

The Problem of Affordable Housing

It's application to the City of Hamilton, Montana and how it might be fixed

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Note: This document is laid out for printing as a bound booklet. It contains a two-page graphic.

It is best read in pdf on screen by selecting ...Page Display...Two-page-view (if you have a large screen).

The two-page graphic has also been provided in a separate file.

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Abstract

Affordable housing is a difficult problem that few, if any, communities have solved. A decade ago, the idea of increased density to create “the missing middle” has not worked as expected. Communities tried various approaches to solve the problem by upzoning to increase housing density to get real estate and landlord businesses to create housing for workers and households that sit just above the subsidized housing marketplace and below the upper-middle-class market; it hasn’t worked. There is a reason for this.

The reason is the nature of the business. The middle class and upper middle class are more profitable demographics, so any company looking to profit from rentals will target those markets or the high-end market first. Thus, upzoning to allow higher density creates projects that first meet the needs of these demographics. In cases such as Ravalli County, which attracts internal migration because of its natural amenities, new housing has not kept up with demand in the upper part of the market.

The result is that communities become like Ketchum and Jackson Hole, where the nonprofessional workforce commutes from out of town because they cannot afford to live where they work. Or there is no nearby community with affordable housing. In that case, the nonprofessional workforce resorts to doubling up in more than one family in a living unit or trailer living, which are common strategies in Ravalli County.

The experience in other larger urban areas and initiatives by other states to increase density have taken two tracks.

- 1) One is to upzone a large area, such as the entire City of Minneapolis, for increased density. The result is that rents in the upper part of the market are lowered, but the lower part remains unaffected — leaving the affordable housing problem unsolved.
- 2) Two is to upzone small areas, such as neighbor-

hoods around train stations. This results in a housing boom for increased-density housing because the properties have, by virtue of rezoning, become more valuable and, as a result, serve the higher end of the market—leaving the problem of affordable housing unsolved.

When Hamilton is considered, given its place in Ravalli County, it falls into the second category. Upzoning will instantly make commercial rental land more valuable, and there will be pressure to convert single-family housing to multifamily housing.

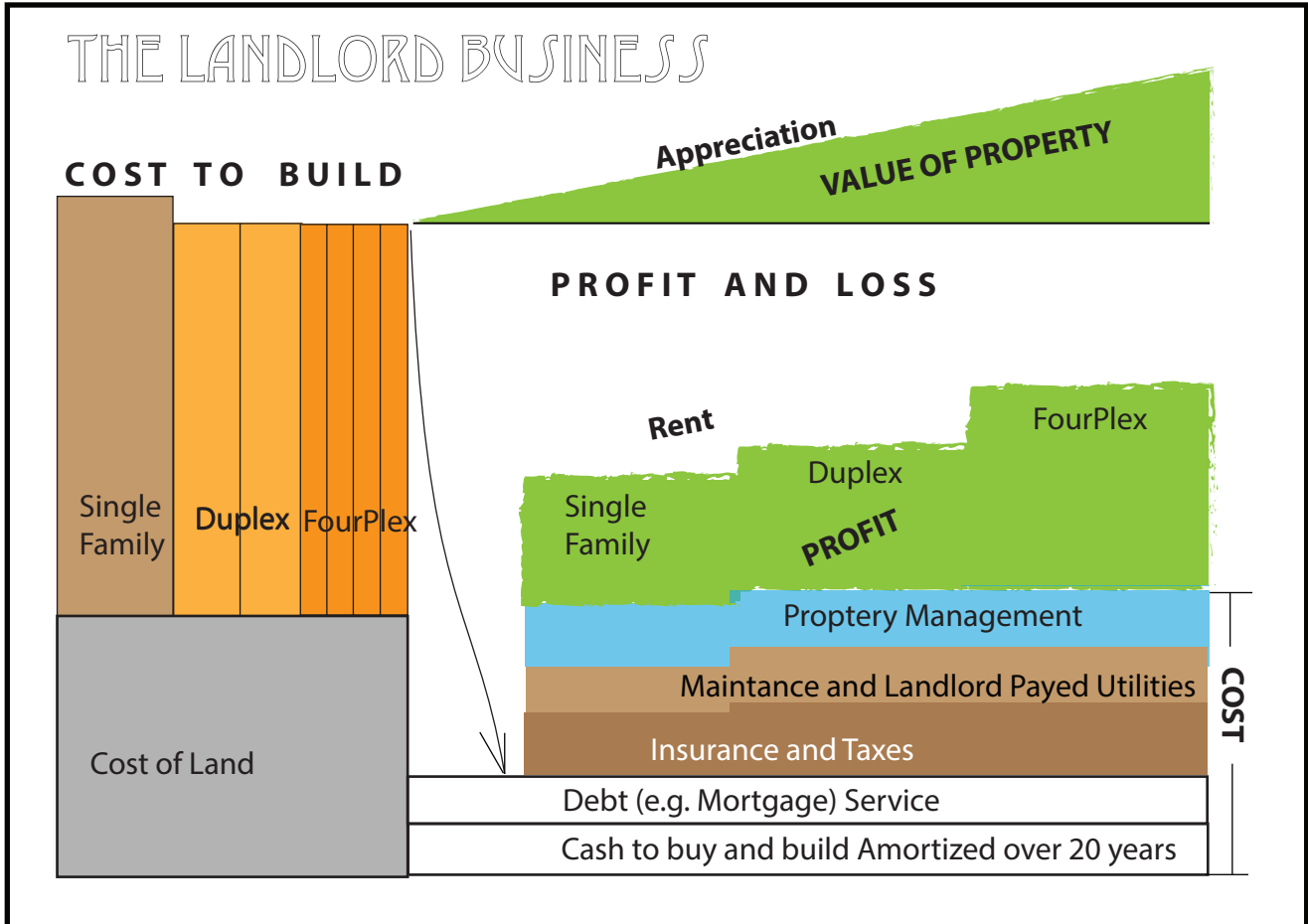
The State Legislature has passed several laws that limit municipalities’ options, making some ideas, such as rent control, illegal, while taking other ideas that could work off the table, such as conditioning annexations to require an affordable housing component.

