

Comprehensive Housing Study and Needs Assessment Narragansett, Rhode Island



January 30th , 2024



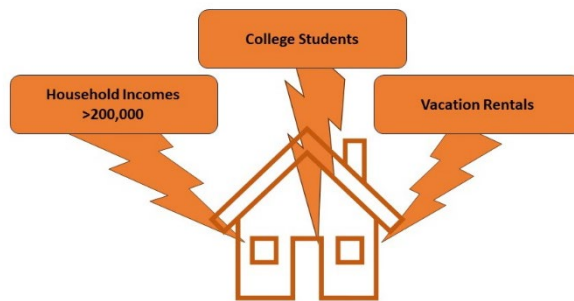
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EXECUTIVE SUMMARY

THE CHALLENGE

The Town of Narragansett has a unique combination of difficult housing challenges. Its population is 16,005¹, but just under half of this is comprised of college students who attend the University of Rhode Island in the neighboring town. Based on estimates from the University, approximately 6,000 to 8,000 enrolled students live in Narragansett. This high concentration of college students creates a market for 9-month renters, which places unusual pressure on a typically functioning housing market. Despite the disproportionately large concentration of college students, the town's median household income is 10% higher than the state and 21% higher than the nation. This is mainly because it has twice as many households with incomes over \$200,000 than the state or nation. These households are obviously not students but another separate demographic group that adds a different type of pressure on the same housing market. Narragansett is a beach town. So, in addition to these two pressure points, the percentage of vacation rentals is unusually large. More than half of the total housing stock is categorized as seasonal or was vacant at the time of the census (April 1st 2020). Weekly summer vacation rentals add a third source of pressure on the same housing stock. These three housing market characteristics add significant upward pressure on housing prices in Narragansett for both renters and owners.



THE STUDY

To address these housing challenges, the Town of Narragansett commissioned a “Comprehensive Housing Study and Needs Assessment”. In March 2023, the town hired the team of Crane Associates, Inc and Economic and Policy Resources, of Burlington, Vermont to complete the study. The first meeting started on May 3rd with a team of local housing leaders. The contracted work involved a thorough analysis of housing supply and demand in Narragansett; interviews and other methods to collect primary data on the local housing market; calculations of affordability for households at 60%, 80%, 100% and 120% of median income; a gap analysis of demand less supply; a forecast of the affordable housing gap in the year 2035; and a set of targeted strategies to fill the gaps.

The town's population is aging faster than the state average. The median age in Narragansett increased from 40.4 to 51.9 years in the last 10 years, which is far higher than Washington County or Rhode Island. Narragansett's median age increased by 15 years over the past two decades while the statewide median age rose by only 4 years of age during this same time period. The percentage of grade school children is much lower

¹ Calculated and adjusted as a result of Covid -19 impacts (See table 2.2 and accompanying explanation).

than the state average, and the data show that college students are not staying after graduation. The population of Narragansett will grow by 2% in the next 12 years, to 16,450 residents and 7,152 households by 2035. Approximately 69% of these households will be owner-occupied and 31% renters.

HOUSING DEMAND

Housing demand generated by **college students has significantly altered the housing market dynamics of Narragansett**. Students occupy half of the town's inventory of rental units, yet they are not residents and do not contribute to the labor market. Students import unearned income that floods the market with housing payments that are not representative of the underlying fundamentals of Narragansett's housing market, such as wages, jobs, population, and household demographics of full-time residents. **The University of Rhode Island and private landlords in Narragansett have developed a symbiotic relationship, with the school benefiting by avoiding the costs of building student housing, and landlords benefiting from renting to students for 9 months and then gaining a 3-month rent premium from vacation renters between June and August**. This is a self-reinforcing financial benefit between the two parties, but at a cost to the town and prospective resident renters.

Most homeownership demand, 58%, will come from those households between 55 and 74 years of age, and 93% of total ownership units demanded will come from those above 45 years of age. Sixty percent of the demand for rental units will come from 18 to 34-year-old householders, but the rest will be spread evenly across all age groups. The median residential sales price in Narragansett hit a record high in 2022, at \$725,000. Due to increases in interest rates, demand has slowed, and **the 2023 median sale price as of this writing is \$667,000**.

HOUSING AFFORDABILITY

A housing affordability model was built specifically for the Town of Narragansett. The affordability calculations used in the model are consistent with the approach employed by the United States Department of Housing and Urban Development (HUD) to identify "housing cost stress" in a housing market. The Narragansett Housing Affordability model builds on the HUD 30% standard to derive a data-driven understanding of two primary issues:

(1) what is the affordable housing cost limit in Narragansett for owner-occupied homeowners with household incomes at 60%, 80%, 100% and 120% of the town's median household income for 2023, after paying the costs of utilities and homeowner's insurance, property taxes, mortgage principle, and debt service costs on a conventional 30-year mortgage with a 5% down payment at today's interest rates; and

(2) what is the maximum rental housing expenditure for renter-occupied households after paying the costs of utilities associated with a rental housing unit in town?

This study finds that there is a missing gap of 1263 affordable ownership units and 404 affordable rental units.

The median household income of homeowners in Narragansett is \$113,082. If that household spent no more than 30% of its income on housing, then it could afford a house

at \$337,256 (assuming a 6.5% interest rate and 5% down). **The gap between affordable house prices and the median market price today is nearly 100%; in other words, a Narragansett household earning \$113,082 would need to pay 60% of its income on housing to live in a median priced home.**

The buyer of a median priced house in Narragansett would need to have a household income of \$195,000 in order to keep within the affordability threshold of 30%, all other factors remaining the same.

