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MEMORANDUM

TO: Cambridge Affordable Housing Trust

FROM: Christopher Cotter, Housing Director
Anna Dolmatch, Homeownership Program Manager

DATE: January 26, 2023

RE: Homeownership Program Update

As we continue to discuss potential program changes in homeownership, we would like to provide the Affordable Housing Trust with an update of the program outside of the ongoing review process.

Status and New Unit Production

There are now more than 550 homeownership units subject to affordability restrictions held by the City. These consist of approximately 24% units purchased on the open market with financial assistance from the City, up from 20% at the time of the last update. The remaining units are almost evenly divided between non-profit developed units and units created through inclusionary housing requirements or other zoning-based programs. The homeownership stock is approximately 50% 2-bedroom units; 30 % 1-bedroom, and 20% 3-bedroom.

Recent growth in the affordable ownership stock has been through acquisition of new units through HomeBridge and the development of new buildings with affordable units through the Inclusionary ordinance. In the past two years, HomeBridge has created 17 new affordable homes and an additional nine new Inclusionary units were recently completed. There are an additional seven homeownership units in the Inclusionary pipeline, including the first project permitted under the changes made to the ordinance in 2017.

One of the changes made to Inclusionary provisions in 2017 is that the maximum income level for Inclusionary homeownership was increased to 100% of AMI, up from 80%. The pricing for new units is required to target affordability at 85% AMI, increased from 65% AMI under the previous ordinance. We anticipate using Buydown Assistance funds previously approved by the Trust to lower the affordability range, but there will be a shift in who qualifies for new Inclusionary homeownership units.

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There are several sites currently under consideration for development as affordable homeownership housing. The public engagement process for the Cherry Street lot showed a strong preference for ownership development. The Trust has also approved funding for Just A Start's proposed an ownership development at 240 Broadway.

There continue to be fewer subsidy sources for homeownership development than rental, but some new funding options are available. However, these sources typically provide a very small percentage of the funding needed and come with programmatic requirements that may conflict with Trust requirements.

Over the past 25 years, many of the all-affordable ownership developments have aged and several are now facing significant deferred maintenance costs. In some cases, the Home Improvement Program (HIP) has been able to assist with funding. We are beginning to see developments with needs beyond what HIP can provide and remain solvent. To preserve these units, additional funding will be needed. We anticipate that there will be additional requests to the Trust similar to the request approved for the Park View Cooperative. The experience from the many all-affordable developments should be considered when looking at options to increase production of affordable homeownership.

Homeownership Resale Fund

The resale program has faced several challenges in the past few years. In 2020 and 2021, COVID restrictions made it challenging to show available homes. Supply chain issues have delayed rehab work and greatly increased costs. In 2022, rising interest rates are impacting buyer's purchasing power. In the past two years, the resale program saw fewer new buyers than HomeBridge, but it continues to be an important source of new ownership opportunities.

The Homeownership Resale Fund is a revolving and sinking fund that allows the City to exercise the purchase right when owners are selling. The units can be rehabbed when necessary, and re-subsidized when necessary to maintain affordability. In most cases, Just A Start serves as the City's designee and oversees the rehab and holding period until units can be resold.

Since 2006, the Trust has made commitments totaling $7.5MM to the Homeownership Resale Fund. The purpose of this fund has been to:

- Support the long-term sustainability of the homeownership stock by enabling the City to exercise its purchase right when units are being sold;
- Fund needed rehab on these units;
- Facilitate sales to new buyers selected by CDD; and, when needed;
- Subsidize resale prices to ensure that units remain affordable to the targeted income level.

The intent was for the Resale Fund to revolve and sink through expenditure for acquisition and rehab and full or partial repayment at the time of sale to a new buyer. At this time, the Resale Fund has been used for 150 units, and approximately $2MM has been permanently expended.

Since its inception, the Resale Fund has decreased at a slower rate than our original projection. A major factor has been low mortgage interest rates. Low mortgage rates have enabled units to be sold for higher prices without any change in affordability, and in many cases, with deeper affordability. In some cases, we have been able to recapture funds used for rehab and holding costs.

The resale program has several current challenges. As construction costs increase and the stock ages, we are seeing more units turn over with excessive rehab needs, including more with expensive structural issues. Many of these units were purchased at the end of rent control and were not in good condition at the time they entered the affordable stock. We have seen construction costs for some units exceed $100,000, however believe that these serious issues need to be addressed prior to selling them.

In addition, rising interest rates are reducing the prices at which resale units can be sold to new buyers and remain affordable. For the past few years, first-time homebuyer mortgage products were offering rates at or below 3%; current buyers are receiving commitments at or above 6%. The impact is huge. Using an average unit with $350 in taxes, insurance and condo fee, an interest rate increase from 3% to 6% requires a sales price reduction of $100,000 to maintain the same affordability level.

