# Planning Commission
# Staff Transmittal

Community Development • 2025 NE Kresky Ave, Chehalis, WA 98532 • Phone: (360) 740-1146

**STAFF REPORT** **RURAL HOUSING ALTERNATIVES**

**Date:** August 23, 2023

**Staff:** Eric Eisenberg, Housing and Infrastructure Specialist

Mindy Brooks, Senior Long Range Planner

**Re:** **Industry Stakeholder Group – Progress Report #2**

The purpose of this memorandum is to update the Planning Commission on the progress of the Industry Stakeholder Group as part of the ongoing Rural Housing Alternative (RHA) work.

## RURAL HOUSING ALTERNATIVE & INDUSTRY STAKEHOLDER GROUP

On July 25, the Planning Commission received a refresher on the RHA (a clustered, interdependent, GMA-compliant option for putting more living units within same form as large rural residential lots) and an introduction to the Industry Stakeholder Group (a committee of development professionals vetting the RHA for feasibility). The memo from that meeting and other RHA materials are available on the webpage https://lewiscountywa.gov/departments/community-development/rezones/ comprehensive-plan-and-development-regulation-amendments/rural-housing-update/.

## INDUSTRY STAKEHOLDER GROUP WORK RECAP

The ISG met three times in May through July. The ISG's feedback on "sandbox regulations" outlining how the RHA might work led to some changes in those regulations—most notably a 400-square-foot increase in the proposed residential square footage limitation for RHA developments to match the current average rural residential size. The most current sandbox regulations are found in Attachment A.

The ISG then used those sandbox regulations to evaluate sample developments, estimating how much the developments would cost and to see if it the RHA could work in practice. Staff chose specific properties with different development scenarios, please see Attachment B. The ISG evaluated:

- A new quadplex;
- Adding two detached manufactured homes to a property with a small existing rural home;
- Renovating a large stick-built, partially-finished outbuilding, on a parcel with a small existing rural home, into two large condominiums;
- The siting of three manufactured homes on one large, shared lot;
- The construction of eight tiny homes on one large lot;
- The construction of a 3600 sq ft single family residence with a 40x60 sq ft shop; and
- The construction of the same single family residence and shop, with an ADU in the shop.

The development costs of these sample projects were significant, often due to construction costs being high (i.e., not necessarily due to specifically rural costs). Generally, manufactured homes had lower construction costs than stick-built buildings, and so were more likely to "pencil out," i.e., to be worth more than their construction cost. The financing implications of RHA developments turned out to be very complicated, requiring input from the ISG and additional research and follow-up with those with lending experience.

Ultimately, some of the RHA developments are simply not feasible to develop and attempt to rent or sell because the resulting units would not cover the debt service sufficiently to survive the loan underwriting process. However, some of the developments are feasible either as rentals or condos. Moreover, for more wealthy individuals who already own their properties or have high enough earning potential to justify a large loan, an RHA may sometimes be an attractive renovation option or add-on to a home purchase. This is because adding additional units via an RHA may either lower the cost of the purchase or allow the owner to offset some of the monthly mortgage payment through rent.

Whether an RHA option pencils out is highly dependent on interest rates. When staff began work on the RHA, interest rates were 3.5%. Several of the options would have penciled at that interest rate. However, at 7% or 7.5% many of the option struggle to pencil.

A table of the various sample developments and whether and when they are financeable is attached as Attachment C.

- The first part of the table considers a developer attempting to buy a property or redevelop a property they own, justifying the development on the rent or sale potential of the units (a common tool of construction loan underwriting). Some RHAs work and some do not.
- The second part of the table considers a (usually wealthy) buyer who intends to purchase a property and qualify for a mortgage based on their earning potential. A comparison RHA "add on" project is shown, along with how much additional downpayment and monthly loan payment the buyer would need to add the comparison project. For buyers with additional money to put down, and who would rent out the additional units to defray mortgage payments, the RHA "add-on" would often result in a lower monthly payment for the buyer.

Attachment C is a summary of an extensive array of other tables, and lots of explanation may be necessary for the Planning Commissioners to fully digest it.  A full report will be provided to Planning Commission and the public prior to the October 10 meeting on this topic.

Pending that report, the point-by-point summary of the results is as follows:

- For a developer attempting to buy a property and develop an RHA as rentals, only the tiny home village scenario is viable. Please see the Pattee Rd row in the top half of Attachment C, and the Pattee Rd scenario in Attachment B.

- However, if developed as individually owned condos instead of as rentals, all of the RHA options using manufactured housing are viable. Please see the first "Condos" column in the top half of Attachment C, and the Burnt Ridge Rd and Elk Creek Rd scenarios in Attachment B.

- If the developer already owns the property, almost all of the RHA options are plausibly viable as either rentals or condos. Please see the "If own property already?" columns in the top half of Attachment C.

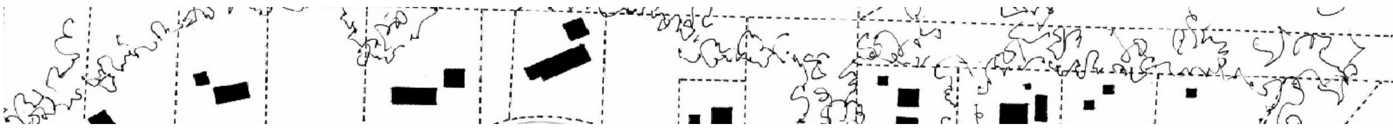
- For homebuyers wealthy enough based on their earning potential to purchase and finance single-family homes on the sample properties, all of the RHA options are plausible as potential renovations or add-ons to the home purchase. Although all such RHA options require additional money down (sometimes *a lot* of additional money down), the options either lower the homebuyer's monthly mortgage payment or they would produce rent from the RHA units well in excess of the additional loan payment needed to finance the RHA's construction. Thus, a homebuyer with enough capital to put down (such as from the sale of an existing expensive home/property) could opt for an RHA to defray their ongoing mortgage payments. Please see the bottom half of Attachment C.

**NEXT STEPS**

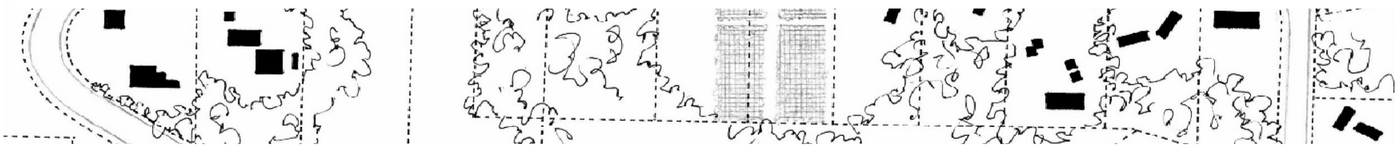
The Planning Commission will hold a workshop on October 10 on the RHA. Staff will produce a full report of the ISG results for the Planning Commission's and public's review, and will prepare a detailed presentation to explain both the ISG's cost estimates and the many financing consequences and permutations that make some developments viable and others not.

# Attachment A

***"Sandbox" Regulations***



# Lewis County
# Rural Housing Alternative – “Sandbox Regulations”



[*For consideration only when walking through sample developments. They are not set in stone.*]

1. RHA type development will be allowed in all RDD zones via Type I (staff only) administrative review. RHA type development will not be allowed in resource zones (ARL, FRL, MRL) or in LAMIRDs (STMU, STR, STI, RRC).