A lower interest rate will improve the affordability calculations. At 3% interest, the affordable price increases to \$451,477. However, **even if the borrower paid zero interest, the median priced house in Narragansett, with 5% down, is unaffordable to those households earning \$90,466/year.** At a 3% interest rate, the down payment must be approximately \$300,000 for the median priced house in Narragansett to be affordable to those earning 80% of median income.

An affordable supply of housing at four different income levels was calculated. **The town's affordable housing gap is 1263 units.**

INCOME CATEGORY	NARRAGANSETT MEDIAN INCOME	MAX. AFFORDABLE PURCHASE PRICE	UNIT DEMAND	UNIT SUPPLY	2023 GAP
60%	\$67,849	\$ 182,184	1163	172	991
61% - 80%	\$90,466	\$ 256,946	593	148	445
81%- 100%	\$113,082	\$ 337,256	697	501	196
101%-120%	\$135,698	\$ 412,385	215	584	-369
TOTAL UNIT GAP			2668	1405	1263

ES 1 Affordable Home Ownership Gap

The median gross rent averaged across all bedroom sizes is \$1500/month. College students were removed from the rental household income averages which resulted in the median renter household income to be \$45,046 in 2023. Renters earning 100% of the median household income can afford \$1126 per month on rent. This leaves a shortage of \$416 per month. In other words, **a household earning \$45,046 per year cannot afford to rent a median priced unit in Narragansett. Even renter households at 120% of the median have an affordability gap of \$190 per month.**

To meet the town's demand for full-time resident renter units, there would need to be an additional 404 units supplied to the market. Seventy percent of them would need to be affordable to households at 60% of the median income, which means rents at \$676 per month. There is a shortage of rental units at all income levels, with 28 units demanded by those at or above 120% of median; 36 at 100% of median, and 58 units at 80% of median income.

INCOME CATEGORY	60%	80%	100%	120%
HOUSEHOLD INCOME	\$27,028	\$36,037	\$45,046	\$54,056
MAXIMUM RENTS (\$2023)	\$ 676	\$ 901	\$ 1,126	\$ 1,351
%	70%	14%	9%	7%
TOTAL UNIT GAP (404 UNITS)	282	58	36	28

ES 2 Affordable Rental Gap

To fill the affordability gap, this report recommends eight sharply targeted recommendations. It focuses only on a few strategies that are designed to have the largest impact specific to Narragansett, recognizing that the town has limited time and resources, and that the town has already attempted many of the commonly recognized strategies. Therefore, this report recommends that if the town seeks to close the affordability gap for its full-time residents, then it should implement the following strategies:

- 1) **Housing Infill:** Adopt a housing infill plan, with appropriate changes to the town's zoning policy, that allows development on 99 underutilized parcels in the R-10 zone. The town should also offer financial incentives that would encourage construction on these parcels for the housing at or below 120% of Narragansett median household income (\$135,698).
- 2) **New Policies:** Integrate new legislation into the town's zoning bylaws. New legislation from 2023 calls for density bonuses (H6081 SUB A) and for Inclusionary Zoning (H6058 SUB A). The town has since opted out of adopting Inclusionary Zoning. However, the ordinance can be written specifically to implement housing that is targeted to the town's needs. It can be written to meet the needs of specific demographic markets, and at specified locations, building sizes, tenure, and building types. There are far too many flexible options allowed by the Act to ignore this affordable housing construction tool.
- 3) **Facilitate Negotiations with Potential Developers:** The town should lead and facilitate negotiations between a non-profit housing developer and a specific landowner in town. Under the right agreement, the non-profit developer can use its resources to improve and manage the properties while the landowner can benefit from either fees, long-term leases, or from an outright sale of the property. Any properties under this agreement would be eligible for inclusion in the state mandated 10% LMI inventory.
- 4) **Housing Trust Fund:** The town should activate the Narragansett Affordable Housing Trust Fund. The report describes a financial scenario where the fund can be capitalized by a loan from the town and become self-sustaining in 10 years and then return the money to the taxpayers.
- 5) **Engage the University of Rhode Island.** The town should start conceptual conversations with the University and a LIHTC housing developer with the objective of building 400 units of apartment rentals. The University would own the land and newly constructed buildings without having to pay for their construction. The

developer would access LIHTCs and benefit from developer fees, builders' profit, and 30 years of management revenue. The town would provide municipal subsidies in the form of density relief and fee waivers. The units would be rented to students and full-time residents at subsidized rates. The developer would manage the property for the 30-year life of the tax credits. Once the tax credits retire, the University owns the asset and can continue to rent at will without restrictions on the open market or another arrangement. The value of the asset and its future revenue stream places the University financially better off than it is today. The town would achieve the state mandate of allocating 10% of its housing stock to LMI populations at subsidized rates for a minimum of 30 years.

- 6) **Implement financial incentives** to convert summer rentals into year-round rentals. The report provides a calculation of the incentive of about \$1259 in tax relief. The incentive may only work for a certain percentage of owners. The town may need to experiment with the exact amount. Alternatively, the town can impose a fee for the same amount and collect funds for deposit into the Affordable Housing Trust Fund.
- 7) **Prohibit short term rental length of stays less than seven days.** This would result in assisting local hotel owners, preventing unfair competition between the two accommodation types, moving most of the hospitality stays to commercial sections of town, and reducing the economic incentive for property speculation that increases median land sales prices in a town where property is already too expensive for the average household.
- 8) **Adopt an Accessory Dwelling Units ordinance.** Encourage the construction of Accessory Dwelling Units by providing "by-right ADU development and using the Housing Trust Fund to facilitate their development.