

Motel Conversions: A Case Study on The Residences at Durango

CAST Meeting - August 22, 2024



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Presentation Overview

- Introduction to Durango's Housing Market
- Clarifying Terms & Defining Affordability
- Project Overview
- Defining Roles
- Land Use Considerations & Financial Assistance
- Lessons Learned



Durango Housing Market Context



Housing has been a growing crisis since the late 1980's



For decades housing production has only met a fraction of the growing need throughout the county.



Historical challenges to development include high-cost materials due to transportation, labor shortages, limited parcels for development, and land use requirements.



COVID exacerbated all of these factors and increased demand with zoom boomers relocating to La Plata County for the Quality of Life.

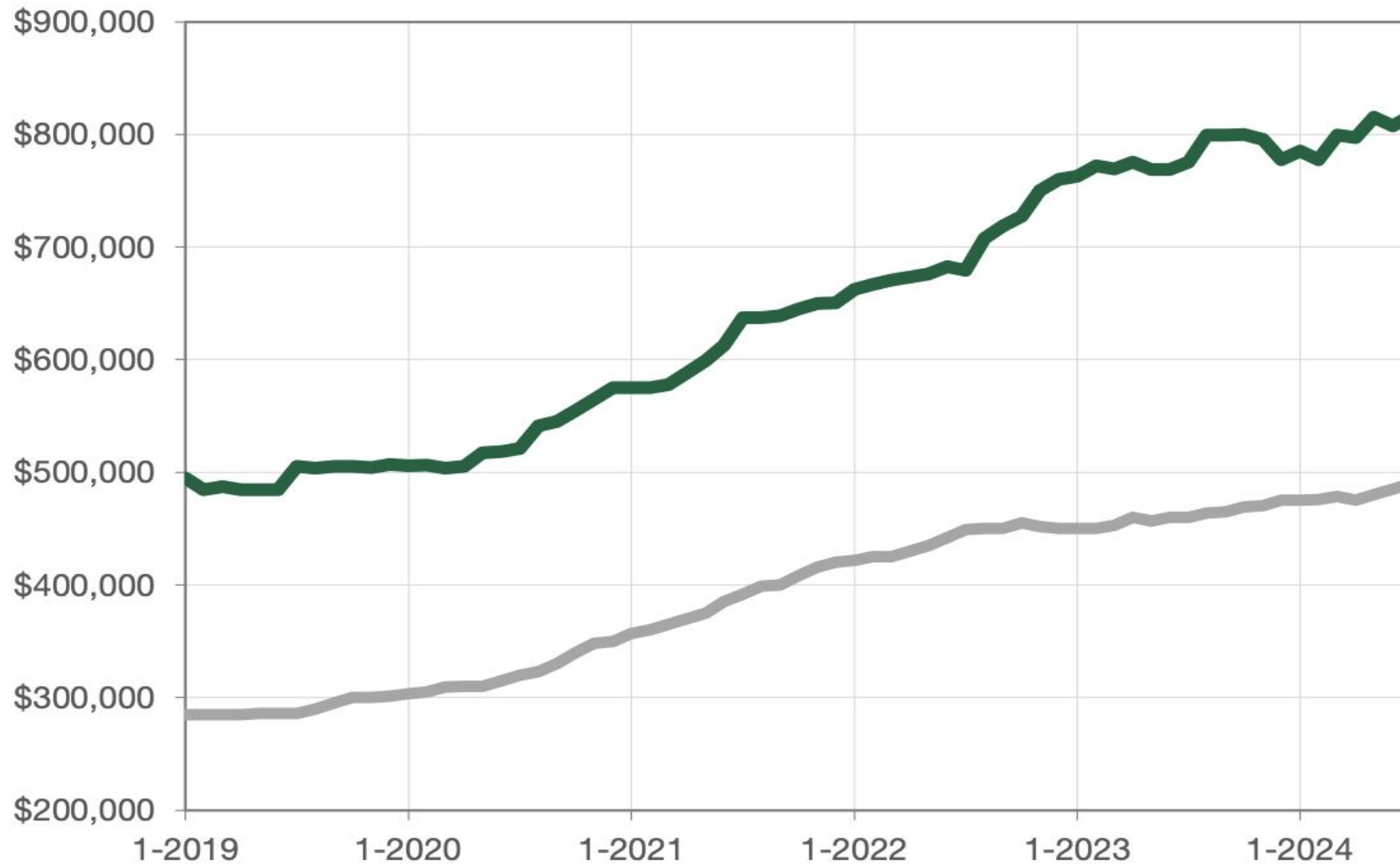


Our housing costs are at an all time high, and we will see significant changes to our local community makeup moving forward.