As we have discussed, in recent years we have often reached the limit for the number of resale units that can be held at any time. There are several units being held where condo issues make it difficult to bring in new buyers. The option is to hold units for an extended period while issues are resolved or put new buyers into challenging situations, which we have wanted to avoid. The choice to hold this number of units reduces Just A Start's capacity to purchase units on behalf of the City.

In recent years, we have chosen to decline the purchase right for certain units. This does not impact the affordability, and these units still must be sold to an income-eligible household. Based on these recent experiences, we are developing standards for when this approach works best which we expect will help us ensure we use the limited capacity to repurchase units that match our priorities.

Homeownership Resale Pool

Since CDD created of the Homeownership Resale Pool in 2009, demand has outpaced supply. The longest wait time has been for 3-bedroom households due to the limited stock. Many households find other options during the long wait time. We are seeing a decline in applications from 3-bedroom households, and we believe this may be partially due to a general knowledge that there are few opportunities to purchase. The demand for 1-bedroom units continues to be very strong, with more than 128 Cambridge residents in this pool.

There are currently more than 700 households in the Resale Pool, a net increase of more than 100 applicants since 2020. 517 are Cambridge residents.

For resident applicants, Of these, 31% are in the 1-bedroom pool, 40% in the 2-bedroom, and the remaining 29% are waiting for a 3-bedroom or larger. The 1-bedroom pool has increased from 29% in 2018, with a comparable decrease in the percent of applicants in the 3-plus bedroom pool.

Both the rental and homeownership pools have adopted changes to make it easier to document Cambridge residency. In addition, in the Resale Pool we have relaxed occupancy standards to eliminate the requirement that children share a bedroom. While this will increase the demand for three-bedroom units, the change gives families options to purchase housing that work best for the long term. Unlike rental, homeownership does not have a path for households to change units. We have heard from multiple households who have outgrown their unit but have few options for change.

In the coming months, we will be implementing changes to the Resale Pool to increase the opportunities for households with children under 18 but not children under 6. Every third unit, based on bedrooms and maximum AMI level, will be offered based on an equal preference for households with children under

18. This should create opportunities for eligible households with older children, some of whom have been in the Resale Pool for many years.

HomeBridge

In 2017, the Financial Assistance Program was rebranded as HomeBridge and continues to provide funding for eligible households to purchase units on the open market. Once approved, buyers must find their own unit on the open market and bid successfully against market buyers. The unit must be within a set price limit determined by CDD and meet other criteria for quality and condition. Units with two or more bedrooms must be fully deleaded. The current maximum price limits are $605,000 for a one-bedroom; $775,000 for a two-bedroom; and $875,00 for a three-bedroom.

HomeBridge provides up to 40% of the purchase price for a one-bedroom; 45% for a two-bedroom; and 50% for a three-bedroom. Maximum assistance levels range from $242,000 to $437,500 in direct subsidy. The funds remain invested in the unit ensuring its continued affordability. Buyers agree to the same terms as other City affordable ownership programs.

The program can be an excellent option for households who are unlikely to have the opportunity to purchase through other homebuyer programs because they do not have children under 6, or who work but do not live in Cambridge. The program is also available to eligible current owners of affordable homes. HomeBridge also has funding to serve households earning between 100% and 120% of AMI, who are increasingly shut out of the Cambridge market. We continue to see steady demand from this income level; of the seven currently approved buyers, two are in this higher income tier.

HomeBridge is currently the largest source of new homeownership unit creation, with 33 new units since 2018 and one currently under agreement. Of these units, 17 – 50% - are three-bedroom. In addition, HomeBridge buyers have successfully purchased in neighborhoods with fewer affordable units. More than a quarter of the most recent purchases have been in Cambridge Highlands, Neighborhood Nine, or Neighborhood Ten.

We continue to see high demand for HomeBridge. The approval process is more complex than for other programs. Once a buyer is approved, they may make offers on several units. Each offer requires staff involvement. Once a unit is under agreement, there is an additional review process as well as involvement in the closing process. Over many years of running the program, CDD staff have developed a network of realtors and lenders who understand how the program works and are committed to working with HomeBridge buyers.

There are several areas of concern for HomeBridge. The first is rising interest rates. HomeBridge awards are based on a homebuyer’s purchasing power, which decreases as interest rates rise. The second is limited inventory in the HomeBridge price range. With few options for units, buyers may overbid or be shut out of the market. The third is the requirement that family-sized units be deleaded. Buyers must get sellers to agree to lead testing and negotiate deleading for the unit and the common areas prior to purchase. This has caused several accepted offers for three-bedroom units to not move forward.

We are currently looking at ways to expand HomeBridge and hope to review in more detail with the Trust at a future meeting. We anticipate that there are two main methods to increase production, which can be implemented separately or together:

- Increase the maximum market price limit to make more units eligible
- Increase the percentage of the purchase price and amount of subsidy paid by HomeBridge to make more buyers eligible to purchase

Both options will require increases in per-unit subsidy. Future discussions will include models showing the potential funding impact of a range of possible program changes. We expect that these changes would increase the volume in HomeBridge but also require additional resources to manage that increase.

