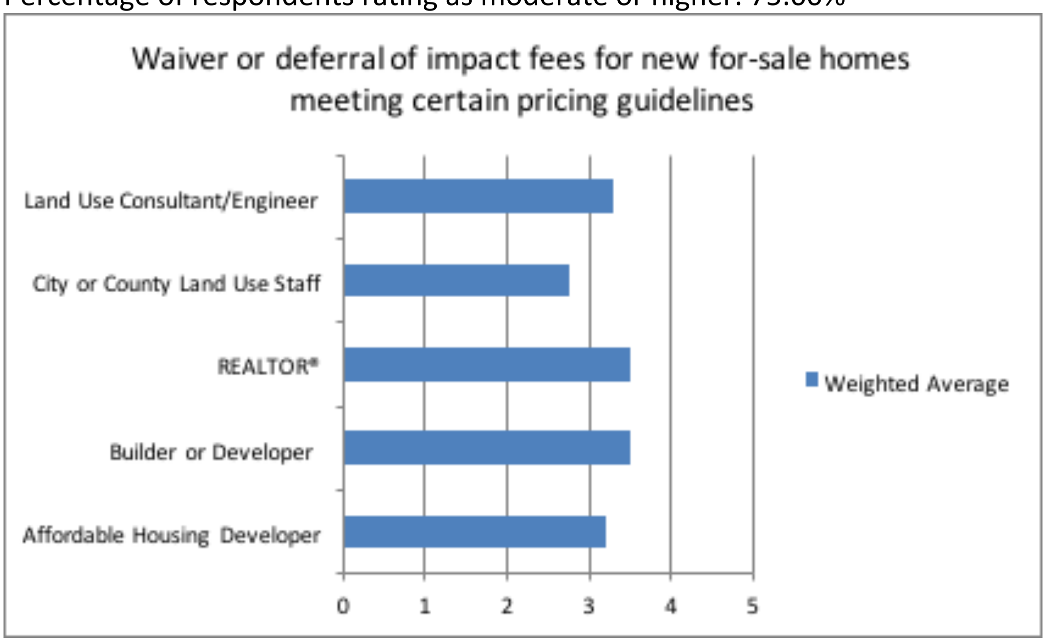
Percentage of respondents rating as moderate or higher: 64%



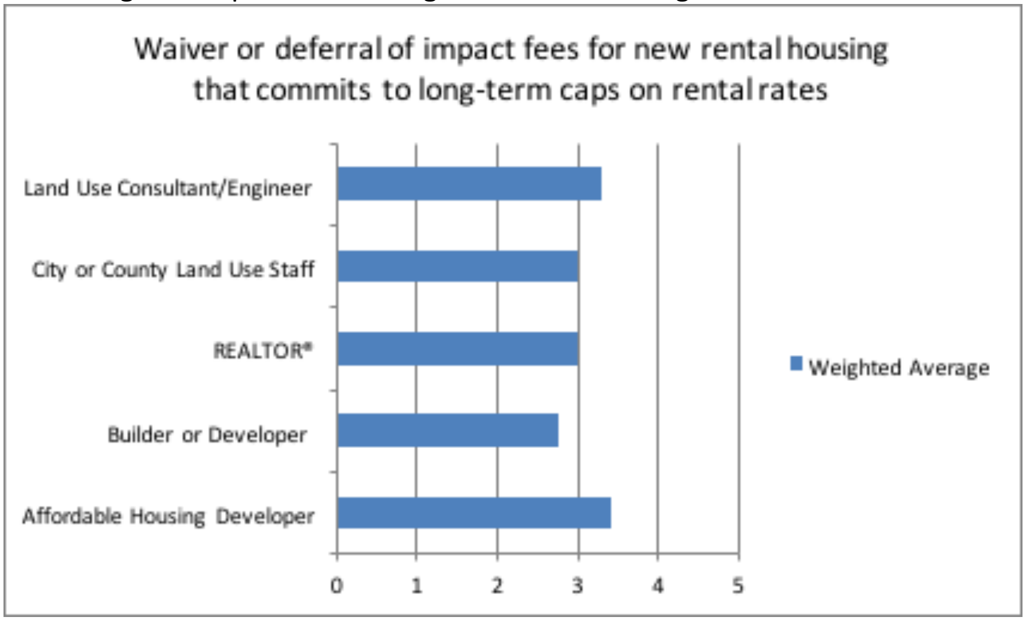
Question 3
Total Weighted Score: 2.8
Percentage of respondents rating as moderate or higher: 58%



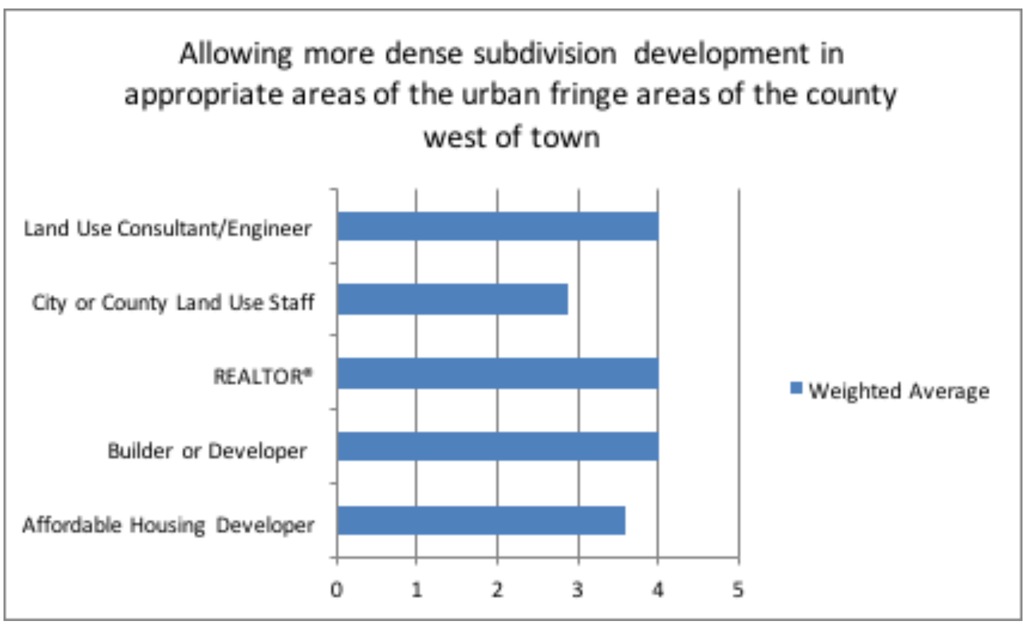
Question 4
Total Weighted Score: 3.3
Percentage of respondents rating as moderate or higher: 75.00%



