

Pilot Penobscot Housing Fund Feasibility Study

**Preliminary Findings
October 24, 2022**

Background

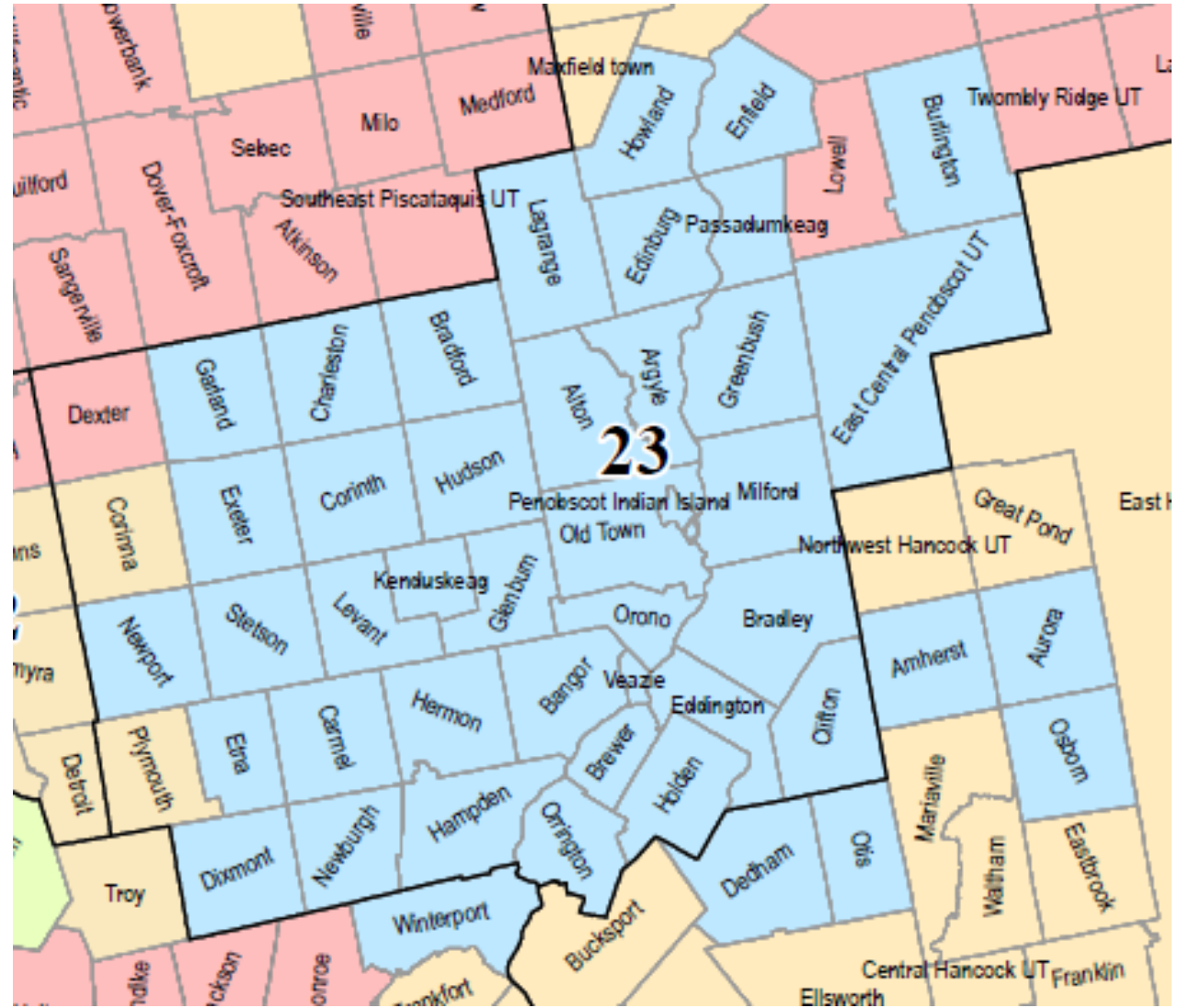
- ◆ Maine Housing Coalition retained ConsultEcon, Inc. to study the feasibility of the Pilot Penobscot Housing Fund
- ◆ Study examined the following issues:
 - Regional economy
 - Demographic trends and forecasts
 - Profile of households and housing units
 - Housing market conditions
 - Barriers to housing production
 - Expected housing demand by tenure and price point (AMI level)
 - Economics of housing and financial gaps by tenure and price point (AMI level)

Study Area Definition

Bangor Labor Market Area (LMA), as defined by the Bureau of the Census

Includes most of southern Penobscot County, as well as five towns in Hancock County and Winterport in Waldo County

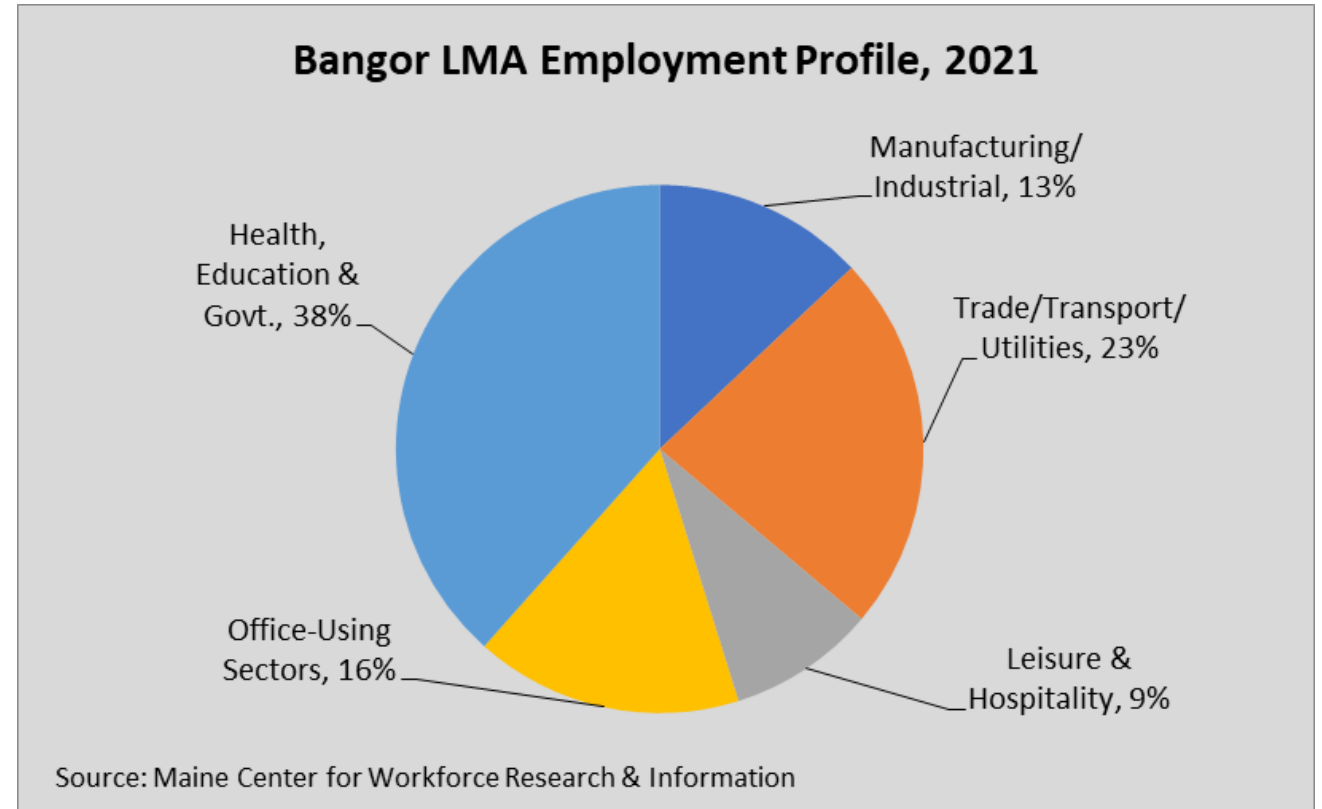
Excludes Lincoln and Millinocket LMAs



Economic and Demographic Profile

Regional Economic Profile

- ◆ Regional economy dominated by Health Care, Education, and Trade sectors (including retail)
- ◆ These sectors account for 61% of jobs in the Labor Market Area
- ◆ Office and industrial sectors are minor components of the job base



