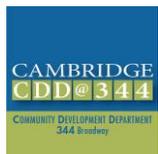


City of Cambridge
Community Development Department

Affordable Homeownership Program Review: Affordable Housing Trust Discussion

January 11, 2024



Program Review Process

What are the goals of the review?



Increase the
return on
affordable
homes



Make the
resale formula
easier to
understand



Preserve
affordability
for the long
term



Keep the
program
financially
sustainable



Explore
options for
inheritance

Affordable Housing Trust Process

Homeownership program review introduced
March 2022

Homeowner survey findings share September
2022

Listening Session and Applicant Survey findings
December 2022

Trust Working Group developed proposed
recommendations for discussion

Trust voted to move forward with proposed
recommendations April 2023

**Trust requested owner feedback prior to
finalizing and voting on any changes**

Program Review Process Engagement

Survey for all current owners completed July 2022

Listening sessions for current owners through October 2022

Survey for applicants waiting for housing completed December 2022

Housing Committee hearing January 2023

Survey on Proposed Recommendations completed December 2023

Information and feedback sessions for current owners December 2023

Trust's Proposed Recommendations

Trust voted April 2023 to move forward with the following:

- Resale Formula updated to 2.5% annual increase
- Increase capital improvement maximum limit to \$5,000 annual
- Clearly define maximum price “circuit breaker”
- Create an option for some direct inheritance for new owner-occupant

Requirements

Units must remain at an affordable price

Restriction must remain

Heirs must be income-eligible



Recommendation:
2.5% Annual
Increase

- Value increased by 2.5% of the original “affordable purchase price” each year
- “Affordable purchase price” = purchase price less subsidy for price reduction (such as HomeBridge)
- Increase is simple interest, not compounding
- Same \$\$ for each year of ownership
- Retroactive to time of purchase
- Increase capital improvement annual reimbursement cap to \$5,000

“Circuit Breaker”: Limit on Maximum Price

- Price may not become “unaffordable” to next buyer at the maximum income limit for the unit
- Based on Area Median Income (AMI) for maximum household size for unit – 2 people for a 1, 4 for a 2, 6 for a 3
- “Unaffordable” means **housing costs** would be more than 30% of monthly income at that AMI limit
- Housing costs include: mortgage principal & interest; condo fee; property taxes; and homeowner’s insurance



Recommendation: Inheritance Policy

- Allow inheritance as owner-occupant for certain heirs
- Income eligibility requirement **must remain**
- New owner must enter into new Affordable Housing Covenant
- If not eligible or interested, Covenant sales process followed

Potential Financial Impact

- Current revolving/sinking fund allows program to:
 - Repurchase units and address condition when required
 - Sell to applicants waiting in the Resale Pool
- Average new subsidy per resale unit is ~\$20,000 since 2008
 - Hard costs average \$20,000
 - Soft costs average \$15,000
 - Some costs recovered by sales price increases
- This is changing! All costs increasing, higher interest rates = lower sales prices – fund is decreasing more rapidly

Potential Financial Impact Cont.

- Fewer City repurchases will reduce opportunities for waiting buyers in Resale Pool
- Estimated average subsidy currently needed to create one unit of affordable ownership = \$432,000
- \$5.2MM to create twelve new affordable homeownership opportunities across programs and unit sizes

Potential Financial Impact Cont.

- If average unit buyback price increases by \$50,000, estimated \$600,000 per year additional reduction to Resale Fund above current level
- Funding sources for higher affordable values:
 - Higher purchase prices for new buyers
 - Fewer units repurchased and/or reduced rehab
 - Increased subsidy funding / more frequent recapitalization of Resale Fund

Current Owner Survey on Proposed Recommendations



Survey Outreach and Response

- Current owners were sent a letter with survey invitation
- Emails with survey link also sent where available
- Reminder email sent

TOTAL RESPONSES:

546 OWNERS CONTACTED

127 RESPONSES 23% of all current owners



Respondent Overview

- **Length of Tenure**
 - 57% owned 11 years or more
 - 22% owned 5 years or fewer
- **Distribution by unit size reflects stock:**
 - 34% studio or 1 BR
 - 46% 2 BR
 - 20% 3 or more BR



Respondent Overview Cont.

