

## **INTRODUCTION**

The following is an executive summary of a housing demand study for the Territory of the Virgin Islands, commissioned by the Virgin Islands Housing Finance Authority (VIHFA or “Authority”). Community Research Services, LLC (CRS) has been tasked to provide demographic and economic data and analysis as it relates to housing needs for those within the affordable income range, examining prevailing housing market trends, and producing recommendations for future affordable housing that would best address those housing needs that currently exist and will exist in the future.

For this analysis, the definition of affordable housing will vary, depending on the product, target market, and household size. General market segments include homeowners with annual incomes up to 80 percent of Area Median Income (AMI), and renter households with incomes up to 60 percent of Area Median Income (AMI). This reflects the majority of available housing production programs currently in use across the nation, and also reflects generally-accepted definitions of those that may face affordability issues.

Additional market segments that will be investigated include senior rental housing needs, generally reflective of seniors age 65 and older, that are still able to live an independent lifestyle and are within the affordable household income range (up to 60 percent of Area Median Income). Limited options for senior citizens are present across the Territory, and affordability concerns exacerbate an increasingly limited housing market segment.

Also, those citizens that fall within special needs categories, such as developmentally disabled, mentally impaired, victims of domestic abuse will also be part of the report. Available data collected on these population segments will be compared with available service coordinators and the number of housing need referrals made for those within these categories. As with the senior housing segment, the Territory appears to lack a significant number of affordable housing resources that alleviate housing demand within these most vulnerable populations.

A review of housing options for those that are homeless or are in danger of homelessness will also be included within this analysis. Information across the Territory over the past decade illustrates a chronic homelessness population, despite the efforts of local nonprofits and government leaders to reduce homeless totals.

To obtain a complete depiction of affordable housing demand, economic influences, and important demographic trends, it is strongly suggested that the reader review the complete housing demand study. The report provides necessary background information, key data points, and analysis that have led to the following conclusions and recommendations. Tables, charts, and graphics are also available to help illustrate the conclusions reached and the underlying information behind the report’s findings.

## **SUMMARY OF KEY CONCLUSIONS/RECOMMENDATIONS**

Based on the results of the Housing Demand Study of the USVI, the following findings and conclusions have been determined, along with recommendations for the Authority to consider for future policies and strategies:

- Demand for a wide range of affordable housing options can be readily demonstrated, including the following alternatives:
  - Supportive Housing – targeted for those that are homeless and/or exhibit various special needs characteristics.
  - Senior rental housing – primarily targeted for persons age 65 and older on St. Thomas and St. Croix, with potential options for multi-generational housing, mixed-use development, and mixed-income housing, depending upon the location and sponsoring agencies.
  - Affordable rental housing – for working singles and families across the Territory. Such options have been previously developed and have proven extremely successful.
  - Affordable homeownership opportunities – VIHFA sponsors a number of programs that provide a direct and indirect assistance for those families seeking a homeownership alternative. It is recommended that these programs continue to provide such options across the Territory.
- The local economy has generally underperformed in comparison to the prior decade. The following findings are notable in terms of influence upon the housing market:
  - Commuting between St. Croix and St. Thomas/St. John is quite rare, at just three percent of the overall labor force.
  - Over the past seven years the Territory’s labor force has decreased by nearly 16 percent, with all sectors reporting declines. This percentage decline represents a loss of more than 7,200 jobs over the past seven years. The largest employment decline was within St. Croix – at nearly 27 percent. By comparison, St. Thomas and St. John exhibited employment declines of just five percent and seven percent, respectively, over the 2007-2013 period.
  - As of the fourth quarter of 2014, the Territory’s unemployment rate was recorded at 12.8 percent, down from a high of 13.9 percent in 2013. For St. Croix, the most recent unemployment rate was 13.0 percent, while the St. John/St. Thomas rate was 12.7 percent. By comparison, the U.S. unemployment rate for the fourth quarter of 2014 was 5.7 percent.
  - According to the Virgin Islands Department of Labor, the 25 largest private employers are reported on a quarterly basis. A comparison from 2010 to 2014 provides an indication of the changes in the local economy of the past few years. In 2010, the largest private employers included two manufacturing firms, a construction company, a utility, and two professional/business service entities. The remaining firms were either

retail trade or leisure/hospitality companies. As of 2014, just one manufacturing firm was listed (and will likely be off the list soon), and no construction entities were present.