2. The lot must be five acres in size or larger.

3. The living space (usually conditioned space) must be 3,600 square feet or less.

4. The residential units have to conform to accepted stick-built or manufactured home regulations (IRC or L&I, e.g.)—no weird sheds or cubbies.

5. The units cannot subdivide the lot.
    a. Separately owned buildings on shared land (e.g., a condo, land trust, cooperative, or homeowners’ association system) are ok.

6. All housing units must be accessed from one primary driveway.
    a. Assume they need only one road approach permit, and all RHA units are treated as a single unit for purposes of the driveway/private road rule.

7. All housing units must be within a 1.25-acre, four-sided, convex envelope. Only the housing units, and external buildings directly associated with the housing units (e.g., detached garage) have to be in this envelope; the well (including a pump house) and septic systems would not have to be in the envelope.
    a. Assume there is a variance for the one driveway rule and the 1.25-acre-envelope rule for reusing existing structures or portions thereof.

8. Any new structures must meet the following setback requirements, with a reduction allowed with the consent from the neighboring landowner in the direction of the setback, or as allowed in LCC 17.145.020:

    <u>Front or side</u>: 55 ft from public road centerline; 15 ft for private easement road or alley
    <u>Side</u>: 15 feet from property line
    <u>Rear</u>: 25 feet from property line, reduced to 15 ft if it is a private easement road or alley

9. The development must use rural water/wastewater services. Use normal septic and Group B well rules.
    a. That means 350 gpd per dwelling unit for purposes of water rights. LCC 8.55.110(3)(e).
    b. But the well must *produce* at least 750 gpd per dwelling unit. LCC 8.55.110(3)(a) & Table 2.
    c. Septic tank size: 250 gallons per bedroom, 1,000 gallon minimum. LCC 8.40.180(2)(b). Assume one tank per dwelling unit but consider cost implications if the tank were shared.
    d. Normal minimum land area requirements per unit volume of sewage for developments other than a single-family residence (Method I or Method II). LCC 8.40.310(2)(d).
    e. All other normal septic and well rules.
    f. Maximum occupancy must be consistent with well/septic limitations.

10. Normal stormwater rules, meaning exemption for under 5,000 sq feet of impervious surfaces.
    a. For now, assume no SFR-like exemption if lot coverage is less than 15%.

11. There must be adequate rural public facilities to serve the development.
    a. Assume, for now, that fire departments and school districts will say yes, they can serve the new development.

12. The RHA development, alone or in conjunction with other developments or proposed developments, cannot create a demand for urban services (e.g., public sewer).

13. No portion of an RHA can be used as a short-term rental.

# Attachment B

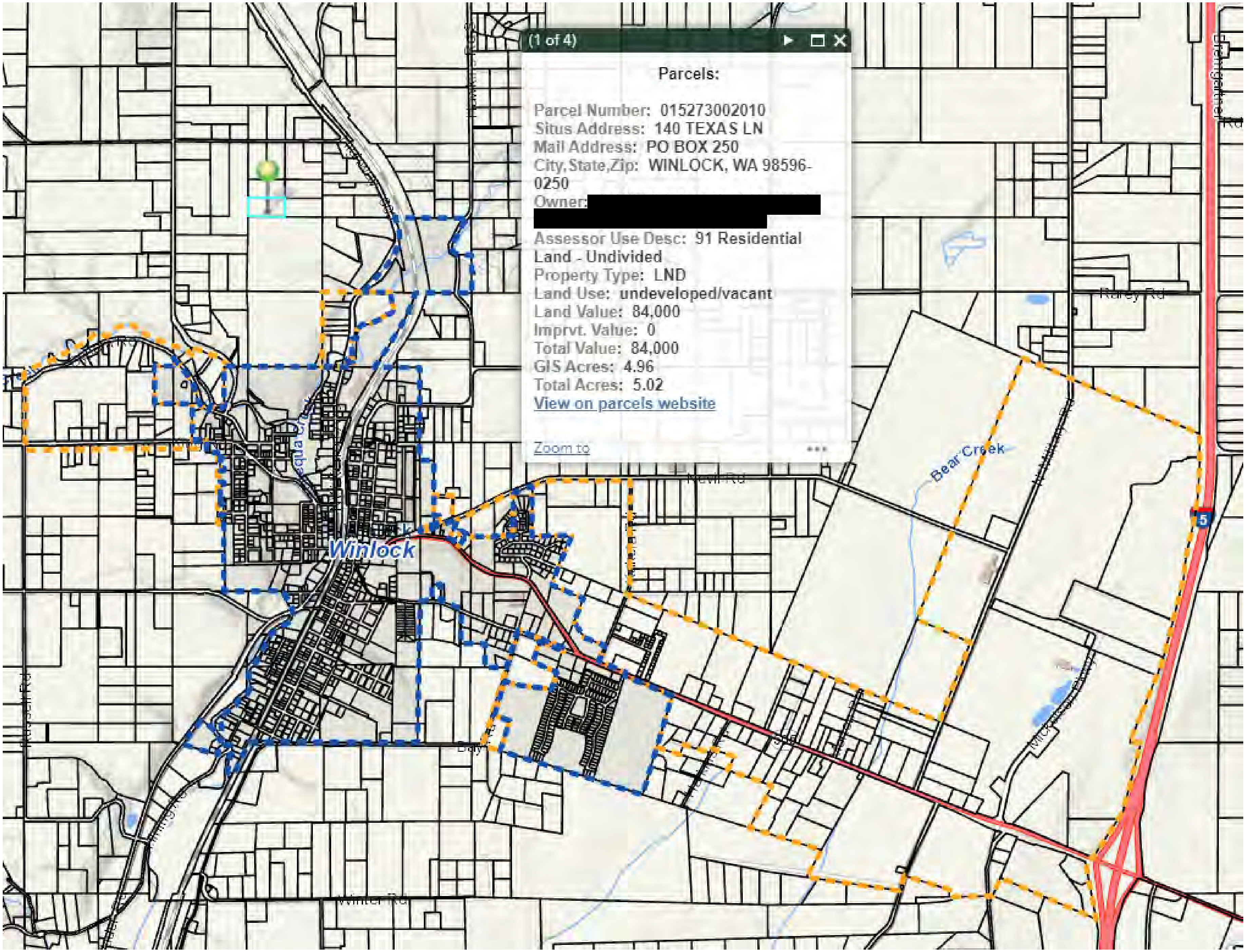
***Sample Develop Scenarios***

# <u>Scenario 1 – Family Quadplex</u>

# 140 Texas Lane near Winlock

You own a tree farm just north of Winlock. You logged a parcel you own just south of the tree farm and hope to put in four attached units for some of your younger family members---either to help with the tree farm or just to live close. These would be designed like “townhomes.” If your family doesn’t live there forever, it would be nice if the development could produce income for you. You also want to estimate the price the land would fetch if you sold it, to see what you’re giving up by developing it like this.