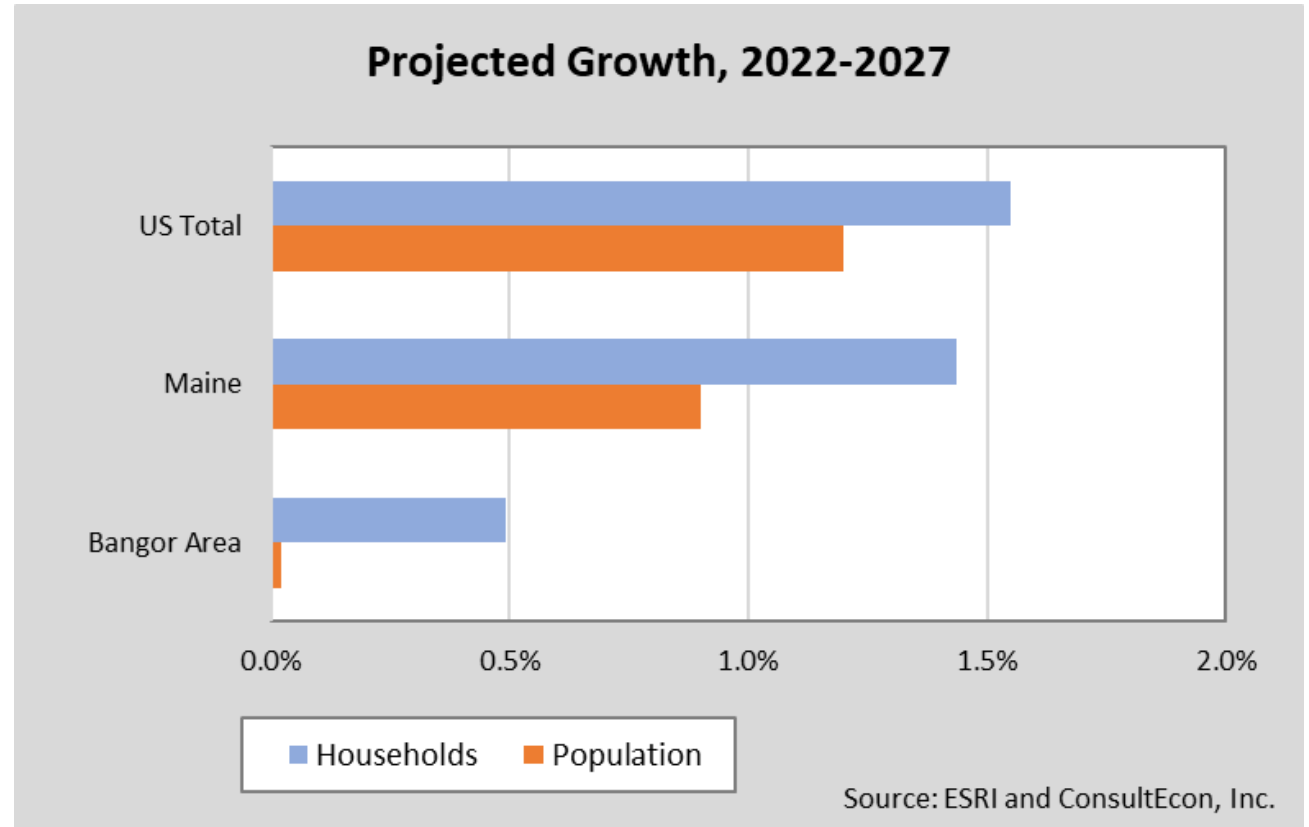
Major Employers

- ◆ Health Care employers dominate the regional employment base
 - Northern Light/EMMC is only employer with more than 1,500 jobs
 - St. Joseph's Hospital, Penobscot Community Health Care, and Acadia Hospital also employ 500+ workers
- ◆ Bangor Savings Bank is only office employer with 500+ jobs
- ◆ Other employers with 500+ jobs
 - Hannaford
 - Wal-Mart/Sam's Club
 - Husson University

Population & Household Growth

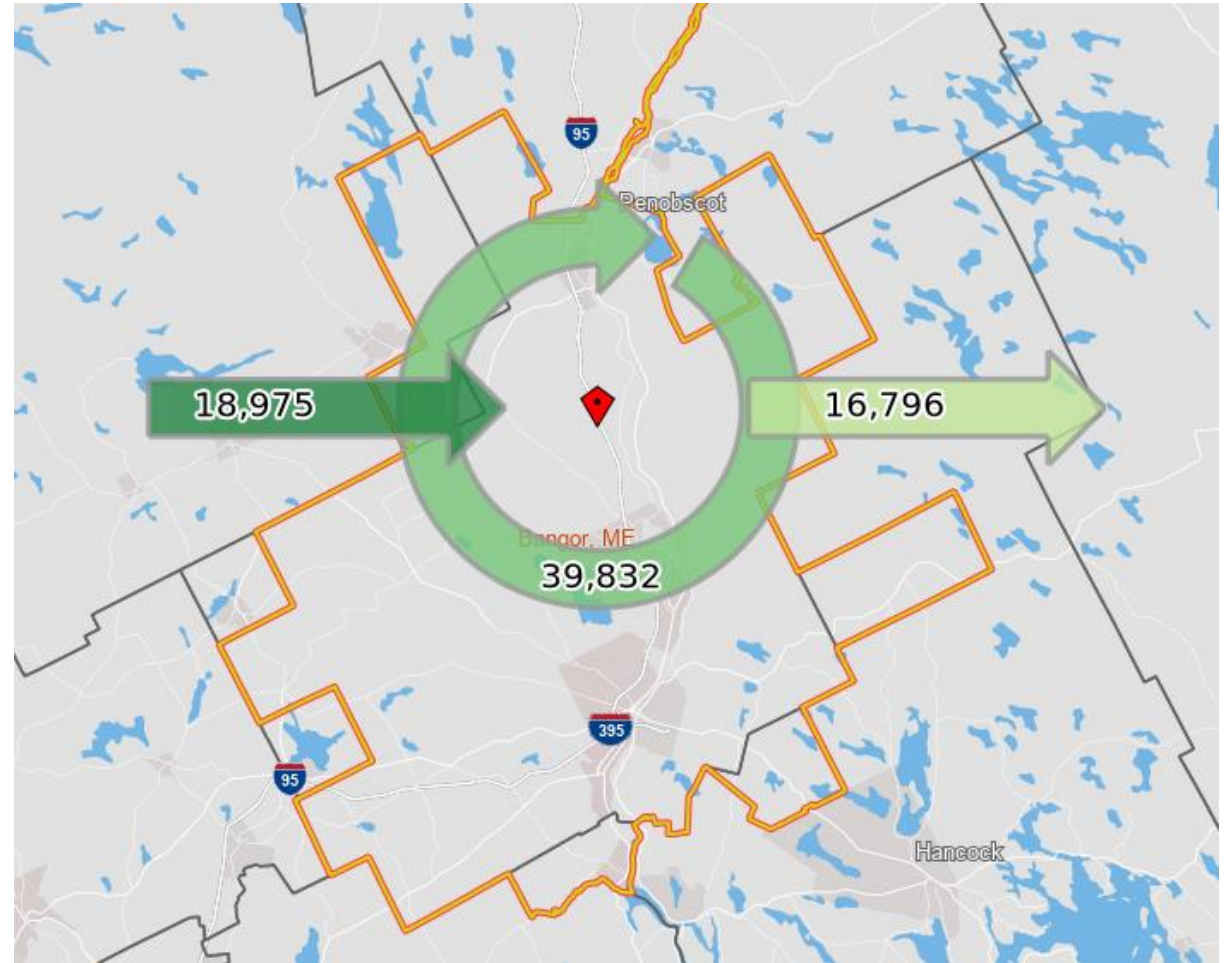
The Bangor region is not expected to add population over the next five years, while both Maine and US are expected to grow by 1% or more