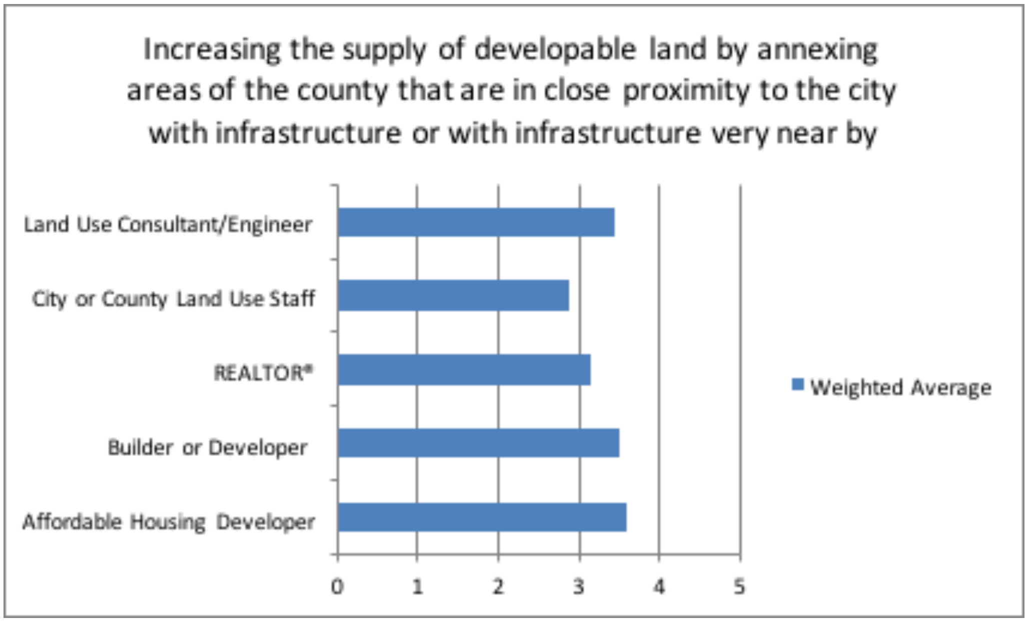
Question 5
Total Weighted Score: 3.1
Percentage of respondents rating as moderate or higher: 75%



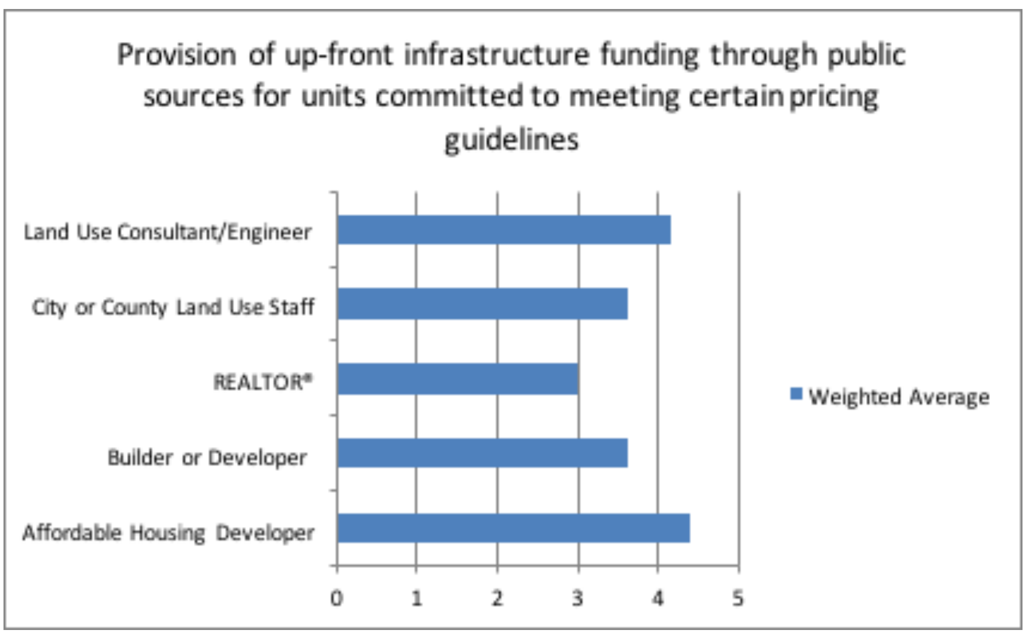
Question 6
Total Weighted Score: 3.7
Percentage of respondents rating as moderate or higher: 89%