- For 2013, the Territory’s GDP declined by 5.4 percent from the prior year. The BEA report attributed the trend to “.....the decline of the petroleum refining industry that for many years had played a dominant role in the economy. The Hovensa oil refinery, one of the world’s largest oil refineries, shut down operations on St. Croix in early 2012.” Future GDP figures are anticipated to stabilize, with real growth estimates for 2014 and 2015 of 1.4 percent and 1.5 percent, respectively, based on forecasts from the Bureau of Economic Analysis.
- A key component of GDP for the Territory is tourism, with a high degree of employment and infrastructure/ facilities in place. During the latter part of the last decade, overall tourism declined significantly, as expenditures by tourists (including visitors to the island itself and short-term visitors from cruise ships) declined by 33 percent between 2007 and 2010, a drop of approximately \$500 million from the Territory’s economy. Since the low point in 2010, annual tourism expenditures have stabilized and are steadily increasing, along with all other measures of tourism across the Territory.
- Criminal activity across the Territory is now being recorded by the FBI’s statistical database. The most recent data indicates that the level of crime per capita is well above statewide levels within the continental U.S., and is similar to high-crime communities within the continental U.S. While most crime statistics did decline from 2012 to 2013, the level of overall violent crime on St. Thomas increased by nearly 34 percent, led most prominently by a 57 percent increase in aggravated assault. Such trends have not gone unnoticed, and have most likely impacted tourism across the Territory.
- Poverty trends within the Virgin Islands are different and somewhat contrary in comparison to the balance of the nation. During the end of the last decade, the national poverty statistics rose significantly, the result of economic upheaval from the Great Recession. However, this period of time (2008-2010) was generally favorable for the Territory, and annual poverty rates actually declined during this two-year period, and overall during the past decade. Poverty levels are still notably above national figures, however.
- Demographic trends have been mixed, and are greatly influenced by the local economy, prevailing birth rates, local residents aging in place, and other considerations. Key items of note include the following:
  - Despite estimates during the past decade that assumed significant population gains, the 2010 overall population had declined by two percent from 2000, to a total of 106,405 persons. All of this loss is attributable to declines on St. Croix, as the St. John/St. Thomas portion of the Territory actually recorded a slight increase in overall population during the last decade
  - By 2019 the Territory’s population is projected to total 100,907 persons, a decline of more than five percent from 2010. Most of this decline is forecast within St. Croix, as

the territory will shrink in overall population by more than nine percent, to a projected total population of 45,915 (a loss of more than 4,600 persons). The St. John/St. Thomas portion of the Territory will fare much better, with a slight decline in population of 1.5 percent.

- As with most of the nation, the Territory’s fertility rate has declined over the past decade. According to both the U.S. Census Bureau and Center for Disease Control, the Territory’s fertility rate in 2010 was 2.487, one of the highest across the nation. However, by 2012 the rate declined by over nine percent, to 2.262. Coupled with an under-performing economy, the Territory’s population is slowly shrinking for the balance of the decade.
- The Territory’s population is aging in place, along with much of the nation. What is unusual is that the size of the senior segment across the Territory will exceed the non-adult segment’s size by 2019, as seniors will total more than 22,600 persons by 2019 (as compared to approximately 21,000 persons age 0 to 19). Such trends will greatly impact the local economy, with a greater emphasis on senior-oriented services and choices. This will also include the housing market.
- Occupied household trends generally mirror overall population patterns, but in this case the prevailing economic climate, sharp decline in anticipated births and the rapidly aging population has minimized the trends in comparison to population losses. As a result the household trends across the Territory are minimal, with little variation in the overall number of occupied households. A slight decline on St. Croix is projected, while a slight increase for St. John and St. Thomas is forecast for the balance of the decade.
- The Territory’s household composition by tenure (renter vs. owner) is essentially even, as renters accounted for 52 percent of all occupied households in 2010, a total of 22,514 units. This reflects a gain of more than 500 rental units during the past decade. The large majority of these new units are attributable to affordable rental housing developments that have been constructed between 2000 and 2010 – in fact a total of 644 affordable rental units were built within the Territory during the past decade. The removal of obsolete units and the potential conversion of some rentals to ownership options is also partially responsible for the 2010 total.
- Trends for households headed by a senior citizen (age 65 and older) reflect population trends previously discussed, with the concentration of senior households representing the largest housing segment across the Territory. Locals aging in place and the relocation of retirees to the Territory will yield a concentration of senior households that ultimately exceeds 50 percent of the area’s total households.
- As of 2010, the concentration of rental unit size is primarily within one-person and two-person units. While the percentages do reflect the increasing concentration of seniors and smaller-sized households, the ratio for the larger-sized units indicates a lack of rental housing options for working families, many of which utilize larger-sized rental units as the primary residential option.

