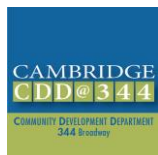


City of Cambridge
Community Development Department

Affordable Homeownership Program Review

Affordable Housing Trust

April 27, 2023



Review Process Next Steps

- Legal feasibility review – ongoing
- **Trust discussion of recommendations – April 2023**
- Trust additional discussion as needed
- Trust recommendation
- Outreach to share recommendation and get feedback from current owners
- Trust vote on final recommendation and changes
- Implementation

Program Review Process Engagement

Survey for all current owners completed July 2022

Listening sessions for current owners through October 2022

Survey for applicants currently waiting for housing December 2022

Housing Committee hearing January 2023

Affordable Housing Trust Process To Date

Process introduced at Trust meeting March 2022

Homeowner Survey findings September 2022

Listening Session and Applicant Survey findings December 2022

AHT Working Group develops recommendations for discussion by AHT

Resale Formula

Where are we starting from?

- Current “Return on Equity” formula
- Average annual return $\sim .25\%$
- Formula is complex and unpredictable
- Rewards higher down payment, ability to pay more on mortgage = more assets and income
- Penalizes taking out equity

Priorities from stakeholders

- Owners want more return to build assets, use home equity, move on to other housing options, and maintain home
- Both owners and applicants waiting for housing feel strongly that these homes should remain affordable and available
- Council/Trust also needs to balance increasing costs of affordable homeownership program with limited public resources and needs for all types of affordable housing

**For Discussion:
New Formula
with
2.5% Simple
Annual
Increase**

- 10x increase over current average annual return
- No risk of decrease
- Predictable for City and owners
- No penalty for taking equity
- No bonus for longevity
- Likely to require increase in subsidy to keep units affordable

Capital Improvements - Current

- Current policy – cap of 1% per year of purchase price – frequently waived
- Cap ranges from \$380 annual to \$6,000 – but work costs the same
- Wide range of work – replacement as well as additions
- All work is depreciated based on age and standard useful life
- Must be documented
- Only work that adds value

Capital Improvements – For Discussion

- Set annual maximum dollar amount for all homes
- \$5,000 per year maximum in aggregate
- Extraordinary costs above cap could still be added case by case – e.g. large condo assessments
- Keep other terms:
 - All work is depreciated based on age and standard useful life
 - Must be documented
 - Only work that adds value

“Circuit Breaker” Option

- Cap on appreciation to ensure unit remains affordable
- Usually based on affordability at a certain level – e.g. household at certain % AMI
- May impact some owners more than others:
 - Owners who purchased at higher prices relative to AMI (HomeBridge, IZ during low interest rate periods)
 - Future owners – each resale price may become closer to the circuit breaker
 - Owners with high capital improvements(unless exempt from circuit breaker)
- Impact is less if AMI rises – more if interest rates rise - unknowns

The Unknowns

- Future affordability impacts:
 - Interest rates –10.56% 1990; 2.85% in 2022
 - AMI – annual change has ranged from 0% to 16%
- Future funding levels may be lower – impact on subsidy capacity
- Impact of increased return on owners:
 - Less need to move to market to build equity = less turnover
 - Owners have more resources to move to market = more turnover

Inheritance



**For Discussion:
New
Inheritance
Policy**

- Allow direct inheritance for certain beneficiaries
- Immediate family, household, other TBD
- Income eligibility requirement must remain
- New owner must enter into new Affordable Housing Covenant
- If not eligible or interested, Covenant sales process followed

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