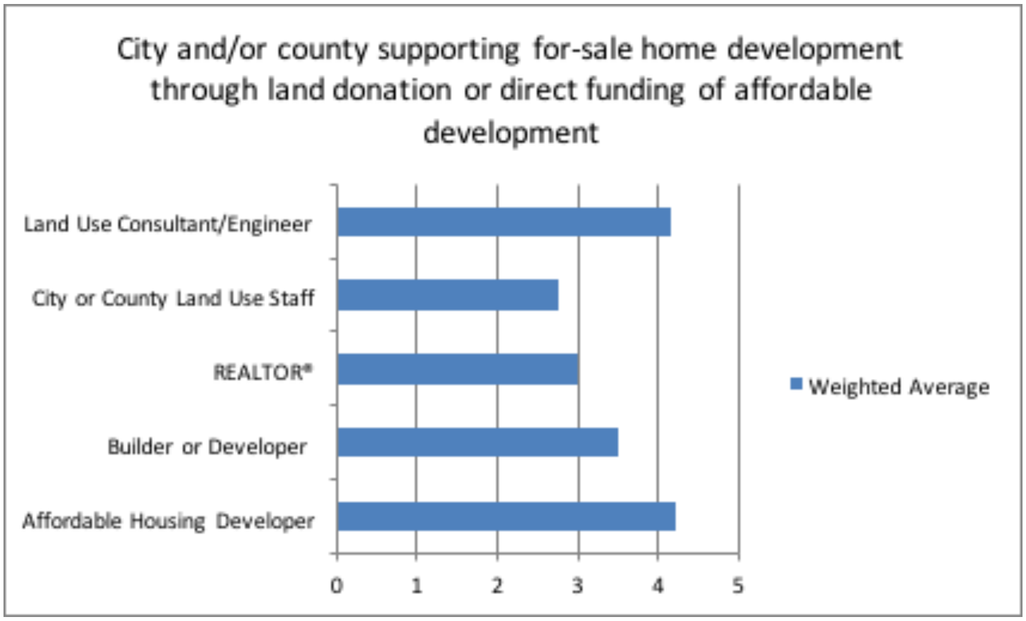
Question 7
Total Weighted Score: 3.3
Percentage of respondents rating as moderate or higher: 75%



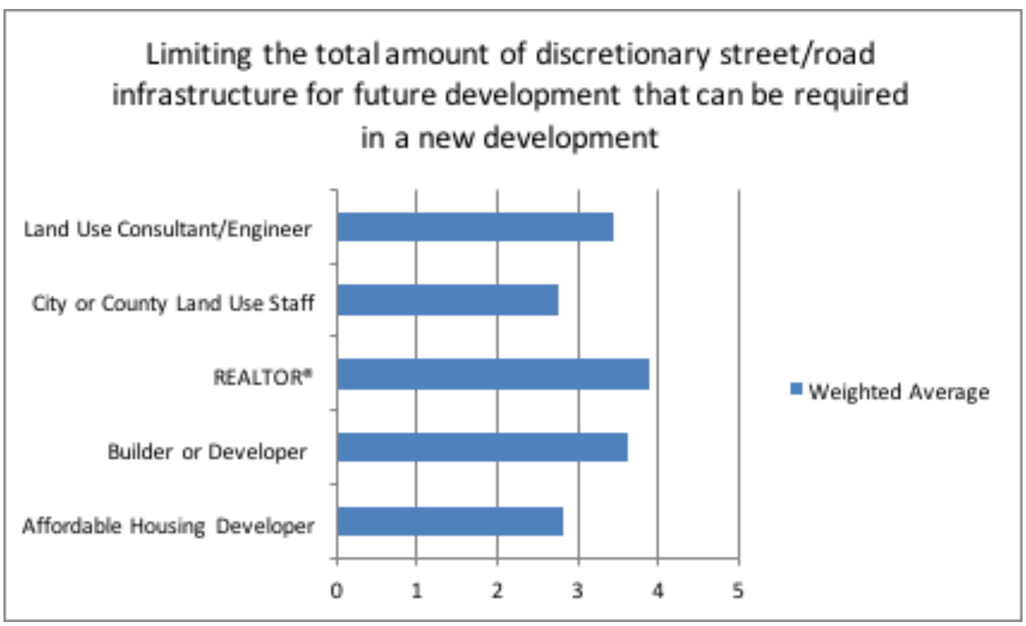
Question 8
Total Weighted Score: 3.7
Percentage of respondents rating as moderate or higher: 94%



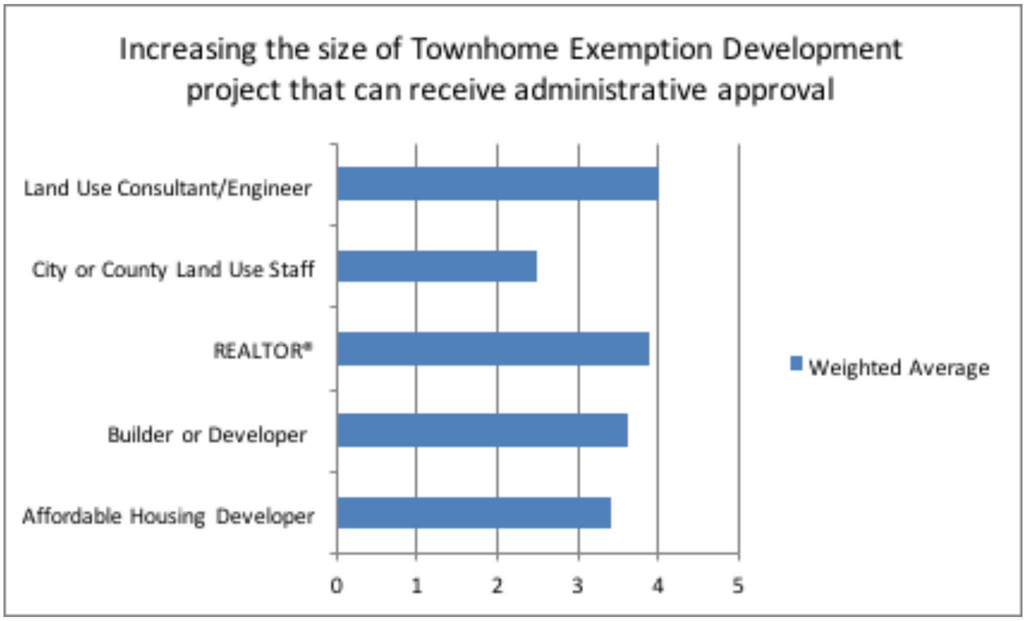
Question 9
Total Weighted Score: 3.4
Percentage of respondents rating as moderate or higher: 81%