Median Sales Price – Single Family

Rolling 12-Month Calculation

Entire MLS —
Durango In Town —



Durango In Town

Single Family Key Metrics	July			Year to Date		
	2023	2024	Percent Change from Previous Year	Thru 07-2023	Thru 07-2024	Percent Change from Previous Year
New Listings	22	11	- 50.0%	100	85	- 15.0%
Sold Listings	12	13	+ 8.3%	68	55	- 19.1%
Median Sales Price*	\$819,500	\$945,000	+ 15.3%	\$765,000	\$875,000	+ 14.4%
Average Sales Price*	\$932,690	\$1,064,913	+ 14.2%	\$906,061	\$1,012,159	+ 11.7%
Percent of List Price Received*	98.8%	100.3%	+ 1.5%	98.0%	98.8%	+ 0.8%
Days on Market Until Sale	92	85	- 7.6%	79	73	- 7.6%
Cumulative Days on Market Until Sale	101	85	- 15.8%	91	75	- 17.6%
Inventory of Homes for Sale	34	25	- 26.5%	--	--	--
Months Supply of Inventory	3.0	2.7	- 10.0%	--	--	--

* Does not account for seller concessions and/or down payment assistance. | Activity for one month can sometimes look extreme due to small sample size.

The Rental Market

- A review of rental listings on Craigslist last fall revealed a total of 27 listings.
- The average price of listings was \$1,624
- 2023 Out of Reach Report found:
 - A household needs to earn **\$28.38 an hour** to afford a 2-bedroom in LPC renting for \$1,476 a month. How many young adults, retired on fixed incomes, single head of households etc. earn this wage?
 - There are 6,229 renters in LPC (28% of households) and their average income is \$17.64 an hour. They cannot afford average rents in LPC.

What is the impact of this mismatch?

- They are moving away
- We are losing our workforce
- They are living paycheck to paycheck and considered housing unstable.



What is “affordable housing”?

Affordable housing means paying **no more than 30% of gross income** for rent/mortgage + utilities

Regulated affordable housing — what we commonly refer to as “affordable housing” are homes that have **income restrictions**. When the public sector invests in a housing unit, a **restrictive covenant** or **land use restriction agreement** is recorded. These limit the cost of the unit and who is eligible to rent or buy the home.

Naturally occurring affordable housing (NOAH) — this is market-rate housing that *happens* to be leased or sold affordably.



More terms and definitions

1. “Workforce Housing”

Used often at the local level to define the need of the low-moderate income workforce. This includes those in the service, recreation, and often civil service sectors.

2. “Middle Income Housing”

Used to indicate affordability for white collar households.

3. “Community Housing”

Used to indicate affordability for low to moderate income households with an emphasis on local residents.

4. “Attainable Housing”

Used interchangeably with the categories to the left and above depending on context. Usually not used to refer to very low income housing.

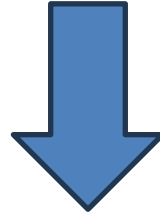
Below-Market Housing

Housing at affordability levels that the market currently does not provide on its own.

We prefer this term because it eliminates the ambiguity or preconceived notions sometimes elicited by the categories to the left.

Example: many very low income households work, some moderate income households don't work, and none of the categories to the left explicitly name seniors adults.

Comprehensive Housing Strategy



Preserve Existing Housing

Preserve existing affordable units through:

- Home or renter rehab,
- Mobile home park preservation
- Preservation of NOAH (Naturally Occurring Affordable Housing)

Promote & Develop New Housing

- Promote and develop new rental housing
- Promote and develop new for-sale housing

Increase Access to Housing Opportunity

- Stabilize existing households and create access to all types of housing through programs
- Homebuyer education/renter education/tenant rights workshops/homeless prevention



Residences at Durango

A 120-unit tax credit funded affordable rental property which converted an existing motel property into housing, created more units on previously unused portions of the site, and added 1,600 SF community space.



Formerly known as...