- A key component regarding the measurement of affordable rental housing market potential is the degree of rent-overburden that exists within the marketplace. As of 2010 the within lowest income ranges, the concentration of households within the rent overburden criteria accounted for at least two-thirds of renter households, regardless of which part of the Territory.
- The condition of the housing stock is also a factor in terms of housing demand, by creating an increasing preference for newer and more modern housing options and a greater need for demolition of substandard units. Across the Territory, the percentage of renter households that are considered substandard is quite high, and significantly greater than the national average. The total substandard percentages range from 16 percent to 18 percent, with overcrowding the primary reason for the substandard designation.
- Market trends collected from government and private sector sources provide a clear indication of ongoing housing needs for those within the extremely-low income and low-income household segments. Among the primary facts collected are the following:
  - Trends in homeownership supply provide an indication of the market for such alternatives. The most recent data indicates a clear drop in the number of sales across St. Croix, while trends on St. Thomas/St. John are somewhat mixed. Since 2005, very little price appreciation is evident across St. Croix, while the combined St. John/St. Thomas data illustrates more volatility, with most gains in pricing reflecting a recovery from prior declines, providing generally little price appreciation over a broad period of time.
  - Data from [www.realtor.com](http://www.realtor.com) was collected for the entire Territory regarding homes currently for sale. In all, this included more than 800 listings present during mid-April of this year for both condominiums and single family homes. The vast majority of homes are higher-priced single-family structures, luxury developments, and vacation homes for upper-income households. Very few affordable homeownership options were present within the data.
  - Available rental housing for low-income households includes subsidy options and affordable properties that have utilized the Low Income Housing Tax Credit (LIHTC) and other funds to provide low-cost housing. In all this includes 28 subsidized properties through The Virgin Islands Housing Authority, 11 Rural Housing properties, and seven affordable developments constructed primarily through the LIHTC.
  - A review of available rental properties across the Territory in April 2015 provides an indication of prevailing rental rates and the number of choices available. Based on more than 120 rental listings from various local and online sources, rental rates are greatly impacted by tourism, the local workforce, and the limited number of units generally available.
  - Based on data from the 2010 Census, approximately eleven percent of the Territory's population exhibits some type of disability that interferes with normal living activities. Across the Territory, 5,164 individuals between ages 18 to 64 had some degree of disability in 2010, representing 8.0 percent of the total. Of these individuals non-

employment totals range from 41 percent for hearing impaired persons to 71 percent for those that have an independent living difficulty.

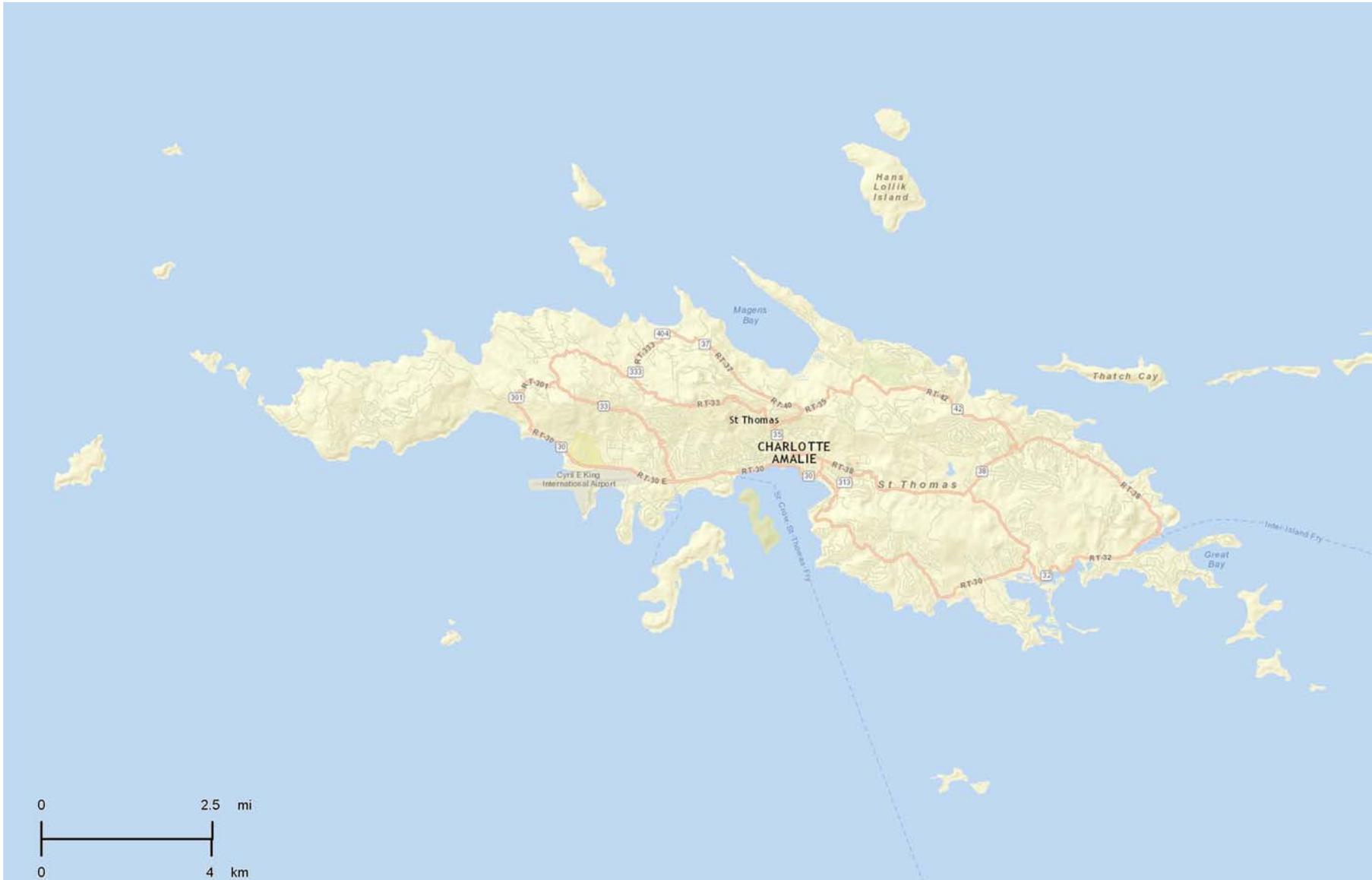
- The homeless population for the Territory is counted on an annual basis by local nonprofits and government agencies. The 2014 count of the homeless yielded 448 persons, within 434 households – reflective of the fact that nearly all homeless persons are individuals, primarily outside of available homeless shelters. This is atypical in comparison to other communities across the nation, in which a substantially higher percentage of the homeless population is found within a family or household arrangement.
- The homeless count summary also includes data regarding various categories and subpopulations. The largest categories are chronic substance abusers (34 percent), chronically homeless (26 percent), those that are severely mentally ill (24 percent). Veterans accounted for 10 percent of the total, while victims of domestic abuse represented six percent of the total.
- Other factors of note include the following considerations:
  - The availability of demographic and economic data is somewhat limited, as the U.S. Census Bureau does not provide a complete examination of the USVI.
  - Unique and specific influences upon the Territory’s housing market include the following:
    - A reduction in homeownership / increased acceptance of rental housing;
    - A large pool of unsold vacation/retirement homes;
    - A lack of workforce housing options;
    - Transportation issues, including unreliable public transportation and a disconnect between available housing and the location of many employment opportunities;
    - The high cost of housing development – with a direct impact on overall affordability, as the Territory lacks materials and expertise to provide housing at a cost point similar to the balance of the nation;
    - Topography – increases development costs and reduces the number of potential development sites
    - Employment – shifting toward more low-wage positions
  - Positive considerations do include the following factors:
    - Ample market depth within affordable housing categories;
    - The continued success of recently-developed affordable housing properties;

