



# Memo

**DATE:** February 13, 2025

**TO:** Diane M. Williamson, AICP, CFM, Director of Community Development, Town of Bristol, RI

**FROM:** Camoin Associates

**RE:** **Analysis of In-Lieu of Fees and an Affordable Housing Trust Fund**

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## Introduction

In 2022, the Bristol Town Council approved plans to redevelop the Robin Rug mill into new housing. The plan included the developer of the project paying the Town of Bristol \$520,000 in in-lieu-of fees to opt out of 13 affordable apartments in exchange for zoning allowances.

Camoin Associates has been retained to analyze and recommend disbursement strategies of the in-lieu fund that would result in new affordable rentals in Bristol.

The process started with Camoin Associates providing fifteen affordable housing strategies for consideration. Town officials recommended five from that list that seemed best suited for Bristol. Camoin Associates presented those five strategies with case studies to the Bristol Planning Board for feedback. The strategy of incentivizing accessory dwelling unit (ADU) construction for affordable rents got the highest interest from the Planning Board.

## Objective

This memo will provide a financial and economic analysis of the feasibility of applying funds in lieu of rent to incentivize ADUs for affordable rents, followed by a summary and recommendations.

## Incentivizing Accessory Dwelling Units (ADUs) for Affordable Rents

An Accessory Dwelling Unit (ADU) is an apartment added to a single-family house either internally (such as with a suite of rooms), as an addition, or as an ancillary structure (such as a converted garage or in a “pool house” style). Historically, these units were made for family members, such as aging parents or adult children, priced out of the housing market.

Because ADUs piggyback on the main house’s land, taxes, mortgage, and sometimes walls, and because many owners have a sympathetic relationship with the tenants, these units are frequently rented out affordably.

## Estimating ADU Construction Costs

The basis of our financial feasibility calculations is predicated on the estimated construction costs of an ADU. While multiple ADU building “kits” are advertised online for low prices, we know of no successful kits permitted as occupied ADUs. Building officials suspect those economical kits may not meet building codes or lack essential attributes like adequate insulation or plumbing amenities.

Therefore, this analysis has applied custom-build costs to assess the feasibility of ADUs meeting housing needs. We have applied a construction cost of \$375 per square foot based on two private-sector sources in New England.

We acknowledge and encourage that any of the financial feasibility models depicted on the following pages may substitute different construction costs if attainable cheaper.

The first source for our construction cost estimates comes from homebuilder Jonah Richard in Vermont. On November 17, 2024, Richard published that among five recently completed ADU additions, a mix of standalone construction and property retrofits, the prices varied between \$250,000 and \$350,000. For our study, we will use the middle of that range, \$300,000, to estimate costs.

Similarly, the ADU-specialty homebuilder Backyard ADUs, operating in Maine, New Hampshire, and Massachusetts, priced its 810-square-foot model in late 2024 between \$276,000 and \$306,000. This reinforces our \$300,000 pricing estimate.

## Calculating Monthly Payments

The first step to identifying whether ADUs could support affordable rents in Bristol is calculating a monthly payment from financing construction.

Key Components:

- **Construction Costs.** Based on a review of the construction of similar structures in New England, the estimated “all-in” cost for a new 800-square-foot, free-standing backyard ADU is **\$300,000**.
- **Downpayment.** If financed by a 30-year mortgage, a borrower might need to put down 20%, or \$60,000. The monthly recapture rate of that downpayment (at no return) over 30 years is **\$167** per month.
- **Loan Payment.** At a mortgage rate of 7%, the monthly payment to leverage \$240,000 is **\$1,597**.
- **Total Monthly Payment.** The monthly recapture needed to break even on the construction loan plus the downpayment is **\$1,764**.

## Calculating Additional Monthly Costs

In addition to monthly construction loan payments, an owner will incur several other expenses when adding an ADU to their property. The new construction will trigger increased tax assessment value, need to be insured on the homeowner's policy, and absorb some utility costs when occupied (at a minimum, sewer and water fees).

For modeling purposes, we estimate additional taxes to be **\$1,000** per year, increased insurance to be an additional **\$1,000** per year, and monthly sewer and water fees to be about **\$100** per month. When broken down to a monthly payment of \$266, we round up to **\$275** to be conservative.

When the \$275 in additional monthly expenses are added to the monthly construction costs, the cost to own a new ADU is \$2,039 per month in the first year.

Note: The owner of an ADU rental unit will also pay income taxes on rent, but asset depreciation, interest deductions, and business expense deductions on annual tax filings may cancel out most of the taxes on new income.

## Examining Bristol Rental Rates

The next task is to examine Bristol's rent prices to see if they can cover the cost of constructing a new ADU.

For this task, we will look at three metrics for determining median rent in the town.

1. The first is Fair Market Rent, as calculated by the US Department of Housing & Urban Development (HUD). HUD publishes "Fair Market Rent" for every market in the US (to protect taxpayers from price gouging on housing vouchers).

Fair Market Rent is for "standard-condition" rentals that recently turned over and accounts for all utility costs. It is in the fortieth percentile of rents; that is, it is fourth out of ten (4:10) among the most expensive rents in town (tenth being the most expensive). For 2025, HUD calculates the Fair Market Rent for a one-bedroom apartment in Bristol to be **\$1,319**.

2. Our second source, the American Community Survey (ACS), places Bristol's median rent at \$1,276 from the 5-year average between 2018-2022. In 2024 dollars, that is **\$1,376**.
3. If you multiplied HUD's Fair Market Rent for Bristol by one and a quarter (1.25) to approximate the fiftieth percentile of rents (or fifth most expensive rent out of ten), rent would be **\$1,649** per month.

None of these estimated rental rates will cover the cost of the ADU.

