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Research & Planning

**Stonington-Deer Isle Affordable Housing Report
Part 2: Analysis and Recommendations**

For: The Stonington Housing Committee

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I. Introduction

This is the second of three reports for the Stonington Housing Committee. The first, completed last summer, provided the results of a survey of Island residents about housing issues. This report will analyze existing data sources in light of the survey, and suggest alternative housing strategies for the Committee. The third, if necessary, will be a market analysis of a particular affordable housing project arising from this study, in a format suitable for meeting the needs of financing agencies.

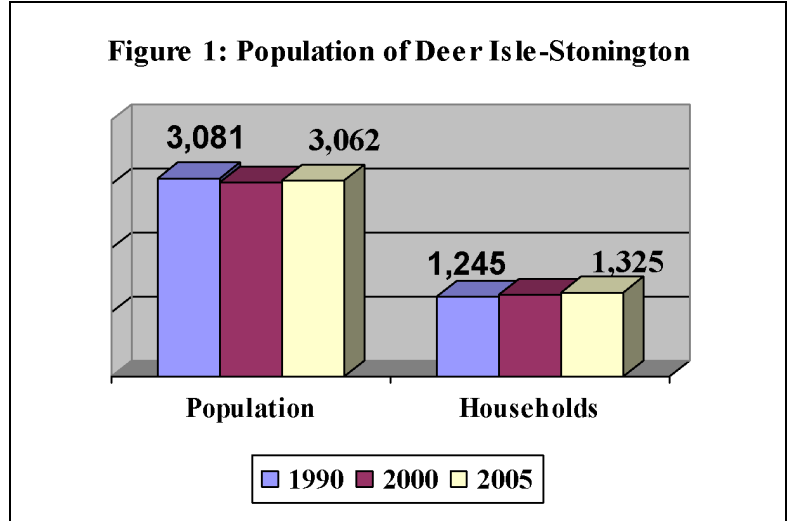
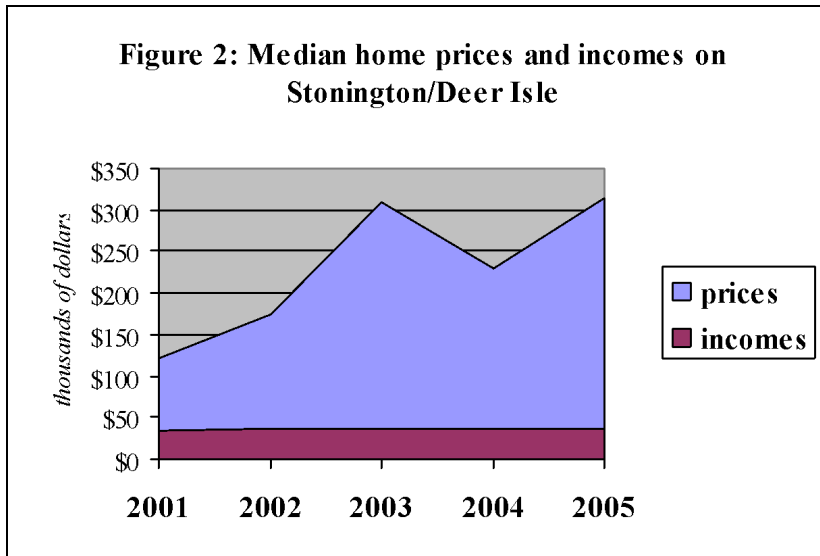
II. Background

Deer Isle and Stonington have had a stable population level over the last 15 years (see Figure 1). Households have increased modestly, reflecting a decline in household size that has affected all communities in the state.

But beneath this apparent lack of movement, in fact there has been significant change.