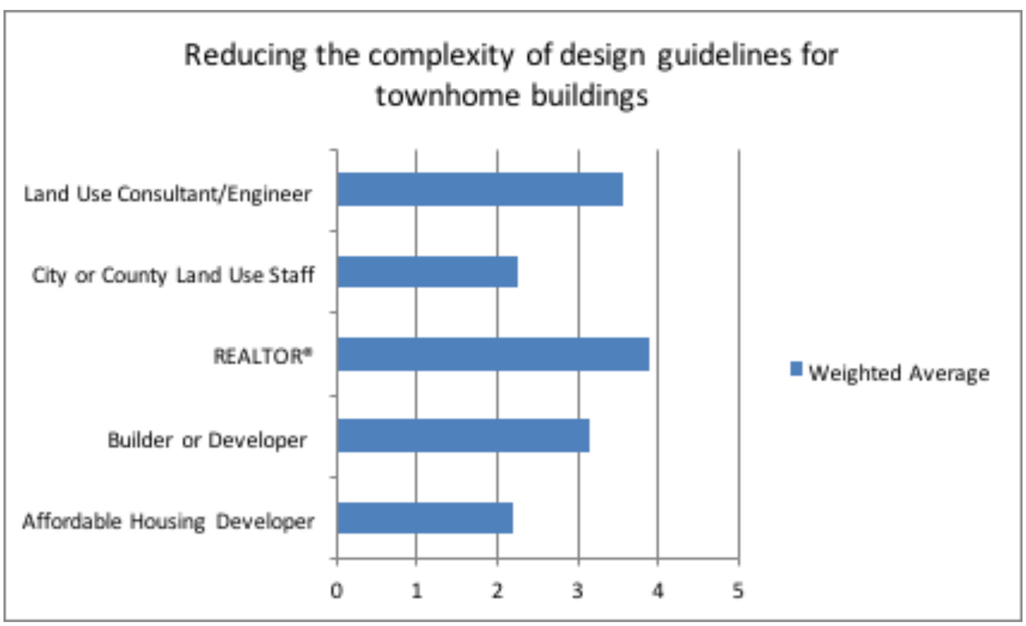
Question 10
Total Weighted Score: 3.3
Percentage of respondents rating as moderate or higher: 75%



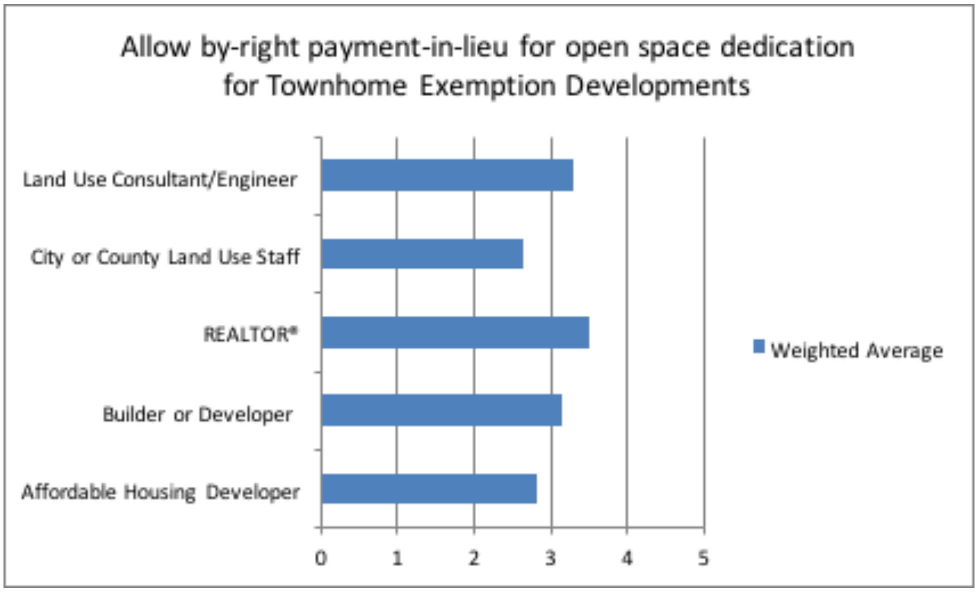
Question 11
Total Weighted Score: 3.5
Percentage of respondents rating as moderate or higher: 78%



