City of Cambridge
Housing Department

Affordable Homeownership Program

Capital Needs Challenges

December 12, 2024

CAMBRIDGE CDD@344
Community Development Department
344 Broadway

Executive Summary

- The City's affordable homeownership program has created 570+ units over the past 30 years, and the diversity of the program means that there's no "typical" homeownership unit.
- While both provide affordable housing for low-and moderate-income households, there are key tradeoffs between owning an affordable home and renting an affordable home, including:
    1. Homeowners have the responsibility to maintain their home via condo fees or special assessments
    2. Homeowners capture upside from appreciation at the time of sale
- Owners at the Print Shop, a 100%-affordable ownership development, expressed multiple concerns with the building and have made several requests to the City and to the Trust, including help with capital repairs.
- While the exact causes of these issues are not known to the City, the Trust has already committed up to $3M in public funding for certain capital projects and a Capital Needs Assessment (CNA)
- Furthermore, while relatively high for a 100% affordable building, the Print Shop's condo fees are comparable to buildings with similar needs.
- Before making any additional commitments, the Trust should consider the following:
    - **Resource considerations**, including financial and staff capacity required
    - **Legal considerations**, including constraints imposed by state and federal law and on the sources of Trust funding
    - **Equity considerations**, including tradeoffs with rental housing and existing inequities between owners
    - **Paradigm shifts**, including the potential for fundamental changes to the program's mission and/or shifting eligibility requirements or unit pricing to make the program more sustainable long-term

Agenda for today's discussion

1) Homeownership program context
2) Print Shop challenges
3) Policy considerations

1) **Homeownership program context**
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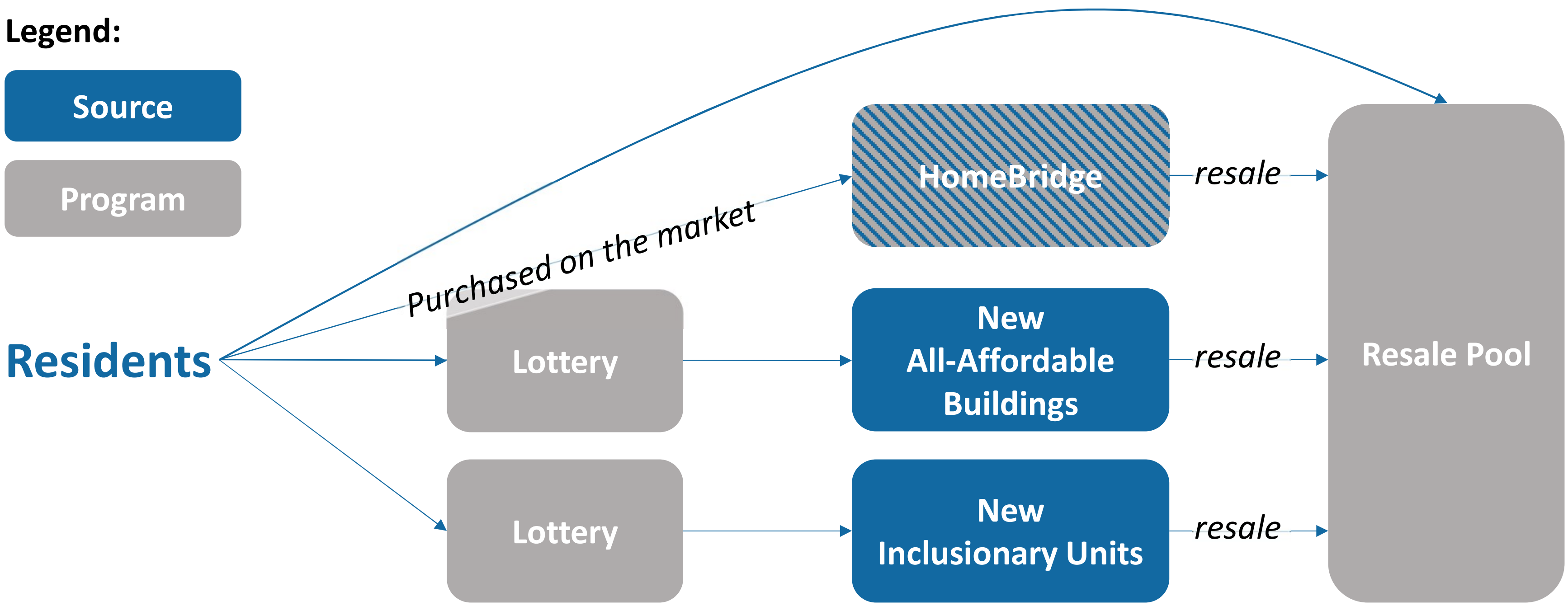
3) Policy considerations