There has been a long-term change in the housing stock. It is moving from year-round to seasonal. In 2000, almost half of the housing stock (42%) in Stonington and Deer Isle was seasonal. Between 1990 and 2000, for every year round home constructed or mobile home purchased on Stonington/Deer Isle, there were 1.4 seasonal homes added. In the same ten year period, the rental housing stock actually declined by 29 units. There has been little rental construction in Deer Isle-Stonington since the 1980s. Most rental housing is very old, 40% of the units having been prior to the Second World War.

With the increase in seasonal demand has come an increase in home prices. According to the Maine State Housing Authority, median home sale prices have more than doubled in the past five years. Meanwhile, the incomes of year-round residents have remained relatively flat (see Figure 2).

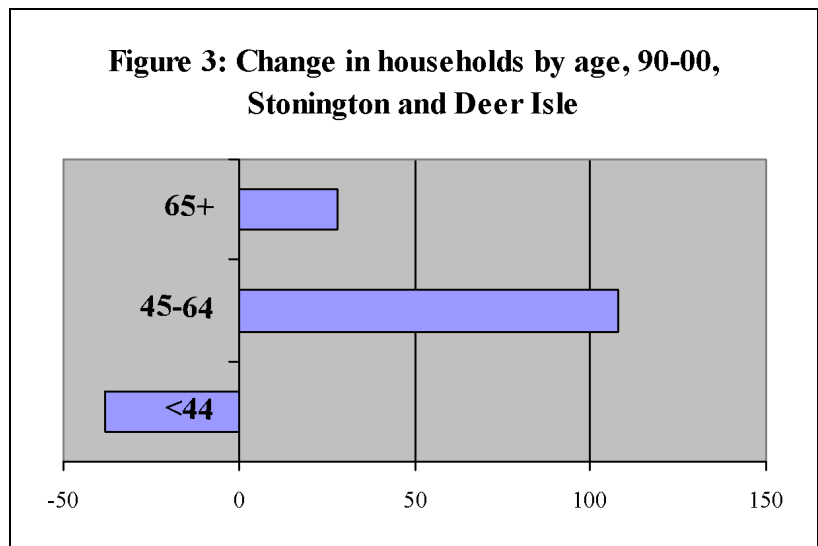


The Maine State Housing Authority publishes an “affordability index” annually that shows what percentage of a median priced home in an area that a median income household living in that same area could afford. In 2005, the median income household in Deer Isle/Stonington could

afford 34% of the median priced home. This is about half as much as the statewide percentage (70%). Put another way, if most of the households on Deer Isle/Stonington had to move for one reason or another, they would not be able to afford another home on the island.

The same problem of affordability affects rentals. The Maine State Housing Authority estimates the number of rental households who can't afford their rents. The Authority's newspaper survey reported an average two-bedroom rent of \$646 in 2004 (the only year available). The Authority estimates that there are enough senior apartments in Stonington-Deer Isle to meet the need, but that 54 additional affordable family rental units are needed to meet the needs of families with incomes below 50% of the area median.

More retirees, more seasonal residents, and more expensive housing, have all contributed to an aging of the population in Deer Isle/Stonington. While total households grew by 8% between 1990 and 2000, households under the age of 44 declined on the island. The greatest growth was in the 45-64 age cohort – a group approaching retirement in the current decade (see Figure 3).



With the decline in younger households has come a decline in the workforce. The number of working people on Stonington/Deer Isle fell by 5%, or about 70 people, between 1990 and 2000. The percentage of island residents who hold jobs is 40%, which is lower than the statewide total of 48%.

The trend has continued since 2000. From 2001 to 2005, the number of jobs¹ declined from 890 to 872. During this period, Stonington lost 54 jobs while Deer Isle gained 28. This may reflect the difficulties in the fisheries (in Stonington), while the health care and education sectors on Deer Isle continue to gain jobs. As of October, 2006, unemployment on the island overall is only 3.7%, though it is higher (4.5%) in Stonington.

