

Bulletin Number Ten

Campaign for Affordable Housing

- 1. Please review the article “Home Ownership”, enclosed below.**
- 2. Progress since August 16th:**

The major event on August 19th was that we missed the deadline for the November ballot because the necessary paperwork was not completed by the County Prosecuting Attorney’s office (see our earlier email and the several newspaper articles on this topic). This was a major disappointment and much of our effort over the past two weeks dealt with getting things back on track in the County offices and selecting a new date to put this before the voters.

After a great deal of discussion and debate, we have decided to go for the February 6th date. We appreciate your continued interest and support as we move forward.

Please contact Lee Sturdivant on San Juan Island at naturals@rockisland.com or Rollie Sauer on Orcas Island at rassmrs@aol.com if you would like to write a letter to the editor of either of the two newspapers.

If you would like to invite a speaker to address your organization, please contact Lee Sturdivant at naturals@rockisland.com or Craig Wier at craigw@eusers.com.

Tax deductible donations to help support the Housing Project and to help pay for educational materials and supplies are gratefully accepted through Navigating Our Future, Housing Project, PO Box 298, Deer Harbor, WA 98243. This is a totally volunteer effort, so your help is appreciated.

Signed,

Lee Sturdivant, San Juan Island
Paul Losleben and Steve Garrison, Orcas Island
Sandy Bishop, Lopez Island

Home ownership

There are few things so firmly set in the American psyche as home ownership. More than the fundamental need for shelter, owning a home is the dream that has attracted unlanded millions to our shores in search of, not just a new life, but the possibility of home ownership. Our connection between property and citizenship is deeply embedded in our history. In fact, land ownership was once the critical minimum requirement for voting privileges. This is nowhere more evident than in the Jeffersonian model for the

conquest of the frontier. Subsequent to the Louisiana Purchase, Jefferson advocated the imposition of the mile-square grid where each square should support a citizen and his family. Even today, the dream of property ownership remains a deeply embedded part of how we measure ourselves and colors our attitudes toward those who fall short of attaining that goal.

As a young man just starting out, I moved my small family into a modest apartment so that we could save to buy a home. We were able to live on my salary and in six years we were able to make a down payment on a \$32,000 home. We made improvements to that home and sold it at a fair profit 15 years later to move into the booming real estate market in California. Now, my wife was working also and we were barely able to get into a fixer-upper with some creative financing. Two years later it had appreciated enough to refinance, allow us to pay off the second mortgage, and pull out enough money to buy a rental property. Six years later, we sold both and moved into a beautiful and spacious home in a nice neighborhood. At this point, our mortgage payments were more than my take-home salary, but my wife's salary was more than sufficient for our living expenses. Four years later, we retired, sold everything with great tax advantages and moved to Orcas Island.

This would have been foreign to Jefferson who envisioned family centered ownership of property that would be passed from generation to generation. For my wife and me, that model was no longer practical and we "traded-up" on the price escalator with a bit of skill and a lot of luck. It was a new model of home ownership and we were fortunate that it worked for us.

Today, even that model is failing and home ownership is undergoing another change. We now live in a world of limited access to home ownership where demand exceeds supply and prices reach levels far beyond the ability to finance a home with average (or even above average) family incomes. This is most obvious in destination communities like San Juan County where double digit annual price appreciation has become the norm (up 27% in 2004 and 36.6% so far in 2005).

How can this be? Many of our federal programs, like those in HUD or FHA concentrate on the first time homebuyer by reducing the down payment. This was the big initial hurdle for me in purchasing that first \$32,000 home and an underlying objective of these programs was to help the homeowner get on the price escalator. It worked for several decades and continues to work in some regions where the gap between home prices and salary is still sufficiently small for the homeowner to qualify for and make payments on a mortgage. Here in San Juan County, while the down payment is still a difficult barrier for a first time homeowner, the killer is the monthly payment for principal, interest, tax and insurance.

The numbers speak for themselves. With a 10% down payment, 6% fixed interest, and a 30 year mortgage, a young homeowner might still be able to find a \$250,000 home in San Juan County. To qualify at a 30% debt to income ratio (it was 25% when I bought my first home) the homeowner would have to have an income of \$62,126 and a down

payment of \$25,000. In addition, there would be closing costs, prepayment of taxes, share of realtor fees, etc. This would amount to an additional \$10,000 or more.

Perhaps they could save for another year and increase their down payment to 20%. Of course, the market will not remain static and at a conservative 10% appreciation, the home would now cost \$275,000 and a 20% down payment would be \$55,000. Worse, their qualifying income at \$61,744 would now have only come down by only a little less than \$400! By increasing their down payment by 100%, they were only able to reduce their qualifying income by less than 1%.

Suppose they both worked very hard, drove a junker car, did without cable TV, shopped at outlet stores or did without, and borrowed money from their parents in order to increase their down payment to 30%. Even if they did all this within the one year, the 30% down payment for the \$275,000 home would now amount to \$82,500. Their qualifying salary would now be \$55,149, still more than twice the average salary in San Juan County. Increasing their down payment by 230% over the original \$25,000, their qualifying salary is reduced by only 11%.

Run the numbers yourself or get someone knowledgeable to do it for you. There are an excellent set of on-line calculators at <http://www.realestateabc.com/calculator/main.htm>. Be sure to use the calculators that include all costs of housing (PITI), not just the mortgage payment.

We might wish it to be otherwise, but the message is clear. Even with assistance on down payment, the limiting factor is now the increasing gap between salaries and home prices. New homeowners can no longer get on the price escalator. Even if they could, their family income is not sufficient to benefit from using appreciation to trade up. The gap is now too large.

Which brings us back to our attitudes toward home ownership. I'm increasingly distressed by the attitude that affordable housing is charity for those less fortunate. Worse, we increasingly hear the view that people cannot afford homes because they spend foolishly on nice cars, clothes and big televisions. Both views do a disservice to our hard working young families who are faced with the reality that they will never own a home in San Juan County.

The model of home ownership is once again changing and we are at the forefront of the search for solutions that work for our working families. If we do nothing, we will continue to lose our young families and our island culture will be forever changed. Please take the time to be informed. Visit our websites at <http://SanJuanHousingBank.org/> and <http://OrcasResearch.org/>.

Talk to your friends and neighbors about this. Volunteer to help. Write a letter to the editor. Together, we can take action to preserve the island culture that we love.

Paul Losleben