There are several ways affordable homeownership units are created in the City…

Source	**Description**	**Share** (%)
Inclusionary Zoning	Affordable units created by market-rate developers through zoning requirements	38%
HomeBridge	Affordable units purchased on the market by income-eligible buyers with City assistance	26%
All-affordable buildings	100% affordable buildings typically developed by non-profits	36%

575+ units

… And there’s also several ways residents access the homeownership stock



The City can set initial sales prices and screen buyers to ensure affordability at purchase, but future cost changes are driven by variable factors, most outside the City's control

Cost bucket	Description	Volatility	City control	Owner control
Condominium fees Common Utilities Property management Maintenance and repair	Condominium fees cover expenses in multi-unit buildings that might include: - Common utilities/consumables - Managing common areas and services (e.g., snow removal) - Maintaining shared spaces and infrastructure (e.g., roof)	●	○	◑
Property taxes	Local taxes to maintain infrastructure and services	◑	◑	◔
Owners' insurance	Payments for property insurance to protect owners from risk/financial loss	◕	○	◔
Mortgage	Principal and interest payments to finance the purchase price of the home	◔	◑	◑

● Higher ○ Lower

When condominium associations plan for a major capital expense, they can pay from reserves or by levying a special assessment

Scenario: two pathways to a $1M expense expected in fifteen years

Situation: Condominium is planning for a $1M expense due 15 years from now

- 30-unit building
- $50k initial reserve balance

A **Add to condo fee to build-up reserves over time**
Adds $150/month to condo fee for reserves

$4,700 *special assessment in Year 15*

B **Pay for expense without reserves**
Adds nothing to monthly condo fee

$31,700 *special assessment in Year 15*

Home Improvement Program (HIP) can help pay for an assessment but CDBG cannot be used for higher condominium fees

While both provide affordable housing for low- and moderate-income households, there are some key tradeoffs between owning and renting an affordable home

Tradeoff	Affordable homeownership	Affordable rental
Financial windfalls	Homeowners have potential to capture upside when their income increases and from appreciation when they sell	Renters do not build equity, and rents are adjusted when their income increases
Financial risk	Housing costs do not change with income, so there's some risk if costs increase or income decreases	Costs are fixed at 30% of income, resulting in greater long-term certainty over housing cost as a share of income
Long-term stability	Greater certainty that home will be a long-term residence (i.e., can't be asked to move)	Greater uncertainty over long-term home (i.e., could be asked to relocate if income or household size changes, etc.)
Income verification	Homeowners verify income only at time of purchase	Renters must verify their income annually
Utilities	Utility costs are responsibility of the homeowner	Utility costs included in rent calculation
Individual control	Homeowners have greater control over their living space and building decision-making	Renters have less control over their living space and limited influence over building decision-making
Property responsibility	Homeowners have financial responsibility for shared expenses (e.g., snow removal, capital repairs) Condo association requires owner participation and can involve a large time commitment from board members	No responsibility for property, including maintenance, repair, and governance

To highlight the long-term financial tradeoffs, we modeled homeownership cost, relative to the affordable rental program, over a 15-year period