RDD-5
Texas Ln
Parcels:
Parcel Number: 015273002010
Situs Address: 140 TEXAS LN
Mail Address: PO BOX 250
City,State,Zip: WINLOCK, WA 98596-0250
Owner: [redacted]
Assessor Use Desc: 91 Residential Land - Undivided
Property Type: LND
Land Use: undeveloped/vacant
Land Value: 84,000
Imprvt. Value: 0
Total Value: 84,000
GIS Acres: 4.96
Total Acres: 5.02
View on parcels website
Zoom to

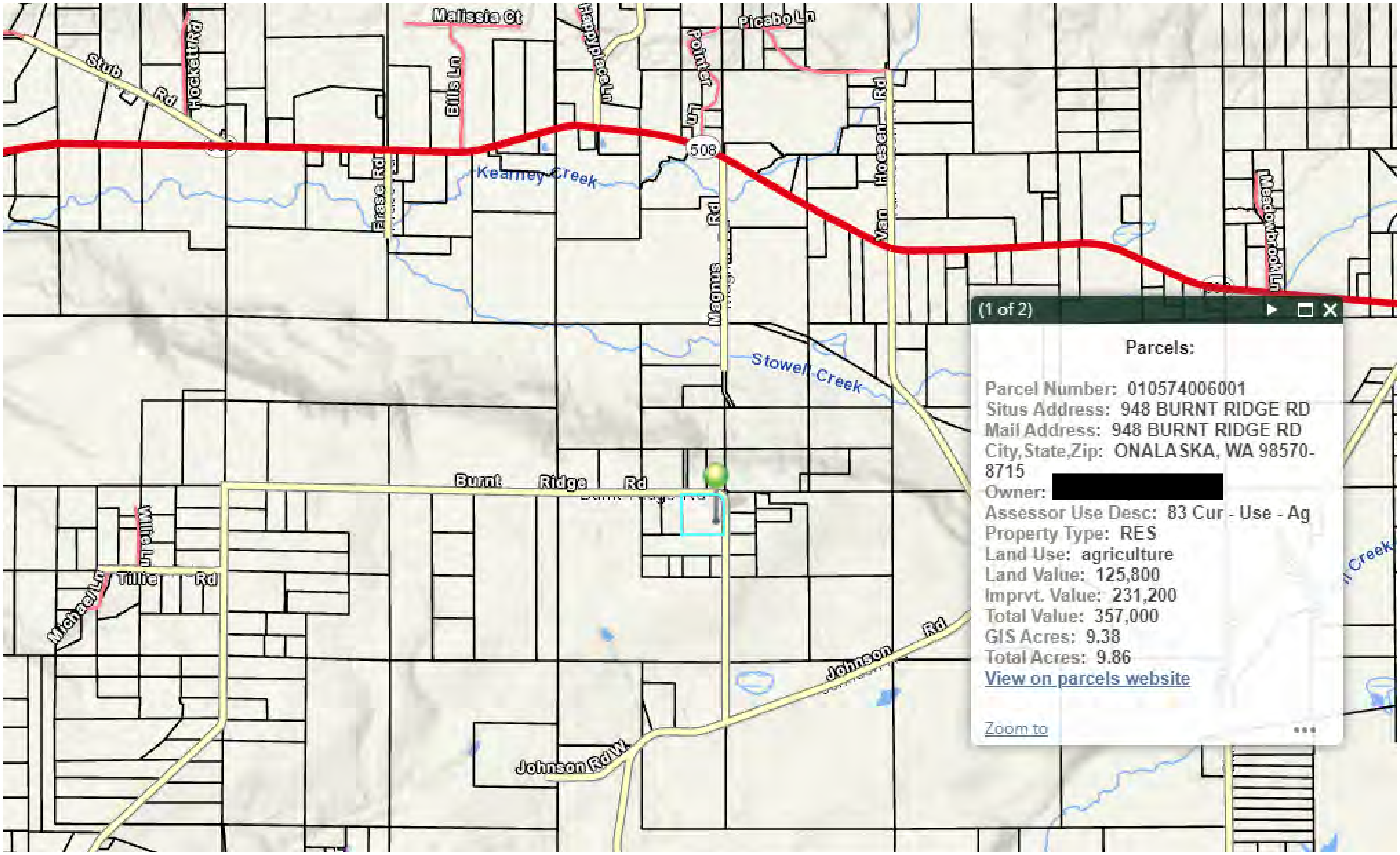

(1 of 4)
Parcels:
Parcel Number: 015273002010
Situs Address: 140 TEXAS LN
Mail Address: PO BOX 250
City,State,Zip: WINLOCK, WA 98596-0250
Owner: [redacted]
Assessor Use Desc: 91 Residential Land - Undivided
Property Type: LND
Land Use: undeveloped/vacant
Land Value: 84,000
Imprvt. Value: 0
Total Value: 84,000
GIS Acres: 4.96
Total Acres: 5.02
View on parcels website
Zoom to
Winlock
Bear Creek
Nevil Rd
Rarey Rd
Winter Rd
5

# “Moving to the Country”

## Scenario 3 – Existing House + 2 new Detached Units
## 948 Burnt Ridge Road Onalaska

You have a friend who owns a nursery west of Onalaska at 948 Burnt Ridge Rd. He’s going to retire and would sell you the property. You’ve always dreamed of living in the country and are sick of your office job. He’s going to teach you the ropes so you can take over the nursery. Your plan is to live in the 688 sq ft house and add two more detached houses. Both will be manufactured homes, each 1,296 sq ft in size. You’ll move into one of the manufactured homes and rent the other two houses for some extra income. There are also outbuildings on the property, but those are part of the farming use and won’t be part of the residential area.