Bangor is projected to add households due to declining household sizes

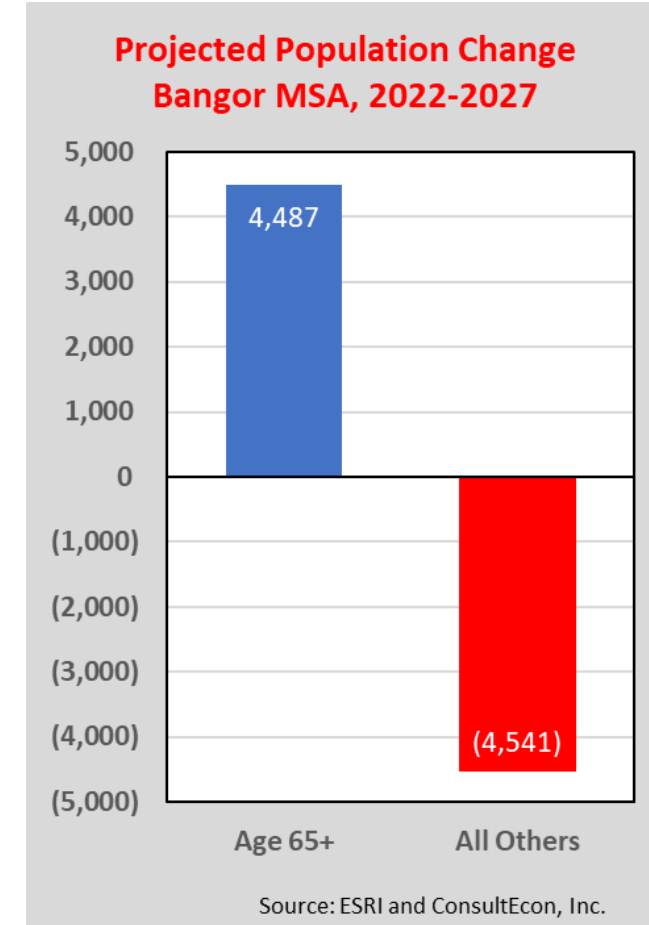
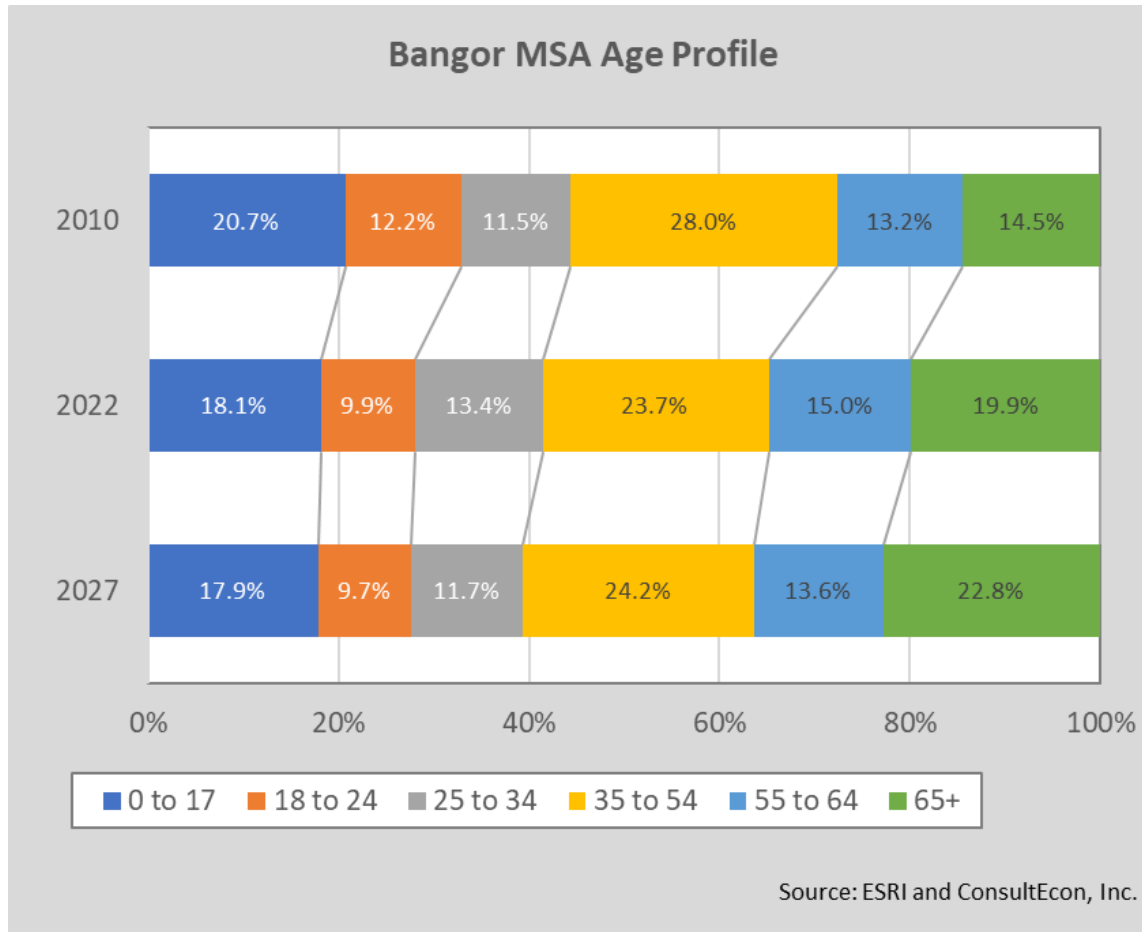


Most Residents Work in Region

- ◆ More than 70% of employed residents also work in the region
- ◆ Slightly more people commute in each day than out
- ◆ Most out-commuters work in Ellsworth or Augusta-Waterville regions
- ◆ 5% of commuters work in Portland area - supercommuters



Population is Aging...Quickly



Regional Housing Market Profile

Owners and Renters are Different

Median HH income of homeowners is 2.5 times above median income of renters

More than half of those earning below \$50K are renters

92% of those earning above \$75K are homeowners

Household Income by Tenure in Bangor Metropolitan Statistical Area, 2021

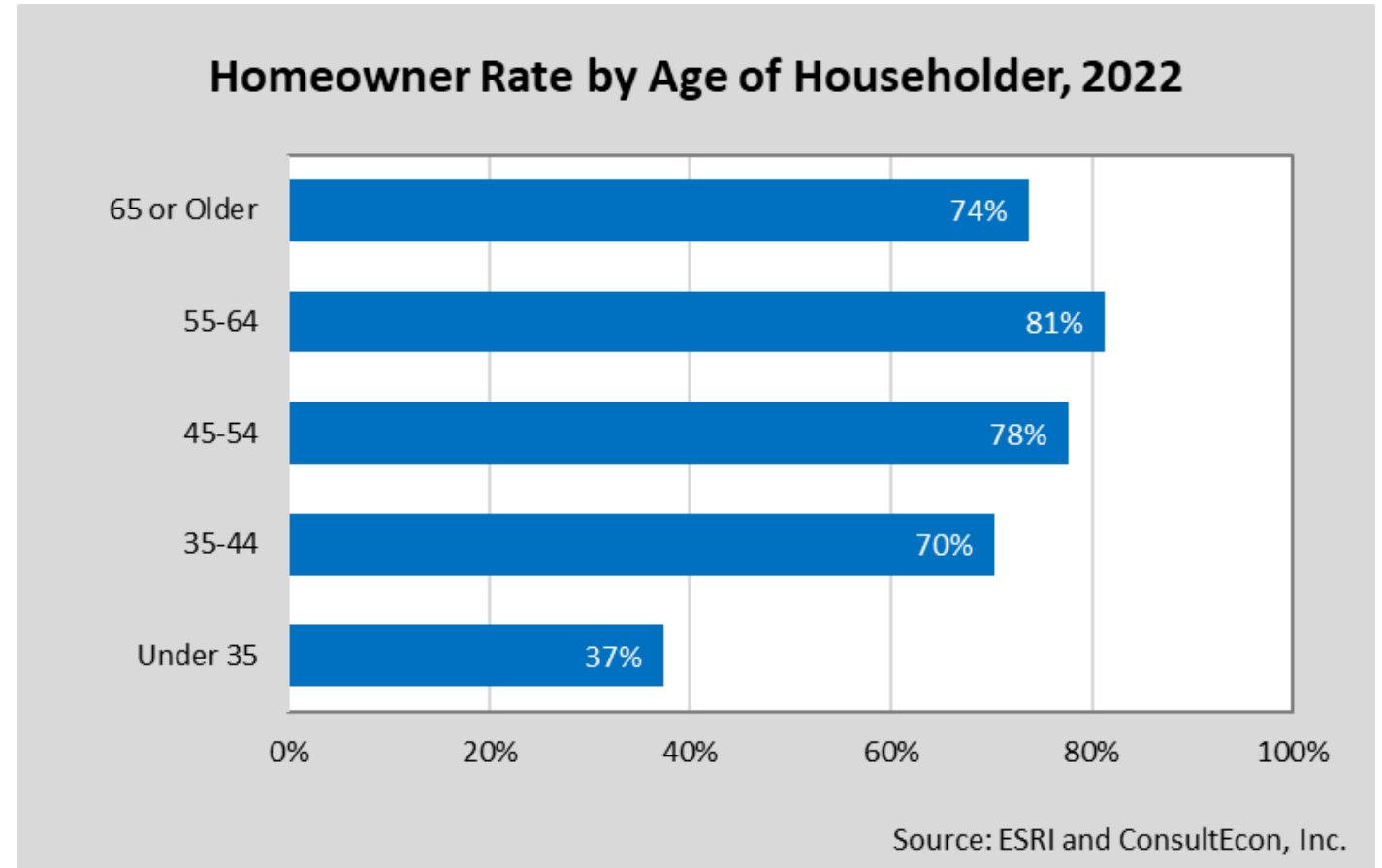
	Occupied Units	Owner Occupied		Renter Occupied	
		Count	Share	Count	Share
Total Occupied Housing Units	65,441	45,777	70.0%	19,664	30.0%
Household Income, 2022					
Less than \$25,000	15,080	6,952	46.1%	8,128	53.9%
\$25,000 to \$34,999	6,425	3,223	50.2%	3,202	49.8%
\$35,000 to \$49,999	7,582	4,921	64.9%	2,661	35.1%
\$50,000 to \$74,999	11,685	8,032	68.7%	3,653	31.3%
\$75,000 to \$99,999	7,741	6,460	83.5%	1,281	16.5%
\$100,000 or more	16,928	16,189	95.6%	739	4.4%
Median Household Income (Dollars)	\$56,250	\$74,200		\$30,090	