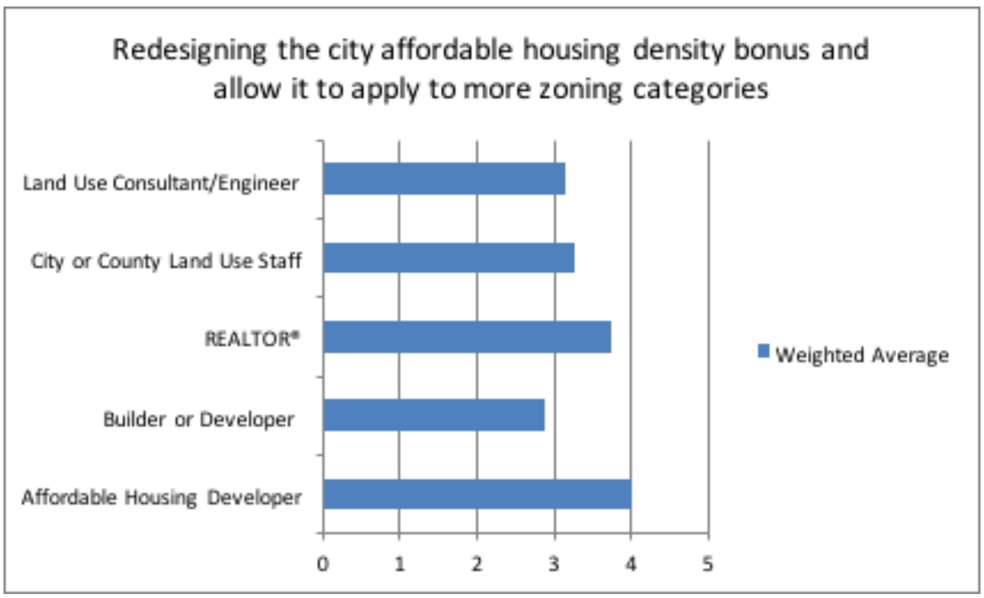
Question 12
Total Weighted Score: 3.1
Percentage of respondents rating as moderate or higher: 61.12%



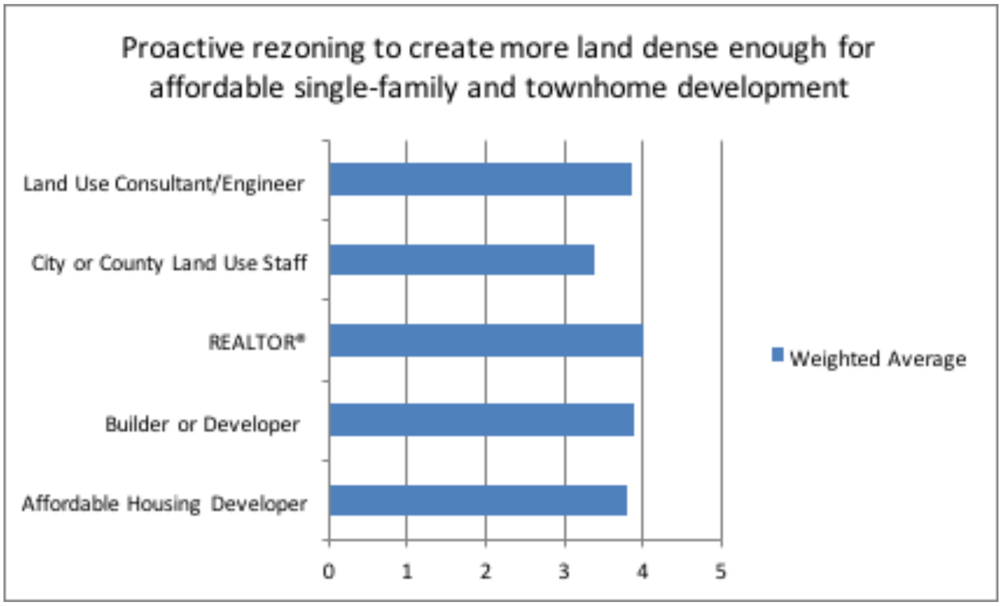
Question 13
Total Weighted Score: 3.1
Percentage of respondents rating as moderate or higher: 72%



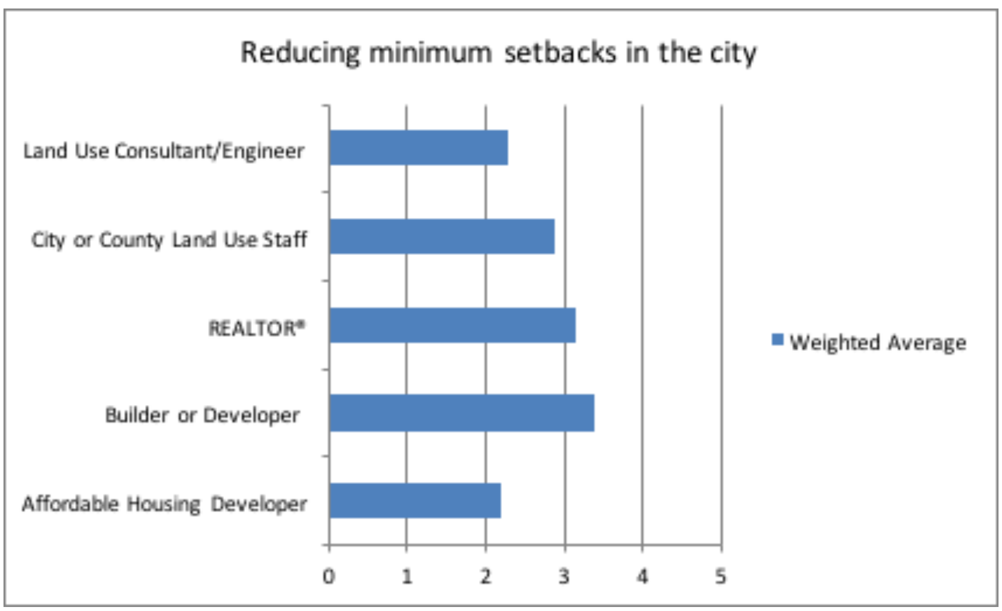
Question 14
Total Weighted Score: 3.4
Percentage of respondents rating as moderate or higher: 83%