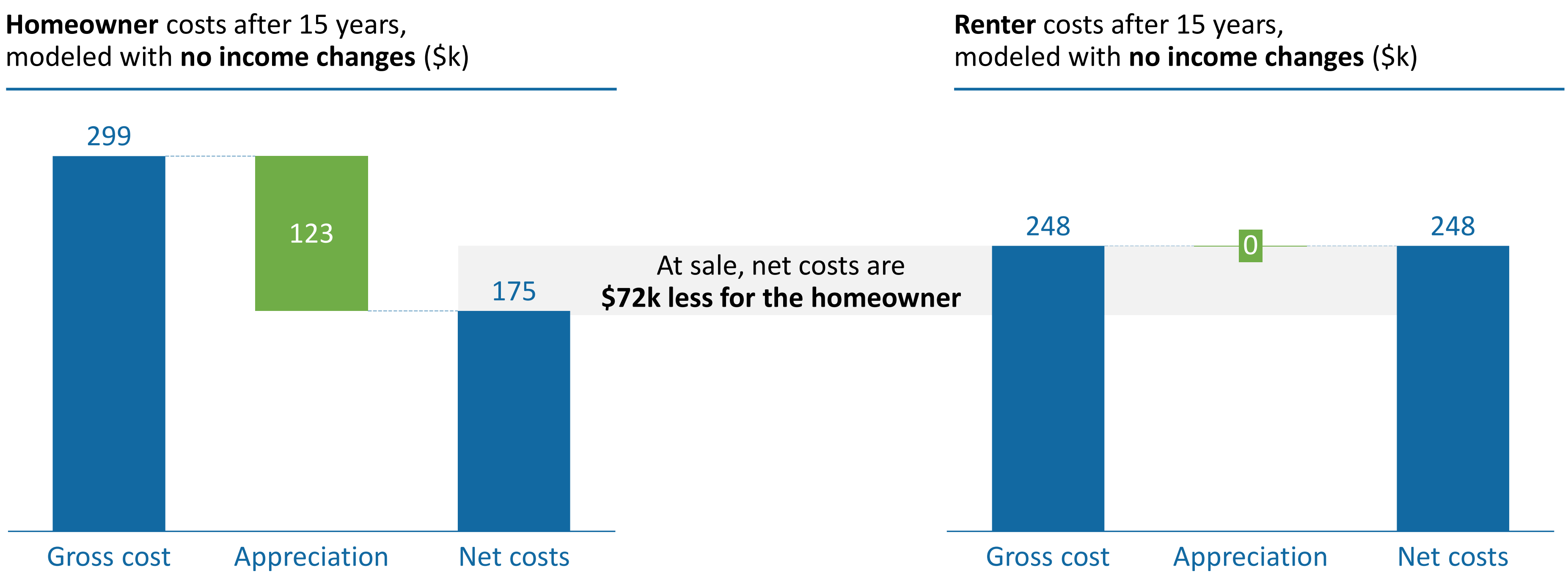
Both cases were modeled for a household of three at 65% Area Median Income (AMI)

Assumptions in our *illustrative** model:		Initial monthly cost
Renter assumptions	▪ Rent is set at 30% gross income ▪ Landlord pays for utilities	**$1,376**
Homeowner assumptions	▪ Home purchased at $175k, with 3% down payment ▪ Mortgage financed at 4.375% ▪ Condo fee $271 at purchase, compounding at 3% annually ▪ Utilities $2,400 annually, compounding at 3% annually ▪ 2.5% annual value appreciation ▪ Excludes any capital improvement reimbursement	**$1,374**

Also assumes homeowner contributes $30k for maintenance and repair

*** This is model is a simplification and not a real-world simulation**

While gross costs are higher for homeowners over the 15-year period, appreciation that the owner recoups at sale will reduce net cost significantly



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Owners at the Print Shop condominiums have reported multiple concerns with the building since completion

Issue or concern		Description	Context
Leaks	Roof	Leaks from both the roof and siding have been reported	▪ 2019 report did not determine the exact cause and noted several possible sources, including "penetrations" on the roof and damage from snow removal in 2015 ▪ Trust has committed funds for complete replacement (now available)
Leaks	Siding	Leaks from both the roof and siding have been reported	▪ 2019 study did not determine cause, but noted that current best practices for flashing siding did not exist at the time of construction ▪ Trust has committed funding for the Association to work with Just-A-Start (JAS) to identify and address causes
Leaks	Burst pipe	Interior pipe burst in 2023, damaging three units + some common areas	▪ Cause not known to City ▪ Repairs completed and fully covered by the Association's master insurance policy
Garage pipes		Garage pipes not insulated during construction, causing leaks	▪ Association has paid for repairs using reserves (no assessments) ▪ Costs are fully reimbursable at sale as capital improvement (no net cost)
Sprinkler system		Sprinkler system needs maintenance and repairs	▪ Cause not known to City; systems typically last 15-25 years and require regular maintenance ▪ Assessment levied + Home Improvement Program (HIP) funding offered
Elevator		Elevator door motor replacement required	▪ Assessment levied + Home Improvement Program (HIP) funding offered (work is complete)
Solar panels		Some outlets did not work at the time of purchase	▪ Solar panels are not functional, and removal is part of roof project; panels only connected to common areas ▪ Outlets are checked during a home inspection and issues should be corrected prior to sale ▪ Cause not known to City, but units have continuously been re-sold since 2013 without noting any wiring or electrical issues.
Garage door		Several issues with the garage door, which has been replaced several times since 2009	▪ Cause of frequent need for repair not known to City