• Housing Program

- 33% purchased on the market with financial assistance from the City (Homebridge, FAP, CHBI)
- 18% purchased through a non-profit lottery
- 17% purchased through an Inclusionary lottery
- 12% selected “other”
- 20% purchased through the Resale Pool

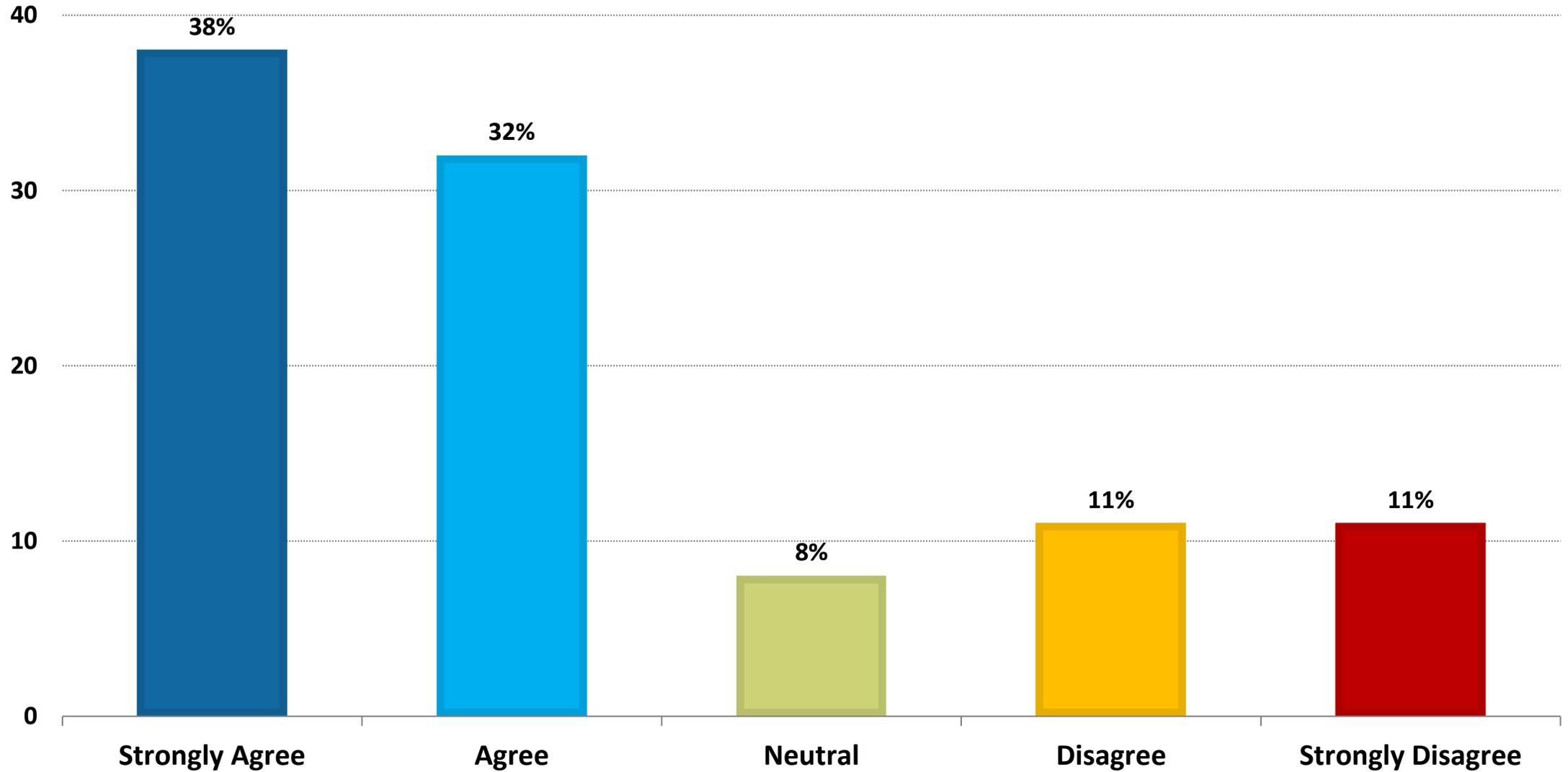


Respondent Overview Continued

