Contact Report
Dab Dabney, Dabney Associates
RE: For-Profit Housing Project

I spoke with Dab Dabney, a Bozeman-based developer with extensive experience with affordable housing developments. We had a long conversation about the possibilities of a "for-profit" development. We were mainly speaking in the context of this project being in the Taylor land just north of Buck's T-4.

Dab felt that, based on his experience at Big Sky, demand is greatest for 1 bedroom units. We first discussed a 30-40 unit per acre development. He estimated a cost of $1 million for an acre of land like Taylor's, such cost to include the cost of installing private water and sewer systems. Taylor has previously indicated that he anticipates a cost for 1-acre plots at about $350k, but Dab pointed out that the cost for a higher-density project would be higher, due also to the possible need for additional land for sewer drainage, etc. Soil conditions might make the development of a larger high-density project unfeasible, if such conditions prevented the use of a private sewage treatment system. In any case, the $1 million estimate may vary widely one way or the other.

Using the $1 million estimate, this would work out to a cost of $25-$35k per unit for the land acquisition. He estimated construction costs to be about $120/sq ft for 300 sq ft efficiency units. This would make the construction costs about $36k. Adding in a provision for soft costs would put the total cost per unit at about $85,000. He estimated "operating costs" (taxes, utilities, insurance, repairs and maintenance, cleaning, landscaping and snow removal, bookkeeping, legal, management fees, etc.) to be about $2,200 per year per unit, not including loan payments.

This type of project would be targeted at single, seasonal employees or couples without children. The cost per square foot for smaller units is actually more than for larger units, because the cost of kitchen and bathroom fixtures is amortized over less area. If the units rented for $500/month, the owner would gross $6,000 per year, less seasonal vacancies. Assuming a 10% vacancy factor, and then subtracting the $2,200 per unit annual operating cost, the owner would net $3,200 per year (if there was no debt against the property). At this rate, it would take over 20 years for an owner to recoup their investment. Given a rate of return, including tax benefits, of roughly 5% on cost, an owner's motivation to fund such an investment would have to be based on the benefits to the business of providing housing, plus some annual factor for appreciation.

We then discussed a lower-density project. For 2 bedroom, 2 bath units, the density would be 25-30 units per acre. He envisioned the units being 750-800 sq ft. The land cost would remain the same, but the per-unit cost would raise to $33-$40k (further calculations will be based on a 25 unit per acre density, $40k per unit cost for land). He estimated construction cost to be about $110/sq ft. Adding in a factor for soft costs, this would bring the total per-unit cost to $143k. He estimated annual operating costs to be $2,500 per year, excluding loan payments.

If an owner rented the 2 bedroom units at $1,000/month, they would gross $12,000 per year. Subtracting a 10% seasonal vacancy factor plus the annual operating expenses, that would leave a net of $8,300 per year, excluding loan payments. It would take over 17 years for an owner to recoup their investment.

This type of development would be targeted at more long-term, older occupants. The project would be "condominiumized", with each unit being owned separately. He was not interested in participating in a project where the units were centrally-owned, simply because there would have to be too many partners, with too many administrative problems. He stressed the need for the project to be professionally-managed with a paid on-site manager, in order to maintain a positive environment and a quality project. He indicated his desire to build high-quality units, and is not interested in participating in anything but. The entire project would have to be pre-sold before anything was started.

One possible plan would be to approach the larger employers lacking employee housing (i.e., Yellowstone Club, Spanish Peaks and Moonlight Basin), and determine their interest in purchasing units to be rented to their staff. Also, the level of interest among those companies' employees in purchasing units individually should be determined.

The greatest challenge facing such a project in this location is the sewer and water issue. Taylor has indicated that he plans to use a STEP system, with individual septic tanks for each unit and a shared drain field. With higher density, that shared drain field would have to be much larger. Again, it may be that this would not even be possible with the type of soil, its drainage characteristics and proximity to the river.

Alternate locations should also be identified and considered. If we base our estimates on $1 million per acre, there may be other locations with more favorable conditions (e.g., already within the sewer and water district).