… And have made several requests for the City and the Trust to address (1/2)

Print Shop owner requests

Focus for today

For the Trust

1. Return owners to first-time homeowner status, so they may relocate and purchase a at a different property *(also requested priority for new construction units and subsidy to make costs and equity percentage level for a new purchase)*
2. Provide grant funding to make necessary repairs in a timely manner, as residents are facing multiple urgent needs
3. Lift deed restrictions so owners may recoup costs by having roommates, subletting, or allowing higher returns at sale

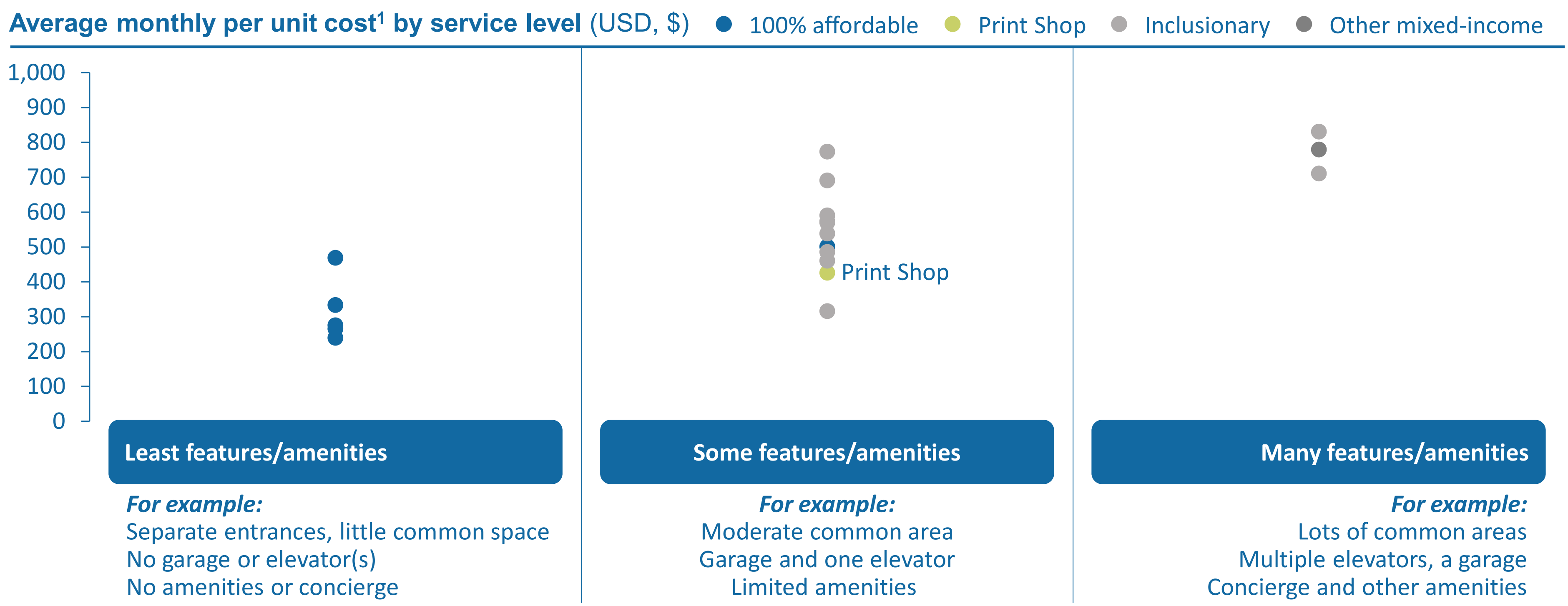
For City staff

4. Meet with the City Manager and Housing Department staff that are directly connected with the building's issues
5. Host the City Manager and Inspectional Services Department (ISD) on-site to review building structural issues

… And have made several requests for the City and the Trust to address (1/2)