- 72 Hotel Rooms
- Restaurant
- Lobby
- Hotel Amenities



Context

- **Walkable**
- **Transit-Served & Multimodal Options**
- **Close Proximity to Open Space**
- **Naturally Buffered from Adjacent Property Owners**



Project Overview

- 72 Renovated Units
- 48 New Units in Two Separate Buildings
- Mix of Studios, 1 BD, 2 BD & 3 BD Units
- \$35.6 Million Total Cost
- Rent Restricted at Rates Affordable to 30-60% AMI HH
- Includes Non-Profit Office or On-Site Child Care Space

How Did the Project Come to Be?

- The City of Durango staff was looking for a homeless solution and saw an opportunity to apply for congressional funding for a housing project in **2021**.
- Jenn had been working on local initiatives and saw the state of Colorado rolling out **Operation Turnkey Dollars** for Motel acquisitions.
- Jenn proposed a contract with the City of Durango to manage the process of identifying a potential motel and a development partner.
- In the summer of 2021, the City applied for congressional funds and Jenn identified the Best Western and devised a strategy to get the motel under contract. Key to this strategy was how the real estate contract was structured and the process for finding a developer.



Project Concept

- The overall project concept and approach was to get site control as soon as possible (City); start site due diligence and then run an RFP process to find a developer and assign the contract to them to take over the development process and assume all risk and eventual ownership.
- The assumption was that the site was large enough to have a significant number of units that it would interest a regional or national development partner.
- The City also provided pre-development funds to help mitigate risk early on which acted as an incentive for the development partner.
- Jenn managed the RFP process and the City selected TWG out of Indiana.





TWG DEVELOPMENT

TWG

Founded in 2007
270+ Employees

\$2.18 Billion Development Costs
over 19 States

110 Developments
11,500 Units

AFFORDABLE HOUSING

Low Income Housing Tax Credits
Tax-Exempt Bonds
New & Acquisition 40-300+ Units

Other Equity Sources:
State, Historic, Energy Tax Credits
State, County, City Funding

80+ Projects
\$1.3+ Billion TDC
Deal Sizes: \$8-95+ Million

MARKET RATE HOUSING

Market Rate & Mixed-Use
Conventional Financing
Historic Tax Credits, Opp. Zones
New 100-300 Units

Other Equity Sources:
Private Family Offices,
Private Equity Funds,
Public Private Partnerships

20+ Projects
\$880+ Million TDC
Deal Sizes: \$25-70+ Million

Define Roles at the Community Level

- **Local Governments** - develop and implement policies that can be critical to siting new projects, preserving existing units and defining where housing can be located throughout the community. They can also provide funding, land, and political support for competitive funding pools.
- **Housing Consultants** - help local governments activate real estate, assist with early feasibility, manage development processes, and provide local communities with technical expertise to design projects.
- **Nonprofit Partners** - typically provide services to connect people to housing or help them to retain it. Some also develop housing.
- **Developers (for profit and nonprofit)** - focus on the creation of new units. Developers vary in expertise, market focus and housing type.
- **State and Federal Agencies, Private Investors** - steer what below market projects can be funded and are the primary funding source for new development.



The Land Use Process & City Incentives

- Mixed Use Designation allowed higher density than typical
- Infill design
- Streamlined, prioritized review
- CDOT & Fire District concerns creatively addressed
- Floodplain issues
- 1,600 SF of community space
- Outside funding for fees
- Administered federal funds and addressed tax challenges



What made this project successful?

- Everyone played the “right role” and was committed to getting this done.
- New funds were critical; both operation turnkey funding and state congressional funds filled key gaps.
- CHFA was a huge player with their bond financing; they really wanted to see this first of a kind motel conversion happen.
- The City found additional grant funds to offset site improvement costs.
- The City having a housing consultant to help manage the first several months of the project during financial feasibility, was key.
- The City’s willingness to take a calculated risk of \$100,000 in predevelopment leveraged \$35 million and 120 units!



Lessons Learned

- Be aware of new funding sources; proposition 123 funding is rolling out this year and the federal government is looking at new housing programs.
- Create incentives to bring in the development capacity that you need. Offer pre development resources; identify the sites you want developed etc.
- Local community partners should use consultants to augment expertise and help devise projects that minimize the risk for local governments while maximizing access to state and local housing funds.
- Look for underutilized real estate; commercial properties, church properties, school district land etc.
- Be clear on who you want to serve and align support at the local government level- they are critical to success on so many levels.



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