1/ Top line shows shares of owner and renter occupied housing as shares of all all occupied units. Other lines show shares by income category of owner and renter occupied housing.

Source: American Community Survey (2021 1-Year Estimates) and ConsultEcon, Inc.

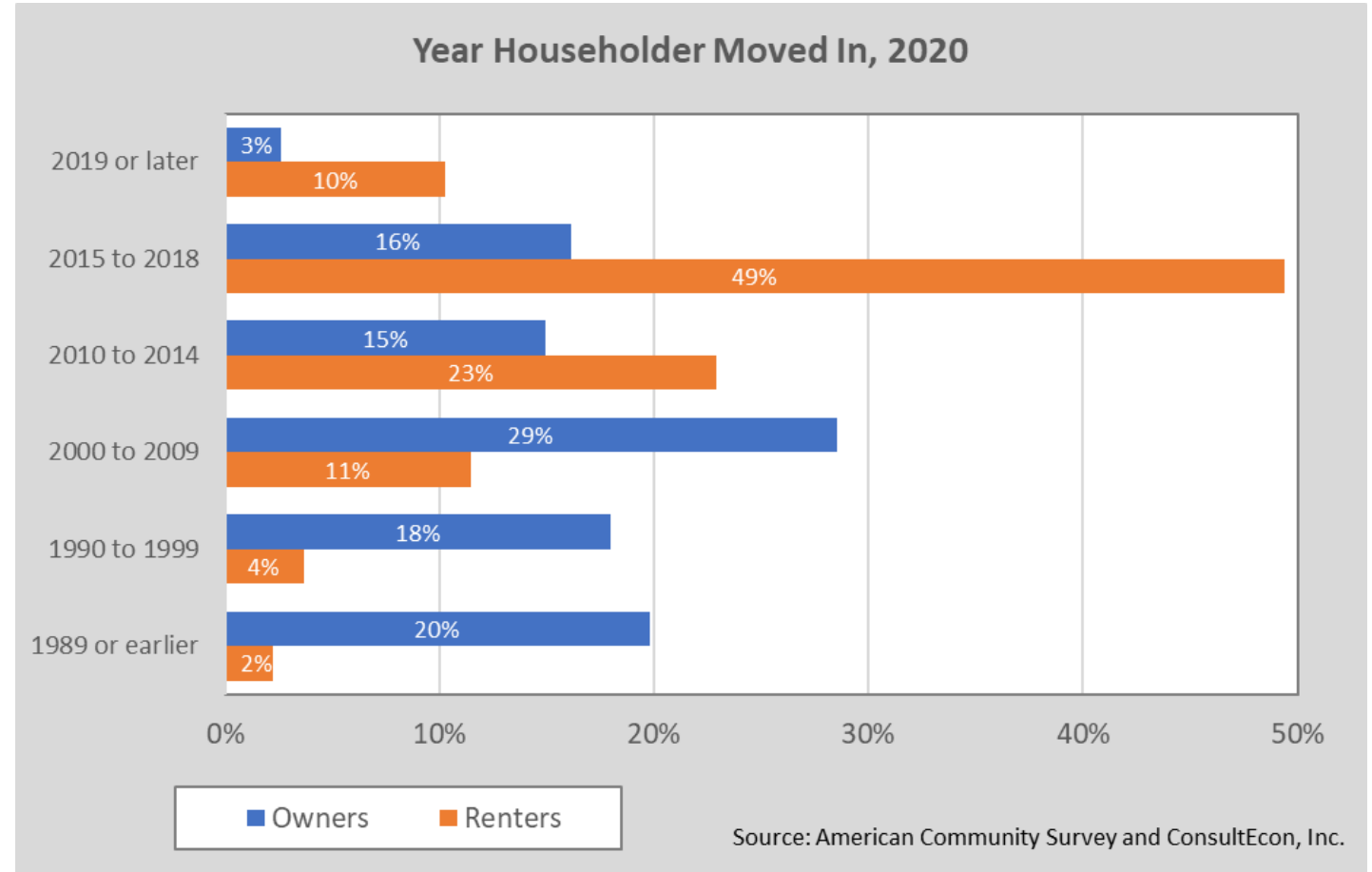
Ownership Patterns Differ by Age

- ◆ Homeownership rates are highest among older working-age residents: 81% for age 55-64
- ◆ Rate drops after 65 to 74%
- ◆ Just 37% of those under 35 are homeowners



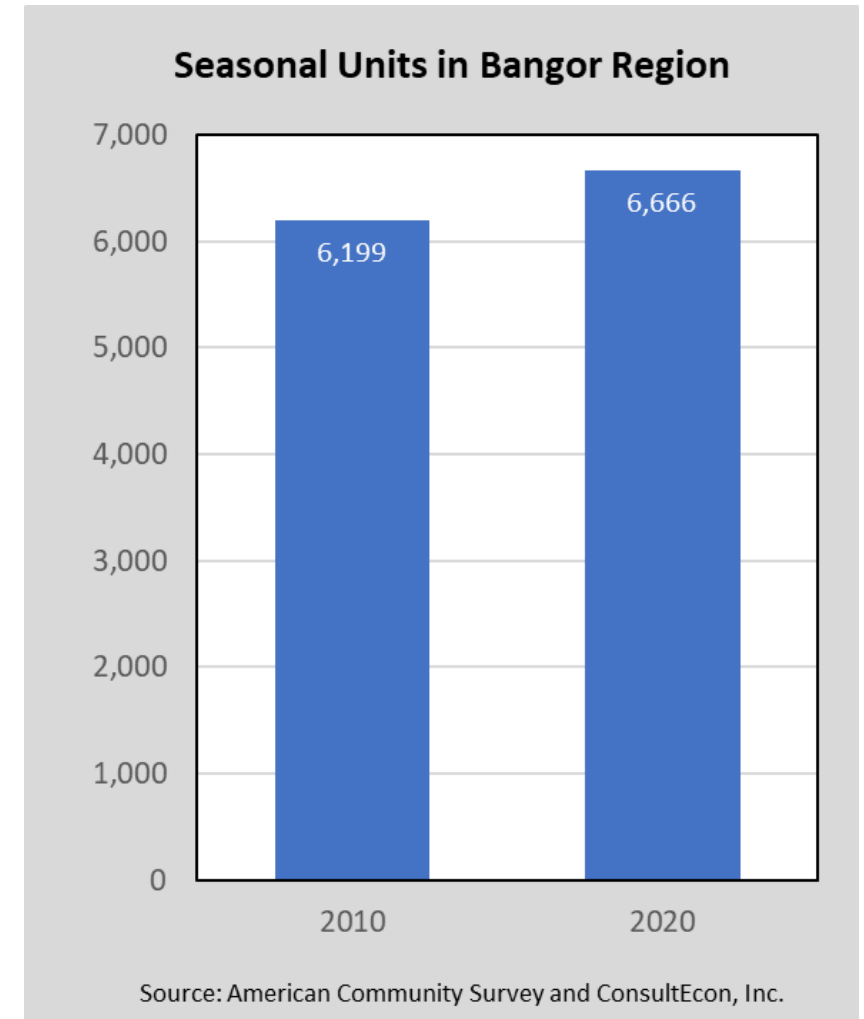
Renter Turnover is Much Higher

- ◆ 59% of renter households have been in their units for less than 5 years
- ◆ Just 19% of homeowners moved in past 5 years
- ◆ 38% of homeowners have been in same house for 20+ years; 20% for 30+ years