## Examining Affordable ADUs

In this section, we examine the financial feasibility of three models designed to promote the construction of affordable rental units as accessory dwelling units (ADUs). Each model investigates the use of an affordable housing trust fund. All models assume that the Town will impose a 30-year covenant on each ADU, which will set a limit on rent to ensure it remains affordable for every assisted unit.

### Model #1: Downpayment Assistance

This model examines how housing trust fund dollars could defray the cost of a loan downpayment, which would reduce the monthly expense of a new-construction ADU.

If the Town of Bristol were to dispense its affordable housing trust fund with 13 grants of \$40,000 to defray the cost of a construction loan downpayment, it would reduce the monthly downpayment recapture rate to **\$56**. This, plus the mortgage payment, amounts to \$1,653 – a few dollars over one-and-a-quarter (1.25) times HUD's Fair Market Rent. When adding \$275 of additional owner's expenses, *it puts the costs of an ADU out of reach of median rents.*

#### DOWNPAYMENT REDUCTION GRANT

|                                  |    |           |
|----------------------------------|----|-----------|
| 20% Downpayment on \$300K Loan   | \$ | 60,000    |
| Downpayment Reduction Grant      | \$ | (40,000)  |
| Owner's Downpayment to Recapture | \$ | 20,000    |
| Monthly Downpayment Recapture    | \$ | <b>56</b> |

#### AFTER-GRANT COST RECAPTURE

|                            |    |              |
|----------------------------|----|--------------|
| Downpayment Recapture      | \$ | 56           |
| Monthly Loan Payment       | \$ | 1,597        |
| Additional Monthly Costs   | \$ | 275          |
| Total Monthly Costs        | \$ | 1,928        |
| 1.25x HUD Fair Market Rent | \$ | 1,649        |
| Monthly Loss Year 1        | \$ | <b>279</b>   |
| Annual Loss Year 1         | \$ | <b>3,348</b> |

### Model #2: Interest Rate Reductions

An alternative approach for dispensing the affordable housing trust fund would be to use it to purchase "points" to buy down the interest rate for owners taking out a mortgage to build an ADU. If interest rates were at 7% and the Town of Bristol paid for four points, that could lower the mortgage interest rate to 6% and cost the Town a \$9,600 grant for each \$240,000 loan. If the Town took this approach, the fund could buy points on over 54 loans. (It is worth noting that there may not be 54 applicants to the program in the first few years.)

That lower interest rate of 6% would reduce the monthly payment to \$1,439, and when combined with the owner's downpayment recapture, it brings the monthly repayment to \$1,606. When adding the additional owner's expenses of \$275, it increases the monthly costs to **\$1,881**. With 1.25x Fair Market at \$1,649, *it still does not cover the costs.*

#### INTEREST RATE REDUCTION GRANT

|                             |    |            |
|-----------------------------|----|------------|
| Loan Payment at 7% Interest | \$ | 1,597      |
| Loan Payment at 6% Interest | \$ | 1,439      |
| Monthly Difference          | \$ | <b>158</b> |

### Model #3: A Revolving Loan Fund

If the Town wanted to consider using the affordable housing trust fund as a revolving loan fund to construct new ADUs, the fund could simultaneously support **two \$240,000 loans**. With two 30-year loans in repayment, it would take **15 years** before enough principal was paid back to issue a new loan, and by that time, construction costs may have risen. *In 15 years, the Town would have financed **three** affordable ADUs with its affordable housing trust fund.*

#### A Note About Interest Rates

In the various models examined, the financing did not succeed due to the current high interest rates. However, in the next couple of years, interest rates may drop to around 5% in the free market. If this occurs, many of these Accessory Dwelling Units (ADUs) could be built without the need for loans or grant assistance.

Should interest rates fall to 5%, the Town might consider using affordable housing trust funds to provide down payment assistance for construction loans or to buy points on a private construction loan. This support would be offered in exchange for 30-year rent-cap covenants. However, if interest rates decrease and ADUs can be constructed without assistance, owners would not be prohibited from charging rents that may be unaffordable for the local workforce.

#### A Note About Construction Costs

Our current estimate for the cost of building a standalone ADU (Accessory Dwelling Unit) is approximately \$300,000. However, there are situations where the cost could be lower. For example, if the property owner chooses to handle the construction themselves, or if the property allows for a less expensive retrofit instead of a completely new build. It's important to note that we have not identified any instances of an ADU kit being successfully permitted. If construction costs were to decrease to around \$200,000 or even as low as \$150,000, it would significantly simplify the process of determining affordable rent.

# Conclusion

## Summary

In examining the financial feasibility of applying the negotiated in-lieu of fees toward the subsidy of new affordable rentals in the form of ADU construction grants or loans, we found that no subsidy model – either of loans or grants – could reduce costs enough to support affordable rents at this time. The barriers are interest rates that are slightly too high and new-build construction costs.

## Recommendations

Given that the economics of borrowing and construction are not conducive to successful affordable housing subsidies for ADUs at this point in time, the Town of Bristol should hold off on expending its negotiated in-lieu-of fees fund until a higher-impact opportunity arises. The Town of Bristol should convert its in-lieu-of fees into an affordable housing trust fund and put the money in an interest-bearing account.

It may be when lending and homebuilding costs are more amenable, the Town can then draw down the trust fund for subsidy programs that result in affordable housing. Another option is for the Town to use the trust funds to participate in a public-private partnership with a Low-Income Housing Tax Credit (LIHTC) developer and apply the trust funds to the capital stack (financing) of the project, where the net result will be more affordable units in Bristol than the trust funds could have leveraged alone. Repurposing existing buildings as Low-Income Housing Tax Credit projects is more feasible than raw construction in built-up towns like Bristol, and opportunities for a successful project may be found in the Almeida Apartments or former Guiteras School, among others.