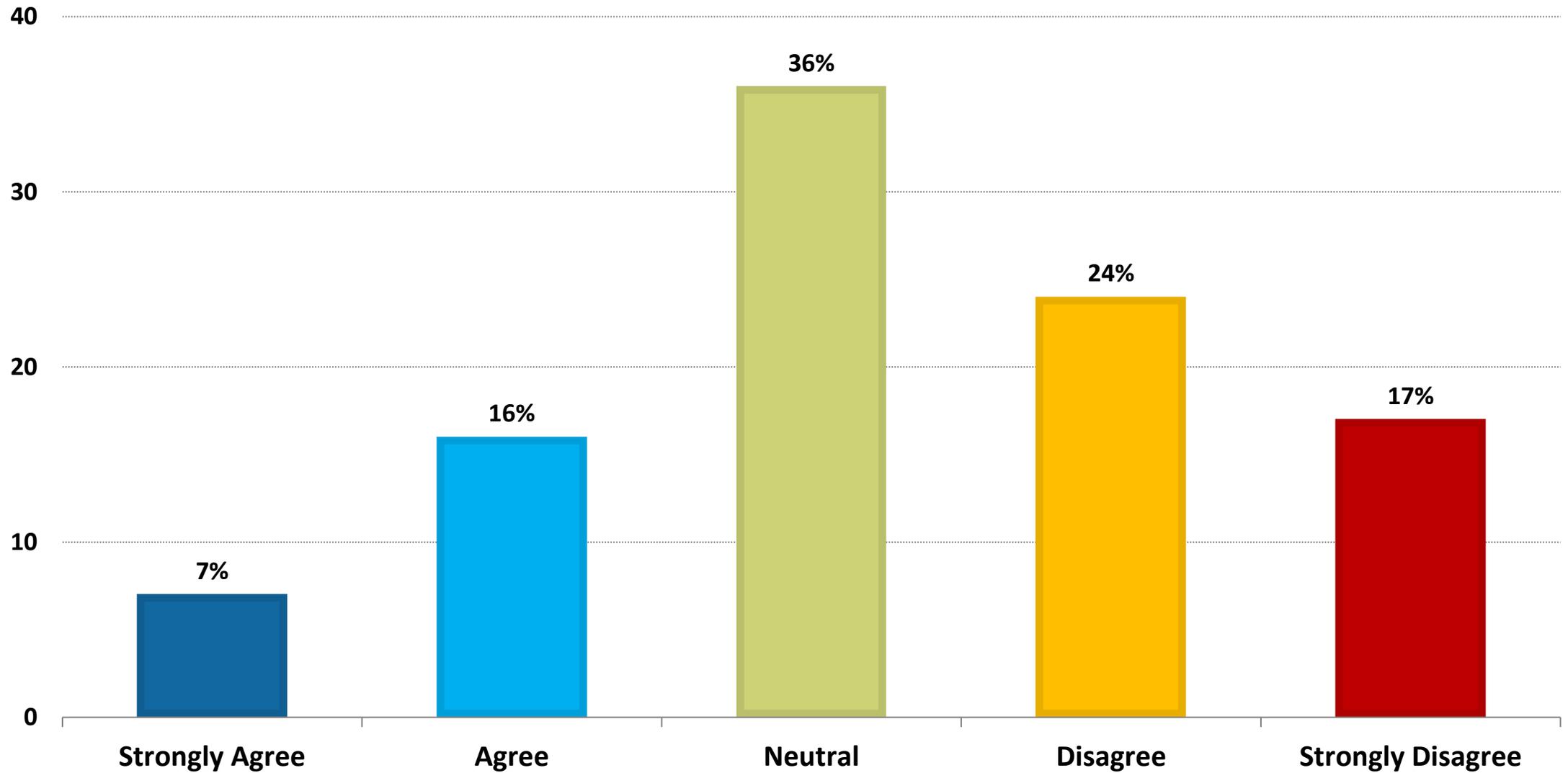
- Respondents could select multiple options for race
- Race and ethnicity of owners closely reflects estimated owner demographics and previous survey:
 - 45% White
 - 21% Black or African American
 - 10% Asian or Asian American
 - 5% Other race(s)
 - 24% chose not to respond to race question
 - 10% Hispanic