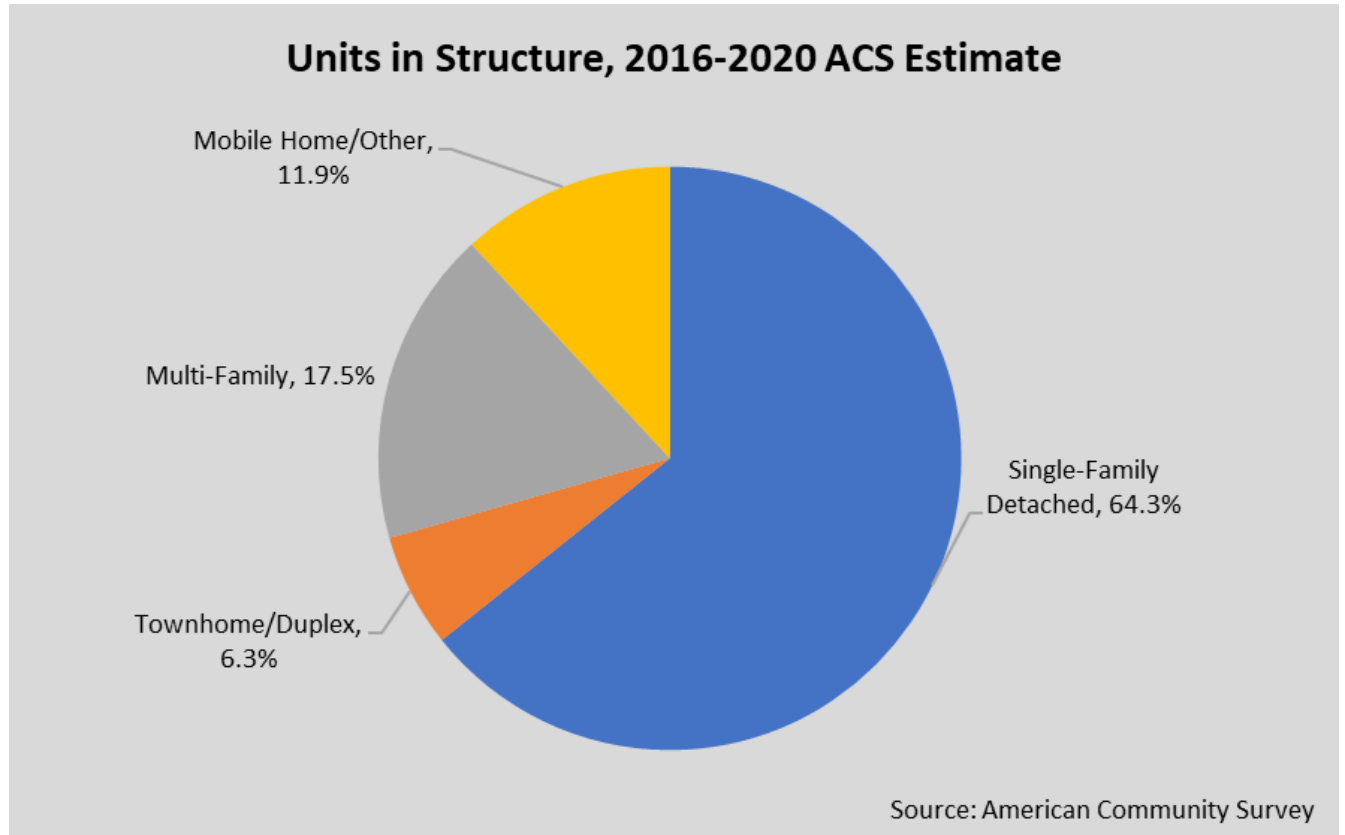
Seasonal Housing Demand is Increasing

- ◆ Number of units reported as being for seasonal and recreational use increased by close to 500 from 2010 to 2020
- ◆ The region's increase of seasonal units was 7.5 percent, compared with 5.5 percent for the State of Maine
- ◆ These units have increased demand for housing in the region but are not tied to employment or household formation



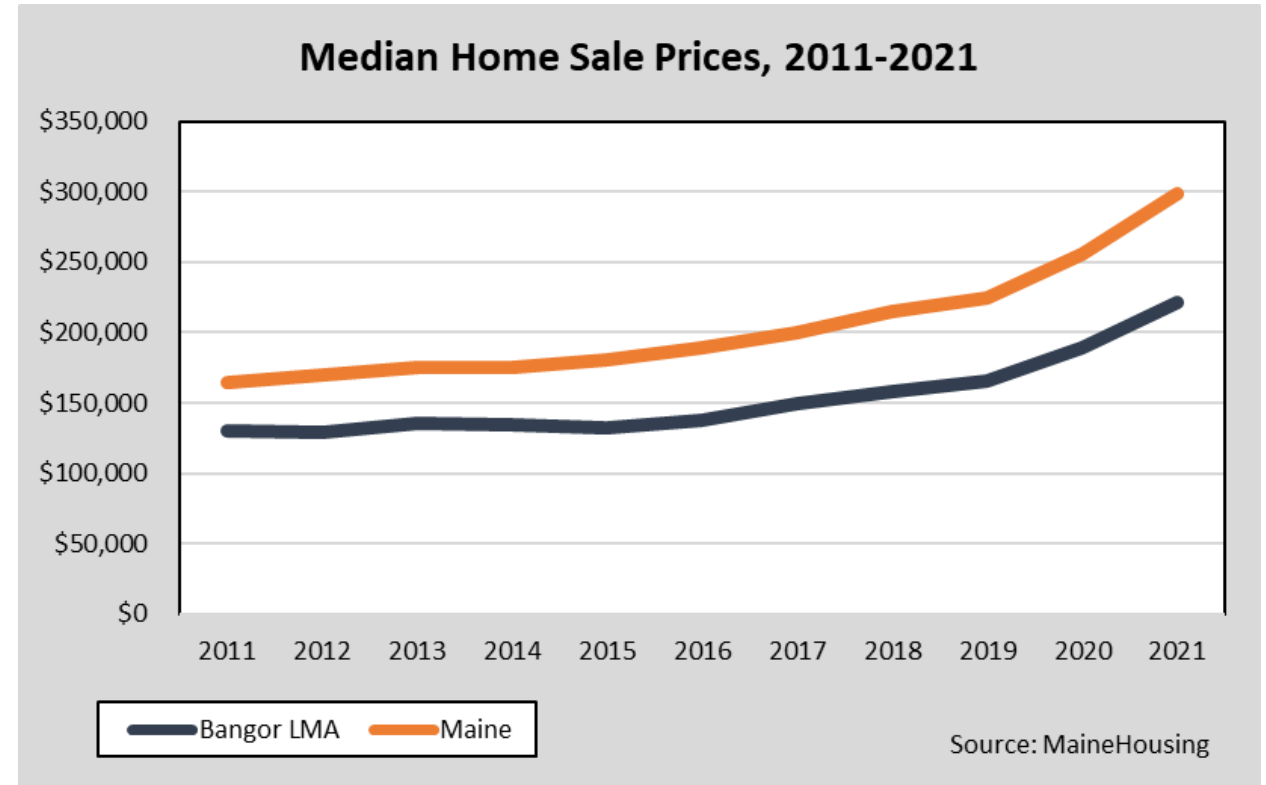
Most of housing stock is Single Family

- ◆ Single-Family units account for 64% of units in the region
- ◆ Only 18% of units are Multi-Family, while 30% of households rent; many renters live in other unit types
- ◆ Mobile homes represent 12% of regional stock