Owner requests	For Trust consideration…
1 Return owners to first-time homeowner status, so they may relocate and purchase a at a different property *(also requested priority for new construction units and subsidy to make costs and equity percentage level for a new purchase)*	• First-time homebuyer status is defined by the federal government and may only be restored after three years without owning a home • HomeBridge is open to current owners • There are few new construction units available and extensive community demand
2 Provide grant funding to make necessary repairs in a timely manner, as residents are facing multiple urgent needs	• Public funds for roof replacement and exterior project are committed and available, including funds for consultant and Capital Needs Assessment • HIP loans are available for eligible applicants, and multiple owners have used HIP for interior rehab and assessments
3 Lift deed restrictions so owners may recoup costs by having roommates, subletting, or allowing higher returns at sale	• Multiple public subsidy sources in the building create a range of affordability requirements and restrictions, including state, federal, and Inclusionary • State and City require permanent affordability: if a restriction is lifted, all "excess proceeds" must be used to repay funders (no windfall) • Requests for roommates to help with costs can be made to the Housing Department

While relatively high for a 100% affordable building, the Print Shop's condo fees are in line with similar buildings:



1. The "average" monthly fee is based on dividing the budget by the number of units. This is for ease of comparison. Actual fees are based on percent interest in the condo.

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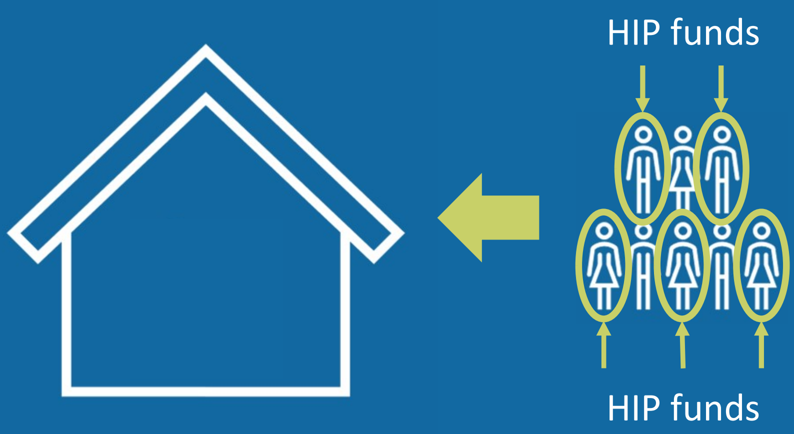
At a programmatic level, there are intervention points at all stages of the ownership lifecycle for the Trust to address these challenges, including several untapped pre-sale interventions

Program stage	Intervention point	Approach	Status	Costs
Pre-sale	Eligibility requirements	Raise income or asset requirements to better position buyers in the long-term, and/or lower maximum % for housing		No costs
Pre-sale	Unit pricing	Consider lowering initial purchase prices to reduce baseline housing costs and better support future increases		Indirect costs
Occupancy	Low-interest financing	Leverage the Home Improvement Program (HIP) funding to secure low- or no-cost financing for capital improvements		Indirect costs
Occupancy	Direct subsidy	Provide direct funding for condominium costs and/or payment of individual owners' costs		Direct costs
Exit	Resale formula	Adjust the resale formula to provide greater value increases or reimbursements for capital improvements		Direct costs

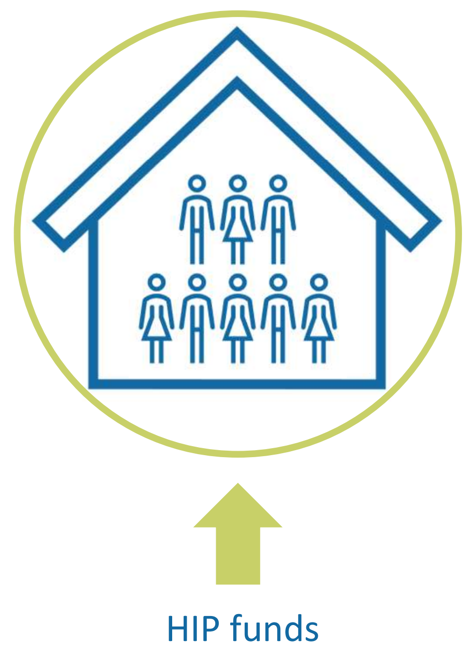
The City has provided millions to affordable condominiums for capital projects through the Home Improvement Program (HIP), which provides low-interest and deferred payment loans with CDBG funding to individuals—not buildings