With this limited toolbox, various agencies deliver and manage subsidized housing (Section 8) and provide vouchers for tenants, which, because of the rules and conditions, are often not accepted by landlords.

Some cities, such as Bozeman, offer incentives, including allowing higher density and smaller lot sizes in return for a commitment to charge affordable rent for 30 years.

The other tool is a Municipal Housing Authority (MHA), a non-profit formed by a municipality that meets one of two criteria and can own and manage rentals. While an MHA has many options, they are often funding-limited at the beginning, though there are some innovative MHA programs in Montana.

A city can provide donated assets. An MHA can engage in public-private partnerships. A specific proposal for the City of Hamilton is provided.



1. Results of Zoning for Increased Density

About a decade ago, there was a worldwide initiative to increase housing density through “upzoning” to increase the availability of affordable housing. The peer-reviewed information available seems limited to large cities and urban areas, as well as some statewide initiatives. Here, we review the literature and provide insights, some of which are counterintuitive.

The idea that increased housing density will improve affordability is intuitive: increasing supply to meet demand will lower rents, but the result is counterintuitive. The most cited case is Minneapolis’ upzoning of the entire city to eliminate single-family housing zoning (Minneapolis 2040 Plan 2019, Minneapolis Comprehensive Plan Executive Summary 2019).

While some headlines cite a study suggesting rents went down in Minneapolis, they actually went up on average, but at a slower rate than comparable cities (Gu 2025, Wang 2025). After an initial building boom, construction slowed, not reaching the desired goal (Erik 2025). However, the effect of upzoning on rent reductions is unclear, because at the same time, Minneapolis injected “over \$365 million in housing and homelessness strategies” of taxpayer funds into the market (Affordable Housing 2025), which must have been a factor in reducing rents.

What happened was that upzoning changed the rules in the real estate, building, and landlord markets. A property that limits use to single-family can be seen as limiting its rental potential to a single family on a given parcel of land. With a single rule change, the earning value of the land is instantly increased to its “best use.” This is particularly pronounced when upzoning is limited to a neighborhood (Freemark 2019).

