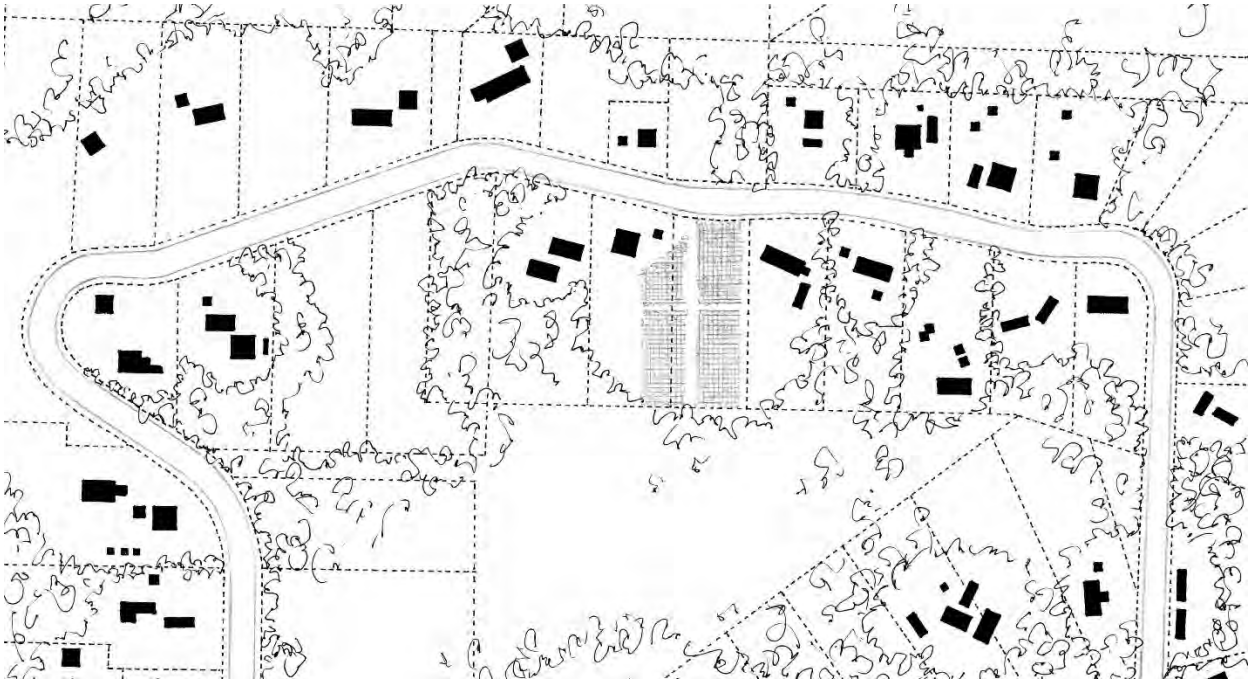
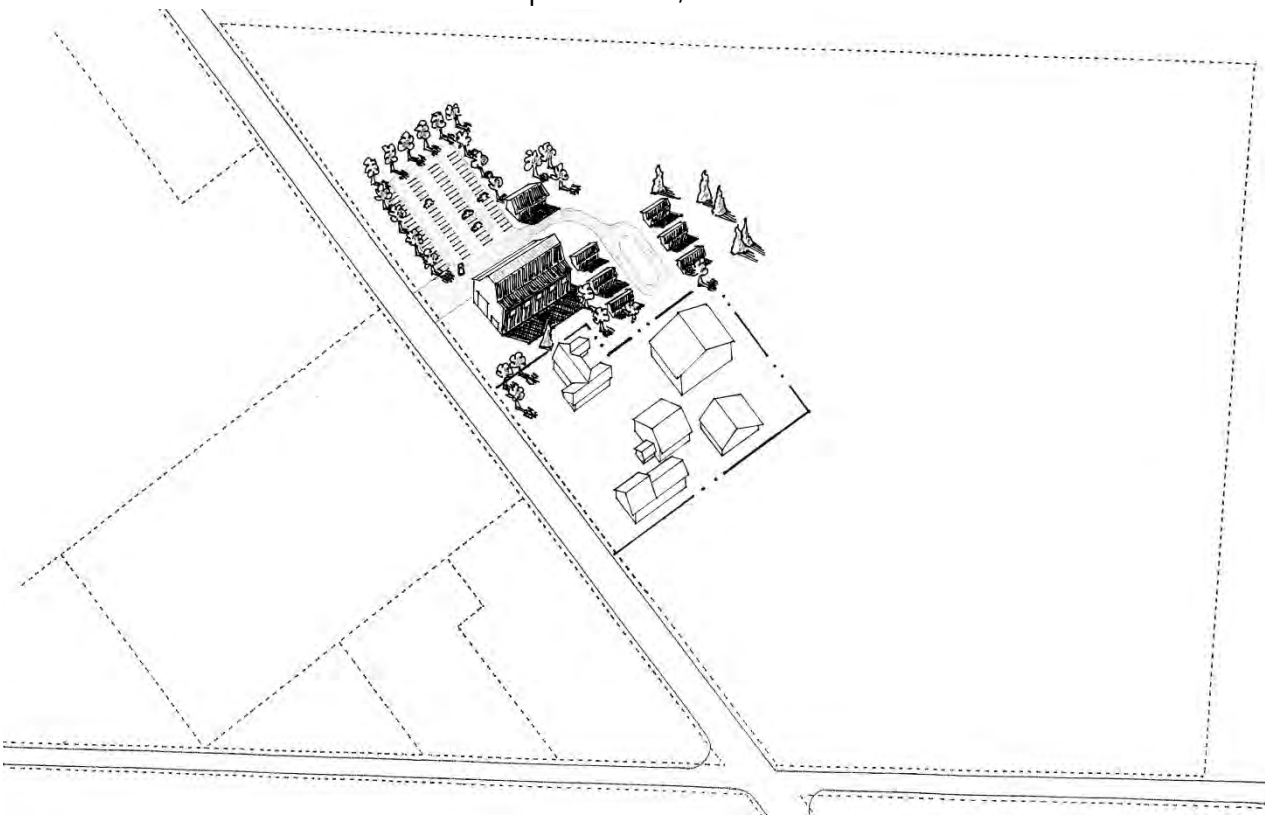


Rural Housing Alternative

Public Participation

Industry Stakeholder Group Results

September 26, 2023



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More information on the Rural Housing Update is available at
https://lewiscountywa.gov/departments/community-development/rezones/comprehensive-plan-and-development-regulation-amendments/rural-housing-update/

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1. Executive Summary

Staff convened an Industry Stakeholder Group (ISG) to explore the commercial feasibility of a proposed Rural Housing Alternative (RHA). The RHA is a clustered, form-based, interdependent type of housing allowing multiple units on large rural lots if they fit the form, impacts, and character of rural single-family residences. The ISG consisted of well-respected local professionals involved in the residential development business, from a diverse spectrum of fields associated with that industry.

Over three meetings in the spring and summer of 2023, the ISG provided feedback on the RHA proposal and tested "sandbox regulations" sketching out the rules that might apply to RHA developments. The testing consisted of conceptually developing, as a thought experiment, several plausible RHA developments on real-world parcels in Lewis County, noting the development tasks and costs associated with each scenario. The ISG generated pro forma budgets for these sample developments and identified any problems or issues that would arise. Finally, the ISG considered the financing implications of the sample developments to test their commercial viability.

The ISG's feedback resulted in several clarifying changes to the sandbox regulations. It also led to an important substantive change: a 400-square-foot increase in the residential square footage limitation for RHA developments, to reflect the current rural character in Lewis County which includes larger single-family residences.

The sample developments the ISG considered were:

- A new quadplex of townhomes;
- Adding two detached manufactured homes to a lot 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, mostly due to construction costs and interest rates being high. Manufactured homes had lower construction costs than stick-built buildings, and so were more likely to be viable, but are not the most durable form of housing for rental.

Some of the RHA developments are not feasible to develop because the resulting units' rent will not cover the debt service sufficiently. However, some of the developments are feasible:

- The RHA development scenarios using manufactured housing are viable as condos.
- If the developer already owns the property (or has an equivalent amount of equity), almost all the RHA options are plausible as either rentals or condos.
- The tiny home cluster RHA pencils in every permutation and can be very affordable.

Moreover, for wealthier individuals with high enough earning potential to justify a large loan, an RHA may sometimes be an attractive add-on or alternative to a home purchase. Although the RHA add-on requires additional money down, the extra RHA units will produce rent 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. This model seems particularly plausible in the context of "family compounds", in which a wealthy person builds housing for multiple adult family members and asks for contribution from the family members, resulting in more affordable housing for the whole family. It can also work with arms-length renters, following a historical model in Chicago in which buyers of duplexes (dubbed "two-flats") used the rent income from the second unit to offset their mortgage payments.

In addition, the RHA offers a new option for buyers to cooperatively purchase multiple small homes on one large rural lot, thereby reducing their downpayment and monthly payments compared to what it would cost for each of the buyers to purchase their own home. This strategy can produce homeownership options affordable to middle-income buyers.

Ultimately, the ISG participants supported enabling RHAs in the Lewis County Code. They noted that RHA developments would not be big moneymakers, and so would not be valuable to large-scale developers. However, the RHA would increase options for property owners and enable, in a small way, family compounds and other more-affordable options for some people, for which they felt there was demand. In short, the RHA will not fix the housing crisis in unincorporated Lewis County, but the ISG supported it as a step in the right direction to create more options and flexibility.

The ISG process and resulting financial analysis demonstrate that RHAs are feasible and can create some new options and benefits to rural housing. But, they are constrained, difficult, and costly enough that they will not lead to an explosion of dense housing requiring urban services. These financial constraints will be powerful complements to the regulatory constraints on RHAs designed to conform them to rural character. Accordingly, the ISG process suggests that the RHA can offer limited, GMA-compliant rural housing options that will improve the affordability and availability of rural housing in unincorporated Lewis County, without leading to significant rural growth.

2. Introduction: the Rural Housing Alternative

In 2022, Lewis County adopted a Housing Initiative that included an objective to provide affordable housing options at all income levels. To explore options to create affordable and available housing in the rural area, Lewis County Community Development staff introduced the Rural Housing Alternative (RHA): a clustered, form-based, interdependent type of housing in which multiple dwelling units may be developed within the same basic footprint as, and with comparable impacts to, single-family residences on large lots in rural zones.

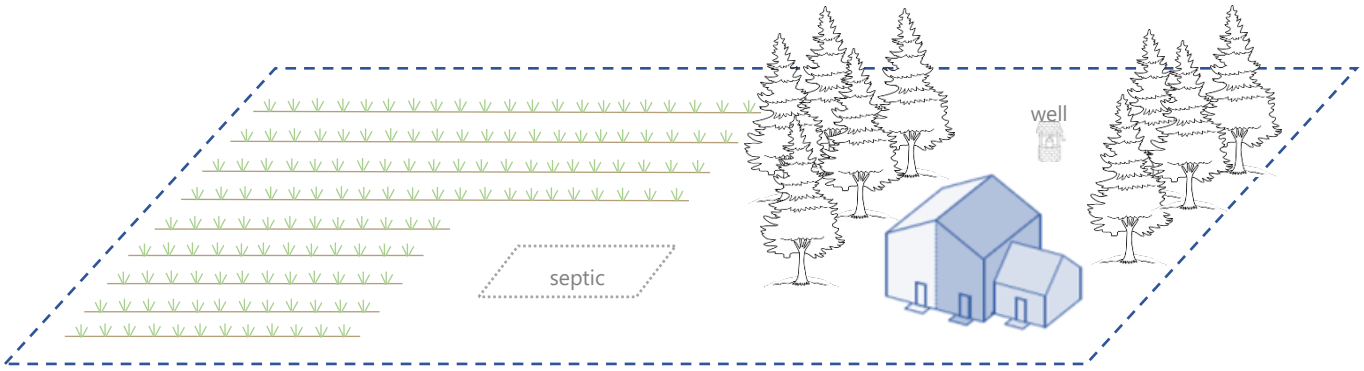


Figure 1 – Example RHA containing three conjoined units.

To ensure that RHAs would preserve Lewis County's rural character and comport with the Growth Management Act, staff proposed a series of constraints designed to prohibit sprawl or demand for urban services, including:

- The lot must be at least 5 acres in size.
- All housing units must be clustered within 1.25 acres of the lot.
- The total footprint of residential use must be less than 3,200 square feet.[1]
- The development must rely on rural water and wastewater services (usually well and septic).
- All housing units must be accessed from one primary driveway.
- The lot cannot be subdivided.
- There must be adequate rural public facilities (e.g., fire, school) to serve the development.

These constraints would significantly affect the viability and costs of such developments. The Lewis County Planning Commission, Board of County Commissioners, and other stakeholders asked whether such developments would be commercially feasible. To answer that question, staff formed the Industry Stakeholder Group and held three sessions in the spring and summer of 2023.

3. The Industry Stakeholder Group

The stakeholders most able to gauge the viability and cost effectiveness of RHA developments are professionals engaged in residential development. Staff therefore convened an Industry Stakeholder Group (ISG) to seek technical assistance about how RHA developments would likely occur, the likely costs, and potential constraints. The ISG would consider sample RHA developments to determine whether each would be possible and commercially viable, and to identify regulatory barriers or obstacles that could be mitigated to the extent possible under background laws.

The following participants generously volunteered to serve on the ISG:

[1] This was the initial size limitation, later revised based on the advice of the Industry Stakeholder Group.

Role	Participant	Description of Experience
Developer	Greg Lund	Realtor (Century 21) and long-time residential developer throughout county
Builder	John Johnson	Custom-home building and president of the local chapter of Olympia Master Builders
Civil Engineer	Luke Moerke	Owner and PE of Exodus Engineering; also familiar with well-drilling practices of Moerke & Sons, a longtime local well-drilling firm
Septic Designer	Jeannie Yackley	Licensed septic designer and wetland scientist for Goode & Associates, in Lewis County
Construction Lender	Andy Alexander	Principal at Security State Bank, the most significant construction lender in Lewis County
Realtor for Homebuyers	Paulette Eaton	Realtor (Keller Williams) experienced in serving homebuyers in Lewis County
Lender for Homebuyers	Jacek Gillispie	Senior loan consultant for Summit Funding, home mortgage lender in Lewis County
Title Company	Meri Hamre	Lewis County resident and title official for Aegis Land Title Group in Olympia, formerly a longtime title official for a Lewis County title company
Rental Property Manager	Trina Homan	Principal of Pete Bezy Realty, a major property manager in Lewis County; also a licensed realtor
Renters' Representative	Tracy Croshaw	Licensed realtor with experience in helping renters find properties, primarily focused on Lewis County as opposed to other, I-5-corridor-concentration of other volunteers
Hard Money Lender / Landlord	Joe Enbody, Jr.	Local attorney and hard money lender, as well as landlord and small-scale developer

The individuals above are well-known and -respected in Lewis County development circles. They represent a wealth of local experience from across the industry; staff were lucky to have their participation.

Some fields were not represented on the ISG, the most important of which was well driller. The civil engineer, however, had previous experience with his family's well-drilling business to offer. Also not present were an architect (most small-scale development projects do not use an architect) and a pro-forma budget specialist (each participant offered their cost intuitions in their relevant field, based on their specific expertise). Despite the absence of these roles, the ISG

consistently demonstrated its command of local development principles, practices, and costs, such that its opinion was worthy of great weight.

4. Session 1: ISG Introduction – April 10 & 14, 2023

Staff conducted an introductory session with the ISG participants to orient them to the project and the nature of assistance requested. Due to the participants' busy professional schedules, no single time worked for all of them; therefore there were two introductory sessions, with the participants attending whichever fit their schedules. Both sessions had the same content.

A. Before the Session

Before the session, participants received the RHA summary handout and a link to the RHA website, which included the full written report concerning rural housing constraints. These materials are located here: https://lewiscountywa.gov/departments/community-development/rezones/comprehensive-plan-and-development-regulation-amendments/rural-housing-update/ , and the RHA summary handout is included in Attachment A.

The participants also received "sandbox regulations" before the session. These were principles to guide the group's consideration of how RHAs would work in practice, which the group would vet through its work. The initial sandbox regulations tracked the constraints noted in the introduction of this document and are included in Attachment A.

B. At the Session: Initial Impressions

At the session, staff explained the purpose and proposed task of the ISG. The participants were asked for their initial impressions on the RHA concept and sandbox regulations. Several points from the concept and regulations needed clarification. For example:

- The term "footprint" (used by staff to explain how the RHA units must have residential space of under 3200 square feet or less) meant, to development professionals, the outer built edge of buildings as opposed to the square footage of those buildings. The term "conditioned space" was more appropriate to denote livable square footage.
- The RHA would be an additional option for development in RDD zones; it would not be the only option allowed in such zones.
- Only the residential buildings have to be within the 1.25-acre envelope of land within the large lot, whereas the septic system and well can extend outside that envelope, using the full lot area.

Beyond these needed points of clarification, the participants raised several substantive issues they would be considering in their review of RHA developments. These included the following:

- Square footage limitation: Across the board, all of the participants advocated for a higher square footage limitation than 3200 square feet.
    - In particular, the size of an "average" rural home + ADU in Lewis County, on which the 3,200 square foot limitation was based (1,860 square feet plus a 1296 square foot ADU), is not currently average. Rather, newer homes almost invariably are greater than 2,000 or 2,500 square feet. They asked staff to

consider the average size of current rural homes to make the benchmark match reality.

    - Some advocated for as much as 6000 square feet to make RHA developments' units more desirable (e.g., four 1500-square-foot units) and more able to support the increased development costs the constraints on RHAs would entail.
    - The landowners or developers with the capital to develop an RHA would prefer a larger unit than an 800-square foot townhome.

- Water rights and flow availability: (a) only a certain number of connections may be supplied by a single permit-exempt well as a matter of water rights, and (b) as a matter of health regulations on wells, the wells must produce a certain quantity of water to allow for adequate residential flow.
- Group B well compliance: wells serving multiple residences require Group B well compliance and a satellite management agreement. SMAs are sometimes hard to come by, and may be expensive.
- Septic compliance: Shared septic systems are possible but can add cost, especially since Lewis County Environmental Health usually requires each residence to have its own septic tank.[2]
- Private roads/driveways: generally, driveways under the county code can only serve up to two residences. The third residence on the same drive must upgrade the driveway to private road standards, which is costly.[3]
- Demand / marketability: Some of the participants were initially skeptical that there would be demand for RHA units either for purchase or for rental.
    - After discussion, the participants agreed that there would likely be demand for "family compounds" consisting of something other than one large house and an ADU (currently allowed in RDD zones).
    - Moreover, there might be demand for other rental or ownership configurations. For example, RHA units might command a rent premium compared to in-city apartments or townhomes of the same size because of their rural location. Condo or other ownership options might appeal to those not wishing to maintain a large lot alone.
    - All participants supported the flexibility that the RHA model would provide, allowing landowners or developers more options in RDD areas and the possibility of more units.
- Critical areas feasibility: Participants posited that many lots in Lewis County have critical areas making development more challenging. They asked staff to research whether

[2] Staff proposed that the regulations are ambiguous and might potentially allow shared tanks in some circumstances as a cost-reducing mechanism.

[3] Staff proposed that the rules associated with RHAs would treat the RHA as a single residence for purposes of this rule.

there were lots that could potentially support RHA developments' greater well and septic needs (which exceed those of single-family residences).

- Financing constraints: RHA units are novel, and therefore might be difficult to finance on the secondary market.
    - Until they were common in the area, construction would need to be via a "portfolio loan" from a local lender that could not be resold on the mortgage market. This would be doable, but not as easy as other construction loans.
    - Multiple prefab homes on the same property would fall outside FNMA lending guidelines, meaning that mortgage lenders would not be able to loan to potential buyers for the purchase of an RHA development consisting of multiple manufactured homes. The first such unit would be possible to finance. The others would need either to be cash-financed or lent on by a local lender with a lot of equity paid down to secure the loan. Multiple stick-built structures on the same lot would not face the same limitation; they would be labeled "triplex" or "fourplex," for example, and could be financed as such.
- Setbacks: The participants were not concerned about the county's standard setbacks (or even greater setbacks for neighbor privacy) due to the large size of the lots on which RHAs would be allowed. But, if the lot were narrow or hilly, they noted setbacks could be problematic.

C. Teeing Up the Sample Developments

After these initial impressions, staff asked the participants about several tentative sample developments that they might address at the second session. These were:

- New duplex, stick-built
- New townhome quadplex, stick-built
- Three manufactured units
- A remodeled house
- A remodel for barndominiums
- Eight tiny homes[4]

The participants expressed the following concerns:

- The rental property manager indicated that manufactured units often are not durable enough to be successful as rental homes.
- Several participants agreed that remodeling a house into a multiple-unit building would likely not be worth the cost; however, they proposed that there are many older, small homes ("Grandma-Grandpa farmhouses") that would leave a lot of residential square footage left over under RHA's cap. They proposed that one

[4] Some stakeholders have flagged tiny homes as a concern in the rural area. However, it was important to test whether tiny homes would be feasible, or potentially lucrative, under the RHA proposal. If there would be a financial incentive to produce tiny homes, the regulation will need to specifically allow or disallow them. If tiny homes would be financially infeasible under the proposal, the point is moot.

would leave the small house as-is, and build an additional couple of small units (not currently allowed without RHA because one can have only one ADU).

- The civil engineer posited that many barns are not frame-built, on foundations, or insulated well enough to be remodeled into barndominiums consistent with energy code constraints—the group agreed that it would have to be a remodel of a stick-built garage, shop, or other outbuilding.

Staff were to revise the list of RHA development types based on the feedback. The ISG additionally requested that staff look for parcels in Lewis County that could support such developments, meaning that they were of sufficient size, in the right zone, and free of critical areas to the extent that a large septic system and well could be possible on the lot. This concluded the introductory session.

5. Preparation for Second ISG Session

A. Changes to Sandbox Regulations per ISG Feedback

In preparation for the second session, staff researched the issues raised by the ISG participants and clarified or modified the sandbox regulations accordingly. For example, the updated sandbox regulations:

- noted both the amount of water that the Group B well code attributes to each dwelling unit for purposes of water rights (350 gallons per day) and the flow that it requires for each dwelling as a matter of public health (750 gallons per day).[5]
- clarified that an RHA would be permitted via an administrative process in certain rural lands (i.e., just a new option in the zoning table, not the *only* option).
- explained that only the housing units and buildings immediately associated with them (like detached garages) must be within the RHA's 1.25-acre envelope, whereas the well, pump house, septic system, and drainfield need not be in that envelope.
- specified setbacks and offered the possibility of a variance in some circumstances.

The second session's sandbox regulations are included in Attachment B.[6]

B. "Livable Space" Changes

One additional change to the sandbox regulations was an increase from 3,200 to 3,600 square feet of allowed residential space.[7] The increase in square footage was prompted by the participants' experience that new rural homes are usually larger than 2,000 square feet, and their

[5] For small units, these figures exceed the amount the Department of Ecology would use to determine water usage for its permit-exempt well water rights calculations (75 gallons per capita per day, imputing two people to each bedroom). Therefore, more-restrictive Group B code ends up controlling.

[6] The second-session sandbox regulations in Attachment B are identical to the most current sandbox regulations in Attachment C, except for one minor septic clarification in the latter.

[7] Residential space was dubbed "livable space (usually conditioned space)" in the updated sandbox regulations, reflecting ISG participants' feedback on how best to denote dwelling units but not their unfinished garages or external unfinished shops.

desire to dramatically increase the total RHA square footage cap for marketability reasons. For the reasons set forth below, an increase to 3,600 square feet was warranted by specific Lewis County circumstances, but no greater increase was born out by local data.

The original rationale behind the 3,200 square foot cap was as follows. (1) An RHA should be consistent with the size and impacts of an average, allowable rural Lewis County residential development, to demonstrate its consistency with existing rural character. (2) Current Lewis County code allows a single-family residence and an ADU of up to 1,296 square feet on a rural lot. (3) The average size of a home in the nonurban areas of Lewis County, per 2022 tax year Assessor data, was 1,860 square feet. (4) 1,860 square feet plus 1,296 square feet equals 3,156 square feet, which was rounded for simplicity to 3,200 square feet.

The ISG participants voiced concerns that the average rural household figure used in step (3) above was outdated and inaccurate in modern development terms. To test this assertion, staff reexamined the tax data alluded to in step (3). This was data compiled by the Lewis County Assessor's Office on every stick-built residence they had identified in Lewis County for tax year 2022 (reflecting observations as current as summer 2021). The data set includes the finished residential space of such buildings (in an entry distinct from their total square footage), as well as their year built, the zone in which they are located, and many other pieces of information.

For stick-built residences in RDD zones in Lewis County built in all years (1850-2021), the mean square footage of finished space was 1,766 square feet, and the median was 1,674 square feet. Two important points for the RHA project arise from this data.

a. The mean RDD finished space was about 100 square feet *smaller* than the 1,860 square feet that staff initially used when calculating the average size nonurban residence. The latter figure was the mean finished residential space in resource and rural zones, including ARL, MRL, and FRL instead of merely RDD zones—apparently, the homes in the resource zones are bigger, and adjusted the mean upwards.

b. Second, the median RDD finished space was smaller than the mean, which is called "right-skewed" data. Right-skewed data indicates that a minority of large data points are skewing the mean higher than the median, suggesting that the mean is perhaps higher than a fair average.

Next, staff filtered the same data set for residences built on or after 2000. For stick-built residences in RDD zones in Lewis County constructed in 2000-2021, the mean square footage of finished space was 2,056 square feet, and the median was 2,070 square feet. The observations arising from this data are as follows:

1. The mean square footage of finished space was significantly higher (16.4%) in post-2000 homes, as the ISG participants predicted.

2. The mean of the post-2000 homes was *slightly left-skewed,* not right skewed, which is to say that its median was slightly higher than the mean. Unlike the all-years data set, then, it is not the case that a minority of larger homes were skewing the mean upwards. Instead, the mean for the post-2000 homes is a fair average.

3. Both the mean and median are larger than the 1,861 square feet figure staff used to estimate the average residential square feet in Lewis County rural residences.
4. Therefore, as the ISG participants knew from experience, staff's model for average rural residential size/impacts was outdated: the real size of homes being constructed in Lewis County's RDD zones was larger than staff had accounted for.

These results are summarized in Figure 2.

Finished Residential Space in Stick-Built Residences in Lewis County RDD Zones, per TY 2022 Data		
Year Built Range (inclusive)	*1850-2021*	*2000-2021*
Mean	1,766	2,056
Median	1,674	2,070

Figure 2 — The average size of residential homes built from 2000-2021 was significantly larger than the average size of residential homes built from 1850-2021, as predicted by the ISG participants.

