



Memorandum

TO: Vail Town Council

FROM: Finance Department

DATE: March 7, 2017

SUBJECT: Update on Potential Buyers at Chamonix Housing Development

I. SUMMARY

The purpose of this discussion is to present preliminary results of a third party review of the list of potential buyers of the planned Chamonix Housing Development to Council. Economic & Planning Systems (EPS) was asked to provide a point-in-time evaluation of the depth of future buyers. EPS has worked on affordable housing project developments in numerous communities in mountain settings as well as urban markets.

II. BACKGROUND

Not having enough qualified and interested buyers represents a financial risk to the town. EPS has performed a preliminary analysis of data on interested homebuyers to measure the depth of demand for the project. While this analysis will be completed again when the final homebuyer applications are due March 17, the following are key takeaways from their review:

- 127 respondents to the Homebuyer Questionnaire; 121 of these are considered to be potential homebuyers because they currently live in the area
- 54% from Vail / 35% from Avon/Edwards / 11% renting outside of those locations
- 30% currently own their own home, and 70% are renters
- 67% of respondents are in a 1 or 2 person household
- 45% of respondents have been prequalified to purchase a home
- Half of respondents have an annual income over \$100,000, while 31% earn less than \$75,000.

EPS also looked at a comparison of qualified buyers to the unit types they could afford. That preliminary comparison showed that there is a surplus of qualified buyers for the homes priced between \$400K-\$499K and for the homes priced over \$600K. However, people may purchase a home costing less than what they are prequalified for.

When looking at the unit types they are *interested in*, there appears to be more than adequate demand for the two bedroom units and the largest three bedroom units (3L-2). The smaller three bedroom units, one with a one-car garage and one with a two-car garage have less demand, but potentially may get filled in with buyers previously interested in the largest three bedroom unit.

III. DISCUSSION

While the number and qualifications of interested buyers is promising, there is always risk that interested buyers will ultimately fall out. The town's primary opportunity to reduce exposure is to engage the final homebuyers sooner with a greater degree of commitment from them. EPS has suggested that *"steps the town could take to mitigate this exposure include moving the lottery up, moving the start of modular construction back, or both. It appears the window of time for these shifts could be one or two weeks, which may be a reasonable measure to provide a form of 'insurance' for the town. Underpinning a decision involving multiple millions of dollars is good fiscal stewardship"*.

In response to the advice provided by EPS, staff has put together some alternatives for Council's consideration:

- An alternate construction schedule, which will be presented separately in today's discussion
- Move up the date of the lottery
- Adding one more financial commitment during the buyer process:
 - Currently, the buyer is required to submit a \$1,000 reservation fee shortly after the lottery, then a 1% non refundable deposit at the time a purchase and sale agreement is signed (approximately 3 to 6 months prior to closing). The added step would be a \$2,000 non refundable deposit at the time of a specified construction milestone (i.e. topping out of the building). This overall approach should mitigate exposure by keeping the buyer actively engaged multiple times during the process and requiring a total of \$7,000 to \$10,500 prior to closing on the sale of the unit.

The suggestions above allow for better synchronization between the town's commitment to construct and the buyer's commitment to purchase. Correlating these processes will greatly reduce financial risk to the town for the project as a whole.

IV. REQUEST OF COUNCIL

Is Council comfortable with the progress we're making with interested and qualified buyers?

Does Council agree with the suggested ways to mitigate the risk of buyer "fallout"?