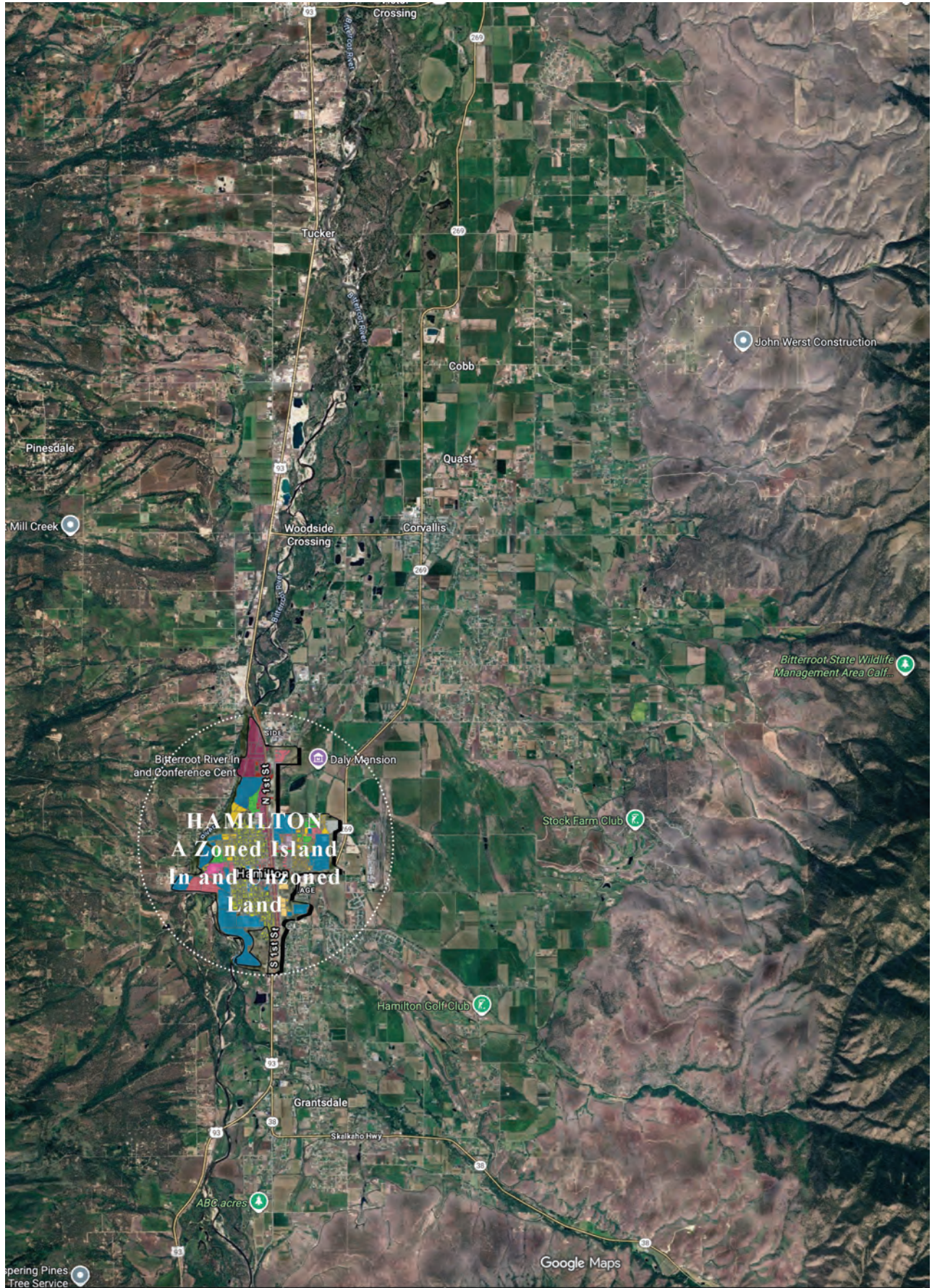
A YouTube video shows that higher property prices can still yield more affordable rents when costs alone are considered (Underhill 2025), but market rents are driven by what the market will bear, not just costs.

Upzoning a neighborhood increases property values and puts pressure on single-family homes to sell out and be converted to more profitable multifamily projects (Freeman 2019). The result is gentrification that pushes out lower-income people to accommodate higher-income households that are both targeted and can afford properties built on higher-priced land parcels (Davis 2021a, Davis 2021b).

When the rule changes, a businessperson who develops with a look at the market and selects projects that optimize profit, all other things being equal. If we look at the market in a large urban area, the lower end of the income spectrum is so low that the cost to build does not add up - this is where Section 8 housing or other subsidized housing comes in. Just above that level are people who are just getting by. Then there are the middle class, upper-middle class, and rich.

The bottom line is that the just-getting-by demographic is the least profitable segment for a builder. They will only be served when the rest of the market is saturated. So, while rents will go down if enough high-density development is done, the decrease is uneven — low-income households come in last (Virginia Housing Commission 2023, Hanely 2023, Sustainability Victoria 2025, Budds 2020).

This response to upzoning is driven by business people, homeowners, and renters reacting to a marketplace where the rules have suddenly changed. What remains is elusive and unsolved — affordable housing for the lower-income level households.



2. Hamilton Housing

Strapping Hamilton with big-city zoning is like outfitting a motorboat with the amenities of a cruise ship — the boat could sink under the added weight. The populace and area of Hamilton would be a neighborhood in a big city. It is half the size of the North End — the Italian neighborhood in Boston, and one-sixth the size of Southie, the Irish neighborhood. You can destroy a neighborhood if you are not careful with rule-making.