Because the ISG participants were correct that rural house sizes had increased in modern times, the question was how to accurately reflect average rural house sizes if they were trending upwards. To view this trend, staff plotted the mean and median residential square footage for all stick-built residences in Lewis County RDD zones for each year built, from 1940 to 2021. Figure 3, below, shows this data with linear trend lines.

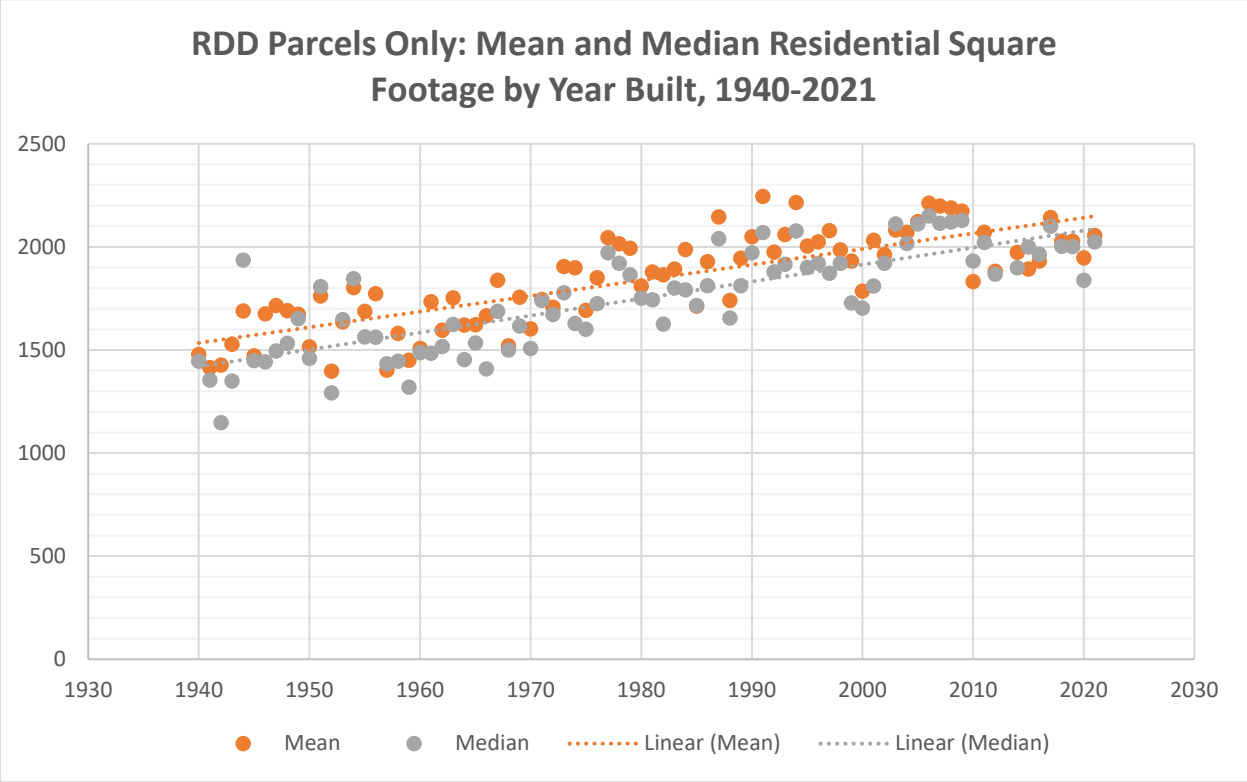


Figure 3 — Mean (orange) and median (gray) residential square footage for all stick-built residences in Lewis County RDD zones for each year built, from 1940 to 2021, with linear trend lines.

Figure 3 shows that average residential space in Lewis County's rural homes has increased fairly steadily over eight decades, interrupted only by a slight downward hitch around the time of the great recession (with similar steady increase again afterwards). The linear trend line, which appears to roughly match the data, would put the 2021 average residential square footage at around 2,100 (median) or 2,200 (mean) square feet. Because a steady increase appears, it is reasonable to say that a fair average for the year 2024 would be 2,300 square feet.

The basis for the RHA residential square footage cap would then be this 2,300 square feet of "livable space" found in the average rural home in Lewis County, plus the permissible 1,296 square feet allowed for an ADU under current code, for a total of 3,596 square feet. The updated sandbox regulations rounded this cap up to 3,600 square feet for simplicity.

Although many of the ISG participants expressed an interested in a far larger livable-space cap than 3600 square feet—seeking as much as 6,000 square feet to allow four 1500-square foot units—it is important to RHA's legality under the Growth Management Act to tailor RHA developments to the size and impacts of developments currently permitted in the rural area. Granted, there are many developments in Lewis County's RDD zones that far exceed 3,600 square feet in size: for instance, there is 12,000 square foot single-family residence near Toledo. Moreover, the ISG's custom home builder participant noted that 3600 square feet is at the bottom of the range of custom homes he regularly builds for clients in Lewis County, not including any external shops or buildings on the property. This shows that many completely permissible rural residential developments in Lewis County are much more impactful than a 3,600-square-foot RHA. But, if RHA developments are modeled on the *average* rural residential development (as opposed to the largest tolerable rural residential development), it is much clearer that they fit within and can preserve rural character without permitting sprawl or demanding urban services. Staff therefore continue to propose that the cap be only that of the average size rural home's residential space plus an ADU. This is a development size Lewis County currently sees, and can serve, as a matter of course in its rural areas.

C. Identifying Sample Properties and Development Scenarios

Staff used the Lewis County Public Works GIS map to identify candidate parcels that were in the correct zone and potentially developable for RHA sample developments. Staff amassed real-world candidate properties in various locations throughout the county, creating maps depicting the land, existing buildings if any, the presence of critical areas, and the general vicinity of each property.

Using the list of proposed sample developments and the ISG participants' advice on those samples, staff developed sample development scenarios for each property. The scenarios were plausible situations in which a Lewis County resident, or prospective resident, might consider building an RHA development. Each included a short vignette explaining the potential RHA developer's interests and motivations, as well as the maps of the parcel and vicinity. The scenarios are included in Attachment B.

Finally, staff developed some basic assumptions necessary for each development scenario, which are discussed in the next section.

6. Session 2: ISG Workshop – June 6, 2023

The ISG reconvened on June 6 for an ambitious second session involving multiple sample development scenarios using the updated sandbox regulations. The materials from this session are included in Attachment B.

A. Reviewing Updated Sandbox Regulations

Participants first reviewed the updated sandbox regulations. One flaw they identified was that the "normal septic and well rules" provision (#9 in the updated sandbox regulations) discussed septic tank size but made no reference to the usual analysis concerning unit volumes of sewage for developments other than a single-family residence. Participants were asked to employ those normal multifamily rules for purposes of the ISG work, which the experienced septic designer in the room was well-equipped to do. Staff corrected the deficiency in the sandbox regulations for the third session (see Attachment C).

B. Full Group – Quadplex Sample Development

Reviewing Assumptions

The next step was to walk through a development scenario, using certain assumptions and the ISG's collective experience. Staff proposed the following assumptions, which can be seen in Attachment B:

a. The RHA developer owned or could buy the property.
b. The property's zoning would allow an RHA.
c. There were no cultural resources to be found on the property.
d. The soil type, for septic purposes, was type 4.
e. The well would produce enough flow for the residences proposed, without unusual contaminants preventing its use, subject to Group B requirements.
f. The fire and school district would say they have adequate facilities to serve the development.

Participants were invited to challenge these assumptions. The septic designer corrected the soil type to 5 to fit the Winlock area. Promisingly, the participants believed that a well of reasonable depth for the area could meet assumption #5 if some storage were added (which could be reflected in the development costs). With these minor modifications, the assumptions were all reasonable enough to the participants to allow the exercise.

Sample Development: New Quadplex

The goal of this group exercise was to explore costs to develop four new, conjoined townhome-style units for the family members of an adjacent tree farm owner, on a recently cleared lot that was flat, had no critical areas, and abutted the cul-de-sac of a well-constructed private road. Please see the scenario and maps in Attachment B.

The participants were struck by the unusually perfect parcel in the scenario, calling it a "unicorn." They cautioned that this would not often be true and proposed that the lot price would be $175,000 to reflect its quality.

Using the combined skills of the professionals in the room, they then proceeded to conceptually develop the townhomes, starting first with the well, storage tank, and pump house; then the septic system; then power hookup; then groundwork and driveway excavation; then engineering and construction of the four units; then a detached pole garage; and finally an allowance for landscaping and permit fees. They also identified two ongoing expenses: fees to maintain the access road and to a satellite management agency to test the Group B well.

This conversation demonstrated a need for stormwater compliance, but unfortunately the participants did not identify a price for the stormwater component because it arose late in the exercise. They later approved $10,000 as the estimated stormwater costs. The group left loan fees and interest to be determined later.

In total, the development cost for the four-unit townhome RHA on an essentially perfect 5-acre lot was about $1.5 million, as shown in figure 4:

Property: 140 Texas Lane, Winlock		**Project: New Quadplex**
Task	Estimated Cost	Notes
Property price	$175,000	Perfect, flat property with existing, well-built private road and no critical areas to speak of
Well and storage	$20,000	150-foot depth well with a 1000-1500 gallon tank to ensure 20-30 gpm flow
Well pump house	$6,000	For construction of the house; the pipes an electrical were included in the $20,000 for the well and storage
Septic system	$70,000	With four tanks and a very large drainfield — but it would fit on the lot
Power hookup	$10,000	Hookup to new building; can vary depending on location of nearest transformer and other facilities served
Driveway and groundwork	$15,000	Likely 100+ foot driveway
Quadplex construction	$1,080,000	Four 900-square-feet units at $300/sq ft, due to needing a separate kitchen and baths in each unit. Assumed 2 bedrooms each.
Garage	$100,000	A pole garage for one car per unit (4 cars total)
Permit fees	$5,000	[Delays in permitting could also contribute to loan fees and additional interest.]
Landscaping	$20,000	
Stormwater	$10,000*	*Estimate approved at the 3rd ISG session.
Loan interest/fees	TBD	Staff were asked to consider financing costs
SMA fee	$400/year	Satellite management agency annual fee for a Group B well without major compliance issues
HOA fee	$200/year	Homeowners' Association fee to maintain private road
Total	**$1,511,000**	Plus $600 in fees annually, and whatever loan fees or interest attend the financing

Figure 4 – Development tasks and costs for a sample RHA quadplex development outside of Winlock

C. Small Groups — Two Additional Developments

The ISG participants then split into small groups to consider additional sample development scenarios B and C. Scenario A was skipped to increase the size (and collective experience) of each small group.

Scenario B – Existing House + 2 new detached prefab units

One small group was asked to consider a scenario in which the developer is buying a small rural home outside Onalaska and wishes to add two detached, prefab houses at a standard size (1296 sq ft). The full development scenario is included in Attachment B. The assumptions and sandbox regulations were the same as for the full-group quadplex development.

One of the participants had recently been involved in a development in which a manufactured home was delivered, sited, and set up with skirting, and so she had a definitive price comparison for this work. This group was therefore able to estimate the cost of buying the property, upgrading the well and septic systems, adding power, doing site prep work, and purchasing and siting/setting up the manufactured homes. The total development expense of the RHA consisting of an existing home and two prefab units was $828,500. See figure 5.

Property: 948 Burnt Ridge Road		**Project: Existing House, add 2 Detached Units**
Task	Estimated Cost	Notes
Property price	$500,000	Existing large parcel with small house
Well upgrades	$12,000	Needed for Group B compliance
Well pump house	$6,000	
Septic system added	$30,000	Due to added units
Power hookup	$10,000	Hookup to new buildings
Driveway and groundwork	$5,000	MF pads plus regraveling driveway
New prefab units	$260,000	For two manufactured homes, at $130,000 each for purchase, delivery, setup & skirting
Permit fees	$4,500	For dwelling units, power, etc.
Landscaping	$1,000	Gravel and small plants around MF homes
Garage*	$0*	[There was an existing garage and plenty of outdoor graveled space.]
Stormwater*	$0*	[The property already had quite a bit of impervious surface and was listed as an existing commercial venture, so it was not clear what additional stormwater compliance was needed.]
SMA annual fee	$400/yr	For Group B compliance
Loan fees / Financing	TBD	Two prefab structures cannot be conventionally financed; a private or commercial loan would be required.
Total	**$828,500**	Plus $400 in SMA fees annually, and whatever loan fees or interest attend the financing

Figure 5 – Development tasks and costs for a sample RHA of an existing house plus two new prefab units

This small group offered notes that there would be ongoing annual costs for the satellite management agency to inspect the Group B well, and loan fees and financing were left for later.

The Group also noted that two manufactured homes would not be able to be financed via a conventional mortgage; because only one prefab structure can be included in such financing, either a private or commercial loan would be required. The group did not add any cost for a garage or stormwater: the parcel had an existing garage and other outbuildings, as well as graveled space—and as a commercial venture already, it was not clear what additional stormwater compliance would be needed.

Scenario C – Existing House + Barndominiums

The second small group considered a scenario in which the developer inherits a small house on a large rural property near Toledo. The property also contains a stick-built, two-story outbuilding. The developer wants to renovate the outbuilding into at least two residential units. The full development scenario is included in Attachment B; the assumptions and sandbox regulations were the same as for the full-group quadplex development.

This small group included the custom home builder and civil engineer, lending credence to their remodel calculations. They estimated property sale price, a new septic and well to account for the extra units, power installation, driveway improvements, drafting costs for a shared-driveway lease agreement, and a remodel of the outbuilding into two 1,440-square-foot units at $200 per square foot. The cost calculations are in figure 6:

Property: 214 Hankin Rd	**Project: Existing House, Renovate Outbuilding to 2 Units**	
Task	Estimated Cost	Notes
Property price	$800,000	Existing large parcel with small house and large, stick-built, two-story, partially finished building with plumbing and power
New well and pump house	$26,000	Needed for Group B compliance due to new units, to satisfy to setbacks, well protection, and storage
Septic system added	$32,000	New septic for two added units
Power hookup	$10,000	Extend new service (need separate meters for new units)
Driveway	$10,000	Upgrades to extend to new units, and shared-use agreement
Remodel/Construction	$576,000	Based on current building and energy codes. Two 1440-square-foot units from the outbuilding at $200/square foot.
Permit fees	$0*	[Apparently included in construction cost estimate]
SMA annual fee	$400/yr*	[For Group B compliance. Group C did not include this, but it was established in the full group work.]
Loan fees / Financing	TBD	Two prefab structures cannot be conventionally financed; a private or commercial loan would be required.
Total	**$1,454,000**	Plus $400 in SMA fees annually, and whatever loan fees or interest attend the financing
Not including sale price:	**$654,000**	Pull out equity [if the developer inherits, and therefore already owns, the property]

Figure 6 – Development tasks and costs for an RHA of an existing house plus a remodel adding two units

After finishing the above small-group work, the ISG opted to come back for a third session to consider a few more sample developments.

7. Session 3: ISG Continued Workshop – July 26, 2023

The ISG reconvened at the next mutually available time, which was July 26, 2023. By then, staff had collected and analyzed the financial information from the second session.

A. Refresher; No Concerns about Prior Session's Work

The third session began with a refresher concerning the second session's activities, including the costs calculations summarized above. The ISG participants stood by their prior work, and did not identify any gaps, other costs they had neglected, or problems they saw in hindsight. The cost presentation to the ISG is included in Attachment C.

The participants next refreshed their memories about the sandbox regulations, which contained two clarifications about how normal septic rules apply, but no other changes. The updated sandbox regulations from the session are in Attachment C.

B. Single-family residence with shop or shop+ADU

Using the sandbox regulations, the ISG turned to the first sample development, on the same parcel used for the family quadplex development in the prior session. The premise was that the same tree farmer wished to compare the quadplex's costs with that of developing (a) a single-family residence and shop; or (b) a single-family residence plus shop containing an ADU. The participants selected a 3,600 square foot house, to be comparable to the 3,600 square foot quadplex; this was at the low end of the range of homes that the custom home builder frequently builds in Lewis County. The participants also selected a 40' x 60' shop as common within the county. For the ADU option, they chose a 2-bedroom ADU, to be included within the shop. Their cost calculations for the house, and the house+ADU, are shown in figures 7 and 8:

Property: 140 Texas Lane		**Project: Single-family residence**
Task	Estimated Cost	Notes
Property price	$175,000	
Well	$12,000	No storage needed; includes permit fees
Pump House	$0	Not needed
Septic system	$22,000	Much smaller than the quadplex , fewer bedrooms; includes permit fees
Power hookup	$10,000	
Driveway and groundwork	$15,000	
SFR Construction	$828,000	3600-square foot house
Shop	$150,000	40 x 60 shop, detached, pole construction, heated
Permit fees	$5,000	For building
Landscaping	$20,000	
Stormwater	$0	Not needed – exempt under LCC 15.45.100(5)

Loan fees / Financing	TBD	
SMA fee	$0	No group B compliance needed
HOA fee	$200/year	For road maintenance
Total	**$1,237,000**	Plus loan fees and $200 annual HOA fee

Figure 7 – Development tasks and costs for a single-family residence and shop

Property: 140 Texas Lane		**Project: Single-family residence + ADU**
Task	Estimated Cost	Notes
Property price	$175,000	
Well	$12,000	No storage needed; includes permit fees. [Two-connection supply Group B well has minimal requirements. LCC 8.55.020(3).]
Pump House	$0	Not needed
Septic system	$30,000	For larger drainfield and another septic tank
Power hookup	$12,000	Separate meter for ADU, perhaps
Driveway and groundwork	$15,000	
SFR Construction	$828,000	3600-square foot house
Shop + ADU	$200,000	40 x 60 shop, detached, pole construction, heated, with internal finished ADU at 1296 square feet
Permit fees	$7,000	For building and ADU, based on higher valuation
Landscaping	$20,000	
Stormwater	$0	Not needed – exempt under LCC 15.45.100(5)
Loan fees / Financing	TBD	
SMA fee	$0	No SMA needed for a two-connection supply group B well
HOA fee	$200/year	For road maintenance
Total	**$1,299,000**	Plus loan fees and $200 annual HOA fee

Figure 8 – Development tasks and costs for a single-family residence and shop containing an ADU

C. Three New Manufactured Homes on 10 acres

The next sample development was for three related family/friends who rent together and are struggling to afford individual homes; they propose to site three manufactured homes of 1,200 square feet each on a 10-acre parcel in Doty. This would give each of them a sense of individual home ownership, although they would have to share the parcel. The participants estimated the following costs, shown in figure 9:

Property: 0 Elk Creek Road		Project: Three New Manufactured Homes
Task	Estimated Cost	Notes
Property price	$225,000	Large, nice parcel, but not dividable (10 acres in RDD 10)
Well and storage	$30,000	In Doty, there would be issues requiring a very deep well and perhaps treatment. The price was increased as a result.
Pump House	$6,000	
Septic system	$65,000	Essentially the same as the quadplex, but with one fewer tank, saving about $5,000
Power hookup	$15,000	Separate meters for each
Driveway and groundwork	$15,000	Sort of like three driveways that merge to one road approach, about $5,000 each
Manufactured Homes	$420,000	This is $140,000 per home, which includes tie downs, skirting, and porch+steps (all totaling $30,000), and a gravel pad ($10,000). It includes permitting fees.
Landscaping	$5,000	More modest, given the development scenario
Carports	$16,500	3 carports at $5,500 each
Stormwater	$0*	*Is currently required but should not be, per ISG.
Legal fees	$2400	Need a lawyer for joint ownership, such as a cooperative. This is 8 hours of work at $300/hour.
Loan fees / Financing	TBD	[Conventional FNMA financing not available.]
SMA fee	$400/year	No SMA needed for a two-connection supply group B well
Total	**$799,900**	Plus loan fees and $200 annual HOA fee

Figure 9 – Development tasks and costs for three new 1200-sq-ft manufactured homes on a 10-acre lot

The ISG pointed out two important notes about the sample development above. The first is that conventional Fannie Mae (FNMA) mortgage financing is not available for a property containing more than one manufactured home. This could require applicants to meet heightened credit and equity requirements, which might drastically narrow the pool of potential buyers. The second note is this development would exceed 5,000 square feet of impervious surfaces (including the manufactured homes, driveways, carports, and other areas) so stormwater compliance would be required. But it is a residential development covering only a very small proportion (less than 5%) of the 10-acre lot. The ISG participants proposed that it made no sense to require stormwater compliance; staff should work with Public Works to create an exemption for this situation.

D. Eight Tiny Homes

Finally, the ISG considered a developer who wishes to site eight tiny homes on a 6.4-acre lot in RDD-5 located on Pattee Road, up Logan Hill Rd east of the Port of Chehalis / Chehalis UGA. The premise was that the lot was to be logged for this purpose and had an existing access driveway with easement.

The ISG participants assumed that the lot had already been logged and was reasonably well stumped, and that this assumed work had broken even based on log prices. With that assumption, the group estimated the costs as shown in figure 10:

Property: 205 Pattee Road		**Project: Eight Tiny Homes**
Task	Estimated Cost	Notes
Property price	$200,000	Assume logged and break even and reasonably well stumped. Price high based on location.
Well	$35,000	No water right needed for 8 units at 350 gpd , per health and ecology rules. Storage needed for eight 1-bedroom tiny homes is about 2500 gallons; well should be possible. Will need larger piping, etc.
Pump house	$8,000	Slightly large pump house due to storage.
Septic	$70,000	Septic size for eight 1-bedrooms is the same as for quadplex of 2-bedrooms, but each would need own tank. However, shared tanks perhaps possible because these units will be owned by one landlord
Power	$15,000 to $20,000	Different type of metering for small units that don't need full amperage (more like RV park setup)
Driveway and groundwork	$35,000	Existing driveway to edge of property, but lots of parking area needed. Asphalt for durability.
Tiny home construction	$520,000	$65,000 each; please see the paragraph below.
Permits	$12,000	One plan review and 8 building permits, $1,500 each.
Landscaping	$10,000	Generous for this type of property
Stormwater	$10,000	Commercial property – definitely required.
SMA fees	$400/year	
Loan fees	TBD	
Driveway maintenance	$200/year	With neighbor for shared access
Total	**$920,000**	Plus $400 annual SMA fee and $200 annual driveway fee

Figure 10 – Development tasks and costs to build or site eight 450-sq-ft tiny homes on a 6.4-acre lot

The ISG debated the constructions costs for the tiny homes. One participant offered that online prices for homes of 450 sq ft were in the range of $60,000-$80,000. The custom home builder believed that one could stick-build them for less than that per unit. Ultimately, the group chose $65,000 per unit to be conservative. Since the construction costs were the single largest contributor to total development cost, figure 10 may overestimate construction costs.

1. Financing Discussion

To further explore RHA developments' feasibility, the ISG viewed sample financing calculations for the three development scenarios they had considered in Session 2. These were the new family quadplex; adding two prefab units to a property with an existing small house; and adding two barndominiums to a property with a small house and a large outbuilding.

Staff presented the rough financial calculations shown in Attachment C and summarized in Figure 11, below. These calculations listed the likely monthly debt service payment per unit for RHA developments, as compared with a rent calculation using real-world townhome rental prices from Zillow. The debt service payments were based on 30-year, 7% APR permanent financing options for the RHA developments, often with 30% down (a common commercial lending standard). Using these rough calculations, the quadplex was clearly infeasible, but the other two properties seemed possible:

Rough Financing Calculations Discussed in ISG Session 3				
Project	*Monthly Mortgage (Per Unit)*	*Monthly Rent (Per Unit)*	*Rent – Debt Service*	*Plausible?*
New townhome quadplex ($1.5 million) with 30% down	$1,759.23	$1,326.40	-$432.82	No
Buy small home, add 2 prefabs ($828,500) with 30% down	$1,286.14	$1,611.34	$325.20	Yes
Add two barndominiums to inherited home ($654,000) with 20% down	$1,160.29	$1,734.15	$537.87	Yes

Figure 11 – Summary of rough financing calculations presented at ISG Session 3

The quadplex was so infeasible that it would not be possible to build it even in an urban area. Staff inquired of the ISG how this could be, since one finds quadplexes in urban areas. The ISG opined that no one is building a single, stand-alone quadplex in urban areas; quadplexes would only be built as part of a large complex, where economies of scale can bring down the per square foot price.

Although the add-two-prefab-units and add-two-barndominiums developments appeared feasible from the rough financing calculations, these calculations did not consider of several important financing concepts:

- The calculations used only permanent financing, whereas construction financing is often less favorable than permanent financing;
- Developers often form a "capital stack" to acquire money to put down. This means they borrow the money they put down from a hard money lender or other investor who charges a higher interest rate for that cash;
- The rent of a project cannot merely match its debt service needs; one must account for vacancy, maintenance, and landlord profit as well; and
- Most loan underwriters require a "debt service coverage ratio," which is a rule about how much the rental income of the property must exceed the debt service, to give the lender security that the project will be viable despite unexpected costs.

By not including these concepts, the rough calculations overestimated the RHA projects' chances for successful financing. Staff noted these deficiencies for the ISG and asked for help

improving them. Staff also requested the ISG's opinion about whether this financing methodology, if improved, is reasonable for measuring RHA developments' feasibility.

Even with its deficiencies, the ISG participants noted that the analysis was reasonable and was the type one would have to do to measure RHAs' potential success. They proposed three categories of refinements: (1) better underwriting standards were needed to improve the modeling; (2) better rental data was needed to measure market conditions; and (3) the analysis must consider that not all financing is dependent on potential rental income.

For category (1), Security State Bank's underwriting practices for construction lending served as an example. Security State permits combination construction/permanent financing for up to 25 years with a slightly higher interest rate (7.5%, at that time) than a FNMA conventional 30-year loan (around 7%). The bank charges a 1.5% loan fee, and requires at least 75% loan-to-value, meaning that the borrower must put at least 25% down. The bank uses a common industry debt service coverage ratio of 1.25, meaning that the monthly net operating income of the rental must be 1.25 times the monthly debt service to pass underwriting. For net operating income, the bank deducts maintenance, vacancy, and operating costs from gross rent.

For category (2), the ISG said that Zillow was a credible source of rental information. One of the realtors proposed that he could ask a property management company in Lewis County for better or more comprehensive rental data. Pending that data, staff spoke after the session to another ISG participant who works as a property manager for a different company. She opined that Zillow and Facebook Marketplace are extremely reliable sources of rental information. In her experience, when estimating rents in Lewis County, location is not as important as square footage, number of beds/baths, and condition. (This is likely due to the housing shortage; people will rent anywhere they can find a place.) So, she determines the prices for the units she manages by finding units in Lewis County, shown on these online sources, of comparable size and condition, with roughly the same number of beds/baths.