- A wide-ranging desire by local and federal officials to eliminate homelessness;
  - Prevailing high occupancy levels for rental housing across all price ranges;
  - The increasing quality of available rental housing, due to new construction, rehabilitation efforts, and the demolition of obsolete units;
  - An aging population, which will increase the market potential for senior housing options for the foreseeable future;
- An additional recommendation is for Territory officials to investigate the feasibility of a local development entity to carry out future affordable housing development options. Such an entity would be under the direct control of local officials, but be able to utilize the expertise of affordable housing/supportive housing specialists from across the nation. The entity would also be more informed of the Territory’s housing needs, more dedicated on a long-term basis to the task of providing affordable housing within the Territory, and more motivated to complete the task as compared to a firm or nonprofit from the continental U.S. It is also believed that such an entity would be a preferable alternative to an RFP-type process, or simply following a general application process, as outlined by the typical Qualified Allocation Plan or other method of distributing potential development funds/resources.

### Map: St. Croix Island



### Map: St. Thomas Island



**Map: St. John Island**



## **NARRATIVE OF RECOMMENDATIONS / ISSUES / IMPEDIMENTS**

The following are recommendations for target market segments with sufficient net demand potential to justify future development consideration. The recommendations will be ranked in order of demand potential, then separated by each island by demand potential.

Please note that these are suggested preliminary recommendations. While projections within this analysis are forecast up to 2019, no guarantees are made nor implied in terms of project viability from a market standpoint. Market conditions may change within a relatively short period of time, significantly changing or nullifying the recommendation.

Assumptions for these recommendations include:

- ✓ No site-related concerns/issues
- ✓ No financing concerns/issues
- ✓ Recommended developments will include competitive square footage, attractive amenities, and modern features that will enhance marketing efforts
- ✓ Pre-development and construction are completed professionally within a reasonable period of time
- ✓ Developments are marketed and managed by an experienced professional
- ✓ Experienced and qualified support services are available (when required)
- ✓ Any variation from the stated recommendations will impact the viability of the proposal

### **Target Market Segments with Market Potential**

#### **#1) Permanent Supportive Housing – Homeless/Special Needs**

The 2014 PIT summary counted 363 persons unsheltered, among a total of 448 homeless persons – with just 19 percent of the identified homeless population utilizing available emergency shelters and transitional housing options.

Experience with nonprofit organizations and affordable housing finance organizations over the past few years demonstrates that the primary method to alleviate homelessness is to construct permanent supportive housing – ideally within a “Housing First” approach. Adapted by most homeless advocacy groups across the nation, the Housing First model’s goal is to immediately move homeless individuals and families into a permanent supportive housing development, and then provide the social services, counseling, training, and education to maintain their ability to remain within the housing development and avoid returning to a homeless situation. There is not a disregard for the reasons that caused the homelessness, but a realization that the ability of a homeless individual or family to address these root causes cannot be accomplished outside of a stable residential environment.

Successful Housing First models have been observed through the use of existing housing resources – shifting the emphasis away from a case-by-case basis of the individual homeless person’s characteristics and appropriateness for housing; as well as through dedicated new construction facilities that are specifically developed under a Housing First concept.

The PIT summary also indicates that three subcategories within the homeless population are present (overlap among these categories may exist):

- Chronically Homeless Individuals
- Severely Mentally Ill
- Chronic Substance Abusers

It is **strongly recommended** that support services, counseling, and case management be included that specifically addresses at least one of the above subcategories. While a non-specific permanent supportive housing option would clearly be welcome, the PIT history suggests a long-term pattern in regard to the Territory’s homeless populations within these specific categories.