Question 15
Total Weighted Score: 3.8
Percentage of respondents rating as moderate or higher: 95%

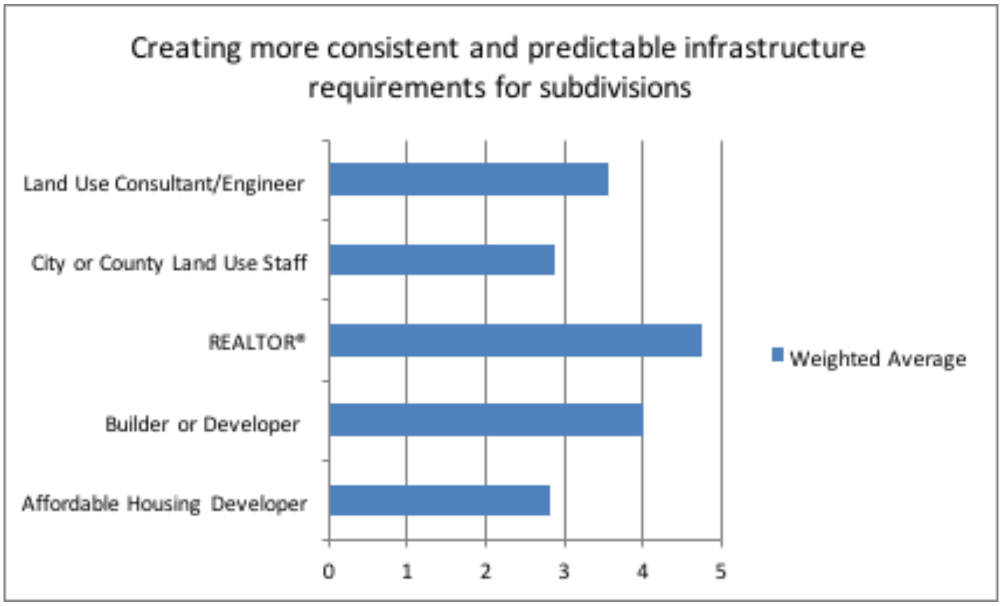


Question 16
Total Weighted Score: 2.8
Percentage of respondents rating as moderate or higher: 67%



Question 17
Total Weighted Score: 3.7

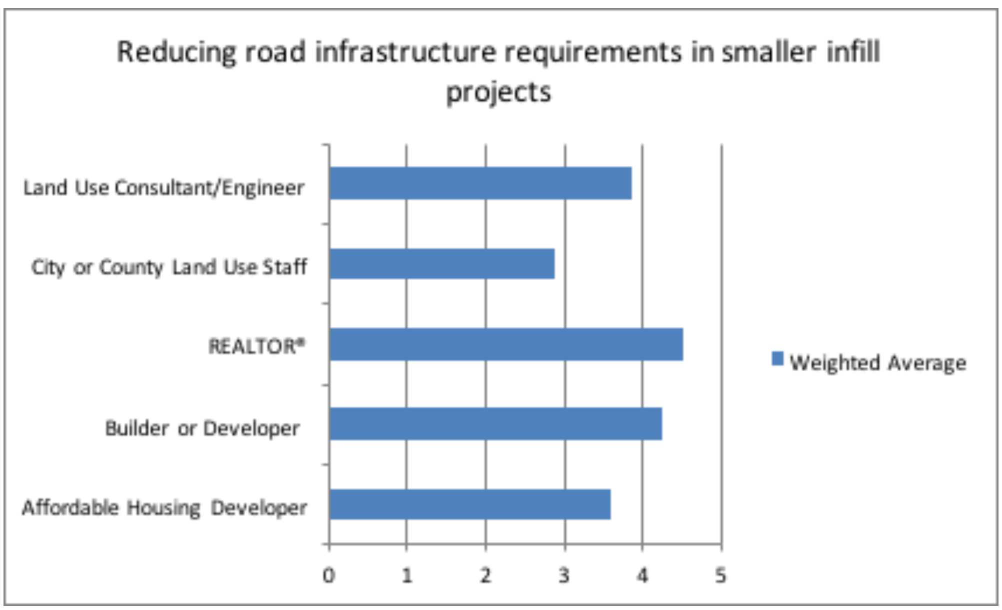
Percentage of respondents rating as moderate or higher: 86%



Question 18

Total Weighted Score: 3.8

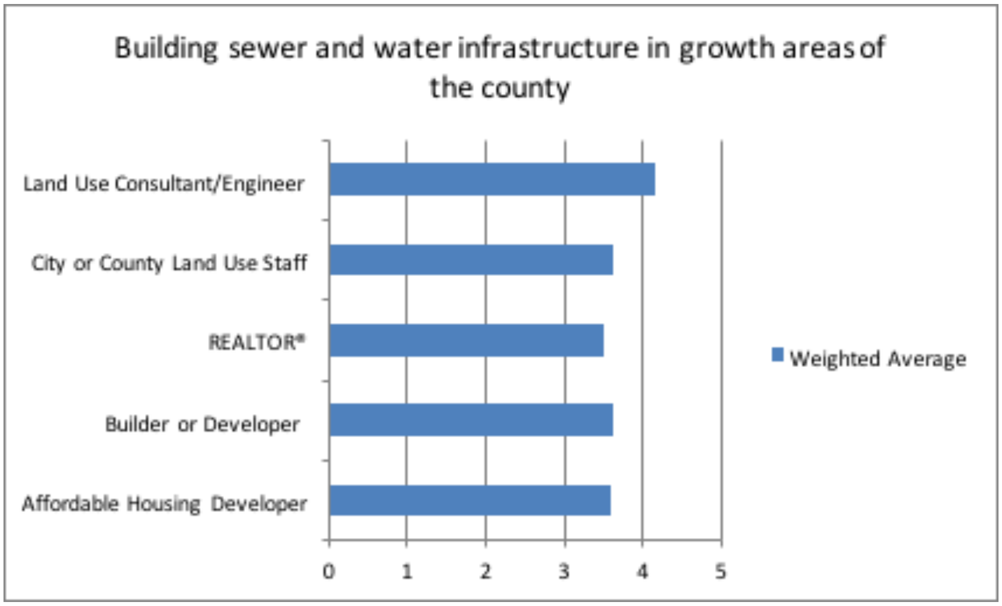
Percentage of respondents rating as moderate or higher: 83%