For category (3), staff were struck by how expensive the 3,600-square-foot house and house+ADU were. The $1.5 million quadplex was not that much more than these developments, and it appeared clearly infeasible. Staff asked how that could be. The ISG participants reminded staff that these developments were not financed based on the rent potential of the units, but rather on the equity and income potential of the borrowers: someone with a lot of equity from an existing home and an earning potential to handle a large mortgage payment can finance a home even if it would not be worth, in rent, what they are paying for it.

All three concepts above factored heavily into the staff's analysis of the RHA financial feasibility, discussed in Part 8 below.

2. <u>Bottom Line: Is the RHA viable? Is it worth creating the option in the code?</u>

Finally, staff asked the ISG for their ultimate conclusion based on the work they had done vetting the RHA: Is the RHA a viable development form worth enabling in the Lewis County Code? Uniformly, the ISG participants thought that it was an option worth offering to rural residents. The

developments would not be big moneymakers, and so would not be valuable to large-scale developers. However, the RHA would increase options for property owners and enable, in a small way, family compounds and other more-affordable options for some people. The ISG participants had seen demand for family compounds in their practice; the RHA would therefore enable desirable housing that is currently disallowed. In short, the RHA was not a silver bullet for housing affordability, but the ISG supported it as a step in the right direction.

8. Analyzing The Results / Post-Session Research

Three major takeaways from the ISG work were (a) RHA developments would generally be possible, assuming the financing for a specific RHA worked out; (b) RHA developments would be desirable for some property owners and prospective developers; and (c) significantly better financing calculations were needed to determine whether RHA developments of different types would be financially feasible. Because the RHA appeared to be a desirable option that would work if it pencils, staff researched financing options to improve the financing calculations.

A. Exploring Other Financing Options

The ISG provided some insight into FNMA conventional home mortgage financing possibilities and Security State Bank's construction-to-permanent financing options. But, FNMA conventional mortgages face some limitations concerning manufactured homes, and Security State's package employs a shorter term and slightly higher interest rate than a conventional mortgage. Staff researched other financing options to identify any other paths. The paths that emerged as promising included FNMA condominium loans, FHA owner-occupied home or condominium loans, or "add-on" financing. As used in this report, "add-on" financing refers to someone who would be financing a home based on their personal equity and earning potential, and who adds an RHA on to their purchase/development plan because the added RHA units will ultimately lower their monthly repayment costs.

FNMA condominium loans. After research, contact with federal regulatory agencies, and a follow-up exchange with the mortgage lender participant of the ISG, staff determined that although a FNMA conventional mortgage is not available for a property consisting of multiple manufactured or prefab homes, FNMA condominium mortgages are available to finance purchase of a unit in a small condominium project, even if the units consist of mobile homes. Indeed, FNMA guidelines waive "project review" for 2-4 unit condo projects, meaning that one would not need federal approval of the whole condo project to finance one condo in that project. This makes such financing easier and more achievable. According to the mortgage lender participant of the ISG, FNMA condominium loans are fairly commonplace: he had been involved in such loans in Lewis County, even some manufactured-home condominium loans. So, FNMA condominium loans appear to be a mainstream financing option for RHA units, both stick-built and manufactured.

FHA loans. Additionally, Fair Housing Act (FHA) loans are available for both owner-occupied condominiums and for 1-4 unit owner-occupied properties, regardless of whether the unit(s) are manufactured or stick-built. Fair Housing Act loans allow for a lower downpayment but require mortgage insurance; because of these features many borrowers mistakenly believe they are only for applicants with less favorable credit than conventional mortgages. In actuality, they

are available to the general population and, according to the ISG mortgage lender participant, are commonly used in Lewis County and elsewhere. Therefore, an owner or developer could consider an FHA mortgage to obtain more favorable lending terms for an RHA than a conventional FNMA loan would allow—for example, to obtain a 30-year mortgage on a property consisting of 2-4 manufactured homes. FHA condo loans would also be available, but would be harder to obtain and have less favorable terms than FNMA condo loans, so they would likely be only a second choice for condo financing.

Add-on financing. When asked how an individual could finance a $1.2M new home + ADU construction, the ISG pointed out that such loans are not based on the rent potential of the home, but rather on the wealth, equity, and earning potential of the borrower. Therefore, in calculating the financing costs to develop RHAs in subsection C, below, staff also compared those costs to the financing of a home purchase on the same lot. The point was to quantify how much more downpayment and monthly debt service payment would be needed to "add on" the RHA to the existing home purchase. For buyers wealthy enough or with enough equity to opt for the additional downpayment, adding the RHA units sometimes would produce rent well in excess of the monthly cost to add the RHAs—meaning that if the owner rented out the RHA units, it would reduce the owner's monthly loan payment significantly.

Add-on financing seems at first blush to benefit only wealthy people, but it can produce some affordability benefits:

- Add-on financing could be useful for family compounds, in which a wealthy parent could buy housing for herself and for her adult children (e.g., one stick-built house and two small, manufactured homes equaling less than 3,600 sq ft) and the children would pay rent. The children could pay less rent than market rate, and yet still cause their parent's housing costs to dip below what the house alone would have cost the parent each month. In this scenario, there would be two affordable housing units created.
- Add-on financing is the principle behind Chicago's two-flats, an example cited in Daniel Parolek's book *Missing Middle Housing*.[8] Before the 1940s, immigrant families who reached an income status high enough to purchase a house sometimes purchased a duplex (two-flat) instead; the additional mortgage payment for a duplex, beyond a single-family-home mortgage, was less than the rent the second unit would bring in. The second unit provided housing for another family and lowered the housing costs of the owner.
- Finally, add-on financing might encourage groups of friends or siblings to consider joint financing for housing. Although an RHA costs more to build than siting one manufactured home, the RHA sometimes would require less downpayment and a lower monthly mortgage cost from each borrow*er* than if each borrower sited their own mobile home.

B. <u>Rent Studies</u>

The ISG noted that the financing calculations needed better data on the likely rent the RHA units would produce. Staff already had a rough rent estimate using townhome rental data

[8] *See also* "Two- and Three-Flats," Chicago Architecture Center (2023) *available at* https://www.architecture.org/learn/resources/buildings-of-chicago/building/two-and-three-flats/ .

from Zillow. For each RHA sample development scenario, staff conducted an additional small rent study of the type described by the ISG property-management participant. This entailed using Facebook Marketplace and Zillow to locate units in Lewis County of comparable size, bed, baths, and condition to the RHA proposed, developing a price per square foot from those units, and then multiplying by the square footage of the RHA units in question. If the RHA units were of different sizes (e.g., 650 square foot existing home plus two 1,440 square foot barndominiums), staff would determine the weighted average rent for the RHA per unit.

Rent results from these studies were not necessarily in line with the townhome rental data shown at the third ISG session. The data from the ISG session treated all units equivalently, but the rent studies showed that price per square foot is not uniform across all unit sizes. Small units are more expensive per square foot than larger units. In many cases this made RHA units' financing more favorable, as the smaller units commanded more rent. This was most acute for tiny homes, which rent for almost double what staff expected: the rent study predicted that 450-square-foot tiny homes would rent for $1,200 per month. (Some similar units already are.)

C. Running the Numbers: Measuring by Rent of the RHA Units Created

Staff used the financing options, better rent data, and underwriting standards from Security State to prepare financing calculations for each development scenario in several permutations. These calculations accounted for different loan types, mortgage rates, and durations; loan fees; debt service coverage ratio needs; and net operating income calculations. A sample is shown in Figure 12, below:

140 Texas Lane: Four 900-sq-ft Townhomes, 30% Downpayment		
Item	*Amount*	*Notes*
Construction costs	$1,511,000	Per ISG Session 2 estimate
After 30% down	$1,057,700	
Loan fee	$15,866	Security State charges 1.5%, used as example
Loan amount	$1,073,566	
Loan term (years)	30	FNMA eligible (1 to 4 stick-built units)
Interest rate (APR)	7%	FNMA eligible
Monthly payment	$7,142.46	Per a loan calculator
Number of Units	4	
Per unit	$1,785.62	
DCSR	1.25	Debt service coverage ratio needed
NOI	$2,232.02	Net operating income must be 1.25 x debt service
= Gross rent minus 5% maintenance, 5% vacancy, and 7% operating costs		
Gross rent needed	**$2,689.18**	This is per unit
Likely townhome rent	**$1,326.40**	Per rent study of townhomes on Zillow
Rent for units does not adequately cover the debt service: cannot be financed.		

Figure 12 – Sample financing calculation for 140 Texas Lane

The quadplex RHA shown in Figure 12 is not financeable because the units will not produce enough rent to satisfy the debt service coverage ratio. Staff prepared similar financing tables for all project permutations, collected in Attachment D. These tables use both the original rent

estimates from townhome data and a more specific rent study for each sample development, usually found on the last page of each set of tables.

For each sample development permutation, Figure 13 shows the gross rent each permutation needed to satisfy the debt service coverage ratio, the likely rent per unit, and whether the development appears plausible. An underwriter would use this information to decide whether to approve financing for the development, if the decision is to be based on the units' likely potential rent as opposed to the equity and earning potential of the borrower.

Financing Calculation Results Based on Rent Generated by RHA Units				
Name	*Description*	*Monthly, Per Unit:*		*Plausible?*
		Gross Rent Needed	*Likely Average Rent*	
140 Texas Lane	Quadplex of 900-sq-ft townhomes	$3,841.68	$1,326.40	No
	Same quadplex with 30% downpayment	$2,689.18	$1,326.40	No
	Same quadplex without rural costs ($160,000), and with 30% down	$2,404.42	$1,326.40	No
	Same quadplex, each unit financed with a FNMA condo mortgage	$2,550.88	$1,326.40	No
	Same quadplex, sell as condos, 20% down	$2,040.70	$1,326.40	No
948 Burnt Ridge Rd	Buy 688-sq-ft home, add two new 1,296-sq-ft prefab homes	$3,119.67	$1917.70	No
	Buy home, add two prefabs, with 30% down	$2,183.77	$1917.70	No
	Inherit home, add the two prefabs	$1,236.95	$1917.70	**Yes**
	Inherit home, add the two prefabs, 30% down	$865.86	$1917.70	**Yes**
	Buy home, add the two prefabs, finance each unit using a FNMA condo loan	$1,864.90	$1917.70	**Maybe**
	Buy home, add two prefabs, sell each unit as a condo at 20% down	$1,641.11	$1917.70	**Yes**
	Buy home, add two prefabs, finance whole property using an FHA 2-4 unit loan	$3,177.97	$1917.70	No
	Buy home, add two prefabs, finance using an FHA 2-4 unit loan at 30% down	$2,160.11	$1917.70	No
214 Hankin Rd	Buy 650-sq-ft home, remodel building into 2 1440-sq-ft barndominiums	$4,929.02	$1970.94	No
	Buy home, add 2 barndos, 30% down	$3,450.31	$1970.94	No
	Inherit home, add 2 barndos	$2,217.04	$1970.94	No
	Inherit home, add 2 barndos, 30% down	$1,551.93	$1970.94	**Yes**
	Buy home, add 2 barndos, finance each unit with FNMA condo mortgage	$3,272.87	$1970.94	No
	Buy home, add 2 barndos, sell each unit as a condo, 20% down	$2,618.29	$1970.94	No
	Inherit home, add 2 barndos, condo mortgage for each	$1,472.11	$1970.94	**Yes**
	Inherit home, add 2 barndos, sell each unit as a condo, 20% down	$1,339.76	$1970.94	**Yes**

0 Elk Creek Rd	Buy lot, site three 1,200-sq-ft manuf. homes	$3,011.98	$1870.57	No
	Buy lot, site same 3 homes, 30% down	$2,108.38	$1870.57	No
	Inherit lot, site same 3 homes, 30% down	$1,515.33	$1870.57	**Yes**
	Buy lot, site same 3 homes, finance each with an FNMA condo mortgage	$1,800.53	$1870.57	**Yes**
	Buy lot, site same 3 homes, sell each as a condo, 20% down	$1,620.68	$1870.57	**Yes**
0 Elk Creek Rd	Buy lot, site four 900-sq-ft manuf. homes	$2,740.49	$1457.50	No
	Buy lot, site same 4 homes, 30% down	$1,918.34	$1457.50	No
	Inherit lot, site 4 homes, 30% down	$1,473.55	$1457.50	**Maybe**
	Buy lot, site 4 homes, finance each with a FNMA condo loan	$1,614.02	$1457.50	No
	Buy lot, site 4 homes, sell each as a condo, 20% down	$1,447.70	$1457.50	**Yes**
0 Elk Creek Rd	Buy lot, site two 1,800-sq-ft manuf. homes	$3,780.88	$2327.11	No
	Buy lot, site same 2 homes, 30% down	$2,646.62	$2327.11	No
	Inherit lot, site 2 homes, only 20% down	$2,008.03	$2327.11	**Yes**
	Buy lot, site 2 homes, finance each with a FNMA condo loan	$2,226.77	$2327.11	**Yes**
	Buy lot, site 2 homes, sell each as a condo, 20% down	$1,995.91	$2327.11	**Yes**
0 Elk Creek Rd	Buy lot, site three 1,200-sq-ft manuf. homes, finance all three with a 2-4 unit FHA loan	$2,786.65	$1870.57	No
	Buy lot, site same 3 homes, finance using a 2-4 unit FHA loan with 30% down	$2,088.35	$1870.57	No
	Buy lot, site same 3 homes, finance each unit with an FHA condo loan	$1,956.17	$1870.57	**Maybe**
	Buy lot, site same 3 homes, sell each as a condo financed by an FHA condo loan, 20% down	$1,756.73	$1870.57	**Yes**
	Inherit lot, site same 3 mobile homes, finance using a 2-4 unit FHA loan with 30% down	$1,500.92	$1870.57	**Yes**
205 Pattee Rd	Buy lot, site eight 450-sq-ft tiny homes	$1,299.08	$1197.25	**Maybe**
	Buy lot, site same 8 tiny homes, 30% down	$909.35	$1197.25	**Yes**
	Buy lot, site same 8 tiny homes, finance each with a FNMA condo mortgage	$793.46	$1197.25	**Yes**
	Buy lot, site same 8 tiny homes, sell each as a condo, 20% down	$713.10	$1197.25	**Yes**

Figure 13 – Results of RHA financing calculations, measuring by rent of RHA units created

The sample development scenario at 0 Elk Creek Rd (siting three manufactured homes on a 10-acre lot) was the most useful scenario for testing different possibilities. Extrapolating from the ISG cost estimates, staff considered the implications if the scenario were switched from three manufactured homes to four, or to two, or if the developer attempted to finance three manufactured homes using an FHA loan or FHA condominium loans. The results of these different permutations are noted in the different 0 Elk Creek Rd sections of Figure 13, above.

Overall, some of the developments are not commercially viable. The viable options are those in which the developer (a) uses manufactured homes to reduce construction costs and finances the units as condominiums, or (b) already owns the property. In figure 13, above, the "already-owns" entries list the property as "inherited," but the result would be the same if the property owner had simply paid the land off, or if the owner had an equivalent amount of equity to pay down the loan (such as from the sale of an existing home).

The exception to the rule above is the tiny home RHA, which finances well in every permutation and can produce very affordable units. This is because rent per square foot increases as unit size decreases, such that eight tiny homes will bring in a lot more rent than the units in the other scenarios. Moreover, if sold as condos, the condo owner would reap the benefit of monthly housing costs far below the market-rate rent of $1,200 per unit, paying only $713 per month. This is lower than the monthly rent of $731 that the Washington State Housing Finance Commission deems affordable for a 1-person household at 50% of the Area Median Income in a studio apartment in Lewis County. Thus, if one can afford the $27,000 down payment (though many individuals cannot), a tiny home condo in such an RHA would be a very affordable option.

Staff also ran the numbers for some of these permutations using an interest rate of 3.5% (rather than 7% or 7.5%, depending on the loan type). Interest rates were 3.5% when staff began working on the RHA in 2022. The rates profoundly affect projects' viability: some of the project permutations that are not feasible at current rates would have been feasible at 3.5%.

D. Running the Numbers: Considering "Add-on" Incentives for (Wealthy) Homebuyers

Staff next turned to "add-on" financing. This was inspired by the ISG's observation that some developments are financed on the equity and earning potential of the borrower, not the rent the units will generate.

Technically, the condominium scenarios noted in Figure 13 already use this rationale, measuring the debt service needed to pay for the condo against the rent the borrower would have had to pay for a comparable unit in the market. If the debt service is less than the rent would be for the same unit, the development is viable: the condo buyer pays less than they would if renting and is building equity at the same time. This means that the condo is a good deal for the buyer and is therefore marketable.

But staff took this rationale further, considering the cost a (usually wealthy) homebuyer would have to pay to buy, build, or site a single-family residence on the property considered in each of the development scenarios. Using the financing calculations summarized in Figure 13, above, staff then calculated how much more money down or more monthly debt-service the homebuyer would have to pay to opt for the RHA instead of the single-family residence. Finally, staff noted how much rent the resulting RHA units would likely bring in to defray the additional monthly debt-service payments. In this way, one can quantify how much it would cost a homebuyer to add an RHA onto their existing plan to buy a single-family residence, and how much money the RHA could potentially bring in to offset that cost. These calculations can be found in full in Attachment D.

Figure 14, below, summarizes the results of these calculations for each RHA development scenario. Each row assumes there is a 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 develop the RHA instead of the single-family residence. **For buyers with additional money to put down, and who would rent out the additional units to defray mortgage payments, the RHA "add-on" always results in a lower monthly payment.**

Financing Calculations for Homebuyers Considering an RHA to Offset Costs							
Project (at 20% down)	*Down Payment*	*Monthly*	*Comparison (at 30% down)*	*Add'l Down*	*Add'l Monthly*	*Rent from Add'l Units*	*Add'l Monthly Minus Rent*
Texas Lane: Build SFR & shop	$247,400	$6,683	Quadplex	$205,900	$460	$4,000	**-$3,540**
			4 MFHs	$43,720	-$1,587	$4,300	**-$5,887**
Texas Lane: Build SFR & shop/ADU	$259,800	$7,018	Quadplex	$193,500	$125	$4,000	**-$3,875**
			4 MFHs	$31,320	-$1,922	$4,300	**-$6,222**
948 Burnt Ridge Rd: Buy existing home	$100,000	$2,701	Buy home, add 2 MFHs	$148,550	$1,649	$4,400	**-$2,751**
214 Hankin Rd: Buy existing home	$160,000	$4,322	By home, add 2 barndos	$276,200	$2,551	$4,600	**-$2,049**
Elk Creek Rd: Site a 1,200-sq-ft MFH	$86,500	$2,336	Site 3 MFHs	$153,470	$1,824	$3,750	**-$1,926**

Figure 14 – Add-on financing calculations showing that a buyer who can afford to put additional money down, and who would rent out additional RHA units, would have reduced monthly mortgage payments

Generally, it might be hard for even wealthy buyers to pay the additional downpayments that these RHA "add-ons" might require—some of them are two hundred thousand dollars more. But, many buyers who have sold an existing home intend to reinvest the sale proceeds into their new home for tax purposes. In such circumstances, it is possible that the buyer could pay the additional downpayment. Indeed, the ISG participants reported that buyers have inquired with them about family compounds; these buyers were wealthy enough to be in this situation and wished to provide housing for their whole family. Potentially, "family compound" buyers could charge their family members less than market-rate rent and thereby give back some of their monthly savings, resulting in more affordable housing for the whole family.

Even more promisingly, the last row in figure 14 can be re-envisioned to produce a "team" affordability benefit that a single person need not be very wealthy to obtain. As shown above, a buyer who wished to site a 1,200-square-foot manufactured home at 0 Elk Creek Rd, paying 20% down to avoid mortgage insurance, would put $86,500 down and have a monthly payment of $2,336.48. Figure 15 shows what happens if this buyer, instead of putting down additional money themselves to site three manufactured homes as an RHA, they team up with two other buyers to do so:

Elk Creek Rd Project	*Total Cost*	*Down Payment*	*Monthly*	*Per unit Down*	*Per unit Monthly*
1 buyer sites a 1,200-sq-ft MFH	$432,500	$86,500 (20%)	$2,336	$86,500	$2,336
3 buyers site 3 MFHs as an RHA	$799,900	$239,970 (30%)	$4,160	$79,990	$1,387
Savings for each buyer compared to siting own MFH:				**$6,510**	**$949**

Figure 15 – Three buyers teaming up on an RHA would each save $6510 on their downpayment and $949 on their monthly mortgage payments compared to siting their own homes on separate properties

Based on the RHA cost estimate, if the three individuals jointly obtained an FHA 2-4 unit mortgage for the same property (which can permissibly be used for multiple-manufactured-home properties), each of them would pay only $79,990 down and have a monthly mortgage payment of only $1,386.67. In other words, by teaming up on the RHA instead of each siting a home on a separate property, these buyers would save $6,510 each on their downpayments and about $950 per month each on their mortgage payments. Moreover, the $1,386.67 monthly mortgage payments each buyer would pay is far less than market-rate rent for a detached 1,200-square-foot manufactured home ($1,871 per month) and the buyers would be building equity, as opposed to renting that builds no equity.[9] Although a person must be wealthy enough to buy a house to benefit from this example, it is a middle-income option: according to Washington State Housing Finance Commission's guidelines, $1,387 per month is an affordable housing cost for a two-bedroom unit for someone at around 75% of the area median income in Lewis County. The missing middle option is needed.

Therefore, RHAs would offer new options for buyers to cooperatively purchase and finance multiple small homes on one large rural lot, potentially resulting in reduced downpayments and monthly payments affordable even to middle-income buyers.

E. Conclusions

The Industry Stakeholder Group offered an invaluable opportunity to vet the RHA concept through the lens of real-world development realities. As a result of the process, the RHA has a more accurate residential size limitation to match current rural single-family residences in Lewis County. It has clearer and more effective sandbox regulations that can be used to draft code.

Even with the constraints needed to preserve rural character and prevent demand for urban services, the ISG found that the RHA concept was a plausible and desirable form of development on real-world parcels. RHAs can be constructed, provided that a given project will pencil. The ISG perceived that there would be demand for RHAs at least in terms of family compounds, and potentially in other circumstances because the RHA offers new and welcome flexibility in the rural area. With their background in Lewis County development practices and constraints, the ISG supported the RHA's inclusion in the code.

The ISG's financing insights empowered staff to build sophisticated, plausible financial feasibility tables accounting for different financing options and permutations of each sample RHA

[9] Such cooperative purchases or joint financing are not without their downsides. The tenants would likely own the property as tenants in common, which would be problematic if one tenant wished to move and sell their interest before the others wished to do so. So, this would not be a good option for all buyers.

development scenario. These tables incorporate real-world underwriting practices and lending guidelines and use real Lewis County rental data. They are bona fide indications of whether RHA developments will be financially viable—the type of information one would *have* to compile, in the ISG's informed opinion, to determine such viability.

The feasibility tables show that an RHA will not always be feasible. It will be less lucrative than regular housing development in cities, in general, and is most viable when a developer already owns the property on which the RHA would be developed.

However, the RHA has some distinct, concrete, viable uses that can promote the availability and affordability of rural housing. These uses include:

- The development of small-scale condo properties;
- The redevelopment of property owned outright by its owner to add a few additional units;
- Small-scale tiny home developments, which can produce housing affordable to a wide swath of the population;
- A new option to add units to a home purchase a usually-wealthy buyer would be making based on equity and earning potential, which
    - would be a particularly useful for family compounds, and could produce more affordable housing for both the buyer and the family members; or
    - could simply make purchasing a home more affordable for the buyer because the units' rent would partially offset monthly mortgage payments;

  and finally
- A new option for buyers to cooperatively purchase and finance multiple small homes on one lot, which can reduce downpayment and monthly housing costs in a way affordable to middle-income buyers.

In many ways, the RHA hits the sweet spot for rural housing under the Growth Management Act: it is feasible and plausible enough to afford some new options for rural housing, but it is constrained, difficult, and costly enough that it should not lead to an explosion of housing in rural areas that could impact service providers like fire districts and schools. Indeed, it appears that it will be most useful to individual rural landowners who wish to incrementally increase the units on their lot, or individual rural homebuyers who wish to put a large amount of equity (presumably from the sale of an existing home) into a family compound to house themselves and their parents or children. The RHAs' financial constraints will be powerful complements to the regulatory constraints on RHAs designed to conform the new development form to rural character.

Accordingly, the ISG process suggests that the RHA can do what it promises: offer limited and GMA-compliant new rural housing options that are desirable, commercially feasible, tailored to the form and impacts of existing rural single-family residences, and useful to improve the affordability and availability of rural housing in Lewis County—without leading to runaway urban growth in the rural area.

Attachment A:
ISG 1st Session Materials

Materials Prior to Session

Lewis County
Rural Housing Update – Concept for Public Discussion

Background

Affordable housing means that a person spends no more than 30% of their income on rent or mortgage. A person making $60,000 per year can afford something different than a person making minimum wage. Today in Lewis County, 48% of renters pay more than 30% of their income on housing and 24% pay more than 50% on housing. This means Lewis County residents increasingly cannot afford housing.

In Lewis County, 70% of the housing stock is single family residential, and the average sale price has increased from roughly $150,000 in 2012 to over $350,000 in 2021. In addition, between 2012 and 2021, there was a 69% decrease in the supply of homes for sale. In June 2021, the county had only a 1 month supply of housing. Typically, a region needs at least a 4 month supply to stabilize sale price. Rental unit vacancy is also low at 4.5%.

Goal: Increase Housing Options

The goal of the Rural Housing Update is to encourage development of housing types that are typically more affordable than single family residential, while fitting in the rural character of Lewis County. Single family residential housing is the most expensive type of housing because there is one person or family shouldering the cost burden of the house and land. Middle housing options like a duplex, triplex and quadplex distributes the cost of housing to more than one person or family.

Must Fit Rural Character

Most lots in rural Lewis County are 5 acres or larger and developed with a house and outbuildings like a barn or garage (Figure 1). All of the buildings are usually clustered within a small area of the lot and share a common access point. The structures are served by on-site well and septic, and stormwater is dissipated through the remaining open space.