*Supportive Housing for Homeless populations reflects the most immediate affordable housing need within the Territory*

Development of permanent supportive housing is difficult, requiring experienced service providers, project-based subsidies, adequate on-site space for offices, case management, and support services, and experienced management staff. An experienced development team, LIHTC allocation, available soft monies, a syndication entity that is comfortable with supportive housing, and cooperation with local officials to minimize development costs is also required. Despite these challenges, the placement of additional supportive housing developments of approximately 50 units on both St. Croix and St. Thomas would make a significant impact to eliminate homelessness on the Virgin Islands.

Unfortunately, the PIT trends indicate that little to no progress has been made across the Territory, despite the efforts of Continuum of Care participants since 2006, specific objectives listed within the 2010-2014 Consolidated Plan for the Virgin Islands, and the prior and current efforts of the VIHA and VIHFA. Considering recent economic trends, existing programs and funds applied on behalf of the homeless have likely prevented an even more pronounced level of homelessness, but the immediate and long-term solution is the development of more units dedicated to these homeless populations.

## **#2) Affordable Senior Rental Housing**

Much of the report has highlighted the senior segment as the sole portion of the Territory's demographic composition that will grow for the balance of the decade. Given the limited number of senior-designated facilities, the market potential for this segment is readily apparent. The recent completion of Lewis E. Brown II and the future completion of Sugar Estates have provided an indication of the ongoing need for such housing. Statistical demand forecasts for St. Croix and St. Thomas also provide evidence of market potential.

*Market demand for affordable senior rental housing will increase over time – and possibilities exist for mixed-use development and multi-generational housing options*

St. John does not exhibit a sufficiently sized senior population segment, and the island most likely lacks a strong set of potential development sites that would be of most interest to seniors. As a result, it is not recommended that senior rental housing of any size be pursued on St. John.

All existing senior rental developments are subsidized throughout the USVI, either through Rural Housing, public housing subsidies, or via project-based Section 8. These subsidies reflect the prevailing income levels for many low-income and extremely-low income seniors, but a market is still present for seniors with incomes ranging between the 30 percent AMI and 60 percent AMI level. While subsidies would be welcome and utilized, a segment of this senior market segment does exist that does not exhibit an immediate need for such subsidies.

Both St. Croix and St. Thomas exhibit sufficient long-term market depth to justify additional affordable rental housing targeted for senior citizens. Given the current development of Sugar Estates (planned for opening no later than the 1<sup>st</sup> quarter of 2016), efforts should initially be targeted for a senior facility on St. Croix, with an affordable senior rental development targeted for St. Thomas toward the end of the decade.

Demand scenarios within the analysis were based on a 36-unit senior rental facility, with income/rent targeting between 40 percent of AMI and 60 percent of AMI. Ultimately, the project size for senior rental housing would be a function of various factors, including:

- ▶ The appeal of the proposal's location (ideally near medical clinics, social services, and retail outlets of interest to seniors)
- ▶ The final rental rates and income targeting proposed
- ▶ The inclusion of various amenities, features, and project characteristics that may enhance the value of the proposal
- ▶ The possible inclusion of project-based subsidies
- ▶ The possible inclusion of market-rate units

Senior development options that may make sense within the Territory include:

- ❖ **Mixed-use Development** – with a ground-floor commercial component, which may open up specific locations within urban areas. A complementary use for the commercial piece, such as a coffee shop, professional services office, or similar retail outlet would be ideal, and potentially maximize marketing efforts and expand the potential pool of residents.

The key advantage is that a mixed-use development is eminently easier to place within a primary urban area, either an adaptive-reuse of an existing building or infill development of a previously developed lot. Considering the challenging topography on portion of both St. Thomas and St. Croix, such a development may greatly expand the number of reasonable locations for rental housing development.

- ❖ **Intergenerational Housing** – this type of senior development is a rental housing proposal that matches a unique portion of the senior segment – grandparents that are also caretakers for grandchildren. According to the 2010 Census, 6.6 percent of the Territory’s adults age 30 and older were residing with their own grandchildren (under age 18). This totaled 4,209 persons in 2010. By comparison, the national percentage of grandparents residing with grandchildren was 3.6 percent in 2010.

Among these grandparent/grandchild households, 47 percent of the grandparents were responsible for the care of the child or children; the remaining 53 percent were residents within a multigenerational home, but not directly responsible. By comparison, the national percentage in 2010 was 41 percent responsible (59 not directly responsible). Using this percentage, approximately 1,980 grandparents reside within multigenerational households that are responsible for their grandchild (grandchildren). Assuming this pool of grandparents would be income-eligible for affordable rental housing, a sixty-unit proposal would exhibit a capture rate of just three percent.

Affordable multigenerational rental developments are rare, as only six such developments have been constructed using the Low Income Housing Tax Credit (LIHTC). Most models have used a primary senior-housing designation, with a portion or all of the units designed for both child-friendly features and senior-oriented amenities. Most of these developments also have ample common space for a community center that gives opportunities for intergenerational interaction.