There are significant differences between the situations in the urban areas discussed in the previous section and those in Hamilton.

- 1) It is an island of zoned land surrounded by largely unzoned land.
- 2) It has water and sewer infrastructure, which is extremely valuable to a developer. Each time the city annexes land, the land's value instantly increases for the owners.

At one point over a decade or more ago, a developer had an idea to annex farmland to Hamilton that was a couple of miles beyond the city limits. They had a nice plan and even hired a PR firm. One of the neighbors who asked me to help stop it wondered why the owners were so interested in getting it approved when they were proposing a twenty-year build-out. I said that the people who own the land would get a more valuable investment as soon as the annexation was approved; they may not care about the development project; they can sell it to a developer later.

The annexation of Stock Farm ag land last year is an example. I was asked why construction has not started. I don't know the answer, but I do know that the market value of that land jumped as soon as the annexation was approved.

The value of land being farmed or ranched increases as soon as the subdivision lines are approved. I

remember when there was a rush to subdivide in the county, even though the building would come later. Getting access to Hamilton water and sewer is even better, especially now that the county is dealing with more subdivision proposals that come with water availability and septic issues.

- 3) Hamilton has a growth limit of about 10,000 population because of its limited water rights, according to the comprehensive plan. We have about 40% more housing units to go — about 1,800, less 200 or so from recently approved annexations. Then the water runs out.

Hamilton's Land Use Plan (Envision Hamilton Montana 2022) is focused on accommodating growth as if it were an inevitable, as if it were an existential inevitability. The real choice is what those 1,600 units will look like and whether the city will be wise enough to manage growth before so many houses are built that water rationing becomes the only way out. Will Hamilton become an overly expensive place to live, or will people who work in Hamilton be able to live there?

Given that Hamilton is a neighborhood-sized city and has water and sewer infrastructure that is not available for several miles in any direction, upzoning can be expected to raise land values, increase land taxes, and pressure developers to build for the profitable segments of the market.

The chart on the next page shows a survey of rentals and for-sale homes plotted against the household-income affordability line. It is not the cliché of the missing middle, but the missing 15% to 40% of household income in the housing market. That is, households with incomes of \$25,000 to \$52,000 have a dearth of available housing. This is at least a quarter of the workforce. While you can design and build a property that pencils out to a modest profit for most of Missing Unsubsidized Housing, it is unlikely that they will be built