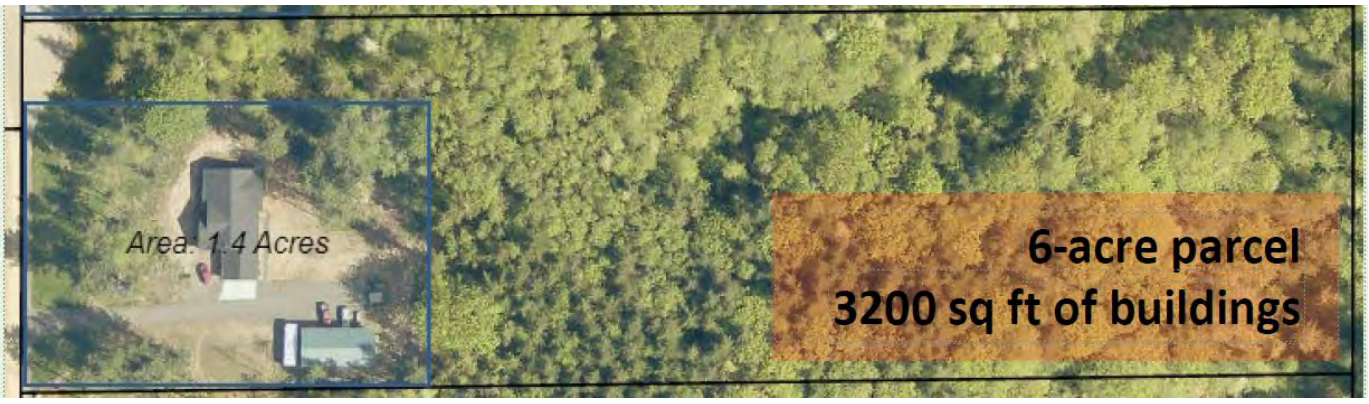


Figure 1: Example of Typical Rural Development

Rural Housing Concept

What if that single family house were divided into two, three or four units, but the overall size of development was the same as a single family house? If it were still served by on-site well and septic, then it could easily fit into the rural character of Lewis County. Figure 2 is an example of the concept and shows a duplex with attached accessory dwelling unit (ADU) that fits in the footprint of a typical single family house.

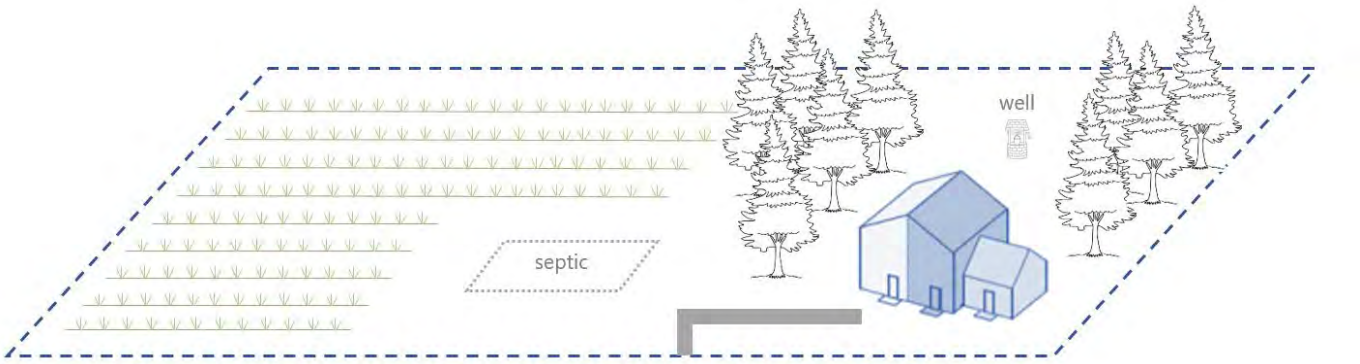


Figure 2: Rural Housing Concept Example - Duplex with Attached ADU (3 units of housing)

Constraining Impacts

Under the Growth Management Act, it is important to limit the impacts housing can have in rural areas. The new housing options would not be allowed on lands zoned Agricultural Resource Land, Forest Resource Land or Mineral Resource Land. The new housing would only be allowed on lands zoned for rural development including RDD-5, RDD-10 and RDD-20.

The new rules would have the following limitations to ensure that rural character is preserved:

1. The lot must be at least 5 acres in size.
2. All housing units must be clustered within 1.25 acres of the lot.
3. The total footprint of residential use must be less than 3,200 square feet.
4. The development must rely on rural water and wastewater services (usually well and septic).
5. All housing units must be accessed from one primary driveway.
6. The lot cannot be subdivided.
7. There must be adequate rural public facilities (e.g., fire, school) to serve the development.*

*Adequate public facilities is determined when a property owner proposes a new development. A form is sent to the provider, such as the Fire District, to determine if they can adequately serve the new development. If they cannot, the development cannot occur without mitigation.

In addition, using the new housing option as a short term rental would be prohibited. Short term rentals are lodging accommodations for tourists. While tourism is an important part of Lewis County's economy, the goal of the Rural Housing Update is to create affordable housing options for people to live in Lewis County.

For more information please contact Eric Eisenberg at 360-740-1235 eric.eisenberg@lewiscountywa.gov or Mindy Brooks at 360-740-2610 mindy.brooks@lewiscountywa.gov.

Lewis County
Rural Housing Alternative – "Sandbox Regulations"

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

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

2. The residential space must be 3200 square feet or less.

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

4. 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.

5. 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.

6. All housing units must be within a 1.25-acre, four-sided, convex 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.

7. Any new structures must meet the setback requirements in LCC 17.145.020.
    a. Please consider how much it would matter if the setbacks were 10 ft larger.

8. The development must use rural water/wastewater services.
    a. Assume normal well and septic rules.
    b. Maximum occupancy must be consistent with the septic limitations.

9. Normal stormwater rules, meaning exemption for under 5000 sq feet of impervious surfaces.
    a. For now, assume no SFR-like exemption if lot coverage is less than 15%.

10. There must be adequate rural public facilities to serve the development.

11. The RHA development, alone or in conjunction with other developments or proposed developments, cannot create a demand for urban services.

12. No portion of an RHA can be used as an STR.

13. This will be allowed in all RDD zones via Type I (staff only) administrative review.

Materials Used at Session

Rural Housing Alternative
Industry Stakeholder Workgroup, 1st Session

Monday, April 10 at 1PM and Friday, April 14 at 1PM
[Attendees can attend either time, or both if they choose]

Materials provided before session:

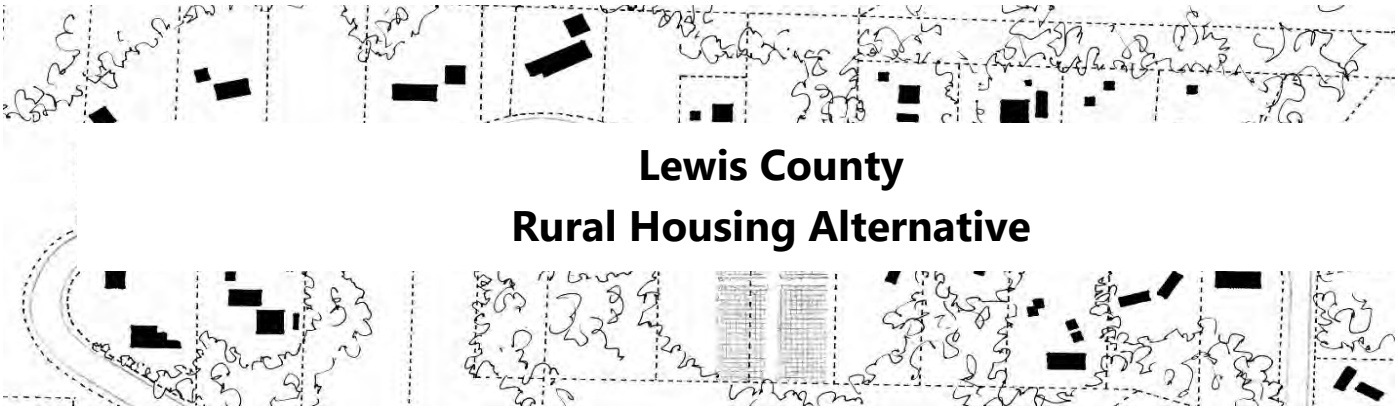
Concept flyer and full report, link to website
Simplified "sandbox regulations" as a basic setup to guide work

Agenda

- Introductions
- Initial impressions on concept
- Initial impressions on sandbox regulations
- Proposal for second session: walkthrough of sample developments
- Tentative sample developments (to be decided on):
    - New duplex, stick-built
    - New townhome quadplex, stick built
    - Three manufactured units
    - A remodeled house
    - A remodel for barndominiums
    - Eight tiny homes – as a rule-out?
- Are these the right samples to test?
- Real properties for the walkthroughs: what should I look for?
- What other information is needed?
- Are we missing any people/roles at the table?
- Anything else useful for the second session?

Attachment B:
ISG 2nd Session Materials

Materials Used at Session



Lewis County
Rural Housing Alternative

Agenda:

1. Introductions (5 min)
2. Summary of Sandbox Regulations (10 min)
3. Instructions for Work Session #2 (5 min)
4. Large Group Activity (45 min)
5. Small Group Activities (30 min, concurrent)
    a. Group A
    b. Group B
    c. Group C
6. Report out Small Groups (15 min – 5 min each)
7. Homework (5 min)

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:

    Front or side: 55 ft from public road centerline; 15 ft for private easement road or alley
    Side: 15 feet from property line
    Rear: 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. 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.

Lewis County - Rural Housing Alternative (RHA)
Work Session

Instructions: As a team, the goal is to determine if the project is financially viable. You will walk through each scenario developed by staff and, using the assumptions below, document each task/element of the project, its estimated costs and considerations.

Assumptions:

If you think any of the assumptions below are wrong, please say why. Assumptions may be changed to make the exercise more valuable. Please add assumptions you believe are necessary in the blank spaces below and share with the group.

1. You own or can buy the property (please document its likely price either way).
2. The property's zoning will allow an RHA via a Type I administrative review.
3. There are no cultural resources to be found on the property.
4. The soil type, for septic purposes, is type 4.
5. The well will produce enough flow for the residences you propose to develop and will not have any contaminants in it that prevent its use, subject to Group B compliance.
6. If you are remodeling an outbuilding, it is a stick-built building, such as a general purpose building or stick-built garage.
7. The fire and school district will say that they have adequate facilities to serve the development you are proposing.
8. _____
   _____
9. _____
   _____
10. _____
    _____
11. _____
    _____
12. _____
    _____

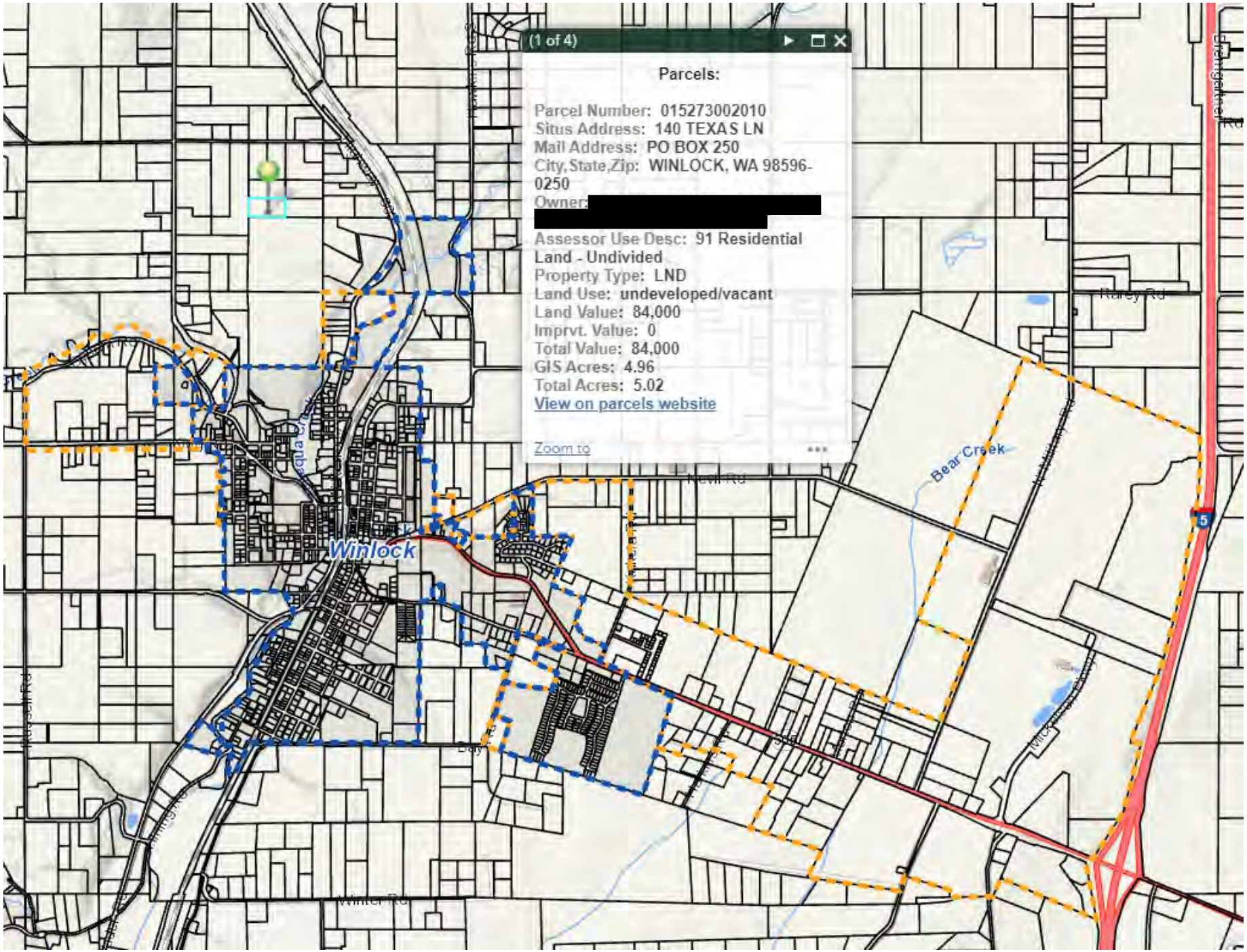
LARGE GROUP

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.


Texas Ln
RDD-5
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
Newell Rd
Rarey Rd
Winter Rd
5

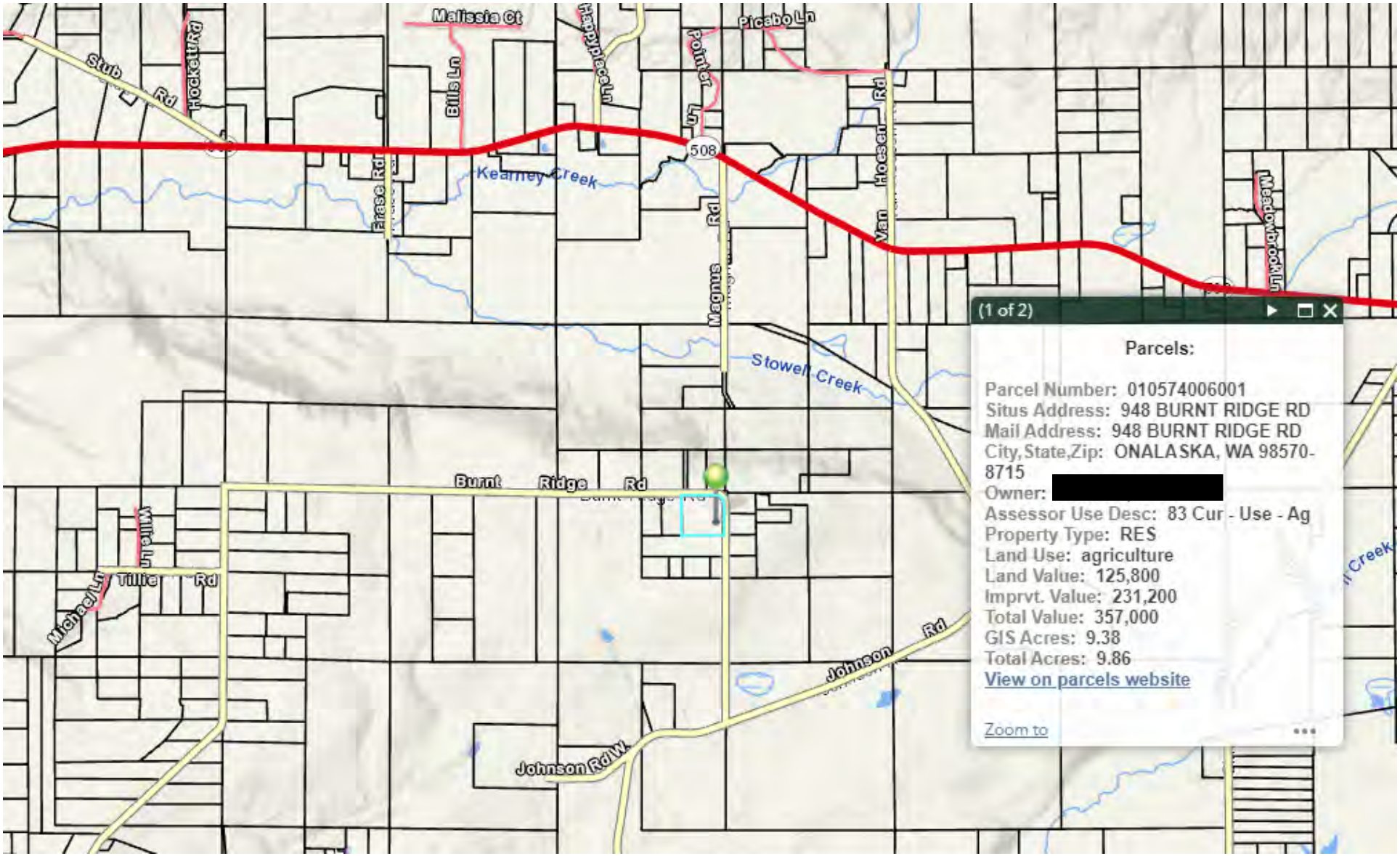
Property: 140 Texas Lane	**Project: New Quadplex**	
Task	Estimated Cost	Notes
Property Sale Price		

GROUP B
“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

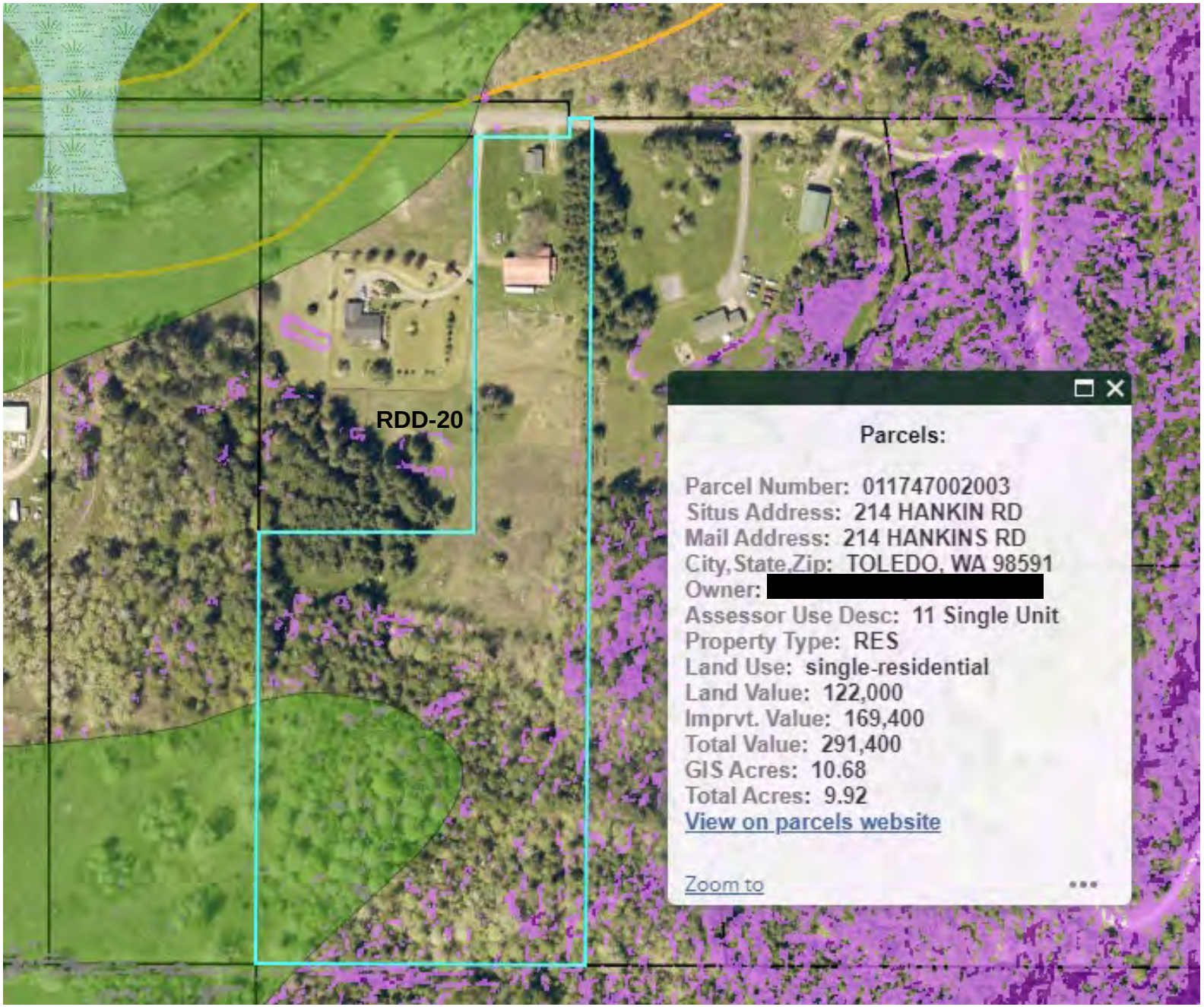

Malissia Ct
Picabo Ln
Stub Rd
Hocket Rd
Bills Ln
Kearney Creek
508
Erase Rd
Magnus Rd
Van Hoesen Rd
Meadowbrook Ln
Stowell Creek
Burnt Ridge Rd
Killie Ln
Michael Ln
Tillie Rd
Johnson Rd
Johnson Rd W
(1 of 2)
Parcels:
Parcel Number: 010574006001
Situs Address: 948 BURNT RIDGE RD
Mail Address: 948 BURNT 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

Property: 948 Burnt Ridge Road Project: Existing House, add 2 Detached Units		
Task	Estimated Cost	Notes
Property Sale Price		

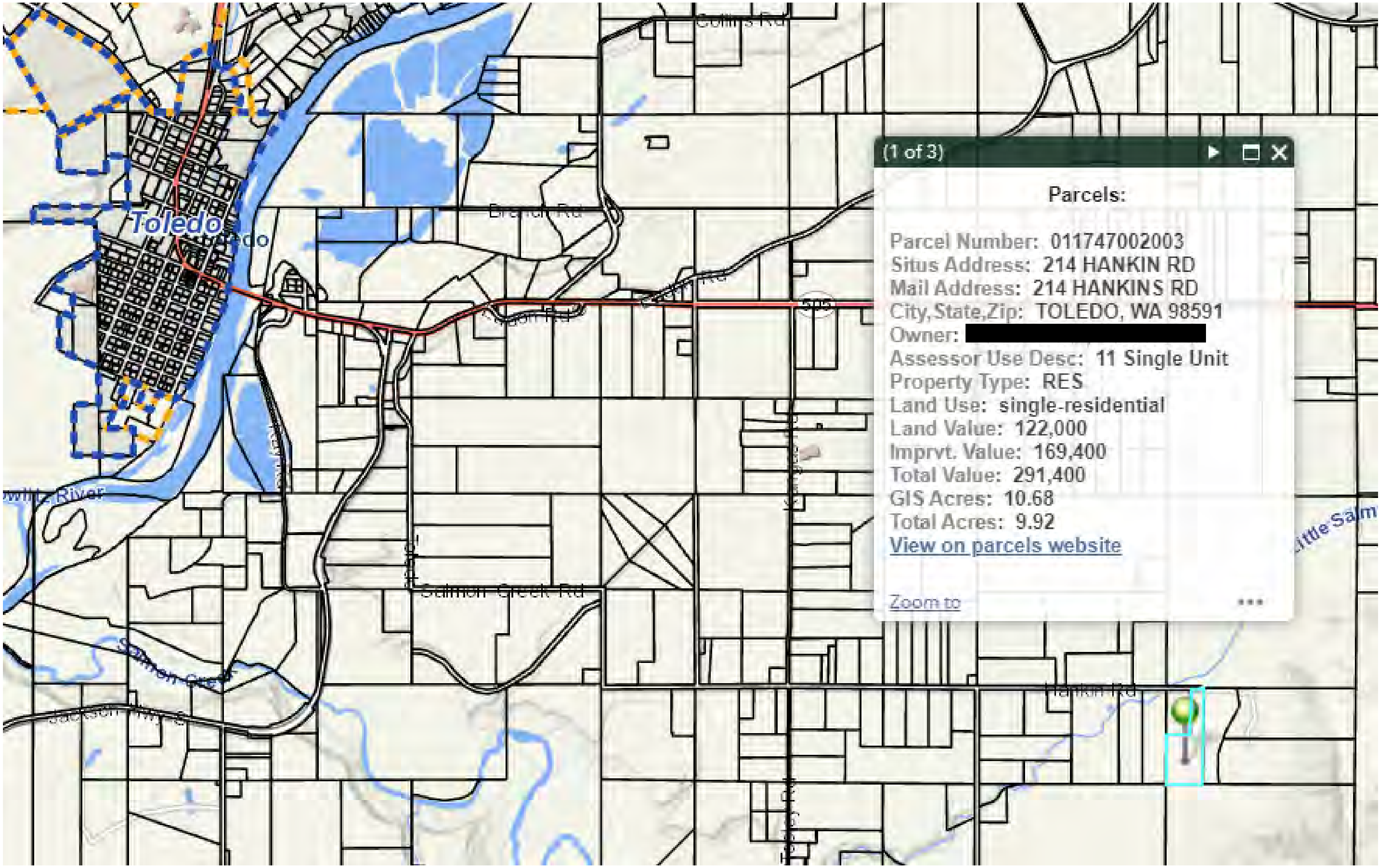
GROUP C
“Barn-dominiums”

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
Collins Rd
Salmon Creek Rd
Hankin Rd