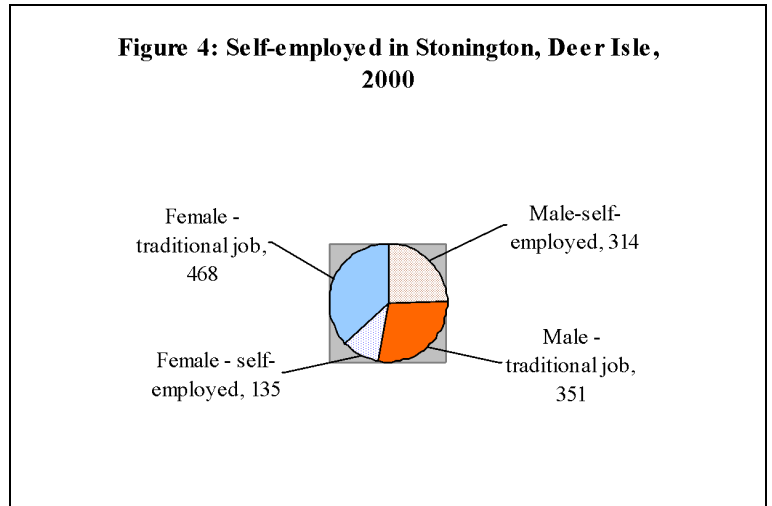
Unemployment statistics from the Department of Labor must be viewed carefully in a rural area like Stonington/Deer Isle, however. Data on unemployment and employment is usually

¹ These figures refer to jobs covered by unemployment insurance. It does not include the self-employed.

derived from records of unemployment insurance. Unemployment insurance does not cover the self-employed. On Deer Isle/Stonington, in 2000 nearly half of males, and about a third of the overall workforce, reported that they work for themselves – and thus would not be included on traditional counts of employment and unemployment. About 180 of the self-employed reported that they worked in the farm, forest, and fishing categories, roughly the same percentage as in 1990.

This is the general demographic and housing picture which lies behind the comments made by survey respondents last spring and summer:

- Have been looking to buy for 2 years now and have not found anything. Rents are very hard to come by to unless you want to pay \$1,000 a week for a summer time rental. There are not many year round rentals and those few there are taken.



- Have to move 20 miles off island to find an affordable rent
- I know of one family of 5 who lived in a tent all summer before finding a sub-standard trailer and them being grateful for it. This year one family with two children were finally forced to move across the reach uprooting two special needs kids from programs which were working very well for them. It's so frustrating.
- A lot of places here are old, need work and are too costly to heat in the wintertime.
- As a teacher in your community it would be nearly impossible for me to afford a reasonable home here.
- My two children are in a situation where they are forced to live at home!! My son is a full time student and works full time yet still cannot afford housing on the island. The same is for my youngest son.
- Eight years ago I found affordable housing, Now it would be very difficult.

In the next section the survey results will be compared to island-wide demographics to estimate a total demand for different types of affordable housing.

III. Demand Estimate

According to the recent survey, there is a demand for both affordable rental housing and owner housing on the island. The demand for rental housing comes from renters or those who are living with family or friends. The demand for owner housing comes from renters, from those who are living with family or friends, and from current owners who want to upgrade their housing.

According to the survey of residents conducted for this study, a high proportion of renters is dissatisfied with their housing and would like something better. Dissatisfaction tends to be higher among younger households, and among households with lower incomes. For example, 75% of households under 45 with incomes under \$25,000 annually would be interested in a better rental situation.

Applying the ratios of renters by age and income who responded to the survey to the population as a whole, the result is an estimated demand for 80 new affordable rental units among households under age 64 on Deer Isle/Stonington. Most of the demand (64 units) is among households headed by a person aged 44 or younger.

Figure 4: Potential demand for new rentals

	< \$25,000	\$25,000 to \$49,999	\$50,000 or more	Total
All households	466	430	429	1,325
All renters or sharing	127	77	32	236
Want new rent: <45	44	18	2	64
Want new rent: 45-64	17	0	0	17
Total: want new rent	61	18	2	81

Sources: Maine State Housing Authority for households: Planning Decisions for demand

Potential renters are not looking to save money on a new apartment – what they are looking for is to pay about the same amount and get a nicer product. Currently those looking for apartments are paying an average of \$430 in rent; they would be willing to pay \$478 for a new apartment.