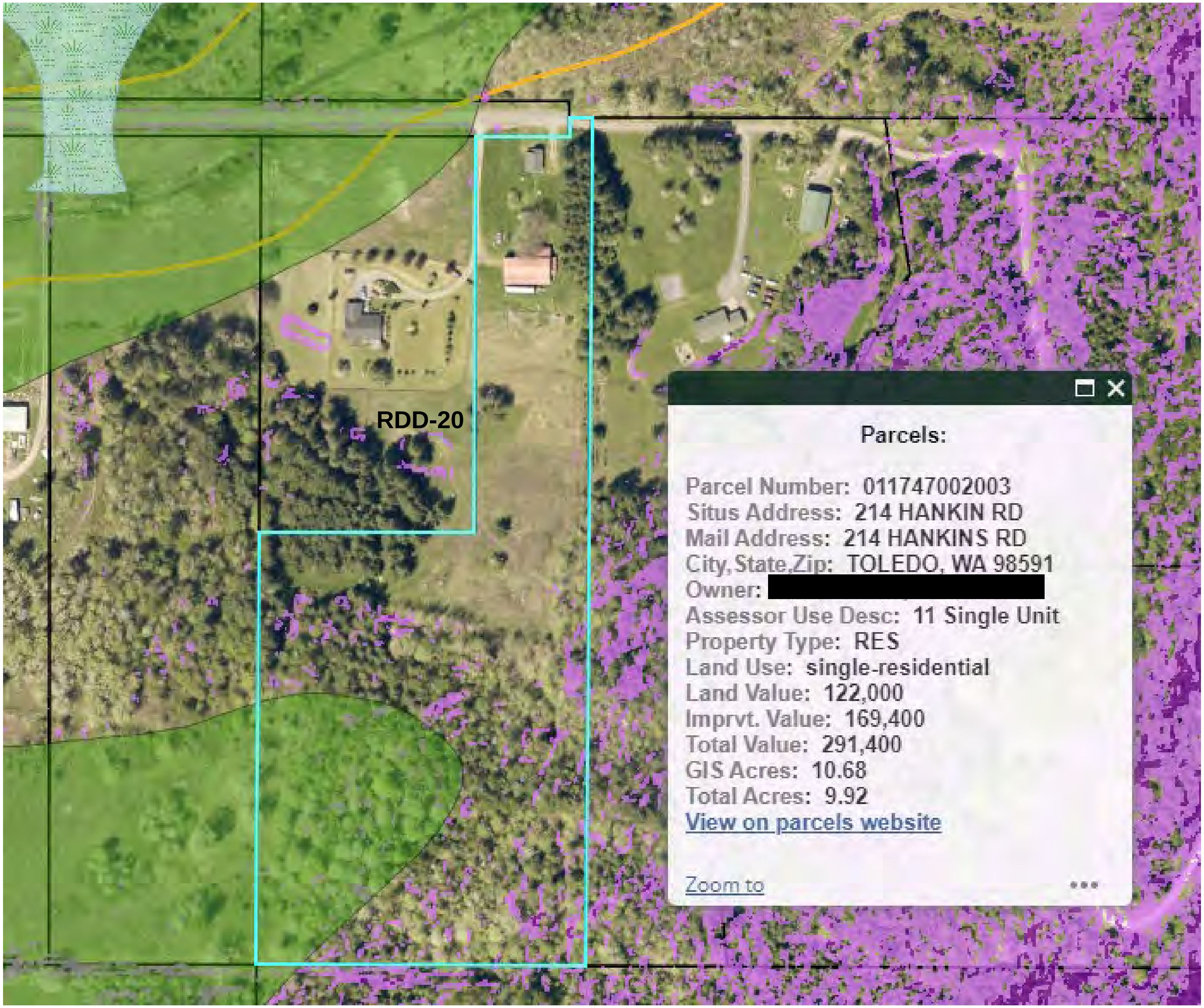

Burnt Ridge Rd
RDD-10,
CARA III
Parcels:
Parcel Number: 010574006001
Situs Address: 948 BURNT RIDGE RD
Mail Address: 948 BURNT RIDGE RD
City,State,Zip: ONALASKA, WA 98570-8715
Owner: [redacted]
Assessor Use Desc: 83 Cur - Use - Ag
Property Type: RES
Land Use: agriculture
Land Value: 125,800
Imprvt. Value: 231,200
Total Value: 357,000
GIS Acres: 9.38
Total Acres: 9.86
View on parcels website
Zoom to


Malissia Ct
Picabo Ln
Stub Rd
Hockett Rd
Bills Ln
Happyplace Ln
Pointer Ln
508
Van Hoesen Rd
Frase Rd
Kearney Creek
Magnus Rd
Meadowbrook Ln
Stowell Creek
Burnt Ridge Rd
Willie Ln
Tillie Rd
Michael Ln
Johnson Rd
Johnson Rd W
(1 of 2)
Parcels:
Parcel Number: 010574006001
Situs Address: 948 BURNT RIDGE RD
Mail Address: 948 BURNT RIDGE RD
City,State,Zip: ONALASKA, WA 98570-8715
Owner: [redacted]
Assessor Use Desc: 83 Cur - Use - Ag
Property Type: RES
Land Use: agriculture
Land Value: 125,800
Imprvt. Value: 231,200
Total Value: 357,000
GIS Acres: 9.38
Total Acres: 9.86
View on parcels website
Zoom to

# “Barn-dominiums”

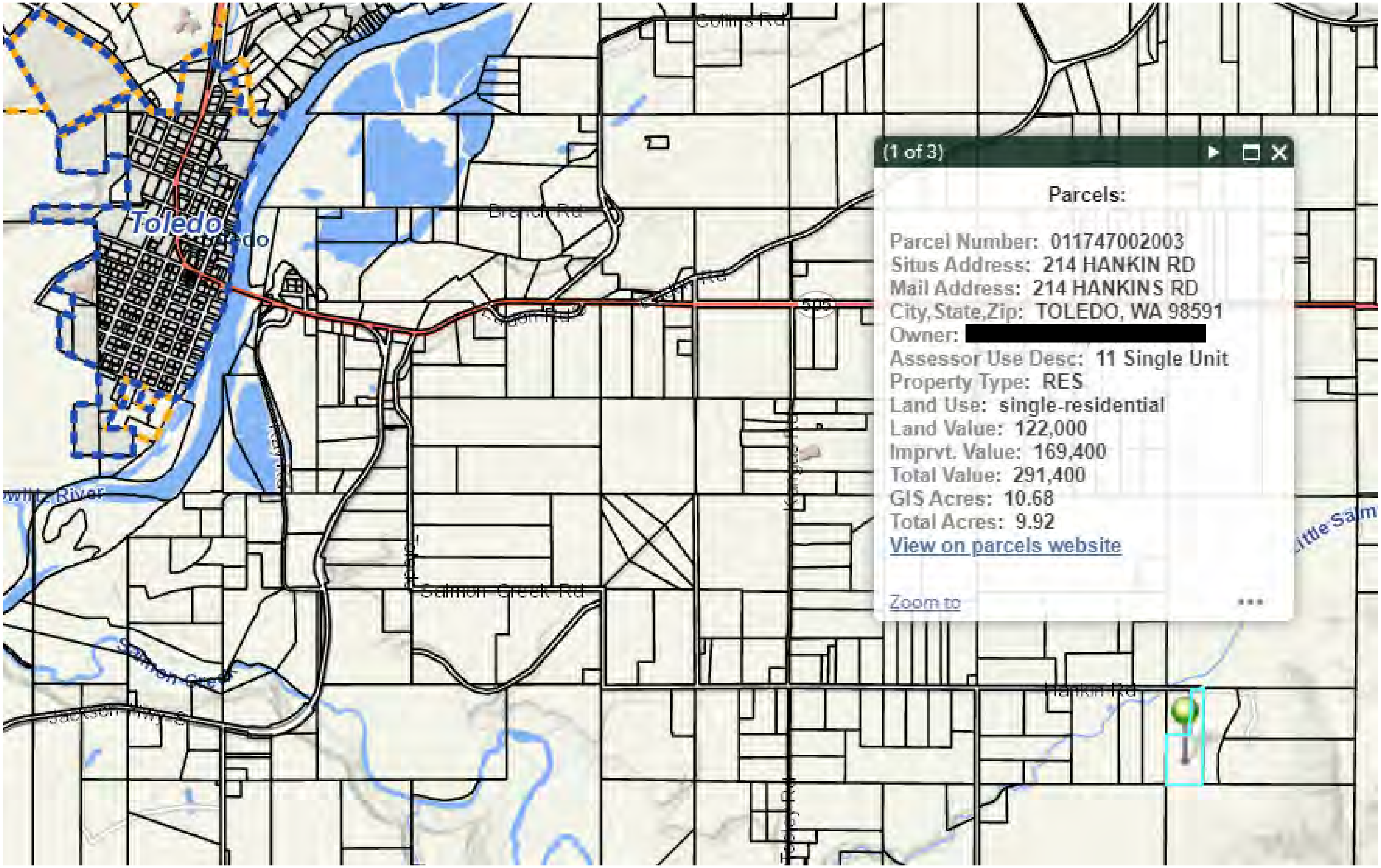
## Scenario 4 – Shop Remodel
## 214 Hankin Road, Toledo

You have inherited your parents’ farm on Hankin Road. It has a very small, 624 sq ft, 1935 house on it as well as a large stick-built outbuilding.  But, the house is so small it seems a shame for it to be the only living space on such a large property. You have fond memories of growing up there and have decided to stay in the little house while you turn the outbuilding into barn-dominiums. The outbuilding has an upstairs that consists of a finished office and bathroom and unfinished storage area; the downstairs has both unfinished and finished areas, including a utility sink. You would like to renovate the outbuilding into at least two units. After remodel, if you want a bigger space, you might live in one of the barn-dominium units and rent out the small house and other unit. Or, you could rent out all of the units and live somewhere else. Mom and Dad would understand, right?