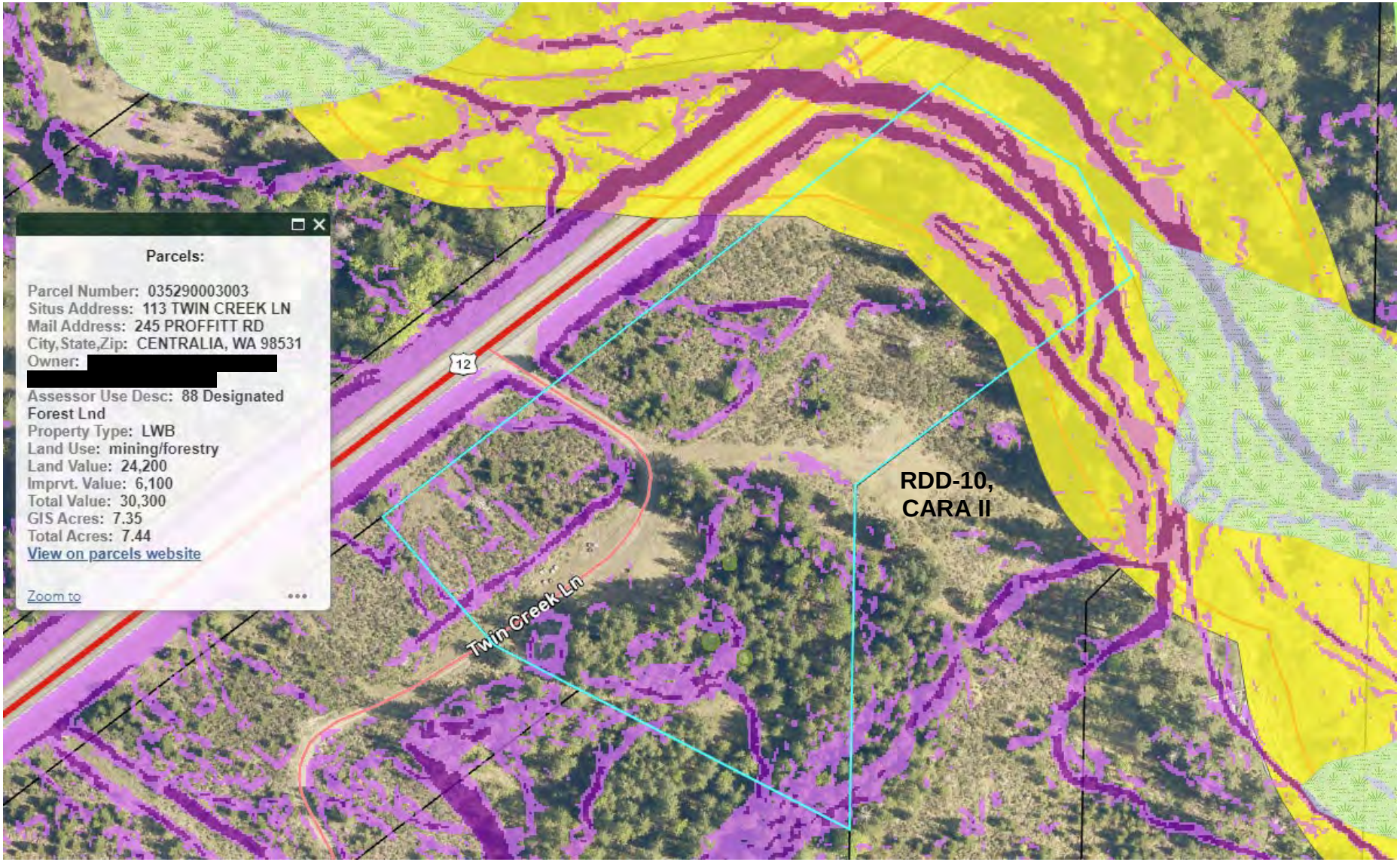
Property: 214 Hankin Road	**Project: House plus Shop Remodel**	
Task	Estimated Cost	Notes
Property Sale Price		

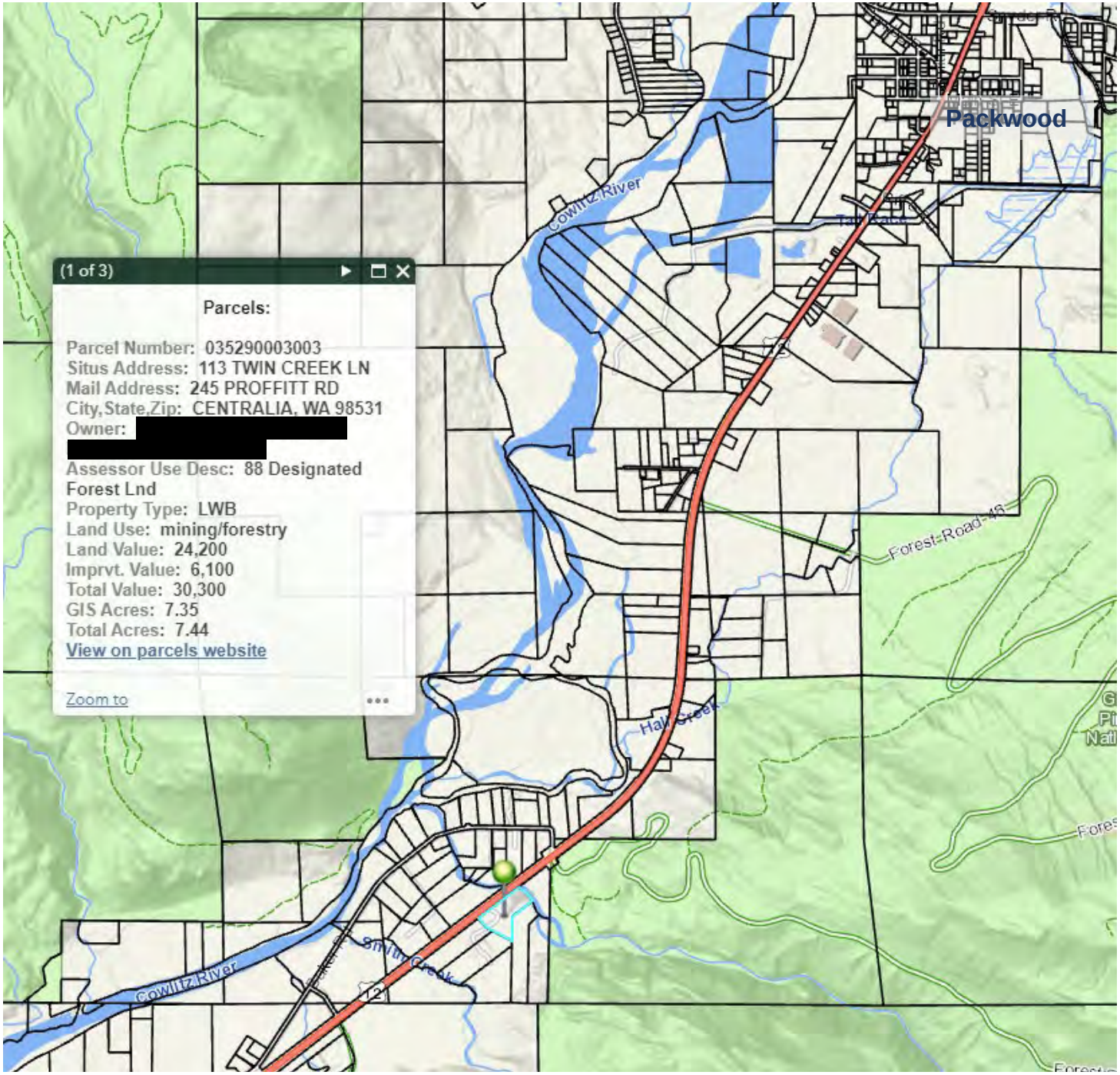
Materials Not Used at Session

GROUP A
“Living the Dream”

Scenario 2 – Primary House plus a Duplex
113 Twin Creek Lane near Packwood

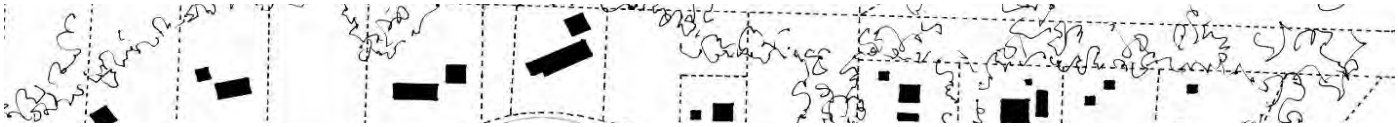
You are finally successful enough to leave Vancouver for semi-retirement in Packwood, where you have long vacationed and dreamed of living in full-time. You’re looking to downsize and simplify in a rustic, smaller home. But, you hope to be able to host two sets of friends at the same time, so you’d like a duplex in addition to the house. And, you figure you might rent it out one day for some extra retirement income (or sooner, if the right tenants came along—you dig affordable housing and like being part of the solution to things). You found a property for sale near Packwood that has some critical areas, but also some developable area. You want to see whether you can put in a small house and duplex. You’re flexible on the sizes of house and duplex units, but the house should be stand-alone, separate from the duplex.


Parcels:
Parcel Number: 035290003003
Situs Address: 113 TWIN CREEK LN
Mail Address: 245 PROFFITT RD
City,State,Zip: CENTRALIA, WA 98531
Owner: [redacted]
Assessor Use Desc: 88 Designated Forest Lnd
Property Type: LWB
Land Use: mining/forestry
Land Value: 24,200
Imprvt. Value: 6,100
Total Value: 30,300
GIS Acres: 7.35
Total Acres: 7.44
View on parcels website
Zoom to
12
Twin Creek Ln
RDD-10,
CARA II


(1 of 3)
Parcels:
Parcel Number: 035290003003
Situs Address: 113 TWIN CREEK LN
Mail Address: 245 PROFFITT RD
City,State,Zip: CENTRALIA, WA 98531
Owner: [redacted]
Assessor Use Desc: 88 Designated Forest Lnd
Property Type: LWB
Land Use: mining/forestry
Land Value: 24,200
Imprvt. Value: 6,100
Total Value: 30,300
GIS Acres: 7.35
Total Acres: 7.44
View on parcels website
Zoom to
Packwood
Cowlitz River
Forest Road 48
Hall Creek
Cowlitz River
12

Property: 113 Twin Creek Ln	**Project: New House plus Duplex**	
Task	Estimated Cost	Notes
Property Sale Price		

Attachment C:
ISG 3rd Session Materials



Lewis County Rural Housing Alternative
Industry Stakeholder Group – 3rd Session

Agenda:

1. Welcome Back (5 min)
2. Cost Summaries from Last Session (10 min)
3. Full Group: Single-Family Development on Winlock property (25 min)
4. Small Group Breakout: (20 min)
    a. Group A: 3 Manufactured Homes
    b. Group B: Tiny Homes
5. Report from Small Groups (20 min)
6. Financing Discussions (30 min)
    a. Quadplex
    b. Prefab Structures
7. Final Verdict (10 min)

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

Rural Housing Alternative Industry Stakeholder Group

Cost Estimates from Second Session

July 2023

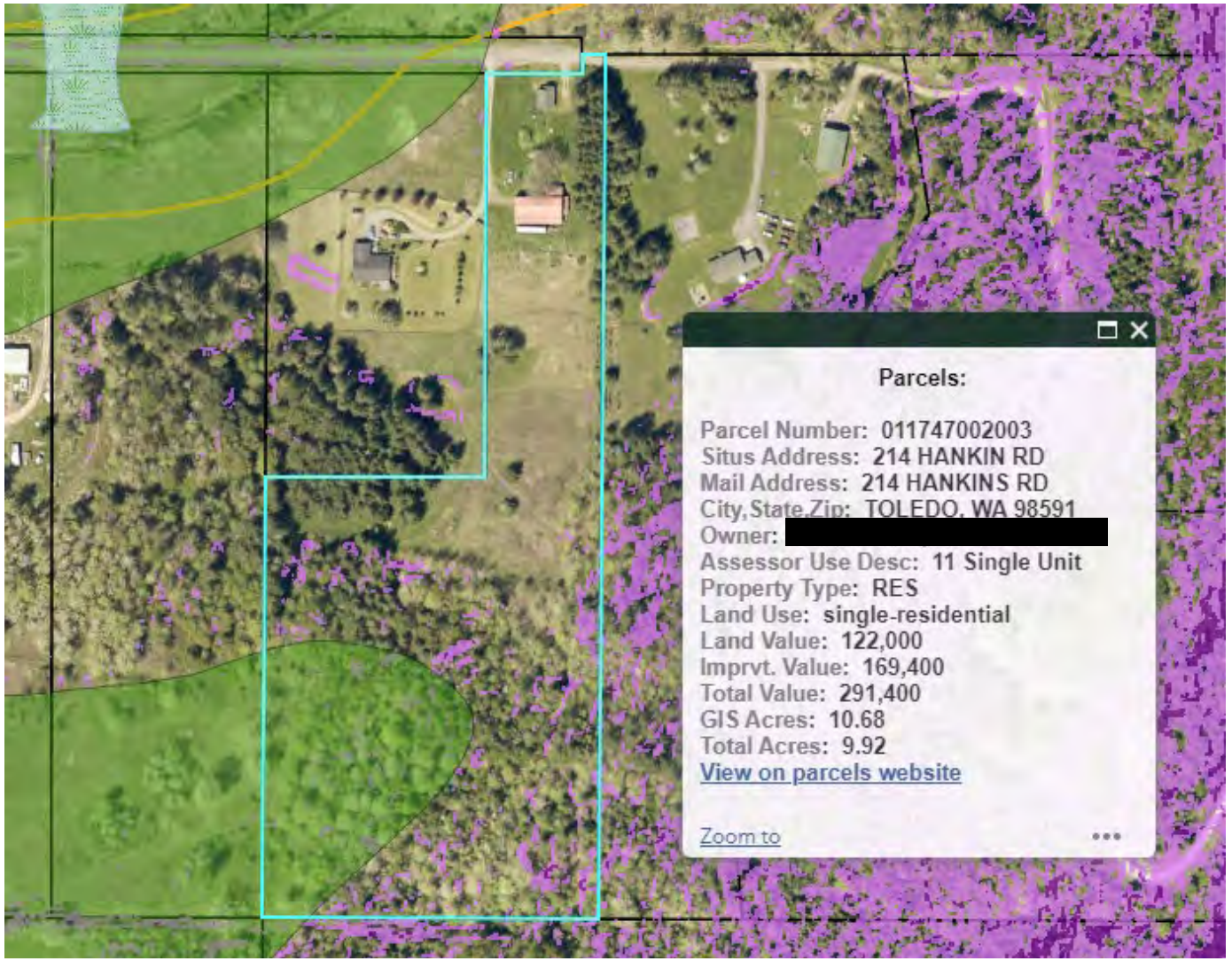
140 Texas Lane near Winlock - Family Quadplex

Property: 140 Texas Lane	Project: New Quadplex	
Task	**Estimated Cost**	**Notes**
Property price	$175,000	Perfect, flat property with existing, well-built private road and no critical areas to speak of
Well and storage	$20,000	150-foot depth well with a 1000-1500 gallon tank to ensure 20-30 gpm flow
Well pump house	$6,000	For construction of the house; the pipes an electrical were included in the $20,000 for the well and storage
Septic system	$70,000	With four tanks and a very large drainfield — but it would fit on the lot
Power hookup	$10,000	Hookup to new building; can vary depending on location of nearest transformer and other facilities served
Driveway and groundwork	$15,000	Likely 100+ foot driveway
Quadplex construction	$1,080,000	Four 900-square-feet units at $300/sq ft, due to needing a separate kitchen and baths in each unit. Assumed 2 bedrooms each.
Garage	$100,000	A pole garage for one car per unit (4 cars total)
Permit fees	$5,000	[Delays in permitting could also contribute to loan fees and additional interest.]
Landscaping	$20,000	
Stormwater	$10,000*	*The group determined late in the exercise that it was better to exceed 5000 square feet of impervious surface and install stormwater facilities, but it did not estimate any stormwater costs. This imputes $10,000, beyond the $20,000 for landscaping.
Loan interest/fees	TBD	Staff were asked to consider financing costs
SMA fee	$400/year	Satellite management agency annual fee for a Group B well without major compliance issues
HOA fee	$200/year	Homeowners' Association fee to maintain private road
Total	**$1,511,000**	**Plus $600 in fees annually and whatever loan fees or interest attend the financing**

948 Burnt Ridge Road, Onalaska – Existing Home Plus 2 New Detached Manufactured Homes

Property: 948 Burnt Ridge Road Project: Home + 2 New Prefabs		
Task	**Estimated Cost**	**Notes**
Property price	$500,000	Existing large parcel with small house
Well upgrades	$12,000	Needed for Group B compliance
Well pump house	$6,000	
Septic system added	$30,000	Due to added units
Power hookup	$10,000	Hookup to new buildings
Driveway and groundwork	$5,000	MF pads plus regraveling driveway
New prefab units	$260,000	For two manufactured homes, at $130,000 each for purchase, delivery, setup & skirting
Permit fees	$4,500	For dwelling units, power, etc.
Landscaping	$1,000	Gravel and small plants around MF homes
Garage*	$0*	[There was an existing garage and plenty of outdoor graveled space.]
Stormwater*	$0*	[The property already had quite a bit of impervious surface and was listed as an existing commercial venture, so it was not clear what additional stormwater compliance was needed.]
SMA annual fee	$400/yr	For Group B compliance
Loan fees / Financing	TBD	Two prefab structures cannot be conventionally financed; a private or commercial loan would be required.
Total	**$828,500**	Plus $400 in SMA fees annually, and whatever loan fees or interest attend the financing

214 Hankin Road near Toledo – Existing Home Plus 2 New Barndominiums



Property: 214 Hankin Road Project: Home + 2 Barndominiums		
Task	**Estimated Cost**	**Notes**
Property sale price	$800,000	Existing large parcel with small house and large, stick-built, two-story, partially finished building with plumbing and power
New well and pump house	$26,000	Needed for Group B compliance due to new units, to satisfy to setbacks, well protection, and storage
Septic system added	$32,000	New septic for two added units
Power hookup	$10,000	Extend new service (need separate meters for new units)
Driveway	$10,000	Upgrades to extend to new units, and shared-use agreement
Remodel/Construction	$576,000	Based on current building and energy codes. Two 1440-square-foot units from the outbuilding at $200/square foot.
Permit fees	$0*	[Apparently included in construction cost estimate]
SMA annual fee	$400/yr*	[For Group B compliance. The ISG small group did not include this, but it was established in the full group work.]
Loan fees / Financing	TBD	Two prefab structures cannot be conventionally financed; a private or commercial loan would be required.
Total	**$1,454,000**	Plus $400 in SMA fees annually, and whatever loan fees or interest attend the financing
Not including sale price:	**$654,000**	Pull out equity [if the developer inherits, and therefore already owns, the property]

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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:

    Front or side: 55 ft from public road centerline; 15 ft for private easement road or alley
    Side: 15 feet from property line
    Rear: 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.

LARGE GROUP

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.

Instructions and Assumptions

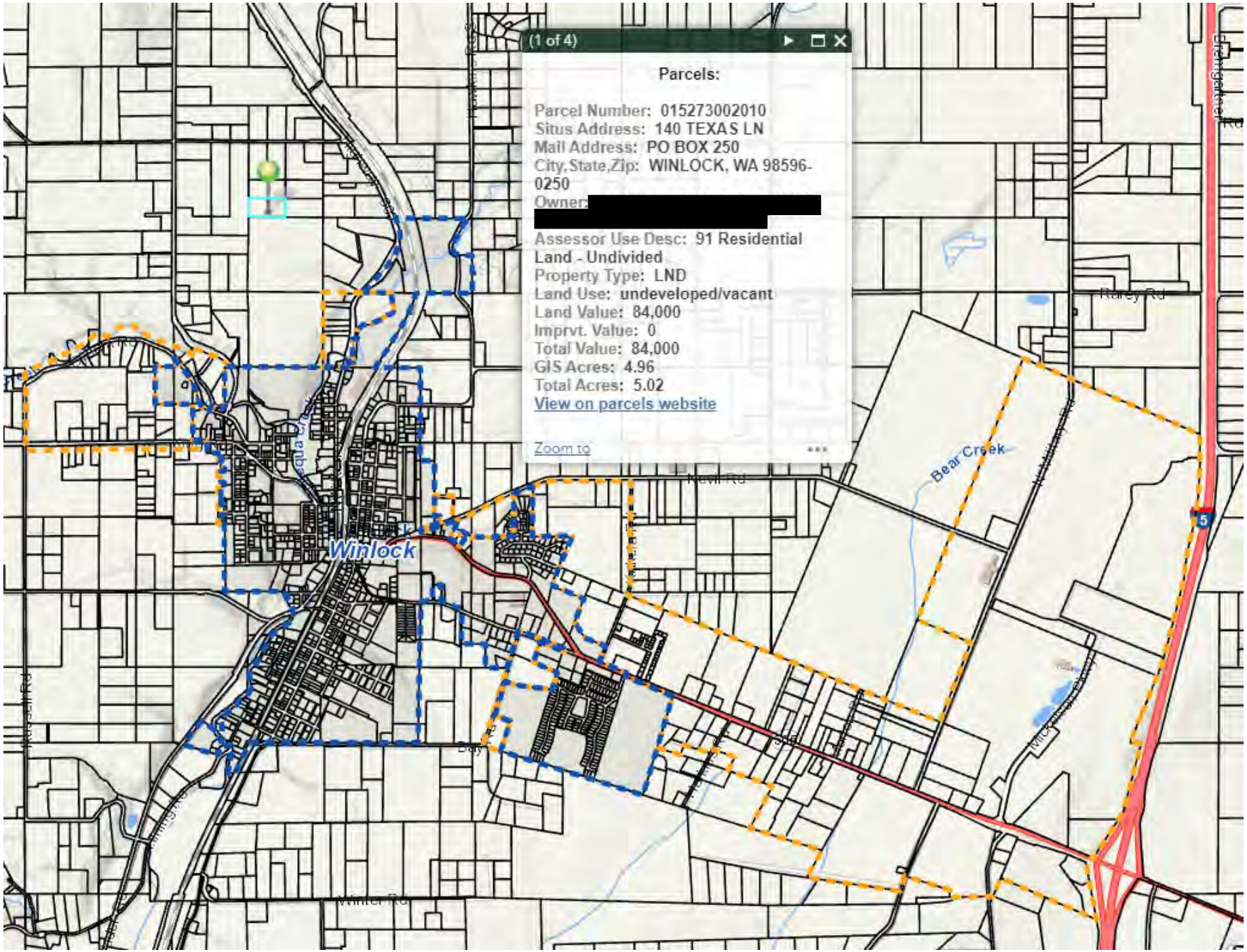
Instructions: As a team, the goal is to determine if the project is financially viable. You will walk through each scenario developed by staff and, using the assumptions below, document each task/element of the project, its estimated costs and considerations.

Assumptions:

If you think any of the assumptions below are wrong, please say why. Assumptions may be changed to make the exercise more valuable. Please add assumptions you believe are necessary in the blank spaces below and share with the group.

1. You own or can buy the property (please document its likely price either way).
2. The property's zoning will allow an RHA via a Type I administrative review.
3. There are no cultural resources to be found on the property.
4. The soil type, for septic purposes, is type 5.
5. The well will produce enough flow for the residences you propose to develop and will not have any contaminants in it that prevent its use, subject to Group B compliance if necessary.
6. If you are remodeling an outbuilding, it is a stick-built building, such as a general purpose building or stick-built garage.
7. The fire and school district will say that they have adequate facilities to serve the development you are proposing.
8. _____
   _____
9. _____
   _____
10. _____
    _____
11. _____
    _____
12. _____
    _____


Texas Ln
RDD-5
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
Newell Rd
Rarey Rd
Winter Rd
5

FROM LAST TIME

Property: 140 Texas Lane		**Project: New Quadplex**
Task	Estimated Cost	Notes
Property price	$175,000	Perfect, flat property with existing, well-built private road and no critical areas to speak of
Well and storage	$20,000	150-foot depth well with a 1000-1500 gallon tank to ensure 20-30 gpm flow
Well pump house	$6,000	For construction of the house; the pipes an electrical were included in the $20,000 for the well and storage
Septic system	$70,000	With four tanks and a very large drainfield — but it would fit on the lot
Power hookup	$10,000	Hookup to new building; can vary depending on location of nearest transformer and other facilities served
Driveway and groundwork	$15,000	Likely 100+ foot driveway
Quadplex construction	$1,080,000	Four 900-square-feet units at $300/sq ft, due to needing a separate kitchen and baths in each unit. Assumed 2 bedrooms each.
Garage	$100,000	A pole garage for one car per unit (4 cars total)
Permit fees	$5,000	[Delays in permitting could also contribute to loan fees and additional interest.]
Landscaping	$20,000	
Stormwater	$10,000*	*The group determined late in the exercise that it was better to exceed 5000 square feet of impervious surface and install stormwater facilities, but it did not estimate any stormwater costs. This imputes $10,000, beyond the $20,000 for landscaping.
Loan interest/fees	TBD	Staff were asked to consider financing costs
SMA fee	$400/year	Satellite management agency annual fee for a Group B well without major compliance issues
HOA fee	$200/year	Homeowners' Association fee to maintain private road
Total	**$1,511,000**	Plus $600 in fees annually and whatever loan fees or interest attend the financing

Property: 140 Texas Lane		**Project: Single-family residence**
Task	Estimated Cost	Notes
Property price		
Well and storage		
Well pump house		
Septic system		
Power hookup		
Driveway and groundwork		
SFR construction		
Garage		
Permit fees		
Landscaping		
Stormwater		
Loan interest/fees		
SMA fee		
HOA fee		

Property: 140 Texas Lane		**Project: SFR + ADU**
Task	Estimated Cost	Notes
Property price		
Well and storage		
Well pump house		
Septic system		
Power hookup		
Driveway and groundwork		
SFR construction		
Garage		
Permit fees		
Landscaping		
Stormwater		
Loan interest/fees		
SMA fee		
HOA fee		

Small Group A
“You, Me and Dupree”

3 new Detached Units
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*.