Generally speaking, they are looking for a 2-bedroom unit. They value a single family home (4.4 on a scale of 1 to 5), a private yard (4.4). Both an in-town neighborhood (3.9) and a remote rural site (3.9) rated equally high. However, the preference for over an acre (3.1), and the comments made generally (see Figures 5 and 6), indicate that potential renters would like

a lot of room.

Figure 5: Preferences of survey respondents for rental housing

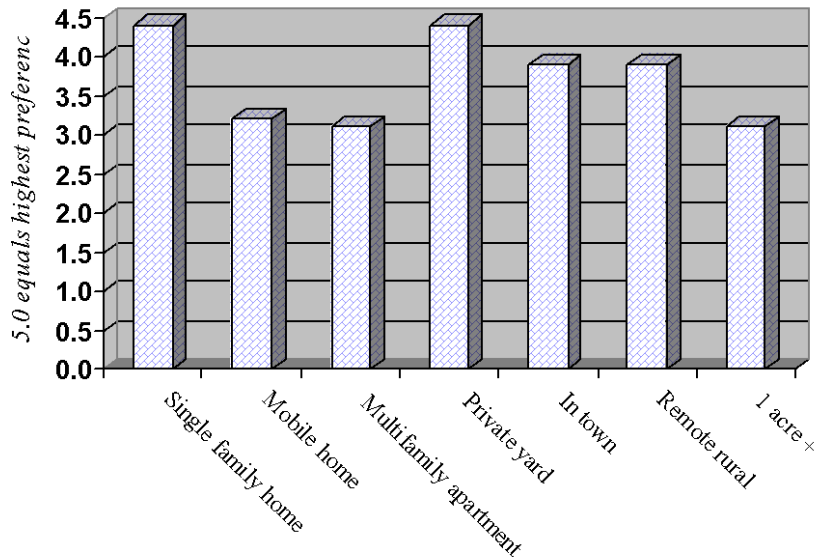


Figure 6: Respondents' comments about preferences for rental housing

<ul style="list-style-type: none"> • shop space and a decent chunk of land
<ul style="list-style-type: none"> • amount of land, garage shop cost of installing septic (ledge in areas - more expensive, well, taxes)
<ul style="list-style-type: none"> • away from road, small lots
<ul style="list-style-type: none"> • garden, shop, studio, privacy
<ul style="list-style-type: none"> • garage, backyard, away from road, like to have a garden
<ul style="list-style-type: none"> • garage, workshop, away from road, one level home, garden plot, some trees would be appreciated
<ul style="list-style-type: none"> • shop space, less populated
<ul style="list-style-type: none"> • just a decent home, location doesn't matter
<ul style="list-style-type: none"> • space for garden, away from home, passive solar design
<ul style="list-style-type: none"> • privacy, but nearby neighbors, low maintenance, small garden; short driveway for snow removal; garage, workshop, shed for garden tools and wood

The demand from owner housing comes from owners as well as renters. Some of the latter

may own an older mobile home and want to upgrade their situation, or live too far from work, or are overcrowded, or have some other problem with their current housing situation.

While the demand for new rental housing was strongest in the under \$25,000 income group, the demand for new owner housing is evenly divided between those with incomes below \$25,000 and those with higher incomes. As with rental demand, the numbers are strongest among young households.

Figure 7: Potential demand for new owner housing

	< \$25,000	\$25,000 to \$49,999	\$50,000 or more	Total
All households	466	430	429	1,325
All renters or sharing	127	77	32	236
All owners	339	354	397	1,089
Renters want to buy: <45	29	28	11	69
Renters want to buy: 45-64	17	0	0	17
Owners want to buy	15	14	11	40
Total: want to buy	61	43	23	127

Sources: Maine State Housing Authority for households: Planning Decisions for demand

The preferences of survey respondents interested in buying are not much different than those looking for an apartment.