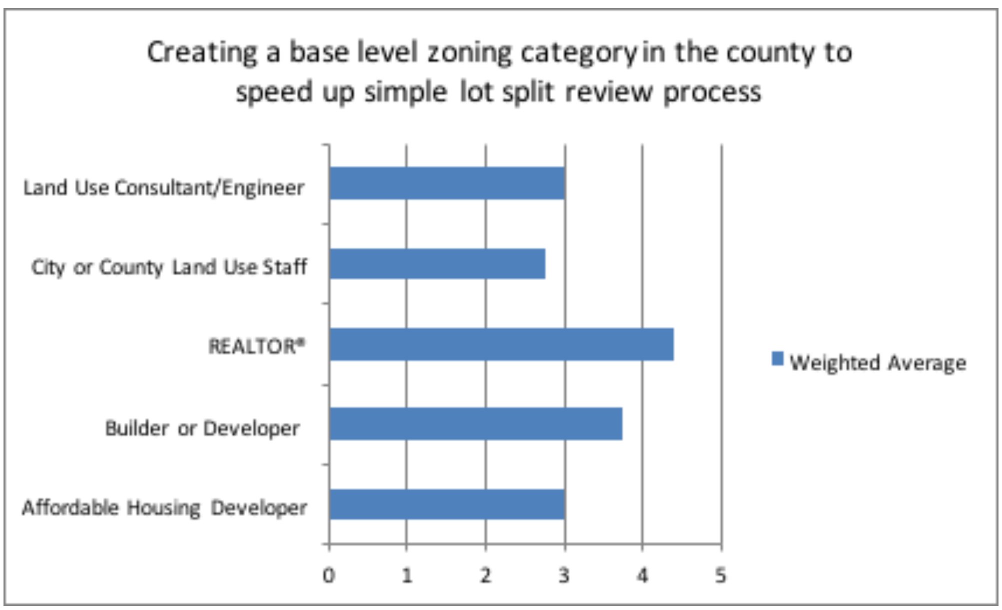
Question 19

Total Weighted Score: 3.7

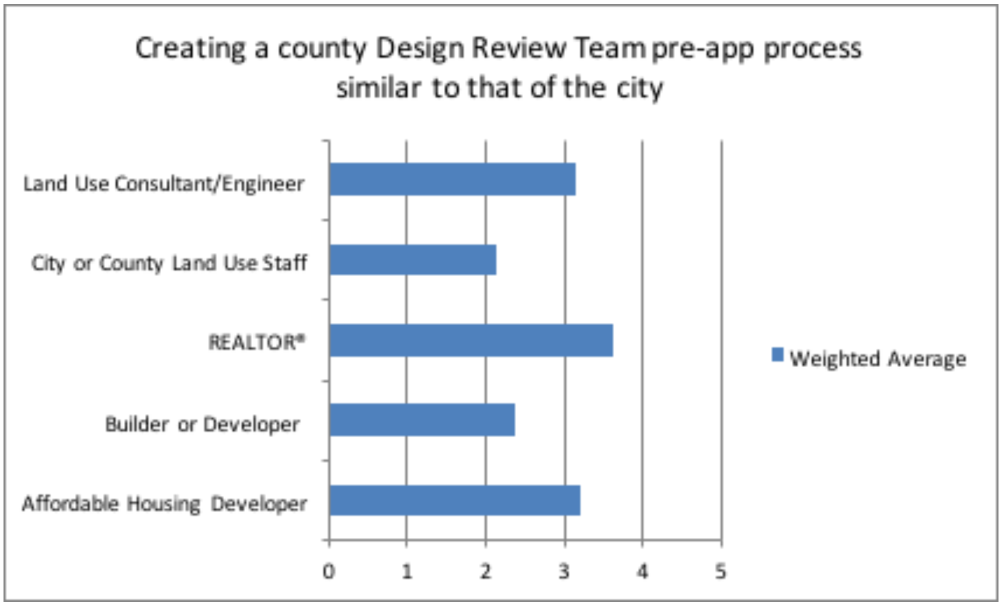
Percentage of respondents rating as moderate or higher: 92%