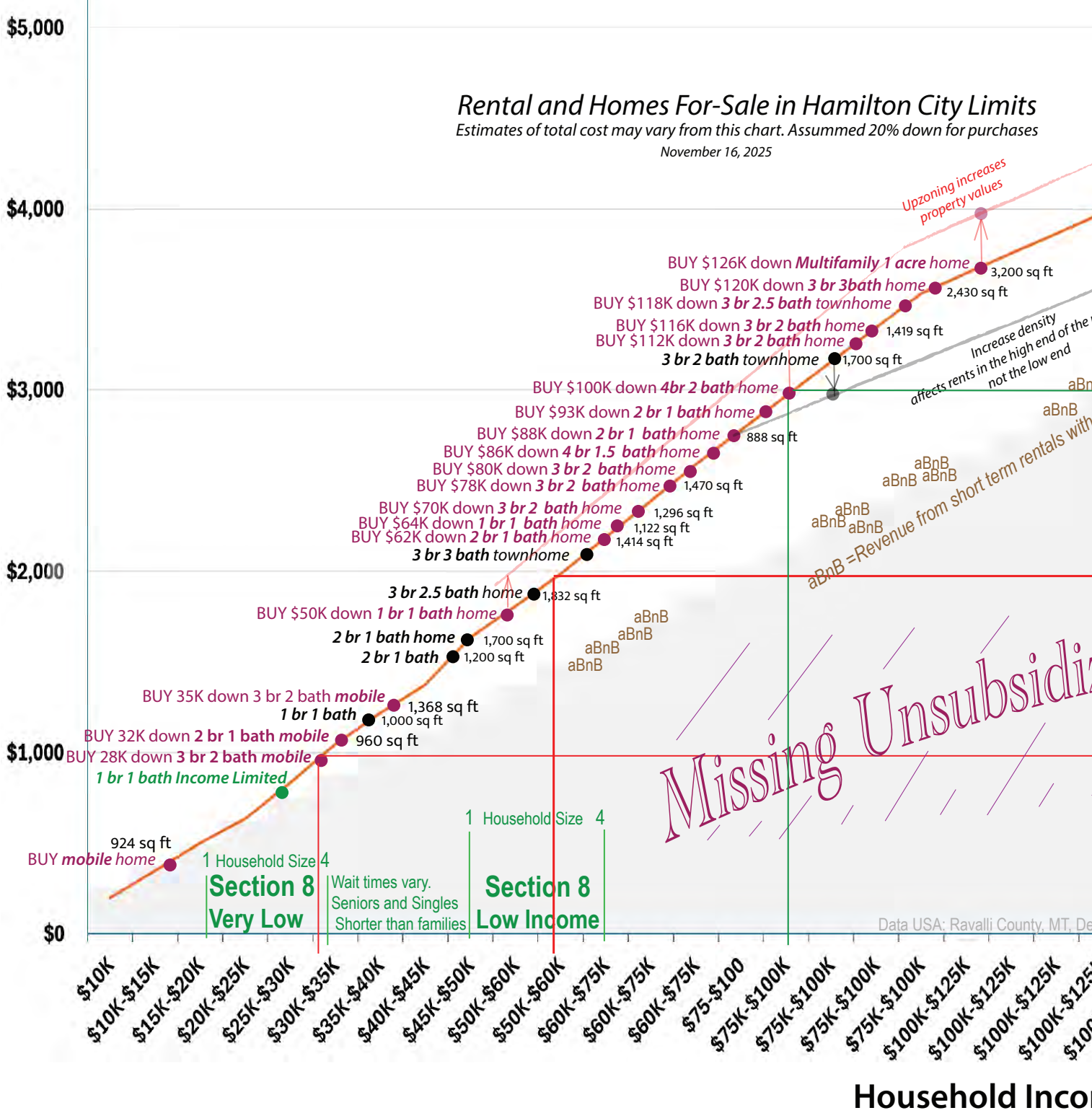
CITY OF HAMILTON AFFORDABLE

Monthly Housing Cost (Rent + Utilities OR Mortgage + Tax + Insurance + Utilities per Month)

Rental and Homes For-Sale in Hamilton City Limits

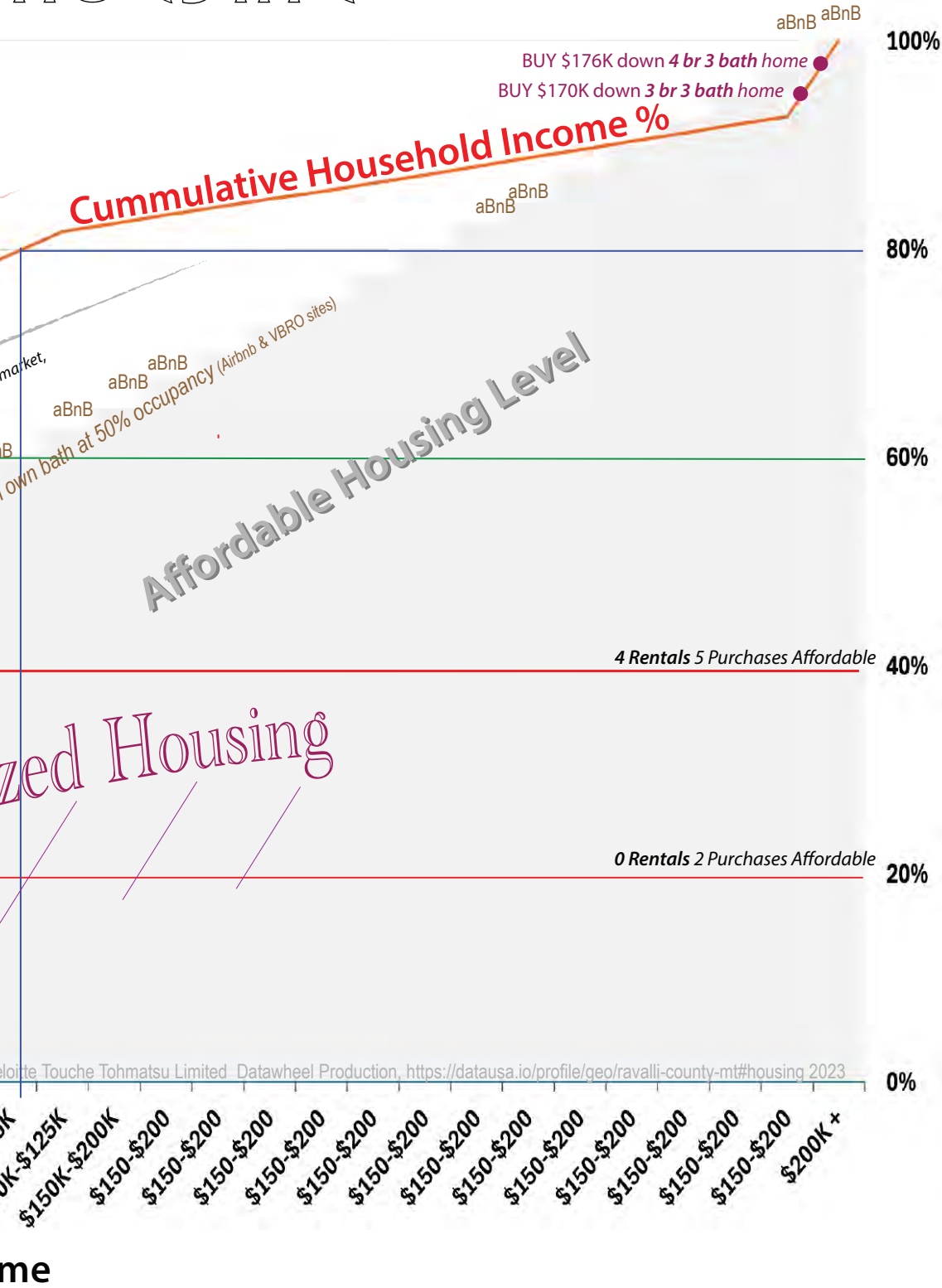
Estimates of total cost may vary from this chart. Assumed 20% down for purchases