RDD-20
Parcels:
Parcel Number: 011747002003
Situs Address: 214 HANKIN RD
Mail Address: 214 HANKINS RD
City,State,Zip: TOLEDO, WA 98591
Owner: [redacted]
Assessor Use Desc: 11 Single Unit
Property Type: RES
Land Use: single-residential
Land Value: 122,000
Imprvt. Value: 169,400
Total Value: 291,400
GIS Acres: 10.68
Total Acres: 9.92
View on parcels website
Zoom to


624 sq ft
2880 sq ft
011747002005
011747002003

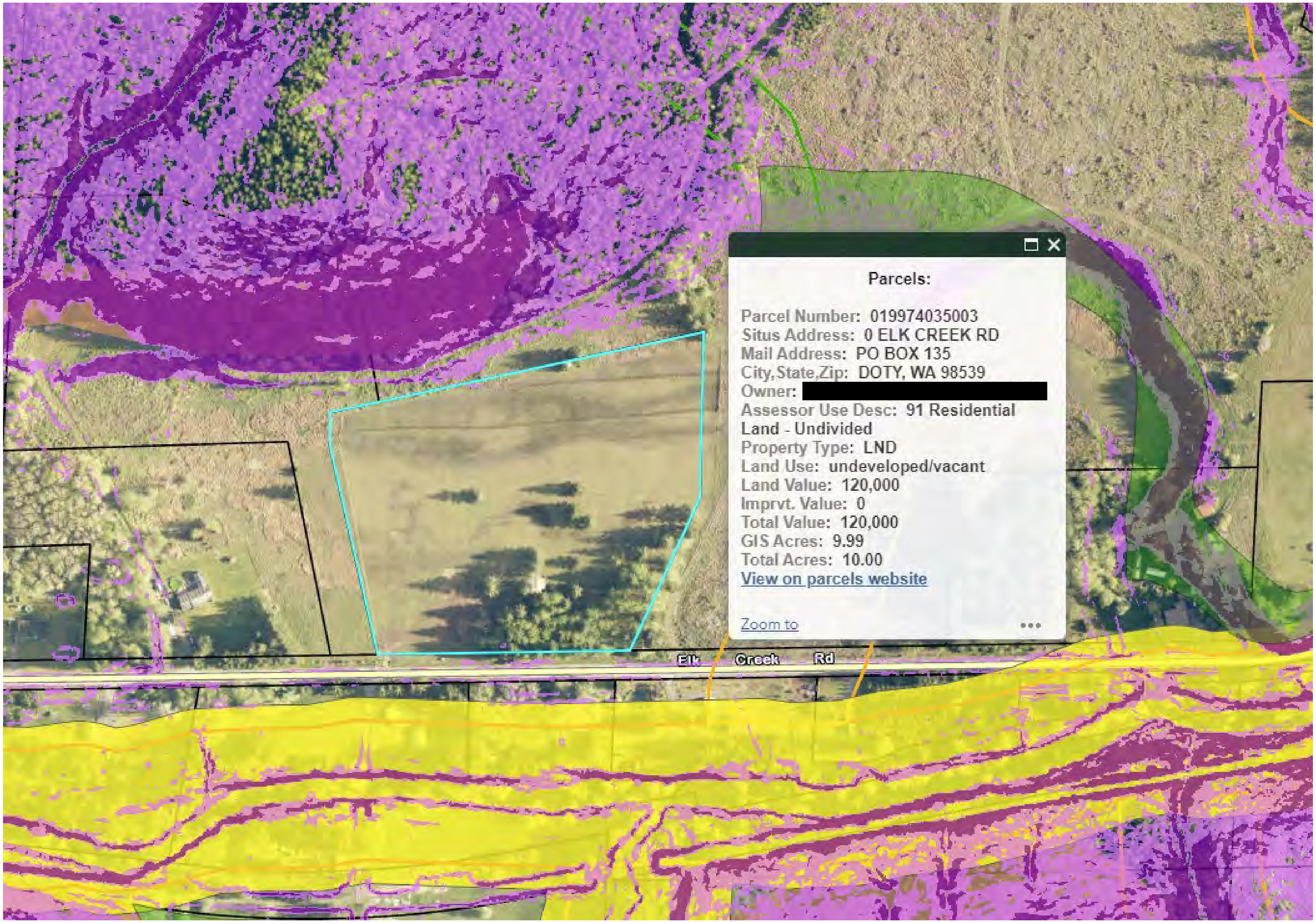


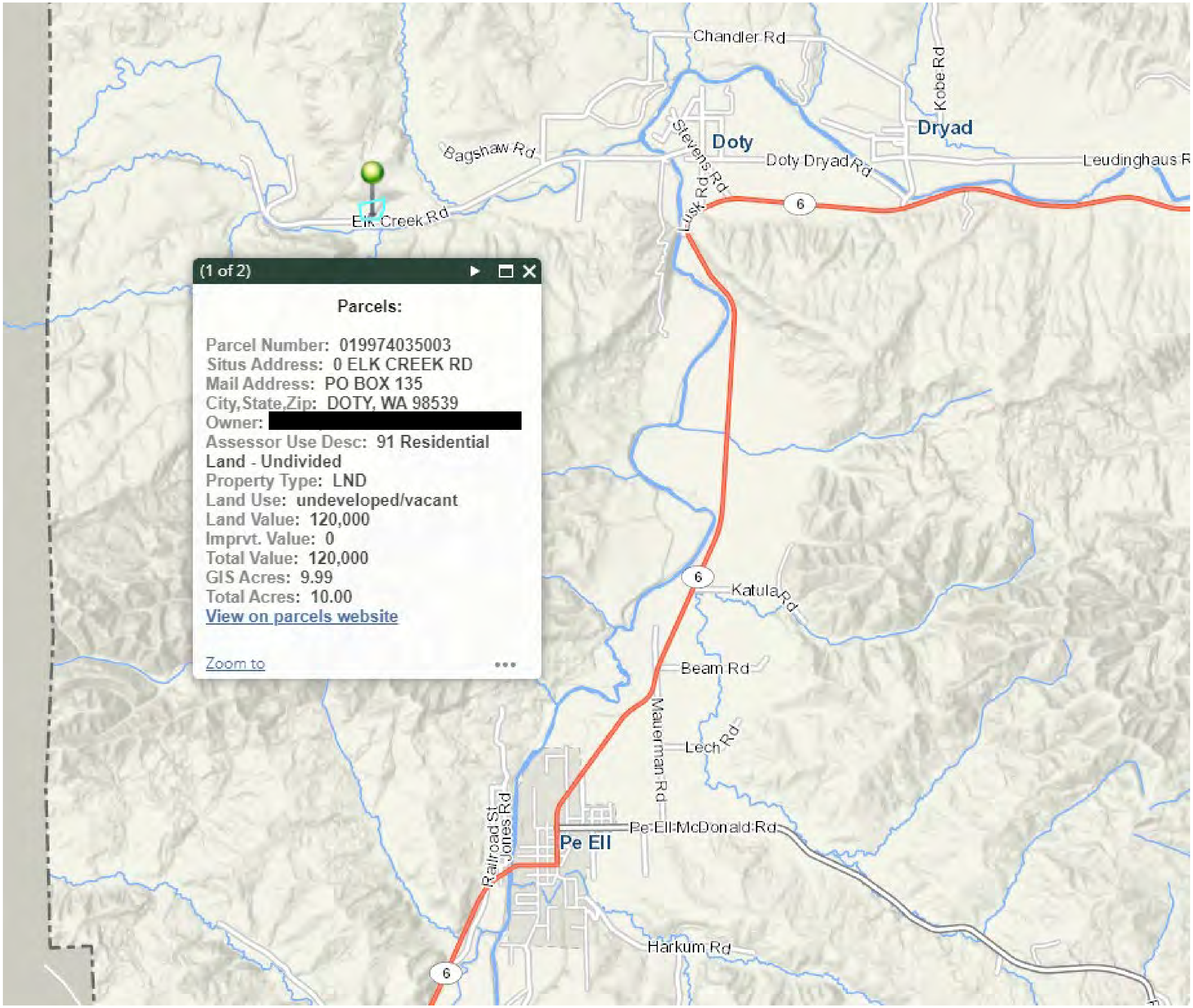
(1 of 3)
Parcels:
Parcel Number: 011747002003
Situs Address: 214 HANKIN RD
Mail Address: 214 HANKINS RD
City,State,Zip: TOLEDO, WA 98591
Owner: [redacted]
Assessor Use Desc: 11 Single Unit
Property Type: RES
Land Use: single-residential
Land Value: 122,000
Imprvt. Value: 169,400
Total Value: 291,400
GIS Acres: 10.68
Total Acres: 9.92
View on parcels website
Zoom to
Toledo
Salmon Creek Rd
Hankin Rd