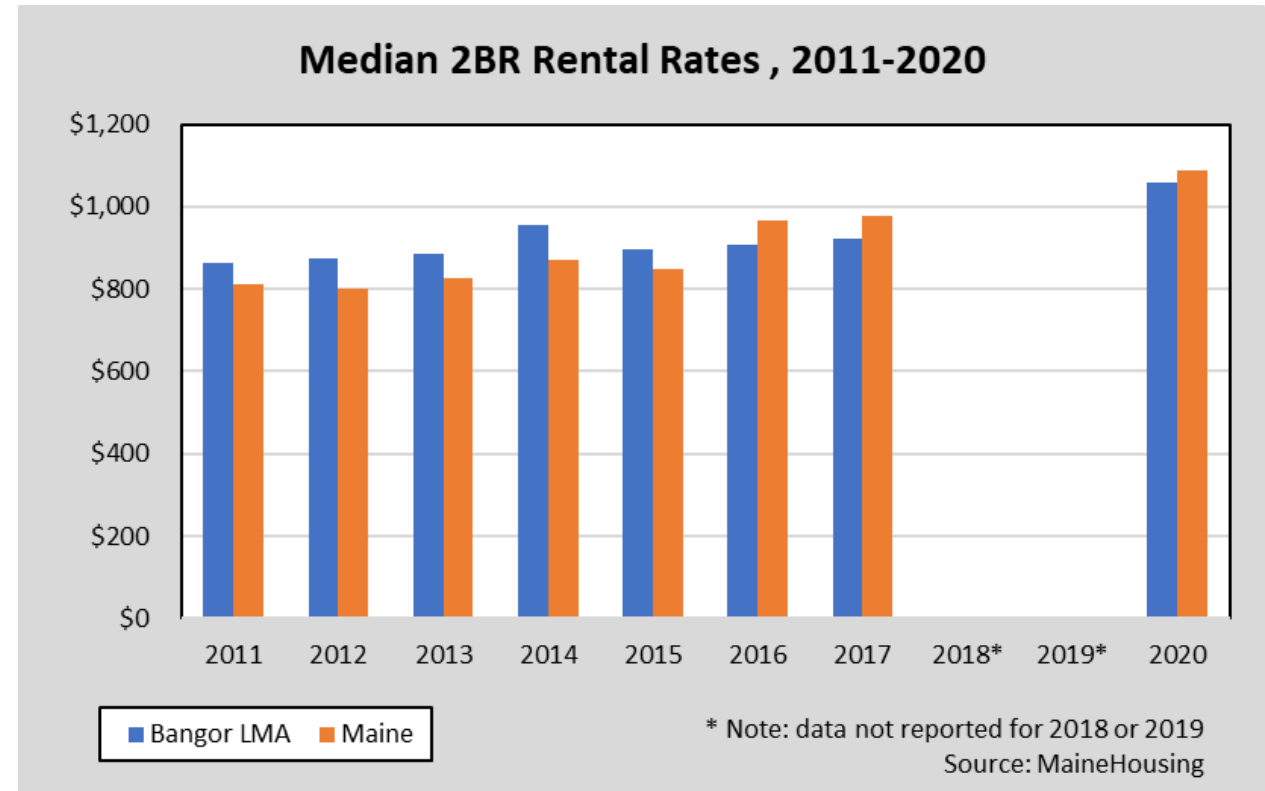
Home sale prices have accelerated

- ◆ Median home sale price in Bangor LMA increased from \$130,000 in 2011 to \$221,000 in 2021
- ◆ Overall annual price growth of 5.4 percent
- ◆ Increased by \$55,000 from 2019 to 2021 – 15.4 percent annual increase
- ◆ 2022 data through August show 14.8 percent annual increase
- ◆ Price growth has tracked with statewide price growth



Rental rates rising, but at slower rate

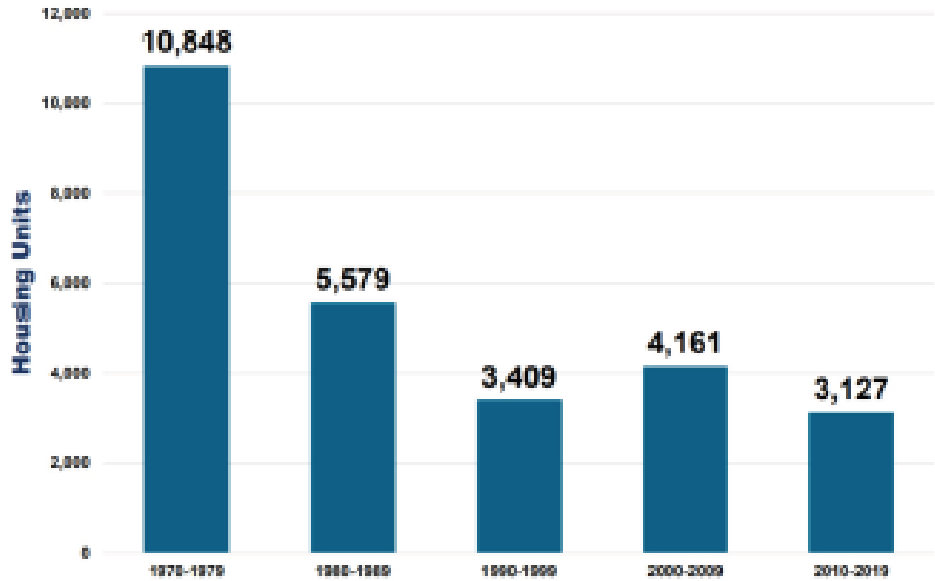
- ◆ Median rent for 2BR units increased from \$863 in 2011 to \$1,060 by 2020
- ◆ Overall annual increase of 2.3 percent; 4.8 percent from 2017 to 2020
- ◆ Price growth has tracked with statewide price growth
- ◆ Much higher rents in high-demand locations: \$2,000 or more in downtown Bangor