Potential buyers particularly value a private yard – preferably over an acre. They also value an in-town neighborhood more than those looking to rent.

Buyers are more likely to be looking for a 3-bedroom rather than a 2-bedroom unit. They are also interested in a home that can be expanded or added onto for a garage or for a workshop. Land for gardens, privacy, and children to play is also valued.

Figure 8: Preferences of survey respondents for owner housing

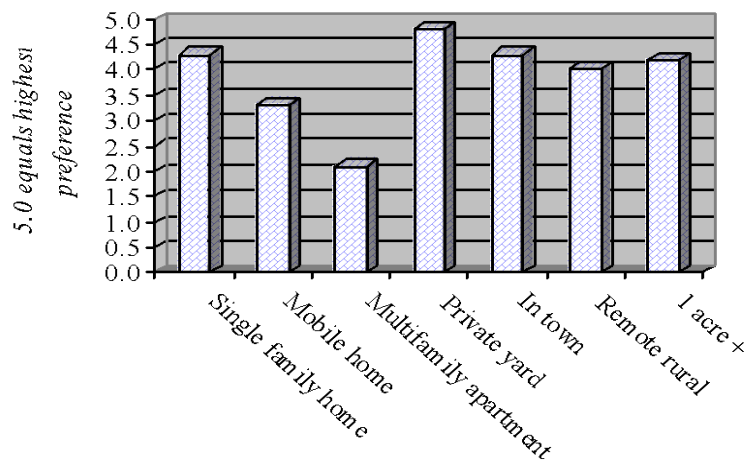


Figure 9: Preferences for owner housing

● garage, garden
● garden space, workshop, lawn for kids, and room for expansion
● garage, workshop, woods, place for kids and dogs
● nice yard for our daughter, dogs to play in, garage, apple, lilac tress, small pond
● workshop and being away from road
● garage
● garage, slow traffic area, quiet
● buying land in a nice spot away from the road
● at least one acre
● space for shop, being away from road
● fields, shop, big yard
● garage and a few acres
● at least 2 acre in the woods or a little ways away from the road shop
● privacy, garden space, being in the woods, away from the road
● lots of yard, workshop and quiet away from busy roads.
● garden space, away from road, close to water, good light
● being away from the road, a garage/workshop, lots of room for pets.
● space for garden, being away from road, neighbors w/kids
● workshop and basement
● shop space and a decent chunk of land
● amount of land, garage shop, cost of installing septic (ledge in areas - more expensive, well, taxes
● away from road, small lots
● garden, shop, studio, privacy
● garage, back yard, away from road, like to have a garden
● garage, workshop, away from road, one level home, garden plot, some trees would be appreciated

Owners indicated a preference for an average downpayment of \$9,000 and an average mortgage payment of about \$600 per month. This would lead to a home in the \$150,000 range. For owners in the potential market, this value is not much different than their current housing (which they estimate to be worth \$130,000 on average). As with the rental demand, people seem to be looking for more house for the same amount of money.

Also, in the owner as well as rental situations, people prefer privacy and private lots, even as they want to be near to the town and to schools. Transportation was raised as an issue in the survey as well, so location near to town services is a consideration as well.

IV. Design and Management Recommendations

A. Design recommendations

The design preferences for owner and rental housing are not significantly different for the prospective market, so the design principles for each are similar.