# “You, Me and Dupree”

## <u>3 new Detached Units</u>
## 0 Elk Creek Road, Doty

You’re looking at property on Elk Creek Road near Doty as a way to find housing that you, your cousin, and your mutual friend Dupree can afford. You are all friends from high school and have been renting a house together, but you are tired of throwing your money away. You each feel like you should be able to buy your own house, since you all have decent jobs and are adults, but the prices are just ridiculous: there are no starter homes. You heard about this RHA idea and wonder if the three of you could each own a manufactured home on the property, giving you each a sense of your own place even if you jointly own the land together. BTW, the commute from Doty to Chehalis is only 25 minutes, which is less than when you took that job in Olympia for a while, and the three of you can *carpool*.


Parcels:
Parcel Number: 019974035003
Situs Address: 0 ELK CREEK RD
Mail Address: PO BOX 135
City,State,Zip: DOTY, WA 98539
Owner: [redacted]
Assessor Use Desc: 91 Residential Land - Undivided
Property Type: LND
Land Use: undeveloped/vacant
Land Value: 120,000
Imprvt. Value: 0
Total Value: 120,000
GIS Acres: 9.99
Total Acres: 10.00
View on parcels website
Zoom to
Elk Creek Rd


Chandler Rd
Kobe Rd
Doty
Dryad
Bagshaw Rd
Stevens Rd
Doty Dryad Rd
Leudinghaus R
Lusk Rd
Elk Creek Rd
6
(1 of 2)
Parcels:
Parcel Number: 019974035003
Situs Address: 0 ELK CREEK RD
Mail Address: PO BOX 135
City,State,Zip: DOTY, WA 98539
Owner: [redacted]
Assessor Use Desc: 91 Residential Land - Undivided
Property Type: LND
Land Use: undeveloped/vacant
Land Value: 120,000
Imprvt. Value: 0
Total Value: 120,000
GIS Acres: 9.99
Total Acres: 10.00
View on parcels website
Zoom to
Katula Rd
Beam Rd
Mauerman Rd
Lech Rd
Railroad St
Jones Rd
Pe Ell
Pe Ell McDonald Rd
Harkum Rd

# “Simplicity Estates”

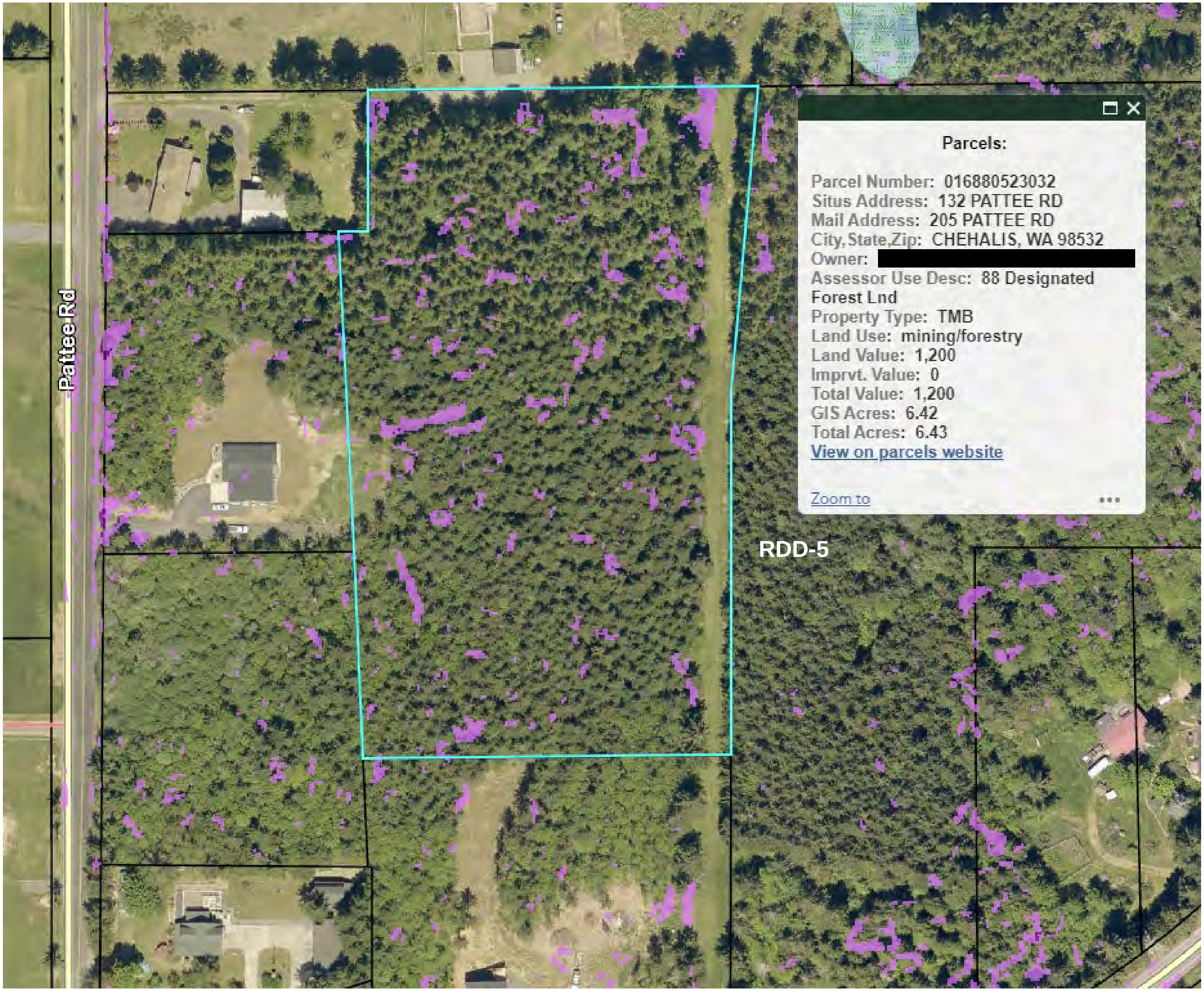
## <u>Tiny Home Village</u>
## 132 Pattee Rd