The most recent example of intergenerational housing is the Fairfax Intergenerational Housing complex, a 40-unit development in Cleveland OH. This facility was the winner of the 2014 LIHTC Development of Distinction, by Novogradac and Company, for the facility that “Best Exemplifies Major Community Impact”. Approximately one third of all intergenerational families in Cuyahoga County (the county surrounding Cleveland) were below the poverty line, and these families also face issues the compound the costs of living within an intergenerational homes, ranging from military deployments to incarceration.

- ❖ **Mixed-income senior properties** – the inclusion of subsidies within senior developments along with non-subsidy affordable units would expand the pool of potential tenants. In a similar manner, the inclusion of market rate units without rent/income restrictions would also expand the market potential. These options would need to be in step with the proposal’s location, unit mix, and features, which would need be logical and attractive to the expanded pool of senior households.

### **#3) Affordable (Open) Rental Housing**

Despite limited economic growth and a slight decline in overall population trends, the market potential for additional affordable rental housing can be demonstrated. Such rental developments are for those within the affordable income range, and can be described as workforce housing, based on the target market characteristics discussed previously. The affordable/workforce rental housing recommendation is based on the following factors and considerations:

- Existing rental developments are exhibiting high occupancy levels across all development types;
- Statistical demand forecasts based on both affordability and renter household growth demonstrate sufficient market depth for the introduction of new rental housing for those within the affordable income range;
- Recent affordable rental housing properties across the Territory have been rapidly absorbed within the marketplace, a reflection of high market demand;
- Homeownership options for households within the affordable income range are quite limited; difficulty obtaining financing and providing for a sufficient down payment are also factors inhibiting homeownership as a viable option;
- The recent economic trends reflect a lower degree of job security, generally stagnant wage levels, and fewer opportunities for new work as compared to the past decade. Within such a labor market it is likely that rental developments are a preferable residential option for families in transition from an employment standpoint;
- Rental rates have demonstrated ongoing appreciation, despite a similar increase in wages/incomes. Increased pricing is another indication of growing demand for rental options.

*Ongoing market demand is present for affordable rental options for both affordable and mixed income units, serving as workforce housing across the Territory*

Demand forecasts were constructed for this analysis within separate sub-market areas on St. Croix and St. Thomas, with a sole market area representing St. John. All five areas exhibited sufficient statistical demand, based on a 72-unit affordable rental development, with rents/incomes targeted between 40 percent of AMI to 60 percent of AMI. The smallest market area – St. John – exhibited the “least positive” statistics; a smaller-sized rental property may be more appropriate than 72-

unit scenario.

As a result, support for affordable rental housing developments on all three islands, targeted for a wide range of household sizes and income levels, can be recommended. However, the following considerations are worthy of note:

- It is assumed that the mix of bedroom sizes will be a combination of one-bedroom, two-bedroom, and three-bedroom units. A final unit mix seeking to service larger families may exclude one-bedroom units; developments seeking a more mature tenant base may exclude three-bedroom units;
- As with the senior rental housing recommendation, the inclusion of either subsidy units or market rate units would increase the pool of potential tenants. Such considerations are typically more a function of financing options and the availability of subsidy;
- The set of unit amenities and project features should reflect modern rental housing options that are currently available. A complete set of features will ensure that the property remains competitive not only upon entering the market, but also 10 years or more after opening. This would include such items as:
  - Full kitchen, with dishwasher and disposal
  - Air conditioning
  - Cable/internet accessibility
  - Blinds/window dressings
  - Unit sizes that are commensurate with existing modern options
  - Common areas that include community space for activities, educational opportunities, and resident gatherings
- The location of potential affordable rental housing will directly impact the marketability of the facility. Proximity to retail outlets, community services, recreational locations, and major roadways will greatly enhance leasing efforts. Maximizing the proposed facility's visibility and accessibility is critical for the property's long-term viability
- An increasing realization of the importance of adequate transportation alternatives as part of overall housing affordability should be part of the decision-making process regarding affordable housing site selection. Reducing housing costs at the expense of a significant increase in travel time or a lack of public transportation eliminates any advantages that arise from affordable rental housing. Placement near existing public transportation routes, or establishment of new routes is extremely important. In addition, the location of affordable rental housing that minimizes possible transportation costs (travel time, cost of fuel, bus fare, etc.) must be incorporated into any decision-making process.
- The timing of new developments should be established to avoid a temporary glut of rental units within a specific sub-section of the Territory. It is doubtful such a condition will arise, but language within the Qualified Allocation Plan for LIHTC properties and an awareness by local officials can prevent such an occurrence.
- Additional consideration by VIHFA and local officials for an affordable rental facility with a special needs component should be considered as well. This would assume the identification of a specific disability to target/address, the inclusion of on-site space and case management to assist the target population, and the sponsorship and direct involvement of an experienced service organization as part of the development and

management team. Such facilities that include a special needs component but also lease to the general population have been successful in other sections of the country.