- 1) Site access to town services and schools is important; walking distance would be best, but as this may be impractical, the general principle would be the closer the better – with consideration to connecting the development to the town center and schools by bike paths and trails.
- 2) Trees and landscaping are important. Respondents want a feeling of privacy, but cannot afford much land; trees and landscaping, properly arranged, can provide a feeling of privacy in a close space.
- 3) A townhouse or cottage layout would be preferred. Respondents clearly do not want a garden apartment or other arrangement where one unit is stacked on top of another. But again, as space will be tight, the lot designs will have to be creative – perhaps using zero lot lines² or other non-traditional layouts.
- 4) Many respondents indicated a desire for gardens and garages and work spaces. While there is not the land or money to provide such facilities individually for each unit, it is possible to satisfy this demand through shared workshops, gardens, and the like.
- 5) Obviously, both because of the small numbers of potential buyers and renters involved, their design preferences, and the design preferences of the larger community, the scale of the project needs to be small, and its design should blend into the surrounding neighborhood.
- 6) Along the same lines, the project should allow for a phasing in over a several year period, and not require a large block of rents or home sales in the first year.
- 7) The need for phasing and for lower cost means that manufactured and modular housing options should be explored. Maine has several

² A “zero lot line” arrangement has one unit right at the edge of the property, which allows more option and privacy in the remaining parts of the lot.

manufactured housing home builders, and the Manufactured Housing Association of Maine might be willing to organize them to participate in a model affordable housing effort (contact information: P.O. Box 5095, Augusta, ME 04330, PH: (207) 873-6570, FAX: (207) 622-4437).

B. Cost and financing recommendations

This is the most challenging of the issues the project faces, for the following reasons:

- Respondents indicate a preference for apartments under \$500/month in rent and a new home under \$150,000 in cost. To achieve such cost levels with new construction will require considerable subsidy.
- The cost of developable land in Deer Isle and Stonington is extremely high;
- The project cannot achieve the economies of scale that are possible in larger developments.
- Current subsidy programs, like the Maine State Housing Authority Low Income Housing Tax Credit, or first-time buyer assistance, usually provide only a shallow level of subsidy for the project as a whole. “Deep” subsidy programs, such as vouchers that pay the difference between what a household makes and what the market demands, are limited in availability.

On the other hand, Stonington and Deer Isle have assets that other communities don't have: citizens with means and a sense of public spirit, conservation organizations seeking to create sustainable communities along the coast, and the nearby Genesis Community Loan Fund, a nonprofit organization committed to creating affordable housing on islands along the Maine coast (see <http://www.genesisfund.org/index.html> for more details)..

Considering all of these factors together, an approach for Deer Isle and Stonington might be:

- 1) To create a partnership with a Maine conservation organization³ and/or the Genesis Community Loan Fund in order to seek one or more significant land donations that could be used to preserve open space on the islands while providing affordable housing;

³ Such a conservation organization might be: The Island Institute <http://www.islandinstitute.org/>, the Maine Nature Conservancy <http://www.nature.org/wherework/northamerica/states/maine/>; the Maine Coast Heritage Trust <http://www.mcht.org/>; or one of many others.

- 2) To use grant funds from the Community Development Block Grant program http://www.maine.gov/tools/whatsnew/index.php?topic=OCD_Programs&id=1434&v=ProgItem or the Affordable Subdivision program of the Maine State Housing Authority <http://www.mainehousing.org/oprogram2.html#RLP> – possibly in combination with a housing TIF www.mainehousing.org/download/TIF%20Checklist.doc -- to help create the infrastructure of water, septic service, road and bike path connections to the town center, and possibly a common shop at the site for tenants and owners.
- 3) To use Maine State Housing Authority subsidies for rental housing and for first-time home purchases to create the initial cluster of units at the site.
- 4) To create a revolving loan fund to make it possible for people to buy or build owner housing at various sites across the community – not just on the donated land, but on the land of family and friends as well.
- 5) To include subsidy recapture provisions for homebuyers so that when they sell, some of the public subsidy that helped them buy in the first place is recaptured and put in the revolving loan fund for the benefit of future purchasers.

In short, the project must look for grants and donations to cover the high up front costs of land and site improvements, which in turn will bring costs down sufficiently to make traditional subsidy programs work in the market.