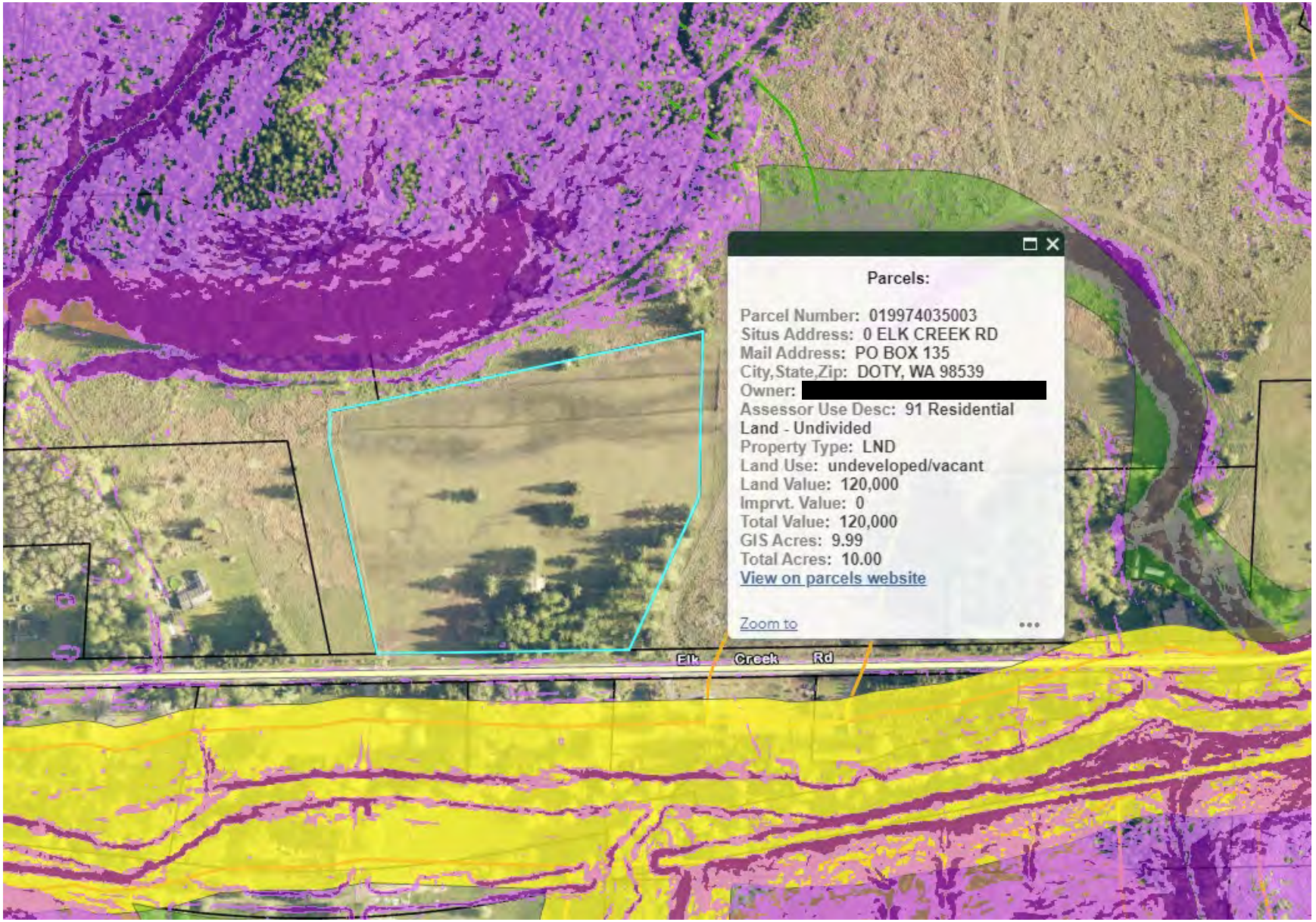
Instructions and Assumptions

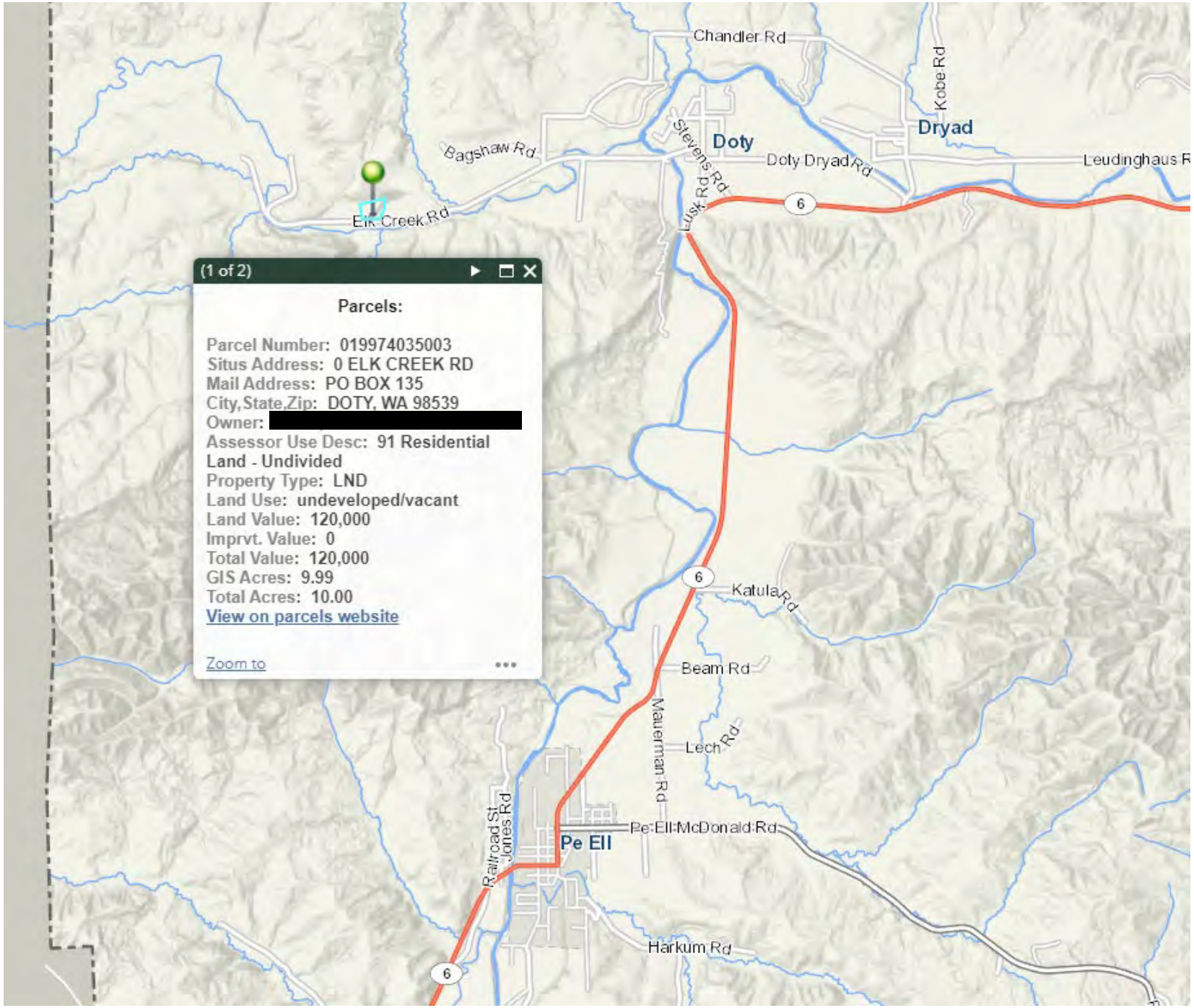
Instructions: As a team, the goal is to determine if the project is financially viable. You will walk through each scenario developed by staff and, using the assumptions below, document each task/element of the project, its estimated costs and considerations.

Assumptions:

If you think any of the assumptions below are wrong, please say why. Assumptions may be changed to make the exercise more valuable. Please add assumptions you believe are necessary in the blank spaces below and share with the group.

1. You own or can buy the property (please document its likely price either way).
2. The property's zoning will allow an RHA via a Type I administrative review.
3. There are no cultural resources to be found on the property.
4. The soil type, for septic purposes, is type 4 (or whatever Jeannie says it is).
5. The well will produce enough flow for the residences you propose to develop and will not have any contaminants in it that prevent its use, subject to Group B compliance if necessary. **Consider if this assumption holds in Doty.**
6. If you are remodeling an outbuilding, it is a stick-built building, such as a general purpose building or stick-built garage.
7. The fire and school district will say that they have adequate facilities to serve the development you are proposing.
8. _____
   _____
9. _____
   _____
10. _____
    _____
11. _____
    _____
12. _____
    _____


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
Dryad
Doty
Stevens Rd
Bagshaw Rd
Doty Dryad Rd
Leudinghaus R
Elk Creek Rd
Lusk 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
6
Katula Rd
Beam Rd
Lech Rd
Mauerman Rd
Railroad St
Jones Rd
Pe Ell
Pe Ell-McDonald Rd
Harkum Rd
6

Property: 0 Elk Creek Road		**Project: Three New Manufactured Homes**
Task	Estimated Cost	Notes
Property price		

Small Group B
“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.

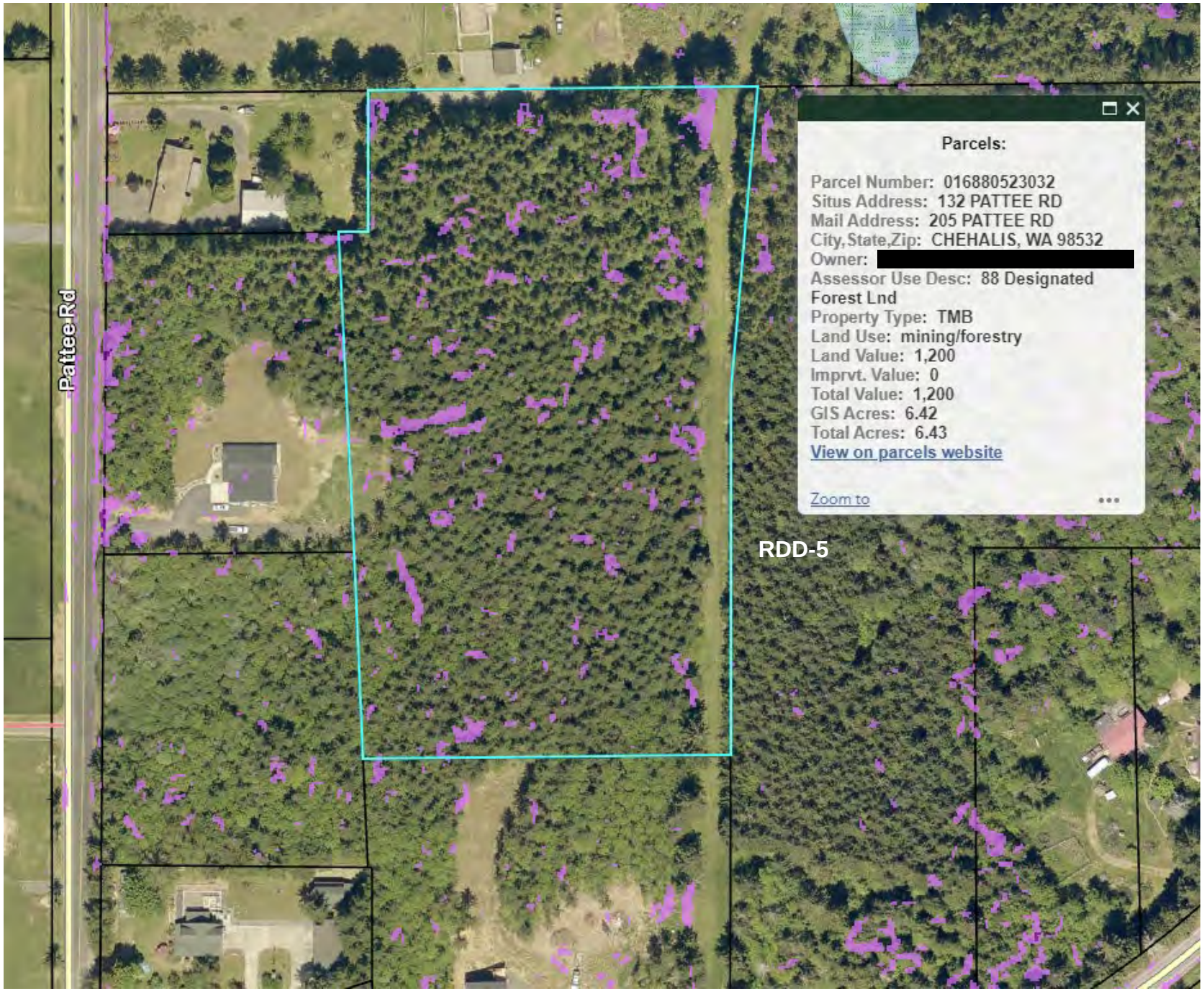
Instructions and Assumptions

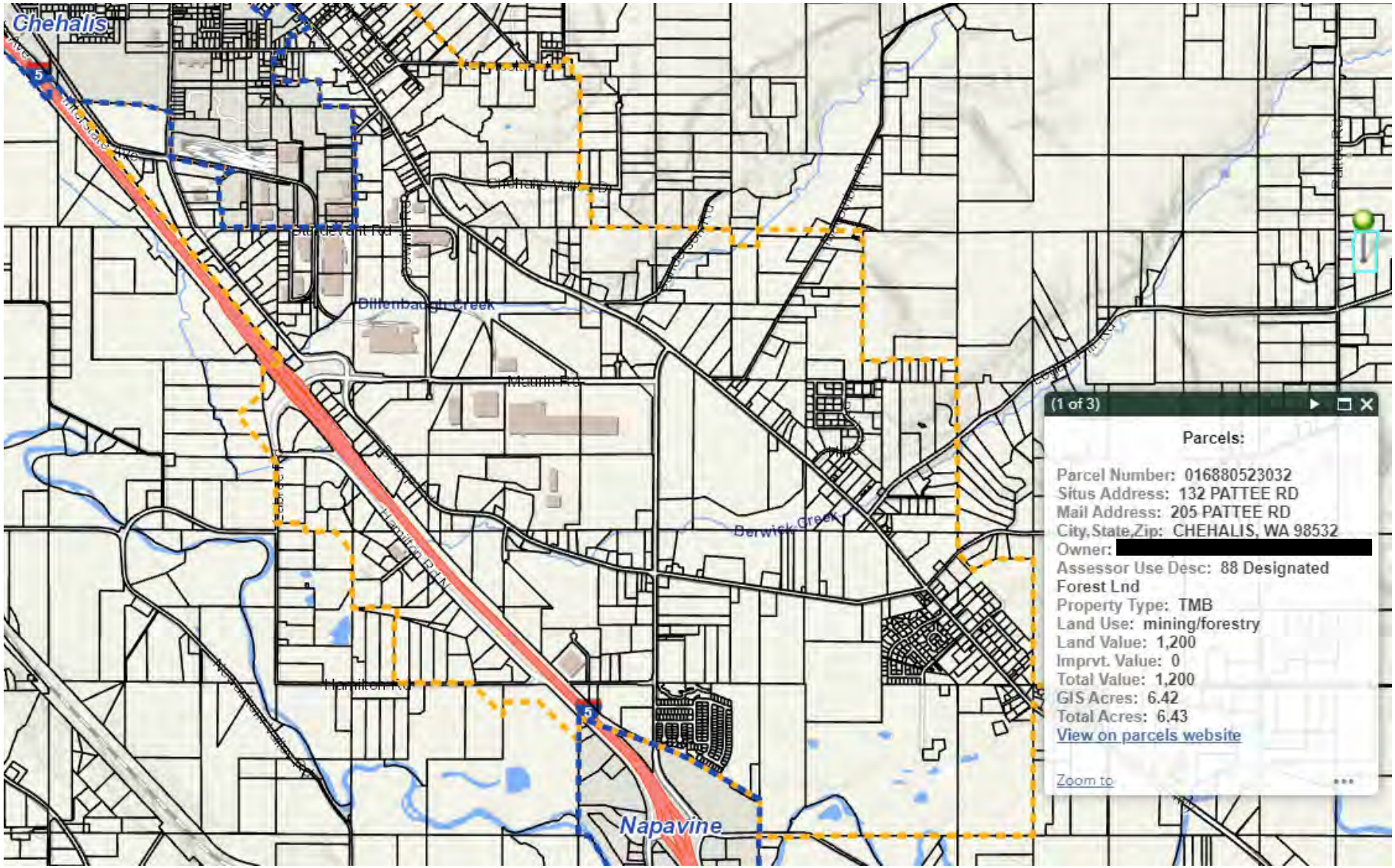
Instructions: As a team, the goal is to determine if the project is financially viable. You will walk through each scenario developed by staff and, using the assumptions below, document each task/element of the project, its estimated costs and considerations.

Assumptions:

If you think any of the assumptions below are wrong, please say why. Assumptions may be changed to make the exercise more valuable. Please add assumptions you believe are necessary in the blank spaces below and share with the group.

1. You own or can buy the property (please document its likely price either way).
2. The property's zoning will allow an RHA via a Type I administrative review.
3. There are no cultural resources to be found on the property.
4. The soil type, for septic purposes, is type 4 (or whatever Jeannie says it is).
5. The well will produce enough flow for the residences you propose to develop and will not have any contaminants in it that prevent its use, subject to Group B compliance if necessary.
6. If you are remodeling an outbuilding, it is a stick-built building, such as a general purpose building or stick-built garage.
7. The fire and school district will say that they have adequate facilities to serve the development you are proposing.
8. _____
   _____
9. _____
   _____
10. _____
    _____
11. _____
    _____
12. _____
    _____


Pattee Rd
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
RDD-5


Chehalis
Dillenbaugh Creek
Martin Rd
Hamilton Rd
Berwick Creek
Napavine
(1 of 3)
Parcels:
Parcel Number: 016880523032
Situs Address: 132 PATTEE RD
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Imprvt. Value: 0
Total Value: 1,200
GIS Acres: 6.42
Total Acres: 6.43
View on parcels website
Zoom to

Property: 205 Pattee Road	**Project: 8 Tiny Homes**	
Task	Estimated Cost	Notes

140 Texas Lane - four 900-sq-ft townhome units

Per loan calculator		
Construction costs	$1,511,000	<---Assumes no other costs (wrong!)
Loan term (years)	30	<---Assumes straight to permanent financing (wrong!)
Interest rate (APR)	7	<---Assumes no capital stack increasing rate (wrong!)
Monthly payment	$10,052.72	
Number of Units	4	
Per unit	$2,513.18	<---Assumes no vacancy, expenses, or profit (wrong)
Debt service coverage ratio (DCSR) needed	**?**	

140 Texas Lane - same as above with 30% down

Per loan calculator		
Loan amount	$1,057,700	<---Assumes no other costs (wrong!)
Loan term (years)	30	<---Assumes straight to permanent financing (wrong!)
Interest rate (APR)	7	<---Assumes no capital stack increasing rate (wrong!)
Monthly payment	$7,036.90	
Number of Units	4	
Per unit	$1,759.23	<---Assumes no vacancy, expenses, or profit (wrong)
DSCR needed	**?**	

Please see the Zillow search of townhome rents.

	1.45
	1.65
	1.20
Rent per sq ft of	1.82
those townhomes	1.22
	1.65
	1.34
	1.47
Average rent/sq ft	**1.47**
x 900 sq ft	**$1,326.40**

Not Happening!

		Estimate	
Costs due specifically to being in rural area?	Property price	$50,000	compare to city lot
	Well/storage	$10,000	compare to city hookups
	Septic	$50,000	compare to city sewer
	Total	$110,000	**<--- not that much! How is this done in cities?**

948 Burnt Ridge Rd - Existing Home + 2 New Prefabs

Per loan calculator		
Construction costs	$828,500	<---Assumes no other costs (wrong!)
Loan term (years)	30	<---Assumes straight to permanent financing (wrong!)
Interest rate (APR)	7	<---Assumes no capital stack increasing rate (wrong!)
Monthly payment	$5,512.03	
Number of Units	3	
Per unit	$1,837.34	<---Assumes no vacancy, expenses, or profit (wrong!)
DSCR needed	**?**	

948 Burnt Ridge Rd - Same as above with 30% down

Per loan calculator		
Loan amount	$579,950	<---Assumes no other costs (wrong!)
Loan term (years)	30	<---Assumes straight to permanent financing (wrong!)
Interest rate (APR)	7	<---Assumes no capital stack increasing rate (wrong!)
Monthly payment	$3,858.42	
Number of Units	3	
Per unit	$1,286.14	<---Assumes no vacancy, expenses, or profit (wrong!)
DSCR needed	**?**	

Average rent/sq ft	1.47	
x 688 sq ft	$1,013.96	1 of these units
x 1296 sq ft	$1,910.02	2 of these units
Weighted average	**$1,611.34**	

Looking more possible

214 Hankin Rd - Existing Home + 2 Barndominiums

Per loan calculator		
Construction costs	$1,454,000	<---Assumes no other costs (wrong!)
Loan term (years)	30	<---Assumes straight to permanent financing (wrong!)
Interest rate (APR)	7	<---Assumes no capital stack increasing rate (wrong!)
Monthly payment	$9,673.50	
Number of Units	3	
Per unit	$3,224.50	<---Assumes no vacancy, expenses, or profit (wrong!)
DSCR needed	**?**	

214 Hankin Rd - Same as above if inherited property

Per loan calculator		
Loan amount	$654,000	<---Assumes no other costs (wrong!)
Loan term (years)	30	<---Assumes straight to permanent financing (wrong!)
Interest rate (APR)	7	<---Assumes no capital stack increasing rate (wrong!)
Monthly payment	$4,351.08	
Number of Units	3	
Per unit	$1,450.36	<---Assumes no vacancy, expenses, or profit (wrong!)
DSCR needed	**?**	

214 Hankin Rd - If inherited property and 20% down

Per loan calculator		
Loan amount	$523,200	<---Assumes no other costs (wrong!)
Loan term (years)	30	<---Assumes straight to permanent financing (wrong!)
Interest rate (APR)	7	<---Assumes no capital stack increasing rate (wrong!)
Monthly payment	$3,480.86	
Number of Units	3	
Per unit	$1,160.29	<---Assumes no vacancy, expenses, or profit (wrong!)
DSCR needed	**?**	

Average rent/sq ft	1.47	
x 650 sq ft	$957.96	1 of these units
x 1440 sq ft	$2,122.25	2 of these units
Weighted average	**$1,734.15**	

Seems Doable

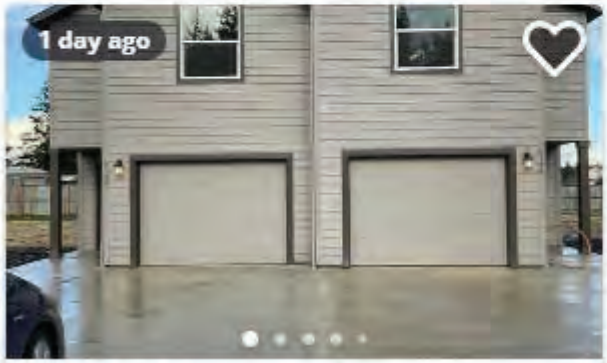
Buy Rent Sell Home Loans Agent finder **Zillow** Manage Rentals Advertise Help Sign in

Chehalis WA | Add another ... | For Rent | Price | More (1) | Save search

Chehalis WA Townhomes For Rent

3 results

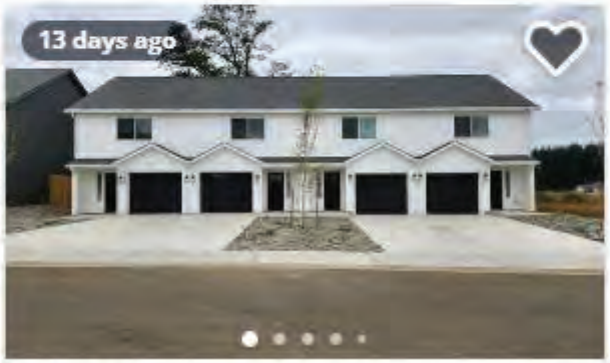
Sorted by Newest



$2,200/mo

3 bds | 2.5 ba | 1,519 sqft - Townhouse f...

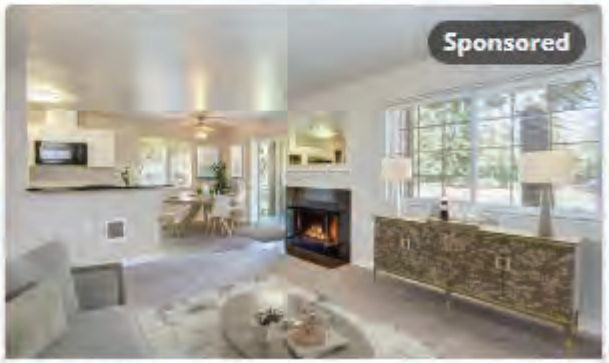
619 Koontz Rd UNIT B, Chehalis, WA 98532



$1,650/mo

3 bds | 2.5 ba | 1,000 sqft - Townhouse f...

1003 Peach Rd UNIT M-P, Chehalis, WA...



Capitol City on the Course

Ask about our Move-In Specials!

Rent Starting at $1,760+

Learn More

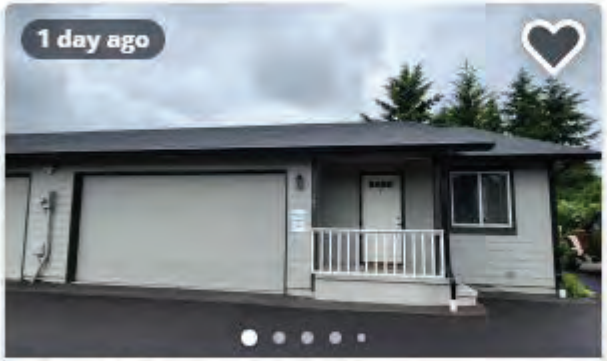
$1,550/mo

2 bds | 1.5 ba | 1,296 sqft - Townhouse f...

115 Brockway Rd UNIT B, Chehalis, WA...

Similar results nearby

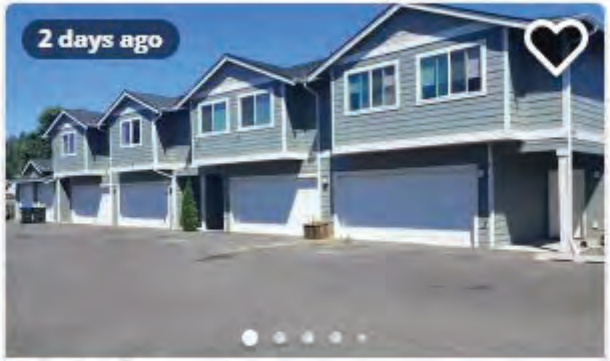
Results within 3 miles



$2,300/mo

3 bds | 2 ba | 1,264 sqft - Townhouse for...

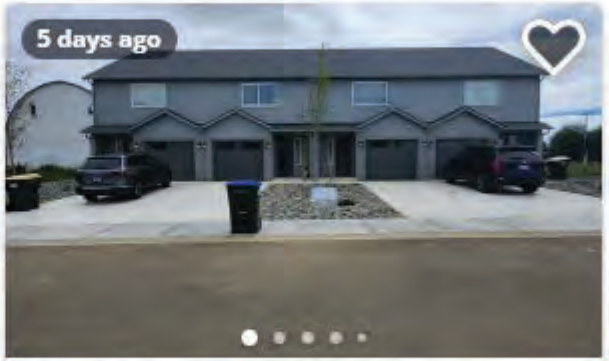
609 S Washington Ave #B, Centralia, WA...



$2,200/mo

3 bds | 2.5 ba | 1,800 sqft - Townhouse f...

1889 Ahlers Ave #D, Centralia, WA 98531



$1,650/mo

2 bds | 2.5 ba | 1,000 sqft - Townhouse f...

1000 Peach Rd UNIT A-D, Winlock, WA...

$1,950/mo

3 bds | 2.5 ba | 1,458 sqft - Townhouse f...

211 Oak St, Winlock, WA 98596

$2,200/mo

3 bds | 2.5 ba | 1,500 sqft - Townhouse f...