- In a similar manner, it is also possible to emphasize an “older” target market through the exclusion of three-bedroom units, focusing on smaller-sized units and including community space and in-unit features that are important for seniors. An alternative is a mixed-use property with both family and senior components. The most common example is the development of a centrally located senior building, surrounding by smaller family-oriented townhomes or garden apartments. In any case, the flexibility is present within the marketplace to consider a mixed target market proposal.
- As with senior rental housing, adaptive re-use or infill development options would expand the pool of potential sites and allow for the construction of affordable rental housing closer to potential employment and shopping locations. Such an alternative should receive preferred consideration by local leaders and housing finance officials.

This recommendation includes support for continued rehabilitation of existing units, especially those developments that carry project-based subsidies. The removal of such subsidies within uninhabitable units would be a great loss to the overall rental housing marketplace, as project-based subsidies are increasingly difficult to obtain. Recent efforts by the VIHA in this direction are to be strongly encouraged, and it is hoped that the remaining properties that are currently in disrepair can be returned to service within the near future.

#### **#4) Affordable Homeownership**

The private marketplace has essentially ignored the affordable segment in regard to homeownership alternatives. The cost of development, the size of the market for vacation and luxury homes, and the relatively small size of the affordable homeowner marketplace are all factors that contribute to the current status. This is not unusual, as many sections of the nation do not specifically focus on low-cost affordable homeownership options. However, the prevalence of modestly priced existing homes, apartment developments, and a wider range of opportunities within adjacent communities for possible homeownership are present across the large majority of the continental U.S.

By contrast the U.S. Virgin Islands are isolated, with a finite number of moderately priced homes available, and essentially no adjacent communities. It is likely that many are immediately sold, providing limited opportunities for low-income families to relocate to homeownership. As a result, just six percent of all homes listed for sale would fall within the affordable income range, based on the April 2015 sales information discussed previously.

*Current homeownership programs available to low- and moderate-income households across the Territory are making a positive impact for families seeking such options*

However, economic and demographic factors appear to have reduced the short-term demand for homeownership across all income segments, including

the affordable portion of the marketplace. Seniors aging in place are more likely to already have an established homestead and are not seeking a new homeownership option. Also, the number of families with children is projected to decline over the balance of the decade, due to a shrinking birth rate and aging of the post-WW II “Baby Boom” generation.

As a result, it is recommended that current affordable homeownership programs remain in place, including the various VIHFA initiatives listed previously (First-Time Homebuyer, Education programs for Homebuyers, Counseling Services, and Homebuyer Outreach, among others), along with the affordable homeownership opportunities available (Whispering Hill, Ottley Manor, Estate St. George, Calabash Boom, and Bonne Esperance).

Evidence from this report indicates that other affordable housing needs are more prominent at this time, and will likely remain so for the balance of the decade. A long-term economic correction with strong wage/income appreciation and reduced unemployment levels will be necessary to generate additional market demand for homeownership.

Suggested Development Options by Island Ranked by Priority:

**St. Croix:**

- #1) Homeless/Special Needs
- #2) Affordable Senior Rental
- #3) Workforce/Affordable Rental
- #4) Homeownership

**St. Thomas:**

- #1) Homeless/Special Needs
- #2) Workforce/Affordable Rental
- #3) Affordable Senior Rental
- #4) Homeownership

**St. John:**

- #1) Workforce/Affordable Rental

**Critical Gaps and Issues that Impede a Stable Housing Market**

A series of specific issues are found on the Territory that act as impediments to the long-term stability of the housing market. A housing market in equilibrium will provide sufficient housing alternatives at a reasonable price. Some items are common for many markets, while others are unique to the Territory. While it is unlikely that elimination or alleviation of these issues can be accomplished, efforts toward that end will improve the Territory's housing markets. Briefly stated, these issues include:

- Unemployment and an unbalanced labor force – increased employment opportunities across a wider set of jobs will increase wage levels and decrease housing affordability issues;
- Transportation limitations – improvements in public transportation and a greater emphasis on the placement of affordable housing in conjunction with available transportation routes will reduce the cost of living for all, with the most impact upon low-income households. A greater degree of reliability on transportation across the Territory will reduce labor costs;
- Available housing resources – The Territory's ability to foster affordable housing is directly dependent upon the amount of federal and local resources. While annual Emergency Shelter Grants to the USVI have increased since 2007, other housing, community development, and social service programs have declined or exhibit somewhat unpredictable funding levels (along with the balance of the nation). Future federal budget uncertainty after the 2016 election will also be likely. In addition, the Territory receives the minimum allocation for the Low Income Housing Tax Credit program (but has received additional credit from other states that have returned unused credit). Coupled with the extremely high development costs associated with development activity across the USVI, limited resources are stretched to the extreme. The situation has led to multi-year LIHTC allocations for single developments, and extended redevelopment periods for rehabilitation projects.
- Rehabilitation needs – while the prevailing age of the Territory's housing stock is relatively new, specific housing developments and sections of urban areas exhibit a strong need for renovation or demolition. This not only includes the three VIHA properties that are not in service (Ralph deChabert Place, Mon Bijou, and Nicasio Nico Apartments), but other smaller apartment buildings primarily within Charlotte Amelie that represent the majority of substandard rental units.
- Development costs – as mentioned previously, costs are substantially higher than the continental U.S., and thus require more resources that are increasingly scarce. This also points development options toward the construction of larger properties to take advantage of economies of scale. While this may be appropriate for some product types, the market for other development options may not be present for larger unit totals.
- Homeless populations – a high level of chronic homeless is present across the Territory. Long-term costs associated with an unresolved homeless population are a strain upon other housing resources. HUD has made data collection of homeless population trends