Typically, HIP assistance is provided to individual, income-eligible homeowners…



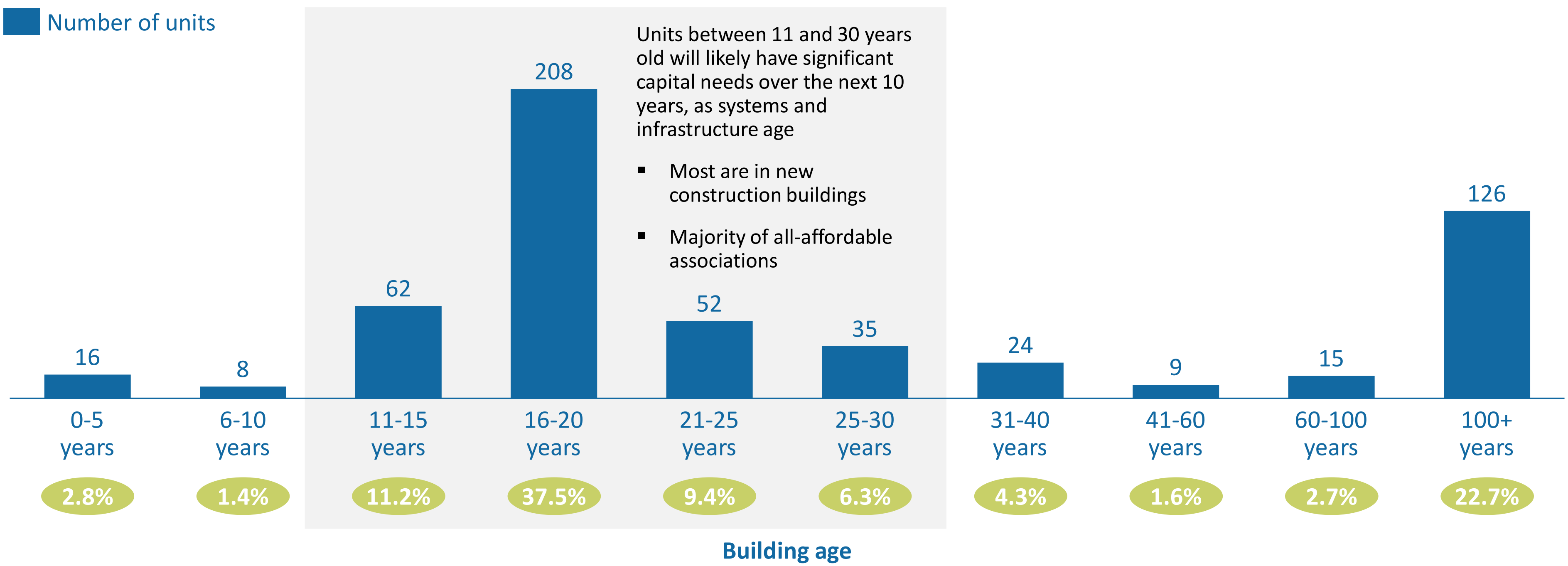
CDBG funds have restrictions that require income eligibility for program recipients

Print Shop owners are also asking for assistance as a building…



Furthermore, based only on the age of the stock, almost two thirds of the City's affordable homeownership portfolio could be facing similar capital needs soon

Units in portfolio by building age (count, units)



When approaching capital needs challenges across the homeownership program more broadly, we recommend the Trust consider the following:

Resource considerations

- What **financial resources** are required for the Trust to provide this type of assistance across the program, and how would that impact the Trust's ability to address priorities going forward?
- Would **additional resources** be required, such as increased staff capacity to process requests?

Legal considerations

- What is within the limits of how **sources of Trust funding** (e.g., Community Preservation Act) can be used?
- How are we constrained by **state and federal laws**, including the anti-aid amendment?

Equity considerations:

- Given the **tradeoffs versus rental housing**, what are equitable expectations for homeowner responsibility for regular maintenance and repair costs?
- How does assistance to certain buildings/homeowners **impact existing inequities between owners**, such as owners with much lower base prices who receive smaller annual appreciation, or owners who have already invested in large capital projects?

Paradigm shifts

- Would a shift in **eligibility requirements and/or unit pricing** support more sustainable long-term ownership for buyers?
- Is the current model **meeting the program's mission**, or are there more fundamental changes the Trust wants to consider?

Questions?