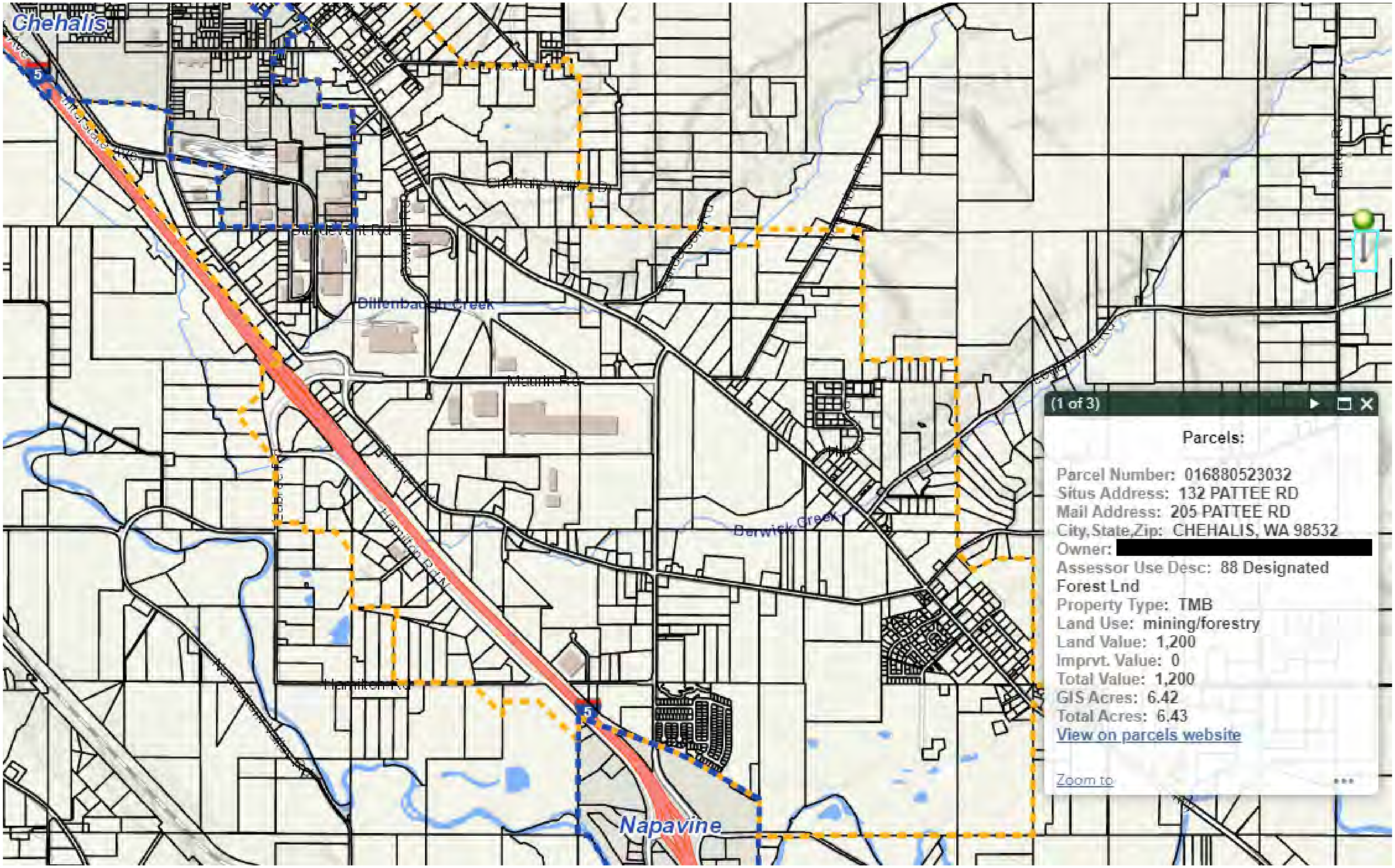
You’re an investor who thinks tiny homes are a screamingly popular new trend that you should really get into. You’re looking at 132 Pattee Rd as a potential site for **eight** tiny homes, which you hope to rent at a markup for the natural beauty of the rural area. Or you could sell them as condos (whatever makes financial sense). You would log the property first, of course, to make a buck on that. But hey, you’ll leave a buffer of trees as a screen for the neighbors.

Basically, you’re hoping to get the tiny homes in there for the cheapest possible, and sell or rent them for as much as possible.

There is an existing access easement from Pattee Road to the property located along a driveway extending east from Pattee to the middle of your property. The neighbor is aware of the easement and supportive of your development. (The neighbor owns the vacant lot to the south and will get the benefit of your experience developing your lot.)

Note: you can’t build anything on that clear-cut strip on the west side of the property; it’s a natural gas pipeline.


Pattee Rd
RDD-5
Parcels:
Parcel Number: 016880523032
Situs Address: 132 PATTEE RD
Mail Address: 205 PATTEE RD
City,State,Zip: CHEHALIS, WA 98532
Owner: [redacted]
Assessor Use Desc: 88 Designated Forest Lnd
Property Type: TMB
Land Use: mining/forestry
Land Value: 1,200
Imprvt. Value: 0
Total Value: 1,200
GIS Acres: 6.42
Total Acres: 6.43
View on parcels website
Zoom to



Chehalis
Dillenbaugh Creek
Maurin Rd
Berwick Creek
Hamilton Rd
Napavine
(1 of 3)
Parcels:
Parcel Number: 016880523032
Situs Address: 132 PATTEE RD
Mail Address: 205 PATTEE RD
City,State,Zip: CHEHALIS, WA 98532
Owner: [redacted]
Assessor Use Desc: 88 Designated Forest Lnd
Property Type: TMB
Land Use: mining/forestry
Land Value: 1,200
Imprvt. Value: 0
Total Value: 1,200
GIS Acres: 6.42
Total Acres: 6.43
View on parcels website
Zoom to