Views on Proposed Resale Formula

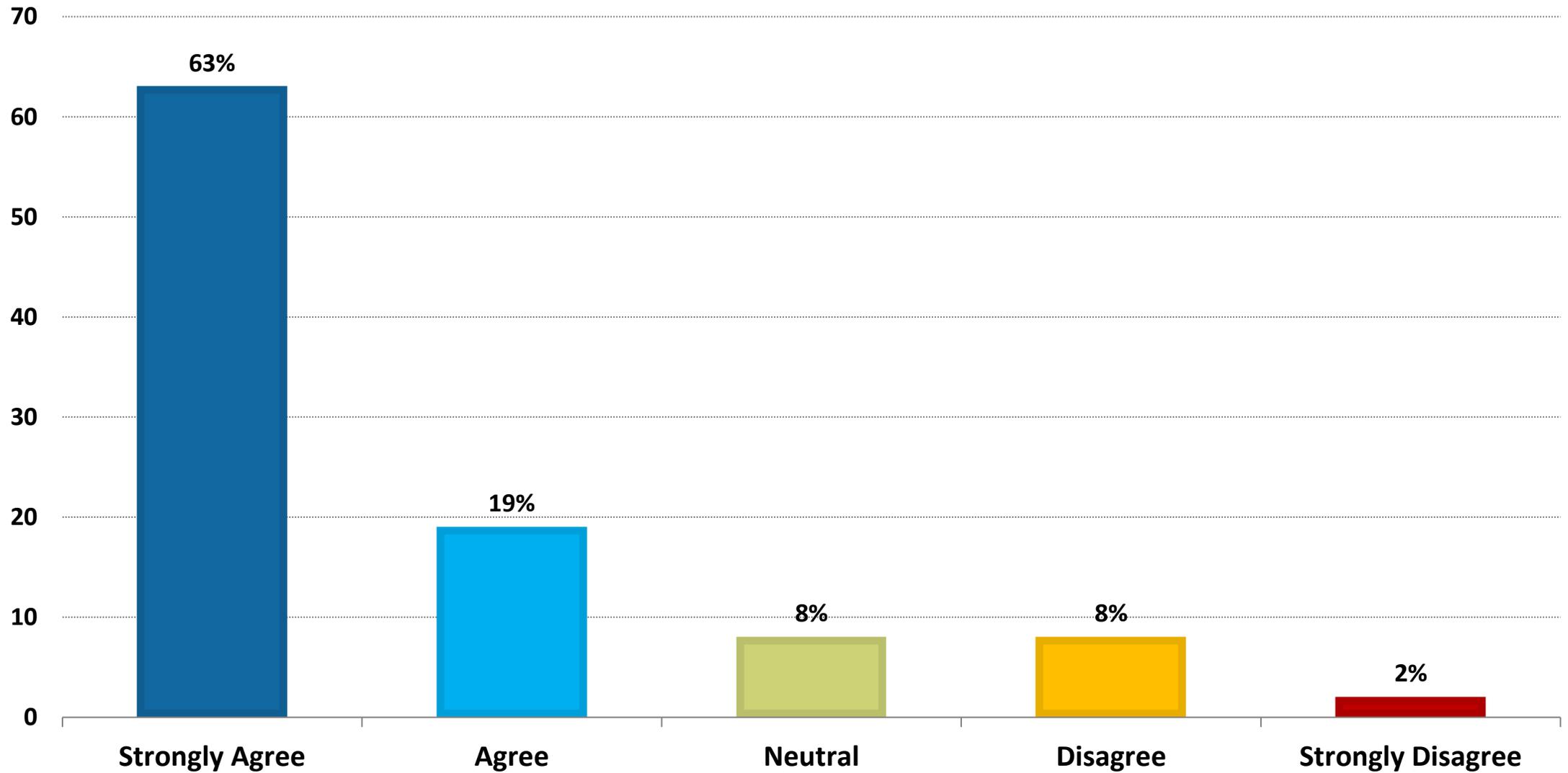
This gives a fair return to owners