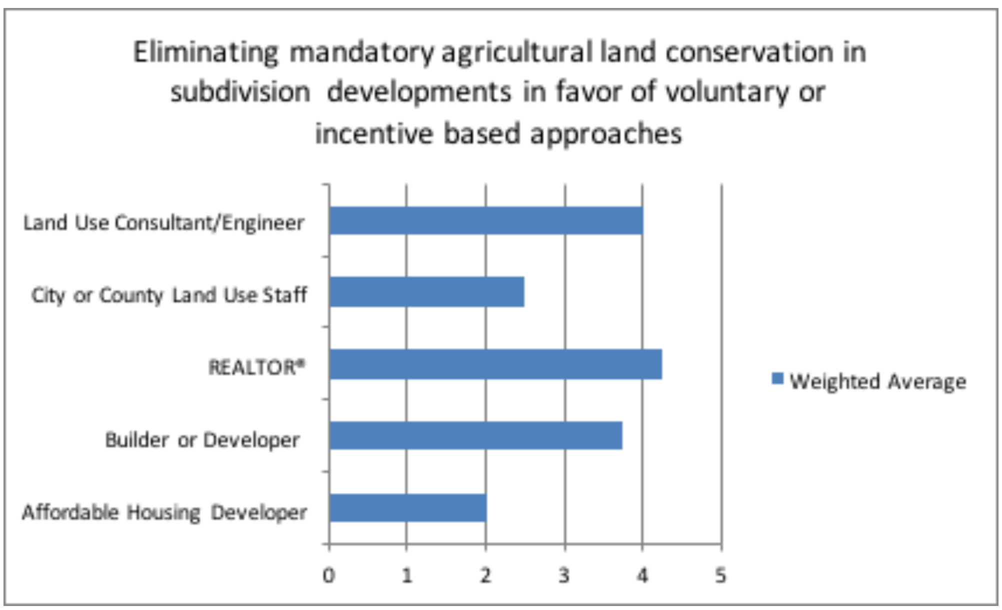
Question 20
Total Weighted Score: 3.4
Percentage of respondents rating as moderate or higher: 81%



Question 21
Total Weighted Score: 2.9
Percentage of respondents rating as moderate or higher: 64%



Question 22
Total Weighted Score: 3.4
Percentage of respondents rating as moderate or higher: 72%



Other Responses
The last three questions in the survey asked respondents to provide their own ideas about how to enhance affordability. Those responses were not included to protect the anonymity of respondents.

Input on Regulations Impacting Affordable Housing Production

* 1. Please check off one category below that best describes you.

- Affordable housing provider/developer
- Builder or developer active in Missoula
- Lender active in Missoula
- REALTOR®
- Missoula City or County Land Use or Building Staff
- Land Use Planning Consultant or Engineer
- None of the above (please specify)

Please rate the following theoretical regulatory changes on their potential for reducing the costs of a typical, modestly priced new dwelling unit in Missoula or Missoula County

* 2. Waiver or deferral of building permit and subdivisions fees for new for-sale homes meeting certain pricing guidelines

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 3. Waiver or deferral of building permit and subdivision fees for new rental housing that commits to long-term caps on rental rates

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 4. Waiver or deferral of impact fees for new for-sale homes meeting certain pricing guidelines

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 5. Waiver or deferral of impact fees for new rental housing that commits to long-term caps on rental rates

No Potential for Lowering Costs	Low Potential for Lowering Costs	Moderate Potential for Lowering Costs	High Potential for Lowering Costs	Very High Potential for Lowering Costs
1	2	3	4	5

* 6. Allowing more dense subdivision development in appropriate areas of the urban fringe areas of the county west of town

No Potential for Lowering Costs	Low Potential for Lowering Costs	Moderate Potential for Lowering Costs	High Potential for Lowering Costs	Very High Potential for Lowering Costs
1	2	3	4	5

* 7. Increasing the supply of developable land by annexing areas of the county that are in close proximity to the city with infrastructure or with infrastructure very near by

No Potential for Lowering Costs	Low Potential for Lowering Cost	Moderate Potential for Lowering Cost	HIgh Potential for Lowering Cost	Very High Potential for Lowering Costs
1	2	3	4	5

* 8. Provision of up-front infrastructure funding through public sources for units committed to meeting certain pricing guidelines

No Potential for Lowering Costs	Low Potential for Lowering Costs	Moderate Potential for Lowering Costs	High Potential for Lowering Costs	Very High Potential for Lowering Costs
1	2	3	4	5

* 9. City and/or county supporting for-sale home development through land donation or direct funding of affordable development

No Potential for Lowering Costs	Low Potential for Lowering Costs	Moderate Potential for Lowering Costs	High Potential for Lowering Costs	Very High Potential for Lowering Costs
1	2	3	4	5

* 10. Limiting the total amount of discretionary street/road infrastructure for future development that can be required by the current development

No Potential for Lowering Costs	Low Potential for Lowering Costs	Moderate Potential for Lowering Costs	High Potential for Lowering Costs	Very High Potential for Lowering Costs
1	2	3	4	5

* 11. Increasing the size of Townhome Exemption Development project that can receive administrative approval

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 12. Reducing the complexity of design guidelines for townhome buildings

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 13. Allow by-right payment-in-lieu for open space dedication for Townhome Exemption Developments

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 14. Redesigning the city affordable housing density bonus and allow it to apply to more zoning categories

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 15. Proactive rezoning to create more land dense enough for affordable single-family and townhome development

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 16. Reducing minimum setbacks in the city

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 17. Creating more consistent and predictable infrastructure requirements for subdivisions

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 18. Reducing road infrastructure requirements in smaller infill projects

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 19. Building sewer and water infrastructure in growth areas of the county

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 20. Creating a base level zoning category in the county to speed up simple lot split review process

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 21. Creating a county Design Review Team pre-app process similar to that of the city

No Potential for Lowering Costs 1	Little Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

* 22. Eliminating mandatory agricultural land conservation in subdivision developments in favor of voluntary or incentive based approaches

No Potential for Lowering Costs 1	Low Potential for Lowering Costs 2	Moderate Potential for Lowering Costs 3	High Potential for Lowering Costs 4	Very High Potential for Lowering Costs 5
○	○	○	○	○

23. What other regulatory changes would support lower cost development in the city?

24. What other regulatory changes would support lower cost development in the county?

25. Are there any other opportunities to limit discretionary requirements from staff, boards or governing bodies in the development approval process?