November 16, 2025



MILTON HOUSING

% of Households



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when higher-end renters and buyers are available.

To get a sense of the space required, it seems the available planned high-density zone vacant land could hold about a third of the remaining 1,600 units in four-story apartments, and most of the rest in the Old Corvallis Road growth area. Lower-density development seems to fit within the expansion areas (Envision Hamilton Montana 2022, p. 5-7). Of course, if the need is filled in using the Core Area, which is now single-family housing mixed with multifamily and small apartments, this bumps into the upzoning issues already discussed. But no matter how this growth occurs, the literature and the experience of other towns and cities in the region indicate that the affordable housing problem will remain unsolved.

The City of Hamilton's infrastructure story is a story of deferred maintenance and unfulfilled upgrades. The water pipes leak, the sidewalks are in poor condition, and the roads need resurfacing.

The Ravalli Street project turned into a budget buster in the Fiscal Year (FY) 25/26 budget. About \$2.5 million was owed to the contractor. Even though maintenance of the old firehouse was cut, other cuts were made, and water and sewer money helped fund management outside the public works department, over a million dollars has been deferred to the FY26/27 budget. This means a couple of years of little infrastructure catch-up; new buildings will require infrastructure.

Then we have the septic systems Southeast of Hamilton, which are sending plumes of wastewater toward Hamilton's water wells. This is a problem waiting to happen, but there seems to be no money or plan to run the sewer system out that way. (Envision Hamilton Montana 2022, p. 4-8).

The bottom line is that Hamilton is zoning for growth while its infrastructure is degrading.

So, short of a recession, zoning our way into affordable housing for Hamilton is unlikely. In the next section, other alternatives are examined.

3. Affordable Housing Subsidies and Incentives

The State Legislature has passed several laws that limit municipalities' options, making some ideas, such as rent control, illegal, while taking other ideas that could work off the table, such as conditioning annexations to require an affordable housing component. In particular, zoning may not:

MCA 76-2-302 (6)(b) “dedicate real property for the purpose of providing housing for specified income levels or at specified sale price.”

And:

MCA 76-2-302 (7) “A dedication of real property as prohibited in subsection (6)(b) includes a payment or other contribution to a local housing authority or the reservation of real property for future development of housing for specified income levels or specified sale prices.”

With this limited toolbox, various agencies deliver and manage subsidized housing (Section 8) and provide vouchers for tenants, which, because of the rules and conditions, are often not accepted by landlords.

In Ravalli County, the Human Resource Council administers the Section 8 program and develops income-limited housing (Human Resource Council 2025). In other cities in Montana, it is a Municipal Housing Authority (MHA).

Some cities, such as Bozeman, Missoula, and Whitefish, offer incentives, including allowing higher density and smaller lot sizes in return for a commitment to charge affordable rent (City of Whitefish 2025, City of Missoula 2025a, Missoula Housing Authority 2025b, City of Bozeman 2025).