1114 S Silver St #2, Centralia, WA 98531

Attachment D:
Financing Tables

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:		If own property already?		At 3.5%?	Notes
			RHA (1 owner)	*Condos*	*RHA*	*Condos*	*RHA*	
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			Comparison		Plausible for right buyer?	Notes
			Total Cost	*20% Down*	*Monthly*	*Additional Down*	*Additional Monthly*		
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.

140 Texas Lane - four 900-sq-ft townhome units

Item	Amount	Notes
Construction costs	$1,511,000	Per ISG Session 2 estimate
Loan fee	$22,665	Security State charges 1.5%, used as example
Loan amount	$1,533,665	
Loan term (years)	30	FNMA eligible (1-4 units, stick-built); 30 years possible
Interest rate (APR)	7%	FNMA eligible, so this is possible
Monthly payment	$10,203.51	Per a loan calculator
Number of Units	4	
Per unit	$2,550.88	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$3,188.60	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$3,841.68**	This is per unit

Zillow search of townhome rents.	
	1.45
	1.65
	1.20
Rent per sq ft of those townhomes:	1.82
	1.22
	1.65
	1.34
	1.47
Average rent/sq ft	**1.47**
x 900 sq ft	**$1,326.40**

Also see 4-unit Elk Creek Rd table for $1457/mo. estimate for stand-alone units

$3841.68 > $1326.40

Would not work at $1457, either

140 Texas Lane - same as above with 30% down

Item	Amount	Notes
Construction costs	$1,511,000	Per ISG Session 2 estimate
After 30% down	$1,057,700	
Loan fee	$15,866	Security State charges 1.5%, used as example
Loan amount	$1,073,566	
Loan term (years)	30	FNMA eligible (1-4 attached units); 30 years possible
Interest rate (APR)	7%	FNMA eligible, so this is possible
Monthly payment	$7,142.46	Per a loan calculator
Number of Units	4	
Per unit	$1,785.62	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,232.02	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,689.18**	This is per unit

$2689.18 > $1326.40

Would not work at $1457, either

Not Happening!

Is it because of costs due to the quadplex being in a rural area?		
Item	**Added Cost**	**Notes**
Property price	$100,000	A 5-acre lot for $175,000 is much larger than the land needed in an urban area for a quadplex; could be $75,000
Well/storage	$10,000	City hookups for 4 homes is expensive, but not $26,000. Operating costs on city water are higher, however.
Septic	$50,000	City hookups for 4 homes is expensive, but not $70,000. Operating costs on sewer are higher, however.
Total	**$160,000**	

140 Texas Lane - without rural costs + 30% down

Item	Amount	Notes
Construction costs	$1,351,000	Per ISG Session 2 estimate
After 30% down	$945,700	
Loan fee	$14,186	Security State charges 1.5%, used as example
Loan amount	$959,886	
Loan term (years)	30	FNMA eligible (1-4 attached units); 30 years possible
Interest rate (APR)	7%	FNMA eligible, so this is possible
Monthly payment	$6,386.15	Per a loan calculator
Number of Units	4	
Per unit	$1,596.54	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,995.67	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,404.42**	This is per unit

Note: this table also predicts that one could not develop the RHA if one already owned the $175,000 lot in this scenario, since the numbers would be comparable to subtracting the rural costs.

$2404.42 > $1326.40

Would not work at $1457, either

Not Happening even in a city!

ISG participants opined that you are not seeing duplexes and quadplexes built *anywhere* because they do not pencil. Rather, you are seeing much larger multifamily structures built. You might see a series of quadplexes as part of a very large development, perhaps. The economies of scale involved can ultimately make the project viable. Alternatively, you may see small multifamily units built by people who intend to live in one half and rent out the other, in which case they do not do this rent calculation. If their income and collateral supports the mortgage amount, they can build it even if its would not produce enough rent to be financeable as an investment property.

140 Texas Lane - FNMA 2-4 unit condo mortgages

Item	Amount	Notes
Construction costs	$1,511,000	Per ISG Session 2 estimate
Per unit	$377,750	
Loan fee	$5,666	Security State charges 1.5%, used as example
Loan amount	$383,416	
Loan term (years)	30	FNMA eligible (as condo or coop unit)
Interest rate (APR)	7%	FNMA eligible, so this is possible
Monthly payment	**$2,550.88**	Per a loan calculator

$2550.88 > $1326.40

Would not work at $1457, either

140 Texas Lane - condo mortgage with 20% down

Item	Amount	Notes
Construction costs	$1,511,000	Per ISG Session 2 estimate
Per unit	$377,750	
After 20% down	$302,200	
Loan fee	$4,533	Security State charges 1.5%, used as example
Loan amount	$306,733	
Loan term (years)	30	FNMA eligible (as condo or coop unit)
Interest rate (APR)	7%	FNMA eligible, so this is possible
Monthly payment	**$2,040.70**	Per a loan calculator

Note: I ran these numbers if you subtract $175k from the construction costs, as if you already own the lot, and it does not pencil either.

$2040.70 > $1326.40

Would not work at $1457, either

140 Texas Lane - 3600 sq ft house & 40x60 shop

Item	Amount	Notes
Construction costs	$1,237,000	Per ISG Session 3 estimate
Loan fee	$18,555	Security State charges 1.5%, used as example
Loan amount	$1,255,555	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	FNMA conventional mortgage
Monthly payment	**$8,353.24**	Per a loan calculator

140 Texas Lane - same as above with 20% down

Item	Amount	Notes
Construction costs	$1,237,000	Per ISG Session 3 estimate
After 20% down	$989,600	
Loan fee	$14,844	Security State charges 1.5%, used as example
Loan amount	$1,004,444	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	FNMA conventional mortgage
Monthly payment	**$6,682.59**	Per a loan calculator

This sheet considers someone wealthy enough to build a 3600 square ft house and 40x60 shop. This person would need enough income to support a huge mortgage of $6682.59 anyway. For less than $500 more per month, they could theoretically build the quadplex for their family and justify the financing in the same manner as a home is financed: through having a big enough income to pay the mortgage. The major difference is that they would need to put down an additional $200,000 to do it. It is also worth nothing that if they charged rent for the 3 additional units a quadplex creates beyond the 1 unit an SFR creates, the additional units would likely bring in $1326*3 = about $4000 in monthly rent.

If this same, wealthy person put 4 MFH units on the lot instead, they would only need to put down an additional $50,000, and their monthly payment would go *down* by $1500. So, for a wealthy person wishing to provide for their whole family, this RHA could make sense! Also, if they charged rent for the 3 additional units that 4 MFHs would creates beyond the 1 unit an SFR creates, the additional units would likely bring in $1457*3 = about $4370 in monthly rent.

Compare to quadplex:

	SFR	Quadplex	Difference
Down	$0	$0	$0
Monthly	$8,353.24	$10,203.51	$1,850.27

Compare to 4 MFH units (Elk Creek):

	SFR	4 MFHs	Difference
Down	$0	$0	$0
Monthly	$8,353.24	$7,278.74	-$1,074.50

This is actually not favorable enough to the 4 MFHs, because their cost was based on the Elk Creek parcel, estimated to be $50,000 more expensive than 140 Texas Ln.

Compare to quadplex at 30% down:

	SFR	Quadplex	Difference
Down	$247,400	$453,300	$205,900
Monthly	$6,682.59	$7,142.46	$459.87

Compare to 4 MFHs (Elk Crk) at 30% down:

	SFR	4 MFHs	Difference
Down	$247,400	$291,120	$43,720
Monthly	$6,682.59	$5,095.12	-$1,587.47

This is actually not favorable enough to the 4 MFHs, because their cost was based on the Elk Creek parcel, estimated to be $50,000 more expensive than 140 Texas Ln.

140 Texas Lane - 3600 sq ft house, shop w/ ADU

Item	Amount	Notes
Construction costs	$1,299,000	Per ISG Session 3 estimate
Loan fee	$19,485	Security State charges 1.5%, used as example
Loan amount	$1,318,485	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	FNMA conventional mortgage
Monthly payment	**$8,771.91**	Per a loan calculator

Compare to quadplex:

	SFR	Quadplex	Difference
Down	$0	$0	$0
Monthly	$8,771.91	$10,203.51	$1,431.60

Compare to 4 MFH units (Elk Creek):

	SFR	4 MFHs	Difference
Down	$0	$0	$0
Monthly	$8,771.91	$7,278.74	-$1,493.17

140 Texas Lane - same as above with 20% down

Item	Amount	Notes
Construction costs	$1,299,000	Per ISG Session 3 estimate
After 20% down	$1,039,200	
Loan fee	$15,588	Security State charges 1.5%, used as example
Loan amount	$1,054,788	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	FNMA conventional mortgage
Monthly payment	**$7,017.53**	Per a loan calculator

Compare to quadplex at 30% down:

	SFR	Quadplex	Difference
Down	$259,800	$453,300	$193,500
Monthly	$7,017.53	$7,142.46	$124.93

Compare to 4 MFHs (Elk Crk) at 30% down:

	SFR	4 MFHs	Difference
Down	$259,800	$291,120	$31,320
Monthly	$7,017.53	$5,095.12	-$1,922.41

This sheet considers someone wealthy enough to build a 3600 square ft house and 40x60 shop that includes a 1296 sq ft ADU. This person would need enough income to support a huge mortgage of $7017.53 anyway. For $125 more per month, they could theoretically build the quadplex for their family and justify the financing in the same manner as a home is financed: through having a big enough income to pay the mortgage. The major difference is that they would need to put down an additional $200,000 to do it.

If this same, wealthy person put 4 MFH units on the lot instead, they would only need to put down an additional $30,000, and their monthly payment would go *down* by $1900. So, for a wealthy person wishing to provide for their whole family, this RHA could make sense!

Here is how it looks with 3.5% interest rates instead of 7%

140 Texas Lane - four 900-sq-ft townhome units

Item	Amount	Notes
Construction costs	$1,511,000	Per ISG Session 2 estimate
Loan fee	$22,665	Security State charges 1.5%, used as example
Loan amount	$1,533,665	
Loan term (years)	30	
Interest rate (APR)	3.5%	
Monthly payment	$6,886.84	Per a loan calculator
Number of Units	4	
Per unit	$1,721.71	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,152.14	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,592.94**	This is per unit

Zillow search of townhome rents.	
	1.45
	1.65
	1.20
Rent per sq ft of	1.82
those townhomes:	1.22
	1.65
	1.34
	1.47
Average rent/sq ft	**1.47**
x 900 sq ft	**$1,326.40**

$2592.94 > $1326.40

140 Texas Lane - same as above with 30% down

Item	Amount	Notes
Construction costs	$1,511,000	Per ISG Session 2 estimate
After 30% down	$1,057,700	
Loan fee	$15,866	Security State charges 1.5%, used as example
Loan amount	$1,073,566	
Loan term (years)	30	
Interest rate (APR)	3.5%	
Monthly payment	$4,820.79	Per a loan calculator
Number of Units	4	
Per unit	$1,205.20	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,506.50	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,815.06**	This is per unit

$1815.06 > $1326.40

Not Happening even at 3.5%!

Is it because of costs due to the quadplex being in a rural area?

Item	Added Cost	Notes
Property price	$100,000	A 5-acre lot for $175,000 is much larger than the land needed in an urban area for a quadplex; could be $75,000
Well/storage	$10,000	City hookups for 4 homes is expensive, but not $26,000. Operating costs on city water are higher, however.
Septic	$50,000	City hookups for 4 homes is expensive, but not $70,000. Operating costs on sewer are higher, however.
Total	**$160,000**	

140 Texas Lane - without rural costs + 30% down

Item	Amount	Notes
Construction costs	$1,351,000	Per ISG Session 2 estimate
After 30% down	$945,700	
Loan fee	$14,186	Security State charges 1.5%, used as example
Loan amount	$959,886	
Loan term (years)	30	
Interest rate (APR)	3.5%	
Monthly payment	$4,310.32	Per a loan calculator
Number of Units	4	
Per unit	$1,077.58	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,346.98	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,622.86**	This is per unit

$1622.86 > $1326.40

Not Happening even in a city at 3.5%!

ISG participants opined that you are not seeing duplexes and quadplexes built *anywhere* because they do not pencil. Rather, you are seeing much larger multifamily structures built. You might see a series of quadplexes as part of a very large development, perhaps. The economies of scale involved can ultimately make the project viable. Alternatively, you may see small multifamily units built by people who intend to live in one half and rent out the other, in which case they do not do this rent calculation. If their income and collateral supports the mortgage amount, they can build it even if its would not produce enough rent to be financeable as an investment property.

948 Burnt Ridge Rd - Existing Home + 2 New Prefabs

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
Loan fee	$12,428	Security State charges 1.5%, used as example
Loan amount	$840,928	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$6,214.38	Per a loan calculator
Number of Units	3	
Per unit	$2,071.46	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,589.33	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$3,119.67**	This is per unit

Per previous sheet	
Average rent/sq ft	1.47
1 unit at 688 sq ft	1013.96*
2 units at 1296 sq ft	1910.02*
Weighted average	**1611.34***

***see rent study on page 4 with better estimate ($1917.70)**

$3119.67 > $1611.34

Does not work at $1917.70 either

948 Burnt Ridge Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
After 30% down	$579,950	
Loan fee	$8,699	Security State charges 1.5%, used as example
Loan amount	$588,649	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$4,350.06	Per a loan calculator
Number of Units	3	
Per unit	$1,450.02	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,812.53	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,183.77**	This is per unit

$2183.77 > $1611.34

Does not work at $1917.70 either

Not financeable to buy property and develop RHA.

948 Burnt Ridge Rd - If already own the property

Item	Amount	Notes
Construction costs	$328,500	Per ISG Session 2 estimate, minus property price
Loan fee	$4,928	Security State charges 1.5%, used as example
Loan amount	$333,428	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$2,464.00	Per a loan calculator
Number of Units	3	
Per unit	$821.33	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,026.67	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,236.95**	This is per unit

Financeable

$1236.95 < $1611.34

Works even better at $1917.70

948 Burnt Ridge Rd - If own property and 30% down

Item	Amount	Notes
Construction costs	$328,500	Per ISG Session 2 estimate
After 30% down	$229,950	
Loan fee	$3,449	Security State charges 1.5%, used as example
Loan amount	$233,399	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$1,724.80	Per a loan calculator
Number of Units	3	
Per unit	$574.93	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$718.67	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$865.86**	This is per unit

Lucrative
$865.86 < $1611.34
Works even better at $1917.70

Clearly possible if one owns the property already (or has cash from elsewhere to bring down the loan amount equivalently).

948 Burnt Ridge Rd - if condo mortgage for each

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
Per unit	$276,167	
Loan fee	$4,143	Security State charges 1.5%, used as example
Loan amount	$280,309	
Loan term (years)	30	FNMA eligible 2-4 unit condo
Interest rate (APR)	7%	FNMA eligible
Monthly payment	**$1,864.90**	Per a loan calculator

Comparable to renting if rent is higher, but with equity
$1864.90 > $1611.34
Beats renting at $1917.70

948 Burnt Ridge Rd - profit, condo mortgages @ 20% down

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
Per unit	$276,167	
Sale price	$303,783	@ 10% markup
After 20% down	$243,027	
Loan fee	$3,645	Security State charges 1.5%, used as example
Loan amount	$246,672	
Loan term (years)	30	FNMA eligible 2-4 unit condo
Interest rate (APR)	7%	FNMA eligible
Monthly payment	**$1,641.11**	Per a loan calculator

Like renting, but with equity
$1641.11 > $1611.34
Beats renting at $1917.70

Possible to purchase property and develop RHA if one finances or sells the resulting units as individual condos. FNMA allows manufactured home condo projects.

948 Burnt Ridge Rd - FHA 2-4 unit loan

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
Loan fee	$12,428	Security State charges 1.5%, used as example
Loan amount	$840,928	
Loan term (years)	30	FHA eligible as 2-4 unit owner-occupied property
Interest rate (APR)	7%	Based on current rates
Monthly payment	$5,594.71	Per a loan calculator
Mortgage insurance	$735.81	
Total monthly	$6,330.52	
Number of Units	3	
Per unit	$2,110.17	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,637.72	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$3,177.97**	This is per unit

$3177.97 > $1611.34

Does not work at $1917.70 either

948 Burnt Ridge Rd - FHA 2-4 unit loan w/ 30% down

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
After 30% down	$579,950	
Loan fee	$8,699	Security State charges 1.5%, used as example
Loan amount	$588,649	
Loan term (years)	30	FHA eligible as 2-4 unit owner-occupied property
Interest rate (APR)	7%	Based on current rates
Monthly payment	$3,916.30	Per a loan calculator
Mortgage insurance	$386.63	
Total monthly	$4,302.93	
Number of Units	3	
Per unit	$1,434.31	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,792.89	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,160.11**	This is per unit

$2160.11 > $1611.34

Does not work at $1917.70 either

Not possible to purchase and develop property as a 2-4 unit owner-occupied property under an FHA loan.

Rent study

Per Trina Homan, using Zillow and Facebook Marketplace to find sq ft, bed, and bath comparables in similar condition is the best way to estimate rent

Facebook Marketplace, 8-17-23	
Unit and rent	*Per sq ft*
2 bed, 1 bath 888 square feet = $1500/mo	1.689189
see 214 Hankin Rd ($1.97 per sq ft, 9 data points)	1.97
Weighted average	1.941919
***688 sq ft =**	**1336.04**
3 bd, 2.5 bath 1250 sq ft townhome = $2000/mo	1.6
3 bd, 2 ba 1264 sq ft townhome = $2300/mo	1.81962
3 bd, 2.5 ba 1152 sq ft townhome = $1950/mo	1.692708
Average	1.70411
***1296 sq ft =**	**2208.53**
Weighted average rent (2 larger, 1 smaller) =	**1917.70**

948 Burnt Ridge Rd - Buy existing home, alone

Item	Amount	Notes
Acquisition cost	$500,000	Per ISG Session 2 estimate
Loan fee	$7,500	Security State charges 1.5%, used as example
Loan amount	$507,500	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	
Monthly payment	**$3,376.41**	Per a loan calculator

Compare to adding 2 prefabs

	SFR	+ 2 prefabs	Difference
Down	$0	$0	$0
Monthly	$3,376.41	$6,214.38	$2,837.97

948 Burnt Ridge Rd - Same as above with 20% down

Item	Amount	Notes
Acquisition cost	$500,000	Per ISG Session 2 estimate
After 20% down	$400,000	
Loan fee	$6,000	Security State charges 1.5%, used as example
Loan amount	$406,000	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	
Monthly payment	**$2,701.13**	Per a loan calculator

Compare to adding 2 prefabs at 30% down

	SFR	+ 2 prefabs	Difference
Down	$100,000	$248,550	$148,550
Monthly	$2,701.13	$4,350.06	$1,648.93

This sheet considers someone wealthy enough to buy the existing home at 948 Burnt ridge based on their earning potential. The question is whether they would consider the RHA. The additional down payment would be about $150,000, and the additional monthly mortgage payment would be about $1650. In exchange, however, they would have two 1296 square foot units, which would likely rent for about $2200 each. So, for someone wealthy enough to handle the increased downpayment, who expected to be able to rent the additional two units, they would end up with a much lower monthly payment than if buying the house alone.

Here is how it looks with 3.5% interest rates instead of 7%

948 Burnt Ridge Rd - Existing Home + 2 New Prefabs

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
Loan fee	$12,428	Security State charges 1.5%, used as example
Loan amount	$840,928	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	3.5%	
Monthly payment	$4,209.88	Per a loan calculator
Number of Units	3	
Per unit	$1,403.29	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,754.12	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,113.39**	This is per unit

Per previous sheet	
Average rent/sq ft	1.47
1 unit at 688 sq ft	1013.96*
2 units at 1296 sq ft	1910.02*
Weighted average	**1611.34***

*separate units might command more rent than townhomes

$2113.39 > $1611.34

*Does not work at $1833.33 either

948 Burnt Ridge Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$828,500	Per ISG Session 2 estimate
After 30% down	$579,950	
Loan fee	$8,699	Security State charges 1.5%, used as example
Loan amount	$588,649	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	3.5%	
Monthly payment	$2,946.92	Per a loan calculator
Number of Units	3	
Per unit	$982.31	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,227.88	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,479.38**	This is per unit

Financeable
$1479.38 > $1611.34

Works even better at $1833.33

Would be financeable to purchase property and develop RHA if interests rates were lower. (Compare prior page, where developing the property as an investment was not financeable unless the rents were higher, or one owned the property already, or had a ton of equity. It was possible to buy the property and develop the RHA if the resulting units were sold as condos.)

214 Hankin Rd - Existing Home + 2 Barndominiums

Item	Amount	Notes
Construction costs	$1,454,000	Per ISG Session 2 estimate
Loan fee	$21,810	Security State charges 1.5%, used as example
Loan amount	$1,475,810	
Loan term (years)	30	FNMA eligible (1-4 units, stick built); 30 years possible
Interest rate (APR)	7%	FNMA eligible
Monthly payment	$9,818.60	Per a loan calculator
Number of Units	3	
Per unit	$3,272.87	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$4,091.08	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$4,929.02**	This is per unit

Per previous sheet	
Average rent/sq ft	1.47
1 unit at 650 sq ft	957.96*
2 units at 1440 sq ft	$2,122.25
Weighted average	**$1,734.15**

*see rent study on page 4 for estimate of $1971/mo.

$4929.02 > $1734.15

Won't work at $1971, either.

214 Hankin Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$1,454,000	Per ISG Session 2 estimate
After 30% down	$1,017,800	
Loan fee	$15,267	Security State charges 1.5%, used as example
Loan amount	$1,033,067	
Loan term (years)	30	FNMA eligible (1-4 units, stick built); 30 years possible
Interest rate (APR)	7%	FNMA eligible
Monthly payment	$6,873.02	Per a loan calculator
Number of Units	3	
Per unit	$2,291.01	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,863.76	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$3,450.31**	This is per unit

$3450.31 > $1734.15

Won't work at $1971, either.

Not possible to purchase property and develop RHA

214 Hankin Rd - Same as above if inherited property

Item	Amount	Notes
Construction costs	$654,000	Per ISG Session 2 estimate
Loan fee	$9,810	Security State charges 1.5%, used as example
Loan amount	$663,810	
Loan term (years)	30	FNMA eligible (1-4 units, stick built); 30 years possible
Interest rate (APR)	7%	FNMA eligible
Monthly payment	$4,416.34	Per a loan calculator
Number of Units	3	
Per unit	$1,472.11	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,840.14	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,217.04**	This is per unit

$2217.04 > $1734.15
Won't work at $1971, either.

214 Hankin Rd - If inherited property and 30% down

Item	Amount	Notes
Construction costs	$654,000	Per ISG Session 2 estimate
After 30% down	$457,800	
Loan fee	$6,867	Security State charges 1.5%, used as example
Loan amount	$464,667	
Loan term (years)	30	FNMA eligible (1-4 units, stick built); 30 years possible
Interest rate (APR)	7%	FNMA eligible
Monthly payment	$3,091.44	Per a loan calculator
Number of Units	3	
Per unit	$1,030.48	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,288.10	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,551.93**	This is per unit

Financeable
$1551.93 < $1734.15
Works even better at $1971/mo

Doable if one owns the property and has equity

214 Hankin Rd - condo mortgage for each

Item	Amount	Notes
Construction costs	$1,454,000	Per ISG Session 2 estimate
Per unit	$484,667	
Loan fee	$7,270	Security State charges 1.5%, used as example
Loan amount	$491,937	
Loan term (years)	30	FNMA eligible 2-4 unit condo, stick-built
Interest rate (APR)	7%	FNMA eligible
Monthly payment	**$3,272.87**	Per a loan calculator

$3272.87 > $1734.15
Won't work at $1971, either.

214 Hankin Rd - condo mortgage w/ 20% down

Item	Amount	Notes
Construction costs	$1,454,000	Per ISG Session 2 estimate
Per unit	$484,667	
After 20% down	$387,733	
Loan fee	$5,816	Security State charges 1.5%, used as example
Loan amount	$393,549	
Loan term (years)	30	FNMA eligible 2-4 unit condo, stick built
Interest rate (APR)	7%	FNMA eligible
Monthly payment	**$2,618.29**	Per a loan calculator

$2618.29 > $1734.15
Won't work at $1971, either.

214 Hankin Rd - if inherit property & condo-ize

Item	Amount	Notes
Construction costs	$654,000	Per ISG Session 2 estimate
Per unit	$218,000	
Loan fee	$3,270	Security State charges 1.5%, used as example
Loan amount	$221,270	
Loan term (years)	30	FNMA eligible 2-4 unit condo, stick built
Interest rate (APR)	7%	FNMA eligible
Monthly payment	**$1,472.11**	Per a loan calculator

Beats renting, plus equity
$1472.11 < $1734.15
Works even better at $1971/mo

214 Hankin Rd - if inherit, condo + profit, 20% down

Item	Amount	Notes
Construction costs	$654,000	Per ISG Session 2 estimate
Per unit	$218,000	
Sale price	$248,000	12.5 percent markup
After 20% down	$198,400	
Loan fee	$2,976	Security State charges 1.5%, used as example
Loan amount	$201,376	
Loan term (years)	30	FNMA eligible 2-4 unit condo, stick built
Interest rate (APR)	7%	FNMA eligible
Monthly payment	**$1,339.76**	Per a loan calculator

Beats renting, plus equity
$1339.76 < $1734.15
Works even better at $1971/mo

Doable as condos, but again only if one inherited the property.

Rent Study

Zillow, 2023-8-17				
Bd/ba	**Sq ft**	**Type**	**rent/mo**	**rent/sq ft**
1 bd, 1 ba	550	Apt	950	1.727273
1 bd, 1 ba	394	Apt	860	2.182741
1 bd, 1 ba	585	Apt	1150	1.965812
1 bd, 1 ba	635	Apt	1021	1.607874
1 bd, 1 ba	615	Apt	1100	1.788618
1 bd, 1 ba	650	Apt	1200	1.846154
1 bd, 1 ba	450	Apt	1140	2.533333
1 bd, 1 ba	529	Apt	1045	1.975425
1 bd, 1 ba	550	Apt	1175	2.136364
			Avg =	1.973733
			***650 =**	**1282.926**
3 bd, 2 ba	1400	House	2500	1.785714
3 bd, 2 ba	1413	House	2000	1.415428
3 bd, 2 ba	1264	Dupl.	2300	1.81962
3 bd, 2.5 ba	1500	Twnhm	2250	1.5
3 bd, 2.5 ba	1450	Dupl.	2200	1.517241
			Avg =	1.607601
			***1440 =**	**2314.945**
Weighted average for one 650 sq ft unit and two 1440 sq ft units is $1970.94 ($1971/mo.).				