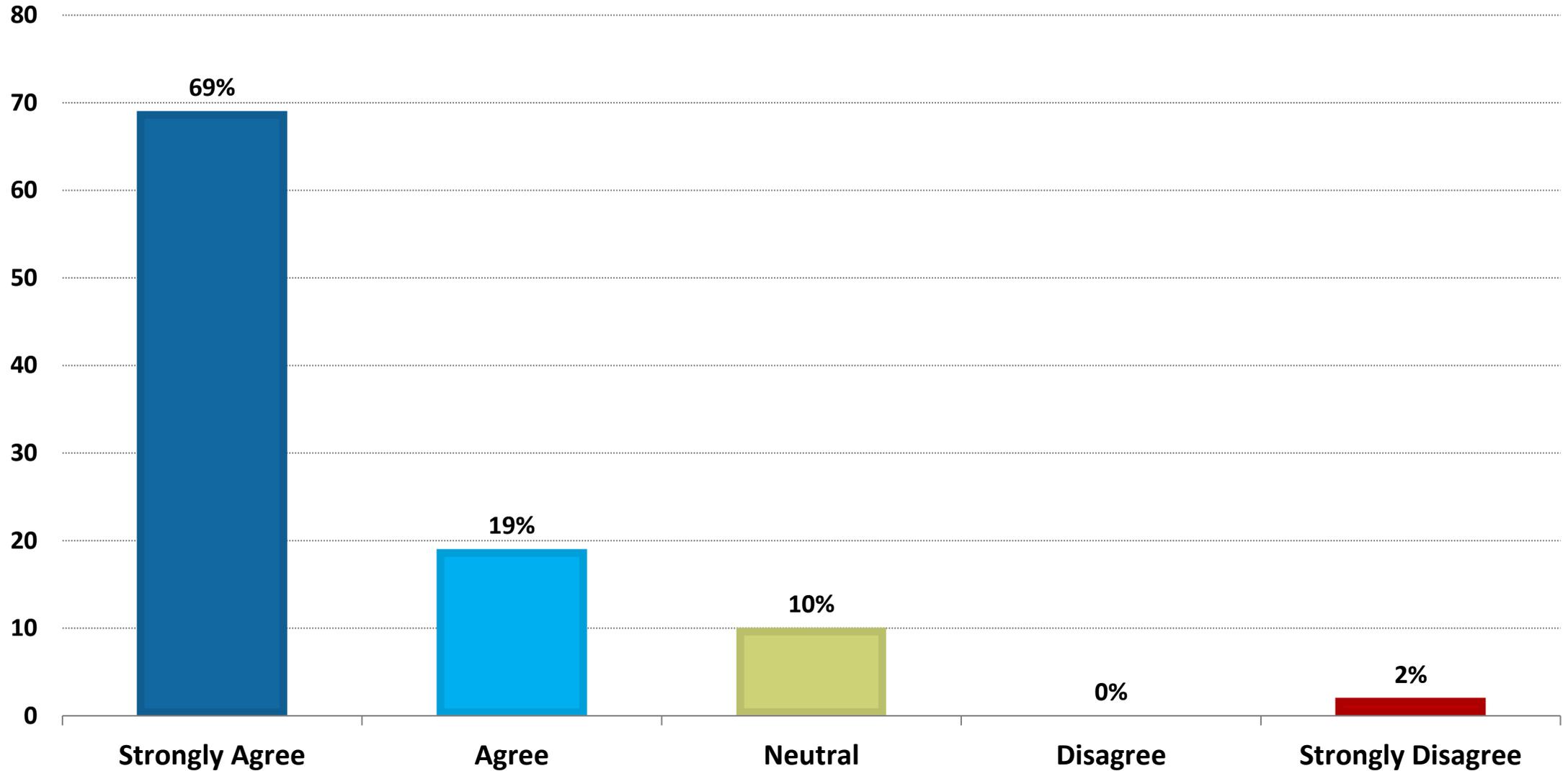
Affordable homes may be too expensive for the next buyer