Missoula and Bozeman go further with MHAs that develop income-limited properties using incentives, trusts, and public-private partnerships (City of Missoula 2025b, Bozeman Real Estate Blog). The Missoula MHA founded Bristlecone Development, LLC, as the

owner—a for-profit development company with any profits going to the MHA.

An MHA is a non-profit corporation established by a municipality and offers significant room for innovation (MCA Title 7, Chapter 15, Part 44). Twenty-five people can petition the city, “setting forth that there is a need for an authority to function in the city and said surrounding area.” Upon filing the petition, the city must have a hearing on the matter (MCA 7-15-4400).

MCA 7-15-4406. decision of city council.

(1) After the hearing, the council shall determine:

(a) whether unsanitary or unsafe inhabited dwelling accommodations exist in the city and the surrounding area; and/or

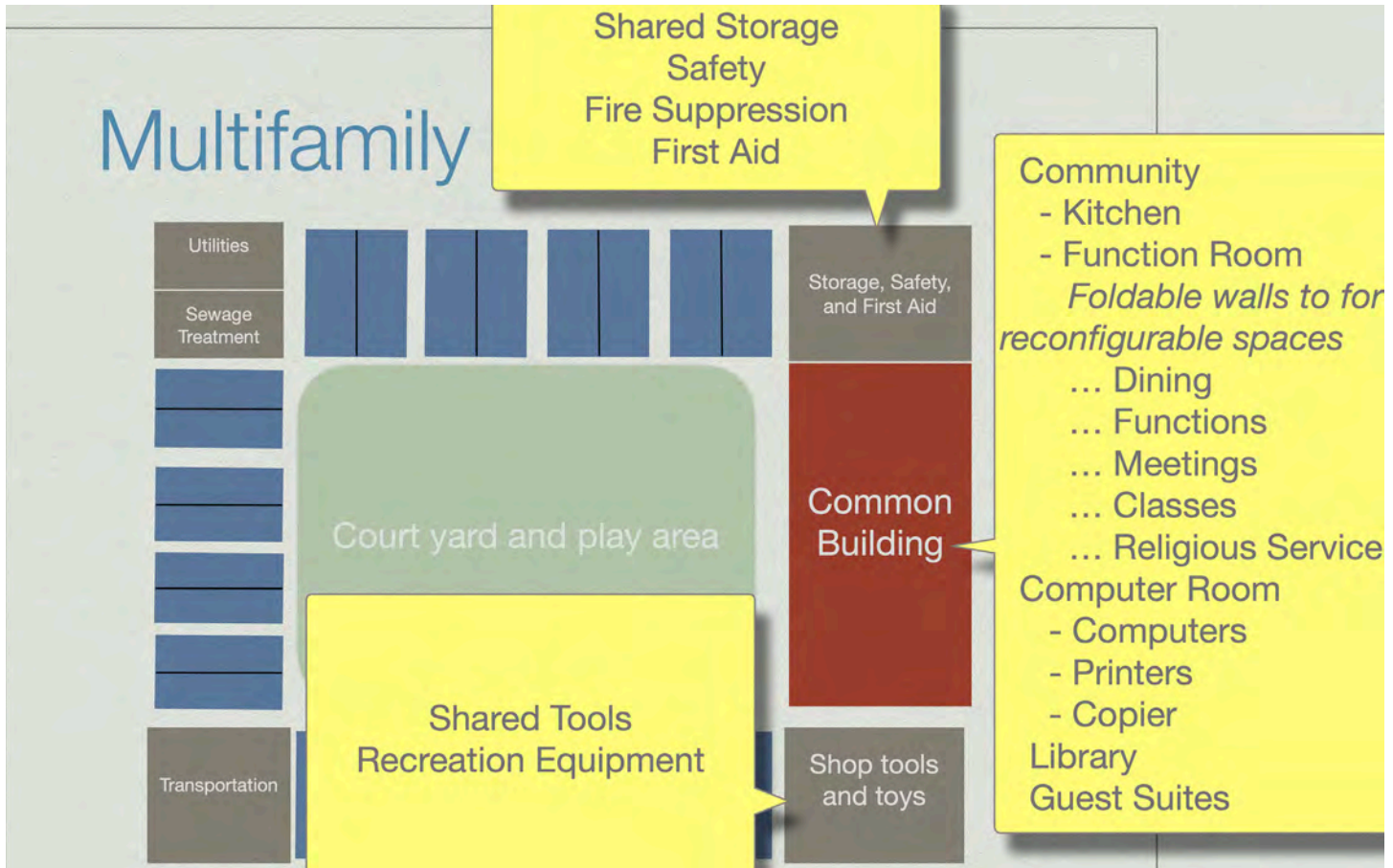
(b) whether there is a lack of safe or sanitary dwelling accommodations in the city and the surrounding area available for all the inhabitants thereof.