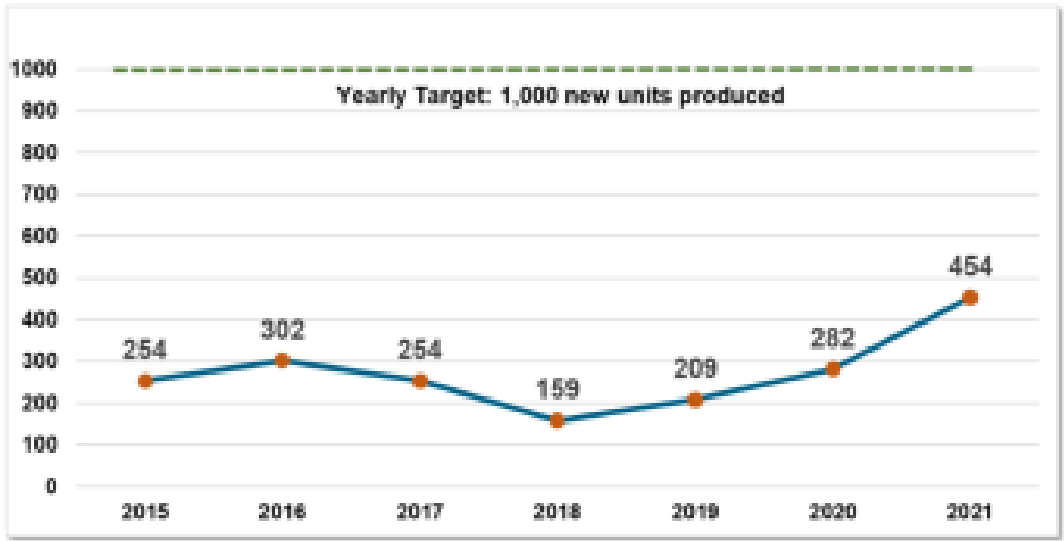
Housing Production

State is not producing enough affordable housing

AFFORDABLE HOUSING PRODUCTION BY DECADE



NEW AFFORDABLE HOUSING UNITS IN MAINE

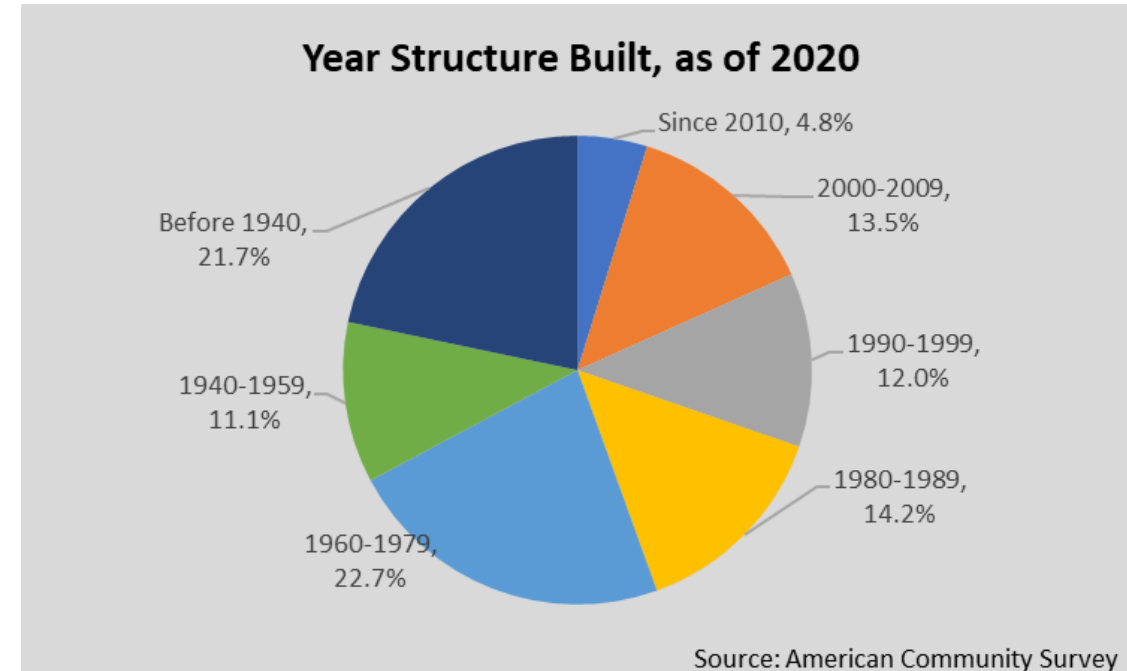
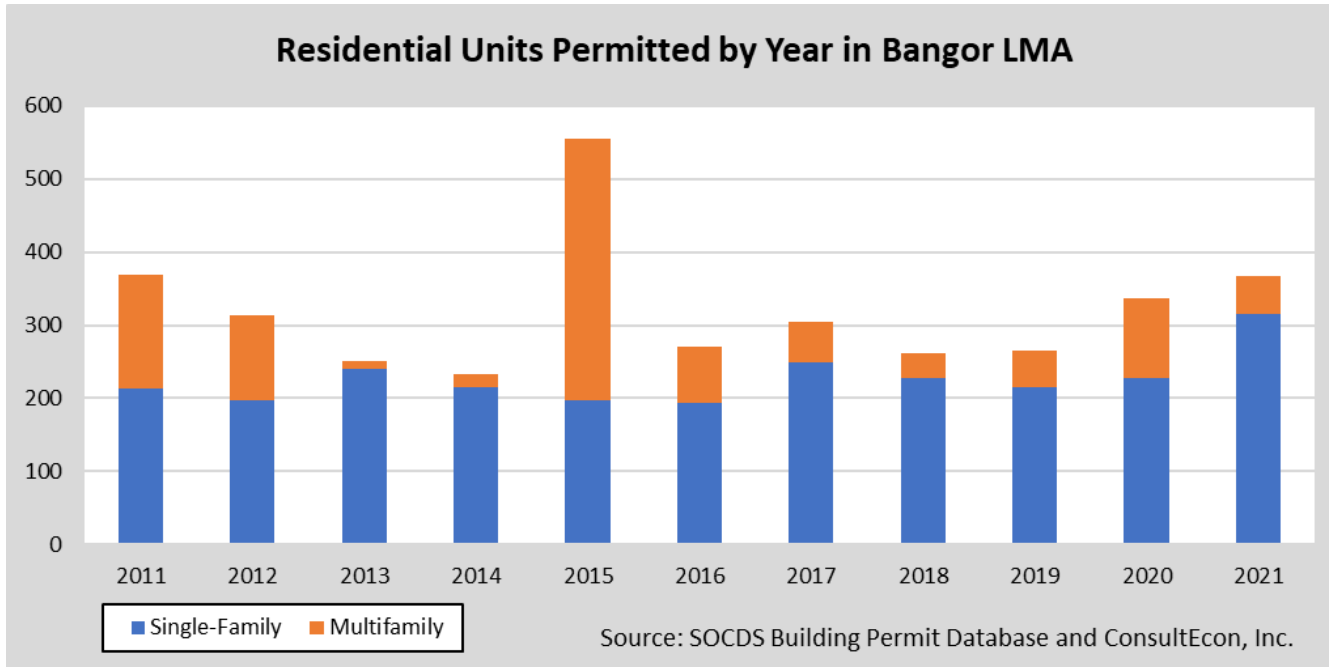


Source: MaineHousing

- ◆ State target is 1,000 affordable units per year
- ◆ Recent average has been under 300 per year

Housing Stock is Old, Most New Units are Single-Family

- ◆ Only 5% of units in region were built since 2010; more than half were built before 1980
- ◆ 71% of units permitted from 2011-2021 were single-family detached



Regional Development Pipeline

Total of **344 units** documented in Bangor LMA development pipeline. Doesn't include single-lot or small multifamily

◆ Market rate developments

- 60-unit condo project on Lancaster Street in Bangor; price range around \$250K
- 61-unit multifamily rental on Broadway near Husson in Bangor
- 36-unit condo project on Parkway South in Brewer; approved, not yet underway

◆ Penquis CAP is doing multiple projects in Bangor

- 3-phase development 116 total units: 76 senior, 40 family, all 60% AMI
- 36-unit conversion of hotel to permanent supportive housing

◆ Historic renovations in Bangor

- High Tide Capital renovating three additional buildings, 35 more units; will be high-end market rate, rents around \$2,000

Barriers to Housing Production

- ◆ Cost and availability of developable sites
- ◆ High infrastructure costs for greenfield development
- ◆ Local zoning/density restrictions, particularly in outlying towns
- ◆ Material costs are up 35-40% from pre-pandemic
- ◆ Supply chain issues – difficult to get appliances, cabinets, etc. on time
- ◆ Wages not keeping up with housing prices
- ◆ Costs to renovate or redevelop old/vacant structures are prohibitive
- ◆ High interest rates
- ◆ Lack of federal investment in housing production programs

Potential Impact of LD 2003

- ◆ LD 2003 passed in April 2022
 - Full title: “An Act To Implement the Recommendations of the Commission To Increase Housing Opportunities in Maine by Studying Zoning and Land Use Restrictions”
 - Enacted statewide requirements, being implemented at the municipal level
- ◆ Requires Accessory Dwelling Units to be allowed in all residential areas
 - No additional parking requirements, not subject to rate of growth ordinances
- ◆ Requires all residential lots to allow 2-4 units
 - 4 units in designated growth areas or areas with water & sewer
- ◆ Affordable Housing Density Bonus
 - 2.5X density bonus in all areas zoned for multifamily
 - Up to 80% AMI for rental, 120% AMI for ownership
 - Must remain affordable for 30 years

Employment and Retirees Drive Demand

◆ New Workers

- Region is projected to add 1,900 jobs in the Healthcare, Office, and Hospitality sectors in next five years; these will attract new workers due to low unemployment
- Projected losses of 1,000 jobs in Manufacturing and Trade sectors are not likely to cause residents to leave
- Ability to afford housing depends on several factors
 - Wages paid by jobs: varies by sector
 - New households per job: assume 0.60
 - Likelihood to rent or own: related to wages

◆ Seniors/Retirees

- Age 65+ population projected to increase by 4,500 in next five years
- 10% expected to be new to region

Housing Demand Projections

New Housing Demand by Tenure and Income

<i>Area Median Income Level</i> ^{1/}	Affordable	Moderate	Upper	High	Total
	<i>Below 60%</i>	<i>60-100%</i>	<i>100-120%</i>	<i>Above 120%</i>	
Owner Demand					
<i>Price Range</i>	<i>Under \$200K</i>	<i>\$200-300K</i>	<i>\$300-400K</i>	<i>Over \$400K</i>	<i>Total</i>
Demand from Employment Growth	35	40	38	21	134
Demand from New Age 65+ Residents	7	11	11	15	44
Total Annual Owner Demand	42	51	49	36	178
Renter Demand					
<i>Price Range</i>	<i>Under \$1,250</i>	<i>\$1,250 to \$1,499</i>	<i>\$1,500 to 1,999</i>	<i>\$2,000 or More</i>	
Demand from Employment Growth	58	17	13	9	97
Demand from New Age 65+ Residents	8	2	2	4	16
Total Annual Renter Demand	66	19	15	13	113
Total Annual Housing Demand	107	70	64	49	291

1/ Based on 2022 Area Median Income in Bangor Housing Market Area for family of four: of \$81,300 as reported by MaineHousing
Source: ConsultEcon, Inc.