214 Hankin Rd - Buy existing property, no renovation

Item	Amount	Notes
Acquisition cost	$800,000	Per ISG Session 2 estimate
Loan fee	$12,000	Security State charges 1.5%, used as example
Loan amount	$812,000	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	
Monthly payment	**$5,402.26**	Per a loan calculator

Compare to adding 2 barndominiums

	SFR	+ 2 barndos	Difference
Down	$0	$0	$0
Monthly	$5,402.26	$9,818.60	$4,416.34

214 Hankin Rd - Same as above with 20% down

Item	Amount	Notes
Acquisition cost	$800,000	Per ISG Session 2 estimate
After 20% down	$640,000	
Loan fee	$9,600	Security State charges 1.5%, used as example
Loan amount	$649,600	
Loan term (years)	30	FNMA conventional mortgage
Interest rate (APR)	7%	
Monthly payment	**$4,321.81**	Per a loan calculator

Compare to adding 2 barndos at 30% down

	SFR	+ 2 barndos	Difference
Down	$160,000	$436,200	$276,200
Monthly	$4,321.81	$6,873.02	$2,551.21

This sheet considers someone wealthy enough to buy the existing home at 214 Hankin Rd based on their earning potential. The question is whether they would consider the RHA. The additional down payment would be about $276,000, and the additional monthly mortgage payment would be about $2550. In exchange, however, they would have two 1440 square foot condo units, which would likely rent for about $2300 each. So, for someone wealthy enough to justify the increased mortgage, who expected to be able to rent the additional two units, they would end up with a much lower monthly payment than buying the house alone. The extra $276,000 down seems too much, but if a person sold their house and needed to plow the equity into their next home, then sure.

Here is how it looks with 3.5% interest rates instead of 7%

214 Hankin Rd - Existing Home + 2 Barndominiums

Item	Amount	Notes
Construction costs	$1,454,000	Per ISG Session 2 estimate
Loan fee	$21,810	Security State charges 1.5%, used as example
Loan amount	$1,475,810	
Loan term (years)	25	Assume a local portfolio loan instead of FNMA
Interest rate (APR)	3.5%	
Monthly payment	$7,388.25	Per a loan calculator
Number of Units	3	
Per unit	$2,462.75	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$3,078.44	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$3,708.96**	This is per unit

Per previous sheet	
Average rent/sq ft	1.47
1 unit at 650 sq ft	957.96*
2 units at 1440 sq ft	$2,122.25
Weighted average	**$1,734.15**

*separate units might command more rent than townhomes

$3708.96> $1734.15

214 Hankin Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$1,454,000	Per ISG Session 2 estimate
After 30% down	$1,017,800	
Loan fee	$15,267	Security State charges 1.5%, used as example
Loan amount	$1,033,067	
Loan term (years)	30	Assume a local portfolio loan instead of FNMA
Interest rate (APR)	3.5%	
Monthly payment	$5,171.78	Per a loan calculator
Number of Units	3	
Per unit	$1,723.93	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,154.91	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,596.28**	This is per unit

$2596.28 > $1734.15

Does not work to purchase property and develop RHA even at 3.5%.

0 Elk Creek Rd - 3 New Manufactured Homes

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 3 estimate
Loan fee	$11,999	Security State charges 1.5%, used as example
Loan amount	$811,899	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$5,999.86	Per a loan calculator
Number of Units	3	
Per unit	$1,999.95	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,499.94	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$3,011.98**	This is per unit

Per previous sheet
Average rent/sq ft 1.47
x 1200 sq ft **1768.54***

***See rent study on page 3 for estimate of $1871/month**

$3011.98 > $1768.54
Won't work at $1871, either

0 Elk Creek Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 3 estimate
After 30% down	$559,930	
Loan fee	$8,399	Security State charges 1.5%, used as example
Loan amount	$568,329	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$4,199.90	Per a loan calculator
Number of Units	3	
Per unit	$1,399.97	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,749.96	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,108.38**	This is per unit

$2108.38.98 > $1768.54
Won't work at $1871, either

0 Elk Creek Rd - if already own property and 30% down

Item	Amount	Notes
Construction costs	$574,900	Per ISG Session 3 estimate minus $225k property value
After 30% down	$402,430	
Loan fee	$6,036	Security State charges 1.5%, used as example
Loan amount	$408,466	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$3,018.53	Per a loan calculator
Number of Units	3	
Per unit	$1,006.18	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,257.72	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,515.33**	This is per unit

$1515.33 < $1768.54
Works even better at $1871

Financeable to develop RHA only if one already owns the lot.

0 Elk Creek Rd - if condo mortgage for each, no profit

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 3 estimate
Per unit	$266,633	799900 divided by 3
Loan fee	$4,000	
Loan amount	$270,633	
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a FNMA mortgage available, maybe as a
Monthly payment	**$1,800.53**	Per a loan calculator

Like renting, but with equity
$1800.53 ≈ $1768.54
Works better at $1871

0 Elk Creek Rd - sell unit as condo, with profit, 20% down

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 3 estimate
Per unit	$266,633	799900 divided by 3
Sale price	$300,000	
After 20% down	$240,000	
Loan fee	$3,600	
Loan amount	$243,600	Developer markup on $267,000 investment per unit
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a FNMA mortgage available
Monthly payment	**$1,620.68**	Per a loan calculator

Beats renting, plus equity
$1620.68 < $1768.54
Works even better at $1871

Works if there is a condo mortgage option for each unit.

Rent Study

Zillow & Facebook Marketplace, 2023-8-17				
Bd/ba	**Sq ft**	**Type**	**rent/mo**	**rent/sq ft**
2 bd, 1.5 ba	1200	Twnhm	1695	1.4125
2 bd, 1.5 ba	1200	Twnhm	1795	1.495833
2 bd, 1.5 ba	1170	Twnhm	1700	1.452991
2 ba, 2.5 ba	1050	Apt	1500	1.428571
2 bd, 2 ba	1040	Apt	1395	1.341346
3 bd, 2.5 ba	1152	Apt	1950	1.692708
3 bd, 2 ba	1064	House	1900	1.785714
3 bd, 2 ba	1250	Twnhm	2000	1.6
3 bd, 2 ba	1264	Dupl.	2300	1.81962
			Avg =	1.558809
			***1200 =**	**1870.571**

0 Elk Creek Rd - 1 New Manufactured Home - FNMA

Item	Amount	Notes
Construction costs	$432,500	Per ISG Session 3 estimate, as altered on page 2
Loan fee	$6,488	Security State charges 1.5%, used as example
Loan amount	$438,988	
Loan term (years)	30	FNMA loan
Interest rate (APR)	7%	Based on current rates
Monthly payment	**$2,920.60**	Per a loan calculator

Compare to 3 MFHs on lot, FHA 2-4 unit loan:

		SFR	3 MFHs - FHA	Difference
Down		$0	$69,375	$69,375
Monthly		$2,920.60	$5,551.00	$2,630.40
Per RHA unit:	**Down**		$23,125	$23,125
	Monthly		$1,850.33	-$1,070.27

0 Elk Creek Rd - Same as above with 20% down

Item	Amount	Notes
Construction costs	$432,500	Per ISG Session 3 estimate, as altered on page 2
After 20% down	$346,000	
Loan fee	$5,190	Security State charges 1.5%, used as example
Loan amount	$351,190	
Loan term (years)	30	FNMA loan
Interest rate (APR)	7%	Based on current rates
Monthly payment	**$2,336.48**	Per a loan calculator

Compare to 3 MFHs, FHA loan with 30% down:

		SFR	3 MFHs - FHA	Difference
Down		$86,500	$239,970	$153,470
Monthly		$2,336.48	$4,160.00	$1,823.52
Per RHA unit:	**Down**		$79,990	**-$6,510**
	Monthly		$1,386.67	**-$949.81**

This sheet compares a homeowner who is contemplating putting a 1200 sq ft mobile home on the Elk Creek 10-acre lot, and justifying the mortgage based on his or her earning potential instead of the likely rent of the units. The comparison is to an FHA mortgage of the same lot with 3 mobile homes on it (FHA because FNMA conventional mortages are not allowed for multiple MFHs on one lot). There are two questions. The first is, "How much more would the additional two units cost?" They would cost an additional $154,000 down and an additional $1,825 per month. In exchange for the extra money down, however, the buyer would have 2 additional units that each rent for about $1,870 per month each, or $3750. So, if the buyer expects to be able to rent out the units and has the money to put down (perhaps from the sale of a house), the RHA would significantly offset the buyer's monthly loan payments (by about $1,900 per month).

The second question is whether this homebuyer and two others could "team up" on a joint FHA loan for the whole property, justified by their earning potentials instead of on the rent of the units, and come out ahead. The answer is yes, they would: each homeowner would have to put down about $6500 less than they would if they buying their own homes, and the mortgage payment for each (even including FHA mortgage insurance) is about $950 less per month than if they were buying their own homes. The monthly mortgage payment for each unit ($1386.67) is cheaper than the Elk Creek 3-unit condo option and far cheaper than rent for a comparable unit (probably around $1800), plus these buyers would be building equity. The major downside to this approach is that the three homeowners would have to jointly own the property as tenants in common, and jointly apply for and obtain the loan. This might prove to difficult down the road if one wished to sell or move before another. Also, the FHA loan might have underwriting problems because of the rent calculations on the FHA page.

Extrapolated development costs to site one 1200-sq-ft manufactured home

Task	3 MHs	1MH	Notes
Property price	$225,000	$225,000	Same no matter how many units you add
Well and storage	$30,000	$20,000	Doty is tough for wells, but no storage
Pump House	$6,000	$0	Same
Septic system	$65,000	$22,000	same as Texas Lane SFR
Power hookup	$15,000	$10,000	same as Texas Lane SFR
Driveway/groundwork	$15,000	$5,000	Assuming $5,000 per unit for driveway
Manufactured Homes	$420,000	$140,000	Same as ISG 3 estimate (1200 sq ft)
Landscaping	$5,000	$5,000	Same
Carports	$16,500	$5,500	$5500 each
Stormwater	$0*	0	
Legal fees	$2,400	$0	
Loan fees / Financing	TBD	TBD	
SMA fee	$400/year	0	No SMA for individual well
Total	**$799,900**	**$432,500**	

Here is how it looks with 3.5% interest rates instead of 7%

0 Elk Creek Rd - 3 New Manufactured Homes

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 3 estimate
Loan fee	$11,999	Security State charges 1.5%, used as example
Loan amount	$811,899	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	3.5%	Based on current rates
Monthly payment	$4,064.56	Per a loan calculator
Number of Units	3	
Per unit	$1,354.85	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,693.57	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,040.44**	This is per unit

Per previous sheet
Average rent/sq ft 1.47
x 1200 sq ft **1768.54***

*separate units might command more rent than townhomes

$2040.44 > $1768.54

Won't work at $1871, either

0 Elk Creek Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 2 estimate
After 30% down	$559,930	
Loan fee	$8,399	Security State charges 1.5%, used as example
Loan amount	$568,329	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	3.5%	Based on current rates
Monthly payment	$2,845.19	Per a loan calculator
Number of Units	3	
Per unit	$948.40	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,185.50	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,428.31**	This is per unit

Financeable
$1428.31 < $1768.54

Even better at $1871

Works to buy property and develop RHA for rental if interest rates are lower.

0 Elk Creek Rd - 3 New Manufactured Homes - FHA

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 3 estimate
After min 8.7% down	$730,525	$730525 is the FHA loan limit for a 3-unit property
Loan fee	$10,958	Security State charges 1.5%, used as example
Loan amount	$741,483	
Loan term (years)	30	**FHA Title II 2-4 unit loan**
Interest rate (APR)	7%	Based on current rates
Monthly payment	$4,933.10	Per a loan calculator
Mortgage insurance	$617.90	See table here.
Total monthly	$5,551.00	
Number of Units	3	
Per unit	$1,850.33	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,312.92	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,786.65**	This is per unit

Per previous sheet	
Average rent/sq ft	1.47
x 1200 sq ft	**1768.54***

*separate units might command more rent than townhomes

$2786.65 > $1768.54

Won't work at $1871, either

0 Elk Creek Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$799,900	Per ISG Session 3 estimate
After 30% down	$559,930	
Loan fee	$8,399	Security State charges 1.5%, used as example
Loan amount	$568,329	
Loan term (years)	30	**FHA Title II 2-4 unit loan**
Interest rate (APR)	7%	Based on current rates
Monthly payment	$3,781.11	Per a loan calculator
Mortgage insurance	$378.89	Only for 11 years, due to 30% down. See table.
Total monthly	$4,160.00	
Number of Units	3	
Per unit	$1,386.67	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,733.33	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,088.35**	This is per unit

$2088.35 > $1768.54

Won't work at $1871, either

Not financeable to buy property and develop RHA as an investment

0 Elk Creek Rd - If already own property, FHA, 30% down

Item	Amount	Notes
Construction costs	$574,900	Per ISG Session 3 estimate minus $225,000 property value
After 30% down	$402,430	
Loan fee	$6,036	Security State charges 1.5%, used as example
Loan amount	$408,466	
Loan term (years)	30	**FHA Title II 2-4 unit loan**
Interest rate (APR)	7%	Based on current rates
Monthly payment	$2,717.53	Per a loan calculator
Mortgage insurance	$272.31	Only for 11 years, due to 30% down. See table.
Total monthly	$2,989.84	
Number of Units	3	
Per unit	$996.61	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,245.77	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,500.92**	This is per unit

Financeable
$1500.92 < $1768.54
works even better at $1871/mo

Financeable if one already owns the property

0 Elk Creek Rd - FHA condo mortgage for each, no profit

Item	Amount	Notes
Share of costs	$266,633	799900 divided by 3
After 3.5% down	$257,301	Minimum 3.5% down for FHA loans
Loan term (years)	30	
		FHA mortgage for each unit as a condo, with shared parcel
Interest rate (APR)	7%	owned by condo association
Monthly payment	$1,773.92	Per a loan calculator
Mortgage insurance	$182.25	See table here.
Total	**$1,956.17**	

Worse than renting, but equity
$1956.17 ≈ $1768.54*
*because more like $1871/mo

0 Elk Creek Rd - FHA condo mortgage, w/ profit, 20% down

Item	Amount	Notes
Loan amount	$300,000	Developer markup on $267,000 investment per unit
After 20% down	$240,000	
Loan term (years)	30	
		FHA mortgage for each unit as a condo, with shared parcel
Interest rate (APR)	7%	owned by condo association
Monthly payment	$1,596.73	Per a loan calculator
Mortgage insurance	$160.00	Only for 11 years, due to 20% down. See table.
Total	**$1,756.73**	

Beats renting, plus equity
$1756.73 < $1768.54*
*because more like $1871/mo

Works if there is a mortgage option for each unit and 20% down (note, this was true for FNMA condo mortgages as well, and they were a better deal). So this one is academic.

0 Elk Creek Rd - 4 New Manufactured Homes

Item	Amount	Notes
Construction costs	$970,400	Per ISG Session 3 estimate altered as shown at on page 3
Loan fee	$14,556	Security State charges 1.5%, used as example
Loan amount	$984,956	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$7,278.74	Per a loan calculator
Number of Units	4	
Per unit	$1,819.69	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,274.61	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,740.49**	This is per unit

Per previous sheet	
Average rent/sq ft	1.47
x 900 sq ft	**1326.40***

***See rent study and construction cost estimates on on page 3**

$2740.49 > $1326.40

Won't work at $1457/mo, either

0 Elk Creek Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$970,400	Per ISG Session 3 estimate altered as shown on page 3
After 30% down	$679,280	
Loan fee	$10,189	Security State charges 1.5%, used as example
Loan amount	$689,469	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$5,095.12	Per a loan calculator
Number of Units	4	
Per unit	$1,273.78	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,592.23	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,918.34**	This is per unit

$1918.34 > $1326.40

Won't work at $1457/mo, either

Worse all around than the 3-unit option. It is because when you add the 4th unit, the unit sizes went down to 900 sq ft due to the square footage cap, reducing the potential rent. The rent reduction from the smaller units exceeds the savings per unit from having 4 units.

0 Elk Creek Rd - 4 MFH, If own property + 30% down

Item	Amount	Notes
Construction costs	$745,400	Per estimate on page 3, minus $225k property value
After 30% down	$521,780	
Loan fee	$7,827	Security State charges 1.5%, used as example
Loan amount	$529,607	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$3,913.75	Per a loan calculator
Number of Units	4	
Per unit	$978.44	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,223.05	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,473.55**	This is per unit

Plausible if cost is slightly lower
$1473.55 ≈ $1326.40*

*because more like $1457/mo, and each unit might be $20k cheaper

Plausible but worse than the 3-unit option. The potential rent from the 4 units did not offset the cost of adding the 4th unit because each unit must be smaller, and would therefore bring in less rent.

0 Elk Creek Rd - if condo mortgage for each, no profit

Item	Amount	Notes
Loan amount	$242,600	970400 divided by 4
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a regular mortgage available
Monthly payment	**$1,614.02**	Per a loan calculator

Worse than renting, but equity
$1614.02 > $1326.40

Better at $1457/mo

0 Elk Creek Rd - sell as condos, with profit, 20% down

Item	Amount	Notes
Loan amount	$272,000	Developer markup on $242,000 investment per unit
After 20% down	$217,600	
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a regular mortgage available
Monthly payment	**$1,447.70**	Per a loan calculator

Like renting, but with equity
$1447.70 ≈ $1326.40*

*because more like $1457/mo and costs might be $20k less per unit

4 condos will work, though not as well as the 3-unit condo option, for the same reason as above.

Extrapolated development costs for four 900-square-ft manufactured homes

Task	3 MHs	4 MHs	Notes
Property price	$225,000	$225,000	Same no matter how many units you add
Well and storage	$30,000	$40,000	Another $10k for the additional storage / piping
Pump House	$6,000	$6,000	Same
Septic system	$65,000	$70,000	$70,000 was for four 900 sq ft units before
Power hookup	$15,000	$20,000	4 meters instead of 3
Driveway/groundwork	$15,000	$20,000	Assuming $5,000 per unit for driveway
Manufactured Homes	$420,000	$560,000	$140,000 each, but that was for a larger MH. Could be $20k less.
Landscaping	$5,000	$5,000	Same
Carports	$16,500	$22,000	$5500 each
Stormwater	$0*	$0*	
Legal fees	$2,400	$2,400	
Loan fees / Financing	TBD	TBD	
SMA fee	$400/year	$400/year	
Total	**$799,900**	**$970,400**	May be conservative, price could be $60k-$80k less

Rent Study

Zillow & Facebook Marketplace, 2023-8-17	
Bd/ba, sq ft, type, rent	**rent/sq ft**
2 bd, 1 ba, 888 sq ft apt = $1500/mo	1.68918919
2 bd, 2 ba, 940 sq ft Apt = $1595/mo	1.69680851
1 bd, 1 ba, 750 sq ft house = $850/mo	1.13333333
2 bd, 1 ba, 888 sq ft house = $1750/mo	1.97072072
2 ba, 1 ba, 840 sq ft apt = $1350/mo	1.60714286
Avg =	1.61943892
*900 =	1457.49503

0 Elk Creek Rd - 2 New Manufactured Homes

Item	Amount	Notes
Construction costs	$669,400	Per ISG Session 3 estimate altered as shown on page 3
Loan fee	$10,041	Security State charges 1.5%, used as example
Loan amount	$679,441	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$5,021.01	Per a loan calculator
Number of Units	2	
Per unit	$2,510.51	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$3,138.13	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$3,780.88**	This is per unit

Per previous sheet

Average rent/sq ft 1.47

x 1800 sq ft **2652.81***

*rent per sq ft tapers as units get larger. See rent study on page 3 suggesting $2327 is more likely.

$3780.88> $2652.81

Even worse at $2327

0 Elk Creek Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$669,400	Per ISG Session 3 estimate altered as shown on page 3
After 30% down	$468,580	
Loan fee	$7,029	Security State charges 1.5%, used as example
Loan amount	$475,609	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$3,514.71	Per a loan calculator
Number of Units	2	
Per unit	$1,757.36	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$2,196.69	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,646.62**	This is per unit

May work, unless rent is lower

$2646.62 < $2652.81

Won't work at $2327

Possible, but probably will not work to buy property and develop as an RHA, due to rent slackening in larger units.

0 Elk Creek Rd - If own property and 20% down

Item	Amount	Notes
Construction costs	$444,400	Per estimate on page 3, minus $225k property price
After 20% down	$355,520	
Loan fee	$5,333	Security State charges 1.5%, used as example
Loan amount	$360,853	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$2,666.67	Per a loan calculator
Number of Units	2	
Per unit	$1,333.34	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,666.67	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$2,008.03**	This is per unit

Financeable
$2008.03 < $2652.81
Still works at $2327

Works to develop 2-unit RHA if one already owns the property.

0 Elk Creek Rd - if condo mortgage for each, no profit

Item	Amount	Notes
Loan amount	$334,700	669400 divided by 2
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a regular mortgage available
Monthly payment	**$2,226.77**	Per a loan calculator

Beats renting, plus equity
$2226.77 < $2652.81
Still works at $2327

0 Elk Creek Rd - sell as condos, with profit, 20% down

Item	Amount	Notes
Loan amount	$375,000	Developer markup on $335,000 investment per unit
After 20% down	$300,000	
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a regular mortgage available
Monthly payment	**$1,995.91**	Per a loan calculator

Beats renting, plus equity
$1,995.91 < $2652.81
Still works at $2327

Works if there is a mortgage option for each unit.

Extrapolated development costs for two 1,800-square-ft manufactured homes

Task	3 MHs	2MH	Notes
Property price	$225,000	$225,000	Same no matter how many units you add
Well and storage	$30,000	$30,000	Doty is tough for wells; kept same
Pump House	$6,000	$6,000	Same
Septic system	$65,000	$40,000	Arbitrary, check with Jeannie
Power hookup	$15,000	$10,000	2 meters instead of 3
Driveway/ groundwork	$15,000	$10,000	Assuming $5,000 per unit for driveway
Manufactured Homes	$420,000	$330,000	$165,000 per unit. $25,000 more each because larger.
Landscaping	$5,000	$5,000	Same
Carports	$16,500	$11,000	$5500 each
Stormwater	$0*	$0*	
Legal fees	$2,400	$2,400	
Loan fees / Financing	TBD	TBD	
SMA fee	$400/year		No SMA for shared well
Total	**$799,900**	**$669,400**	

Rent Study

Zillow & Facebook Marketplace, 2023-8-19	
Bd/ba, sq ft, type, rent	**rent/sq ft**
3 bd, 2.5 bad, 1500 sq ft = $2250/mo	1.5
3 bd, 2 ba, 1782 sq ft = $1900/mo	1.06621773
3 bd, 2 ba, 1732 sq ft = $2100/mo	1.21247113
3 bd, 2.5 bad, 1519 sq ft = $2200/mo	1.44832126
3 bd, 2.5 bad, 1814 sq ft = $2100/mo	1.15766262
4 bd, 2 ba, 1830 sq ft - $2800/mo	1.53005464
4 bd, 2.5 ba, 1850 sq ft = $2100/mo	1.13513514
Avg =	1.2928375
***1800 =**	**2327.10751**

205 Pattee Rd - 8 Tiny Homes

Item	Amount	Notes
Construction costs	$920,000	Per ISG Session 3 estimate
Loan fee	$13,800	Security State charges 1.5%, used as example
Loan amount	$933,800	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$6,900.70	Per a loan calculator
Number of Units	8	
Per unit	$862.59	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$1,078.23	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$1,299.08**	This is per unit

Per previous sheet
Average rent/sq ft 1.47
x 450 sq ft **$663.20***

*this is wrong. 1660 Bishop tiny homes rent for $1200/mo., in line with the rent study on page 3.

$1299.08 ≈ $1200*

*because costs per tiny home may be slightly lower

Plausible even with no money down (which is not likely to happen in terms of a loan). But, it is striking because all of the other RHAs would need significant money down to be feasible.

205 Pattee Rd - Same as above with 30% down

Item	Amount	Notes
Construction costs	$920,000	Per ISG Session 3 estimate
After 30% down	$644,000	
Loan fee	$9,660	Security State charges 1.5%, used as example
Loan amount	$653,660	
Loan term (years)	25	FNMA ineligible; Sec State will loan for 25 years
Interest rate (APR)	7.5%	Based on current rates
Monthly payment	$4,830.49	Per a loan calculator
Number of Units	8	
Per unit	$603.81	
DCSR	1.25	Debt service coverage ratio needed, per Sec. State
NOI	$754.76	Net operating income must be 1.25 x debt service
+5% maintenance +5% vacancy +7% op. costs		NOI = Gross rent minus maintenance, vacancy, & operating costs
Gross rent needed	**$909.35**	This is per unit

Financeable
$909.35 < $1200

Works to buy property and develop RHA for rental, since for some reason tiny homes rent for much more per square foot than other forms of housing.

0 Elk Creek Rd - if mortgage available for each, no profit

Item	Amount	Notes
Construction costs	$940,000	Per ISG Session 3 estimate, adding $20,000 for septic tank at each tiny home instead of every other one
Per unit	$117,500	920000 divided by 8
Loan fee	$1,763	
Loan amount	$119,263	
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a FNMA mortgage available, maybe as a cooperative unit or condo unit
Monthly payment	**$793.46**	Per a loan calculator

Beats renting, with equity
$793.46 < $1200

0 Elk Creek Rd - if mortgage for each, with profit, 20% down

Item	Amount	Notes
Construction costs	$940,000	Per ISG Session 3 estimate, adding $20,000 for septic tank at each tiny home instead of every other one
Per unit	$117,500	920000 divided by 8
Sale price	$132,000	12.5% Markup
After 20% down	$105,600	
Loan fee	$1,584	
Loan amount	$107,184	Developer markup on $267,000 investment per unit
Loan term (years)	30	
Interest rate (APR)	7%	Assuming a FNMA mortgage available
Monthly payment	**$713.10**	Per a loan calculator

Beats renting, with equity
$713.10 < $1200

Works as condos even better. Per WSHFC, an affordable rent for a studio for a single-person household at 50% AMI is $731. This is comparable to that (though it doesn't include utilities).

Rent Study

Zillow, Facebook Marketplace, & Trulia, 2023-8-17				
Bd/ba	**Sq ft**	**Type**	**rent/mo**	**rent/sq ft**
1 bd, 1 ba	394	Apt	860	2.182741
1 bd, 1 ba	450	Apt	1140	2.533333
1 bd, 1 ba	550	Apt	950	1.727273
Std, 1 ba	300	Apt	825	2.75
Std, 0 ba	200	Shed	750	3.75
1 bd, 1 ba	360	RV	1100	3.055556
1 bd, 1 ba	480	Tiny Home	1260	2.625
			Avg =	**2.660558**
			***450 =**	**1197.251**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