C. Management recommendations

This is a difficult process for a small number of volunteers to manage. The difficulty stems from these reasons:

- it requires expertise in numerous specialized and technical areas – housing development, grant programs, apartment management, housing finance
- it requires a long-term horizon – developing over several years, managing over several decades – which is beyond the horizon of most volunteer groups;
- it requires financial accountability – housing development quickly runs into millions of dollars, and this money needs to be handled with care.

For these reasons Deer Isle and Stonington will need professional partners in order to go forward. The partners would be in the areas of:

- land solicitation;
- grantsmanship;
- housing construction;
- apartment management;
- financial accountability.

Some of the possible partners have been suggested already, some have not. Figure 10 on the next page provides a listing.

No matter whom the partners end up being, however, the driving force must remain local, in the community. This means that the local committee must be transformed into a more formal body with the organization, authority, and standing to apply for grants, enter into contracts, and own property. There are three possible legal structures to do this:

- A local housing authority. It is a simple matter under Maine law⁴ to create a local housing authority. This structure conveys a number of powers that a typical nonprofit would not have (such as bonding). On the other hand, because of its long legal history, the structure is somewhat more rigid than a normal nonprofit (for example, only seven board members are allowed).
- A nonprofit corporation. It is also relatively simple to incorporate a new nonprofit corporation. This structure has the advantage that the group can make up its own mind about how to define its mission, its membership, its powers and duties.
- An advisory committee under the aegis of an existing nonprofit corporation. If there is already a strong nonprofit organization in the local area that would be willing to become active in the affordable housing area, that corporation could become the vehicle for future action, under the guidance of its own in-house advisory committee.

⁴ Title 30-A, Part 2, Subpart 8, Chapter 201 – on line at <http://janus.state.me.us/legis/statutes/30-a/title30-Ach201sec0.html>

Figure 10: Listing of possible development and management partners

Activity	Possible partner	Web site or contact information
Ongoing technical assistance	The Genesis Fund	http://www.genesisfund.org/ta.htm
	The Island Institute	http://www.islandinstitute.org/
	Coastal Enterprises Inc.	http://www.ceimaine.org/content/section/7/49/
Land solicitation	Maine Coast Heritage Trust	http://www.mcht.org/
	Maine Nature Conservancy	http://www.nature.org/wherewework/northamerica/states/maine/
Initial help with grant applications	The Genesis Fund	see above
	Maine Community Foundation	The "Hancock Fund" http://www.mainecef.org/html/aboutus/hancock.html
Financing	Maine State Housing Authority	www.mainehousing.org
	Office of Community Development (DECD)	http://www.meocd.org/
Construction	Maine Manufactured Housing Association	P.O. Box 5095, Augusta, ME 04330 PH: (207) 873-6570, FAX: (207) 622-4437
Housing management	Mount Desert Island Housing Authority	80 Mt. Desert Street Bar Harbor , ME 04609 207) 288-4770
	Housing Foundation	353 Main St. Orono, ME 04473 (207) 866-0096
	Coastal Enterprises Inc.	see above

The initial steps to moving forward, then, are these:

1. Adopting goals for the construction of new owner and rental housing – numbers, types, designs, etc.
2. Identifying, meeting with, and securing essential partnerships to provide the skills to move forward.
3. Incorporating or affiliating in a way which enables future action.

Once these three steps are taken, the community is ready to apply for housing construction assistance.

These three steps are not simple. There is a considerable amount of work involved in getting organized, identifying partners, and preparing grant proposals.

There is help available for this “early stage” organizational work. The Genesis Fund, mentioned above, has helped many coastal Maine islands and communities to get organized for action through its technical assistance and grants. The Maine Community Foundation also has small seed money grants available that can help get local projects off the ground.

In summary, there is sufficient demand for rental and owner housing to proceed on Deer Island and Stonington, but the ability of people to pay is limited, and land is expensive. Therefore, the best way to proceed is to develop partnerships that make it possible to write down costs through a variety of mechanisms.