New Demand by Tenure and Income

Total 5-Year New Demand:
1,455 units (291 per year)

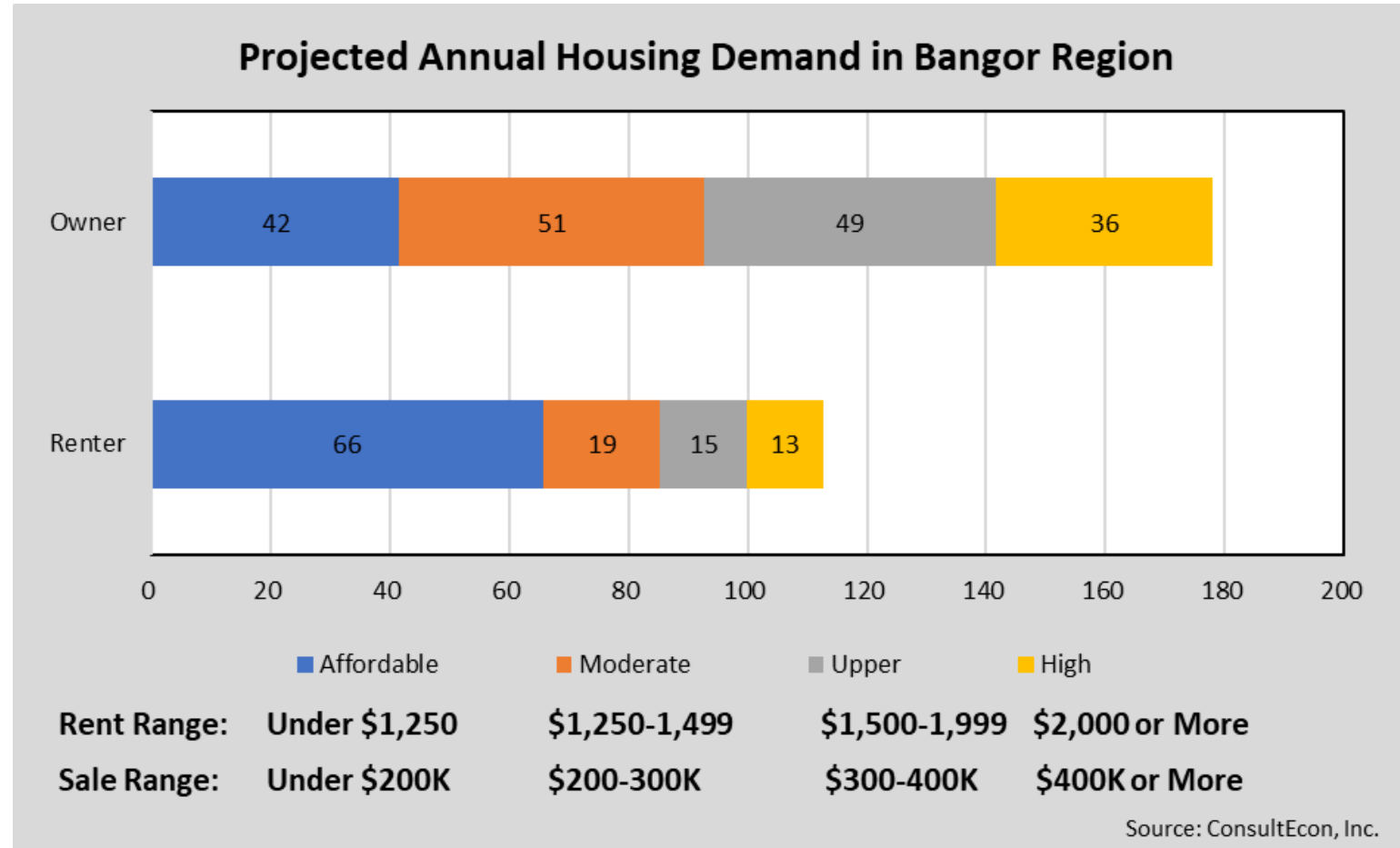
◆ By Tenure

- 61% owner
- 39% rental

◆ By AMI

- Below 60%: 37%
- 60-100%: 24%
- 100-120%: 22%
- Above 120%: 17%

◆ Current pipeline is only
1.2 years of demand



Development Economics / Gaps

Development Gaps by Unit Type

- ◆ For-sale units below \$300K (<100% AMI) are not feasible in the current market
- ◆ Rental units below \$1,250 per month (<60% AMI) are not feasible in the current market
- ◆ Economics of units up to 120% AMI are still shaky

<i>Area Median Income Level</i> ^{1/}	Affordable Below 60%	Moderate 60-100%	Upper 100-120%	High Above 120%
Ownership Units				
<i>Price Range</i>	<i>Under \$200K</i>	<i>\$200-300K</i>	<i>\$300-400K</i>	<i>Over \$400K</i>
Assumed Beds/Baths	2BR/1BA	3BR/1.5BA	3BR/2BA	4BR/2.5BA
Assumed Unit Size (SF)	1,200	1,500	1,800	2,100
Development Cost (SF) ^{1/}	\$150	\$160	\$170	\$180
Total Development Cost per Unit	\$180,000	\$240,000	\$306,000	\$378,000
Assumed Sale Price	\$175,000	\$250,000	\$350,000	\$450,000
Sale Price per SF	\$146	\$167	\$194	\$214
Less Cost of Sales	9%	9%	9%	9%
Net Sales Revenue	\$159,250	\$227,500	\$318,500	\$409,500
Net Income/Loss per Unit	(\$20,750)	(\$12,500)	\$12,500	\$31,500
Rental Units				
<i>Price Range</i>	<i>Under \$1,250</i>	<i>\$1,250 to \$1,499</i>	<i>\$1,500 to 1,999</i>	<i>\$2,000 or More</i>
Assumed Beds/Baths	2BR/1BA	2BR/1.5BA	2BR/2BA	3BR/2BA
Assumed Unit Size (SF)	800	950	1,200	1,500
Development Cost (SF) ^{1/}	\$175	\$175	\$175	\$175
Total Development Cost per Unit	\$140,000	\$166,250	\$210,000	\$262,500
Assumed Rental Rate	\$1,025	\$1,400	\$1,800	\$2,400
Rental Rate per SF	\$1.28	\$1.47	\$1.50	\$1.60
Less Operating Expenses	30%	30%	30%	30%
Net Operating Income per Unit	\$718	\$980	\$1,260	\$1,680
Capitalization Rate	7.0%	7.0%	7.0%	7.0%
Total Stabilized Unit Value ^{2/}	\$123,000	\$168,000	\$216,000	\$288,000
Net Income/Loss per Unit	(\$17,000)	\$1,750	\$6,000	\$25,500

^{1/} Based on 2022 Median Family Income in Bangor HUD Metropolitan Fair Market Rent/Income Limits Area (HMFA) as reported by the Department of Housing and Urban Development.

^{2/} Includes all site acquisition, land development, construction, and soft costs; based on recent residential developments in area.

^{3/} Stabilized value is calculated by multiplying monthly net operating income by 12 months and dividing by the capitalization rate.

Source: ConsultEcon, Inc.

Preliminary Recommendations

Recommended Targets for Fund

- ◆ Type of funding:
 - Direct subsidy would be ideal, but may not be feasible due to investor requirements
 - Below-market debt to cover gaps would have strong impact
- ◆ Uses of funds targeted to non-vertical construction costs
 - Land acquisition, infrastructure, demo/site prep, pre-development
- ◆ Align with standards of LD 2003
 - Prioritize projects using Affordable Housing Density Bonus
 - Prioritize infill / ADU projects in residential areas
 - Limit eligibility to projects in designated growth areas
- ◆ Priorities for different types of housing
 - Rental: up to 100% AMI, focus on 60-80% projects that don't qualify for LIHTC
 - Homeownership: focus on smaller, higher density projects, up to 120%

Questions & Discussion