(2) If it determines that either or both of the above-enumerated conditions exist, the council shall draft an ordinance authorizing the mayor to appoint seven commissioners to act as an authority.

(3) If the council, after a hearing, determines that neither of the above-enumerated conditions exist, it shall adopt a resolution denying the petition. After 3 months have expired from the date of the denial of a petition, subsequent petitions may be filed and new hearings and determinations made on the petitions.

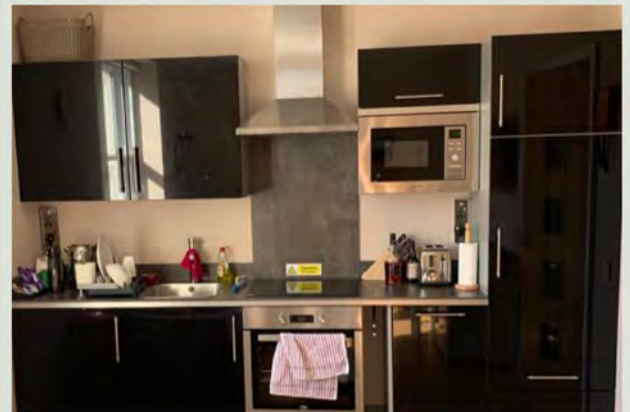
This does not take effect until the voters approve the MHA.

A city can provide donated assets and fund the first year of operating costs, but cannot extract excess revenue from it. An MHA can engage in public-private partnerships. A specific proposal for the City of Hamilton is provided in the next section.



Making Small Space Elegant Kitchen and Laundry on a Wall

- Higher ceilings
- Light Pipes
- Quiet Design
 - (interior insulation, double stud walls)
- Passive Solar
 - South windows, eve placement
- Super insulated
- Passive Air Circulation & Attic Fan
- HEPA Filter
- Space savers
 - Murphy Beds, fold out tables, pull out desks, kitchen on a wall, storage overhead



Could You Live Here?



4. A Possible Solution for Hamilton Affordable Housing

The bottom line is that a city cannot zone its way into affordable housing. The review of what other cities are doing in return for some rent or income limit includes incentives to make the project more cost-effective for a period of time and assist funding from a trust fund. The Missoula Municipal Housing Authority (MHA) owns a development company.

We need to face facts: grant money helps, but it will not solve the problem. Hamilton already has an effective Section 8 housing program. The challenge is how to create the missing below-the-middle unsubsidized housing.

The challenges are:

- 1) Before the building industry gets to the below-the-middle, business sense will suggest they serve the upper middle class, the wealthy, and then the middle, if they can make a buck at it, until they exhaust the markets.
- 2) With the current cost of land and standard construction methods, building for below-the-middle pencil out to a loss.

If there were a Hamilton Montana MHA, it should be able to organize building projects at a lower cost than a commercial builder (even if it partners with one) because the 25% return-on-investment expectation in the commercial world would not be required. Further, the mission is different — there is no mandate to insist on market rent as long as the profit and loss (P&L) is in the black.

Thus, I propose a Hamilton MHA whose primary mission is to develop unsubsidized housing with rent in the below-the-middle that produces a positive P&L. Any net revenue goes back into funding additional projects.

The Hamilton MHA can examine innovative designs, such as manufactured homes, equity partnerships with

commercial companies, or sharing household economics, as illustrated on the facing page.

MHA often starts with no assets and may rely on grant funding. So, how would the Hamilton MHA get started? When Hamilton had a population of 3,800, the entire city staff, except the fire department, was housed in the Bedford Building and a rented office for the City Attorney. The city now has 51 employees who are housed in the Bedford Building, the old National Guard Armory, a building near the wastewater plant, and a building on Third and Main. This is at least one too many buildings. The city could consolidate staff and donate or sell one of these buildings to get the Hamilton MHA started.

The old fire hall plan, envisioned to serve as an expansion of the library and as a new city hall, is estimated to cost \$21 million. After several years, and with city money poured into maintenance, the source of these funds remains unidentified. It may be time to throw in the towel.

Given that the library needs to be expanded, the city could transfer the fire hall add-on to the library district (the west wing) so that they can pursue their needs without being tied to a larger project. Then sell or donate the old City Hall part to the MHA, which could sell it or remodel it for affordable housing, whichever is more practical.

If Hamilton wants to take a real shot at unsubsidized affordable housing, some version of an MHA is the best bet.

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