Inclusionary Lottery

In 2022 we held the first lottery for new Inclusionary units since 2019. Nine units were offered at two buildings, the St James Place project on Beech Street in Porter Square and Inman Crossing on Webster Ave near Inman Square. The lottery offered one three-bedroom, five two-bedrooms, and three one-bedrooms.

CDD staff worked with the IT department to create an online lottery application, the first time we have taken applications this way. The lottery had more than 150 applications, almost all Cambridge residents.

We anticipate using online tools for future lotteries. We also plan to explore options for online applications for the Resale Pool and HomeBridge. The next lottery for new units is expected to take place later this year when four units become available in a new development on Elmwood Avenue in North Cambridge.

Owner Support

In the past year, we have received feedback from program participants through both the Inclusionary Resident Experience study and the Homeowner Listening Sessions held as part of the homeownership program review process. We consistently heard that owners would like more support and more connection with each other.

We plan to work with owners to get their input on what types of support and connection would best meet their needs. Based on initial conversations, some concepts are:

- Events where the Housing Division convenes owners in a forum where they can share experiences, ideas, and resources with each other;
- Reviving some form of the homeowner newsletter;
- Develop and implement additional homeowner training, including a post-purchase class for new owners; refresher training for longer-term owners; and special topics such as estate planning and home maintenance.

There are currently several ways we support owners. One key resource is the JAS Housing Services program which provides mediation for conflict resolution; condo board support including help selecting a management company; and coaching and training for board members.

In addition, the Home Improvement Program (HIP) offered through HRI and JAS provides financing to assist income-eligible owners with home repair and improvements. In addition to providing low- or no-cost loans for individual rehab, HIP can be used for condo assessments for common area work. We have seen an increase in cases where condo assessments for affordable units are tens of thousands of dollars, often payable in a short period of time. With limited unit equity, HIP is often the only resource to pay these assessments. Unlike individual unit rehab, this work cannot be deferred until an owner can afford it.

As we have mentioned in past updates, a growing issue with HIP is the limits of the Federal funding which has an income limit of 80% of AMI for much of Cambridge. While we offer higher income limits in certain HUD-designated areas (Neighborhood Revitalization Strategy Areas), as incomes increase throughout

Cambridge, the NRSAs are shrinking. Some owners who would have qualified for HIP in the past no longer have that option. We expect the NRS areas to continue to contract, which will further limit the ability of owners to access HIP assistance. We are interested in exploring establishing a fund to provide "non-HIP" loans, modeled on the HIP program, but funded with sources that would allow more flexibility in the income level served across the City. We will want to consider this after we complete the process to update our approach to equity growth for homeowners.

Additionally, we often see very low-income owners who struggle to cover very minor rehab expenses; for example, an elderly owner who was seeking assistance with a $400 repair to a leaking shower. In these cases, the time and expense of loan application, approval and closing would exceed the needed assistance. A grant program for very-low income and/or elderly homeowners would provide easier access to funds for small-dollar repairs, saving administrative time for the HIP agencies and CDD staff.

We have also identified a need for more intensive intervention with some homeowners. In many cases, we become aware of these needs through neighbors or management companies informing us of issues with the physical condition of the home, including extreme deferred maintenance. In these situations, owners would benefit from case management to help them access available resources and navigate complex challenges that are not housing-related, but impact housing stability. We are putting together a pilot program with JAS to be funded with ARPA funds that will work with the more challenging situations as referred by CDD and other City staff, non-profits, and management companies.

<u>Other Program Ideas</u>

We have heard from the City Council their strong interest in expanding affordable homeownership programs. While we continue the process to look at changes to some of the homeownership program terms, we are also looking at ideas for new programs to expand affordable homeownership. Some initial ideas we are analyzing include:

Shared Equity, Repayable Loan Assistance: We have reviewed a program offered in San Francisco called the Downpayment Assistance Loan Program (DALP) that provides financial assistance on a similar model to HomeBridge. However, while the buyers must be income-eligible to receive DALP, units are not made permanently affordable. Instead, DALP uses a shared equity model, where the percentage of the original purchase price paid by DALP is the same percentage of the sales price recaptured by DALP. There is a similar requirement for owner-occupancy. These are not grants but repayable loans and allow for recapture of the public investment rather than a continuing affordability commitment for each unit.

Scattered Site Acquisition: We are also considering how we might finance the acquisition of scattered-site condominiums as affordable homeownership units. This program would allow for the purchase of units that may need deleading, which might preclude a HomeBridge buyer, but are otherwise excellent opportunities to add to the affordable stock. With this approach, the City would be able to adjust the subsidy to target different income levels, including deeper affordability than can typically be achieved with the current HomeBridge program, which works best for households at the higher end of the income range. This would also increase the options for buyers in our applicant pools who do not want to search for homes on the market.

As we complete our assessment of our current, the above-noted and other new strategies we will want to discuss with the Trust how they could be implemented to expand affordable homeownership options for homebuyers.