The value increase is easy to understand



A more predictable home value will help me plan financially



Respondent Level of Agreement

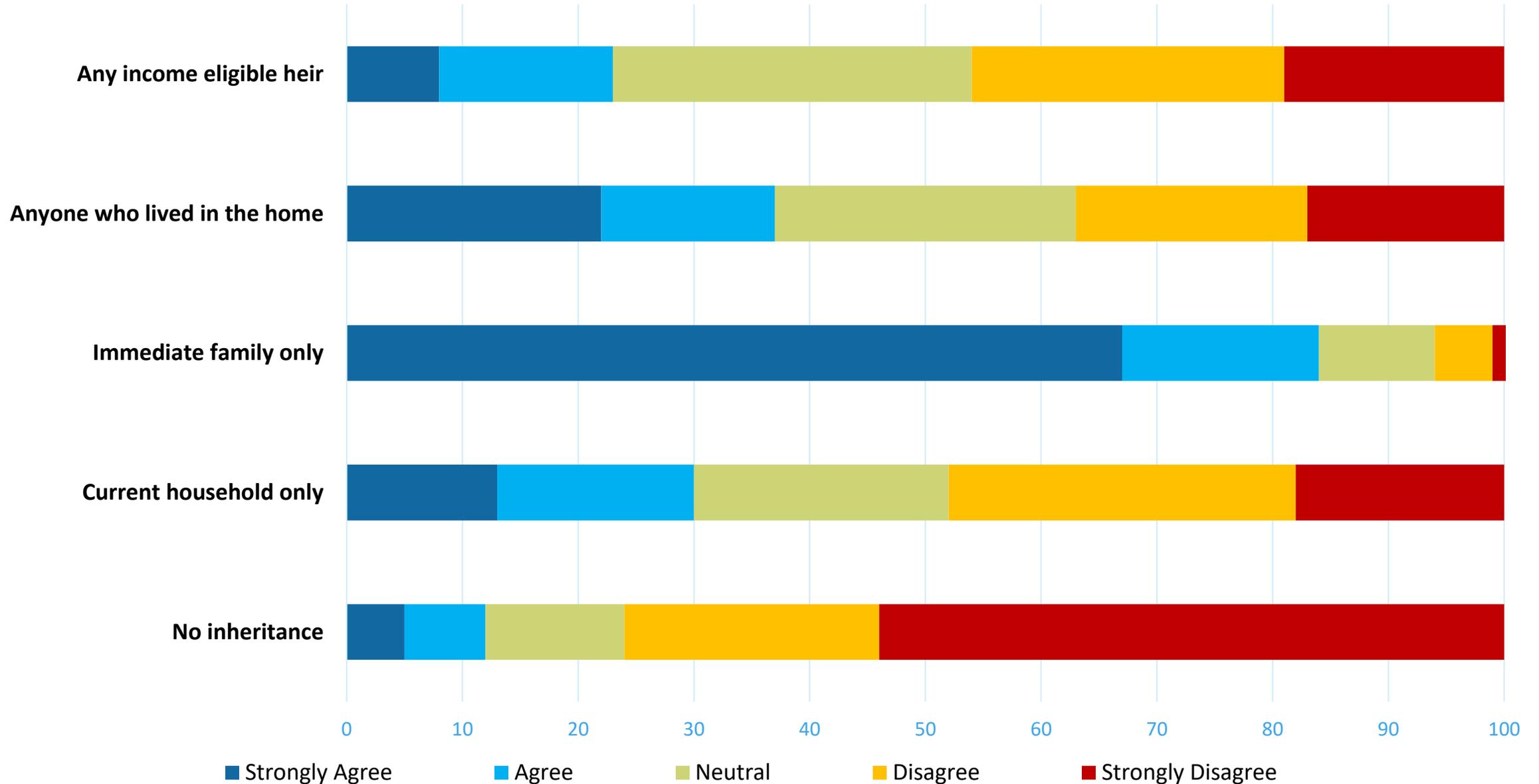
	Agree Most Strongly - #5	Agree Least Strongly- #1	Average Ranking
I will be able to easily figure out the value of my home at any time	41%	10%	3.7
I will be more likely to invest in fixing my home	19%	12%	3.3
I will be more likely to stay in my home longer because of a better return	22%	19%	3.1
I will have more options to use home equity	9%	16%	2.7
I will be more likely to sell this home and buy a market home	9%	44%	2.2