## Update to Scenario 1 – SFR Comparison

## 140 Texas Lane near Winlock

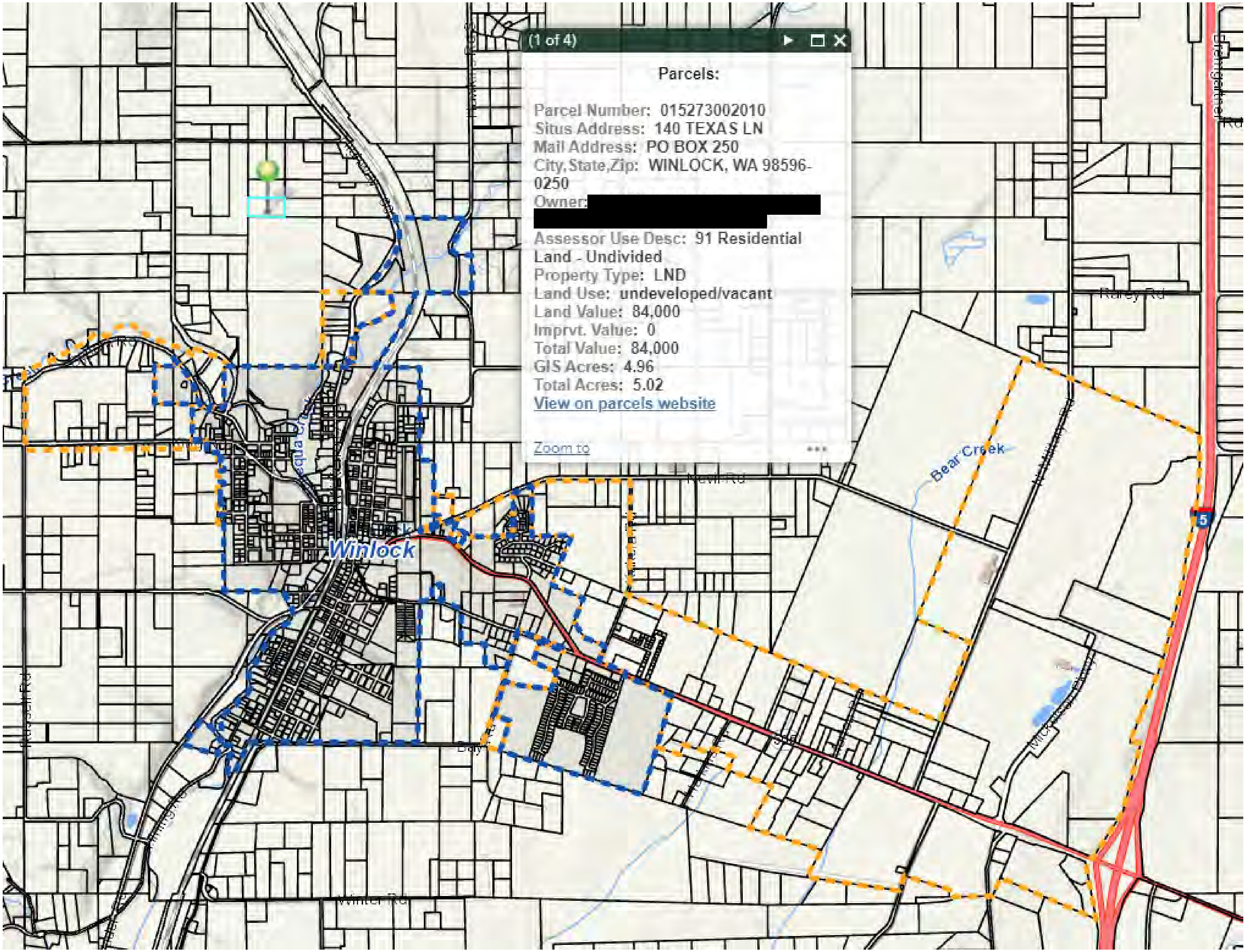
You are the tree farmer who got the estimate for a family quadplex below.  You are now wondering how the costs would be different if you just put a big single-family residence on the property, and how much more it would be if you built an ADU with the residence.

## Scenario 1 – Family Quadplex

## 140 Texas Lane near Winlock

You own a tree farm just north of Winlock. You logged a parcel you own just south of the tree farm and hope to put in four attached units for some of your younger family members---either to help with the tree farm or just to live close. These would be designed like “townhomes.” If your family doesn’t live there forever, it would be nice if the development could produce income for you. You also want to estimate the price the land would fetch if you sold it, to see what you’re giving up by developing it like this.


RDD-5
Texas Ln
Parcels:
Parcel Number: 015273002010
Situs Address: 140 TEXAS LN
Mail Address: PO BOX 250
City,State,Zip: WINLOCK, WA 98596-0250
Owner: [redacted]
Assessor Use Desc: 91 Residential Land - Undivided
Property Type: LND
Land Use: undeveloped/vacant
Land Value: 84,000
Imprvt. Value: 0
Total Value: 84,000
GIS Acres: 4.96
Total Acres: 5.02
View on parcels website
Zoom to


(1 of 4)
Parcels:
Parcel Number: 015273002010
Situs Address: 140 TEXAS LN
Mail Address: PO BOX 250
City,State,Zip: WINLOCK, WA 98596-0250
Owner: [redacted]
Assessor Use Desc: 91 Residential Land - Undivided
Property Type: LND
Land Use: undeveloped/vacant
Land Value: 84,000
Imprvt. Value: 0
Total Value: 84,000
GIS Acres: 4.96
Total Acres: 5.02
View on parcels website
Zoom to
Winlock
Bear Creek
Nevil Rd
Rarey Rd
Winter Rd
5

# Attachment C

## *Financing Prospects for Sample RHA Development Scenarios*

# Financing Prospects for Rural Housing Alternative Developments, Based on ISG Cost Estimates & Financing Research

## *For developers considering rent potential of property*

| Scenario | Project Type / Variation | Est. Bldg. Cost | Financeable to buy property and develop as: *RHA (1 owner)* | *Condos* | If own property already? *RHA* | *Condos* | At 3.5%? *RHA* | Notes |
|---|---|---|---|---|---|---|---|---|
| 140 Texas Lane | Family quadplex | $1,511,000 | No | No | No | No | No | |
| 948 Burnt Ridge Rd | Existing home + 2 new MFH | $828,500 | No | Yes | Yes | Yes | Yes | |
| 214 Hankin Rd | Existing home + 2 new barndominiums | $1,454,000 | No | No | Yes* | Yes | No | *with 30% down |
| Elk Creek Rd | 3 New 1200 sq ft MFHs | $799,900 | No | Yes | Yes* | Yes | Yes | *with 30% down |
| Elk Creek Rd (4 units) | 4 New 900 sq ft MFHs | $970,400 | No | Yes | Maybe†* | Yes | Yes | †* if unit costs are slightly lower and with 30% down |
| Elk Creek Rd (2 units) | 2 New 1800 sq ft MFHs | $669,400 | Maybe† | Yes | Yes* | Yes | Yes | †if rents are high; *with 10% down |
| 205 Pattee Rd | Eight new tiny homes | $920,000 | Yes | Yes | Yes | Yes | Yes | |

## *For (usually very wealthy) homebuyers considering an RHA to offset costs*

| Scenario | Project | Comparison (at 30% down) | Project: *Total Cost* | *20% Down* | *Monthly* | Comparison: *Additional Down* | *Additional Monthly* | Plausible for right buyer? | Notes |
|---|---|---|---|---|---|---|---|---|---|
| 140 Texas Lane | Build SFR & shop | Quadplex | $1,237,000 | $247,400 | $6,683 | $205,900 | $460 | Maybe | The quadplex costs more, but could house more folks |
| 140 Texas Lane | Build SFR & shop | 4 MFHs | $1,237,000 | $247,400 | $6,683 | $43,720 | -$1,587 | Yes | 4 MFHs cost less than the SFR + shop |
| 140 Texas Lane | Build SFR & shop/ADU | Quadplex | $1,299,000 | $259,800 | $7,018 | $193,500 | $125 | Maybe | The quadplex costs more, but could house more folks |
| 140 Texas Lane | Build SFR & shop/ADU | 4 MFHs | $1,299,000 | $259,800 | $7,018 | $31,320 | -$1,922 | Yes | 4 MFHs cost less than the SFR + shop/ADU |
| 948 Burnt Ridge Rd | Buy existing home | Also add 2 MFHs | $500,000 | $100,000 | $2,701 | $148,550 | $1,649 | Yes | 2 added MFHs would likely bring in $1800 each in rent |
| 214 Hankin Rd | Buy existing home | Also add 2 barndos | $800,000 | $160,000 | $4,322 | $276,200 | $2,551 | Maybe | 2 added barndos would likely bring in $2300 each in rent |
| Elk Creek Rd | Site 1200 sq ft MFH | Site 3 MFHs | $432,500 | $86,500 | $2,336 | $153,470 | $1,824 | Yes, and need not be that wealthy | 2 added MFHs would likely bring in $1800 each in rent. Separately, 3 people teaming up for an FHA loan for the three MFHs would result in a downpayment per person that is $6500 lower than siting one MFH alone, and a monthly rent of $1387 per person, which is much less than buying one's own home and is much cheaper than renting a home would be. |