standardized across the nation; a comparison of progress since 2005 unfortunately demonstrates a lack of progress within the Territory as compared to nearly every other community on the continental U.S. Linger issues with homeless subpopulations, particularly those with a severe mental illness and those with substance abuse, require resolution, ideally within permanent supportive housing coordinated with experienced service providers and management agents.

- A lack of local development expertise/talent within the affordable housing industry – providing low-cost housing within a high-cost environment is difficult for any development entity; the issue is exacerbated by a lack of local qualified development firms, construction entities, and other specialists that are required as part of the affordable housing development process.

This last point may have a solution that could provide the Territory with a source of development activity that directly addresses many of these affordable housing issues. It is suggested that the Authority investigate the feasibility of establishing a subsidiary organization that directly participates as the developer of affordable housing.

The establishment of such an entity would potentially accomplish a number of items mentioned within this report:

- 1) Creates a local development entity that is familiar with the unique market and development characteristics of the Territory;
- 2) Allows for a long-term affordable housing development strategy to be established, with the strategy established as the primary mission of the local development entity;
- 3) Permits the local development entity to address a wide range of affordable housing needs over a period of years, rather than specialize in just one specific proposal;
- 4) Eliminates that possibility of the primary developer losing interest in development options for the Territory;
- 5) Allows for direct oversight of development activities by local officials, while providing the option to attract the best talent from across the nation, potentially as long-term employees, contract positions, or consultants;

*It is recommended that a local development entity be formed to immediately address affordable housing needs - such an option would maximize both local and continental housing resources for the most disadvantaged citizens of the Territory*

Most Housing Finance Agencies (HFAs) such as VIHFA would use the Qualified Allocation Plan (QAP) in a general sense and a Request for Proposals (RFP) in a specific case to provide for affordable housing options. For the balance of the nation these tools work well, and typically receive a wide range of applications or proposals for various development activity. However, for the Territory very few development firms (for-profit and non-profit) have the ability to successfully develop

within the Virgin Island, due to the high construction costs, development impediments, and unique market characteristics. This leaves the Authority with few choices within an RFP arrangement or QAP application process, with the potential interest in ongoing development activity uncertain, and competing with other development opportunities across the nation that are most likely more lucrative and less intensive from a pre-development standpoint.

Rather than re-educating and re-incentivizing outside firms every few years to provide affordable housing, perhaps a more direct approach in creating a subsidiary development entity would best serve the Territory's residents. It is strongly suggested that the Authority investigate such an option.

## **RESUME**

### ***KELLY J. MURDOCK***

#### ***COMMUNITY RESEARCH SERVICES, LLC***

Mr. Murdock has vast experience in the analysis of housing markets. Since 1988, he has provided market analyses and studies on single-family developments, apartment complexes, condominium proposals, and senior citizen communities. Mr. Murdock has also assisted numerous nonprofit groups and non-entitled communities with the use and regulations of the HOME program, as a technical assistance representative for state housing finance agencies and HUD. He has been featured within several published articles on housing research, and has served as a speaker at numerous housing seminars on market-related issues.

Mr. Murdock currently serves as the Managing Partner of Community Research Services, LLC (CRS). CRS was created to provide a wide variety of products and services to the affordable housing industry, ranging from market feasibility studies, GIS/database management services, to development consulting. CRS provides consulting and research with for-profit firms, nonprofit organizations, as well as state and local governments. At CRS, Mr. Murdock is responsible for all day-to-day operations and client relations at the firm, in addition to individual research assignments.

Prior to the establishment of CRS, Mr. Murdock was the founder of Community Research Group LLC and Community Targeting Associates. Both companies provided a large degree of affordable housing research over a twelve year period (1992 to 2004) across 31 states and territories for over 250 clients. This included research conducted under contract with Rural Housing Service, HUD, and six state housing agencies. Previously, Mr. Murdock served as the Senior Market Analyst of Target Market Systems, the market research division of First Centrum Corporation. At TMS, Mr. Murdock was responsible for market research services for all development and management divisions of the corporation, and completed some of the first market reviews and studies within Michigan under the LIHTC program (IRS Section 42).

A graduate of Eastern Michigan University, Mr. Murdock holds a degree in Economics and Business, with a concentration in economic modeling and analysis. Mr. Murdock is a member of the Michigan Housing Council, a statewide affordable housing advocacy group. He previously served on the Council's Board of Directors. Mr. Murdock and CRS are also charter members of the National Council of Housing Market Analysts (NCHMA), an organization dedicated to the establishment of standard practices and methods in affordable housing research across the nation. Mr. Murdock currently serves on the executive board of NCHMA, and is co-chair of the organization's Education/Membership committee.