Owner Quotes – Resale Formula

- *The increase to 2.5% is a big improvement...Of course, more than 2.5% would be welcome...*
- *I believe the 2.5% is way too low in today's economy.*
- *The revised formula is much easier to understand. I appreciate that it would improve our family's ability to plan financially, and expand our options in the future.*
- *I do not think 2.5% is enough of an increase.*
- *I have tired to take care of my condo for someone else and am very pleased it would be worth more on my death.*
- *The resale value must be made more competitive with soaring home prices in the market.*
- *I appreciate the process to make the return rate better for homeowners.*

Views on Inheritance Policy

Reactions to Inheritance Beneficiary Options





Most respondents would like to leave their home to an heir:

- 71% know who they would select
- 6% don't know but want to leave it to someone
- 8% would not pass the home to anyone
- 15% are not sure what they would do
- 24% of respondents currently have a will



Respondents were asked who they would likely name as heir:

- 27% adult child/dependent not living in the home
- 18% adult child/dependent living in the home
- 24% minor child living in the home
- 5% other family member living in the home

- Only 1% indicate a non-family member
- No difference based on unit size

Owner Quotes – Inheritance

- *I strongly support inheritance for income eligible heirs as a way to build generational wealth*
- *Opening it up to others than immediate family, such as nieces, nephews, and cousins, would be fair to those who do not get married/have kids to pass it on.*
- *(It is) important to me that people with limited means not lose their home after the death of a spouse, parent or grandparent. Also important that affordable housing continue to be made available for families in Cambridge.*
- *Family members who are living at present with the owners should be given preference in terms of inheritance.*
- *I think we need to be careful about potential abuses...This would keep the home in the family but remove it from the wider pool of income-eligible buyers in Cambridge. Under rent control, we saw abuses of the system; let's ensure that we don't set up an easily abused affordable homeownership program.*

Inheritance Policy Options: Eligible to Inherit

- Any member(s) of the owner's family who is a member of the owner's household at time of the owner's death:
 - Family includes individuals related by birth, marriage, adoption, or similar relationship such as guardianship, foster parent, or grandparent, or dependency due to disability
 - Must reside permanently in the affordable home as their only residence
- Owner's children, or other current or former dependents, who have at any time lived in the affordable home as their permanent residence, regardless of their current residence