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Barney S. Heath
Director

MEMORANDUM

DATE: October 27, 2017

TO: Members of the Community Preservation Committee

FROM: Barney Heath, Director of Planning & Development
Amanda Berman, Housing Development Planner
Rachel Powers, Community Development Programs Manager
Malcolm Lucas, Housing Planner
Danielle Bailey, Grants Manager

RE: Newton Homebuyer Assistance Program

MEETING DATE: November 16, 2017

Program Background

The Newton Homebuyer Assistance Program, which began in 2001, was designed to facilitate the creation and support of community housing through the conversion of market-rate homeowner units to units affordable to households earning at or below 80% of the AMI. Through the use of the City's CPA, CDBG, and HOME funds, mortgage buy-down, down payment and closing costs assistance have reduced the price of market-rate homes to a level where the mortgage is affordable, and sustainable, to low- to moderate-income first-time homebuyers. In most cases, affordability has been secured through a deed restriction held in perpetuity on the property to ensure that the home's affordability would carry on in the event of the sale or foreclosure of the property.

Over the past two months, staff has been researching the history of this program, pulling together multiple sources of data to create an updated program database, which has been lacking until this time. While more research and time is needed to fill in the holes that exist in the database, we have been able to determine that since its inception in 2001 (CPA funding assistance began in 2003), the Newton Homebuyer Assistance Program has supported the creation of 52 affordable homeowner units, using a combination of federal (CDBG and HOME) and CPA funds. While 3 of these 52 units have been lost over the years, the remaining portfolio

of 49 units includes: 10 one-bedroom units; 11 two-bedroom units; and 22 three-bedroom units.

Additional information that surfaced through our recent research includes the following data points about the program:

- Between 2001 and 2012, total funds committed to program (all sources): \$2,838,818
 - CPA: \$1,677,050 (59% of total committed funds)
 - CDBG (federal): \$800,054 (28%)
 - HOME (federal): \$361,714 (13%)
- Average household size: 2.5
- Average number of bedrooms: 2.3
- Average Market Sale Price: \$259,080
- Average Mortgage Amount: \$165,025
- Average Personal Funds Used: \$20,064

As your committee is well aware, however, this program has been inactive since 2012, and was officially put on hold in 2015. Due to a combination of staff capacity challenges and market trends, the program had been unable to create new units. Real estate prices have continued to soar in Newton, outpacing the program's original maximum per-unit subsidy of \$115,000. The use of lotteries to identify income-eligible buyers also exacerbated the competition amongst low-to-moderate income recipients. Previously, funds were allocated to households on a lottery basis in order for units to be eligible for listing on the state's Subsidized Housing Inventory (SHI). The lottery meant that several applicants were searching simultaneously, inadvertently heightening competition amongst lottery recipients in an extremely limited inventory of affordable housing options. When the program has run on a first-come, first-served basis, rather than through a lottery process, only one assisted applicant was searching for a home in the limited market at any given time.

While attempts have been made since 2015 to revisit the status of the program, particularly related to the resale of existing units in the program's portfolio, staff turnover within our department slowed our progress towards developing a solid plan for the future of the homebuyer assistance program.

In December 2016, former Housing Development Planner Nathan Robinson met with the CPC to discuss whether the Committee might consider a proposal to retain some of the program's current balance of approximately \$1.5 million in already appropriated CPA funds to **preserve** the affordability of the program's existing units by offering additional subsidies to new first-time buyers, in return for granting the City new restrictions designed explicitly to ensure permanent affordability of that unit. The Committee agreed that the Planning Department should submit for future discussion an analysis of the program's current portfolio and a proposal for a restructured homebuyer assistance program focused on preserving affordability of existing units, rather than the creation of new units.

Restructuring the Program

Despite the challenges mentioned above, staff recognizes the value and great importance of this program and seeks to protect the City's critical investment by efficiently managing available resources on an as-needed basis to ensure the continued affordability of these 49 units. Based on our review of the history of the program and the current market trends in Newton, staff recommends the following changes to the City's Homebuyer Assistance Program:

1. Restructure the program to focus on the preservation of existing units in the portfolio, rather than the creation of new affordable units
2. Provide additional subsidies, as needed, to first-time eligible homebuyers to ensure that existing units in the portfolio remain affordable upon resale, and are not lost on the open market
3. Structure additional subsidies so that units are affordable to households at 70% or below of the area median income, rather than 80% or below AMI, to provide a window of opportunity for a greater number of low- to moderate-income households
4. Modify program guidelines to deemphasize the need for the program's units to be SHI-eligible, helping to more easily and efficiently identify income-eligible buyers in a timely manner
5. Explore the hiring of an outside consultant to manage the resale process on behalf of the City, as units come up for resale

As the housing market in Newton has become increasingly expensive, the program has had limited success in providing first-time homeownership opportunities in recent years. While the identification of market-rate units that would be eligible for this program has become close to impossible, even resales associated with the portfolio's existing units have proven to be a challenge. In the past, the program welcomed applications from low- to moderate-income buyers with unique, one-time-only financial assistance ("gifts") from their families or other sources; the less public assistance needed from each buyer, the more buyers the program could assist. However, this strategy has created substantial affordability gaps during eventual resales.

With or without these substantial one-time gifts, the maximum resale prices associated with many of the portfolio's properties exceed the price that a qualifying low- to moderate-income household could afford, greatly increasing the possibility that these properties would lose their affordability as they are resold on the open market. As such, we recommend providing additional subsidies, as needed, to first-time, income-eligible homebuyers as units in the portfolio come up for resale, and pricing such subsidies so that units are affordable to households at 70% or below of the area median income, rather than 80% or below AMI, to provide a window of opportunity for a greater number of low- to moderate-income households. We also recommend capping the per unit subsidies as follows:

- \$315,000 for a three-bedroom unit
- \$285,000 for a two-bedroom unit
- \$255,000 for a one-bedroom unit

Additionally, we recommend modifying program guidelines to deemphasize the provision for the program's units to be SHI-eligible. When the City is alerted of a homeowner's desire to sell their deed restricted unit, it has a quick 120 days to identify an income-eligible buyer. This task can be challenging, and the layered and burdensome requirement of conducting a lottery (per SHI guidelines) adds to this time-sensitive effort. To more easily and efficiently identify as many income-eligible buyers in a timely manner, the Division recommends eliminating the lottery process and requirement that the program's units be eligible for listing on the SHI. Conducting these resales on a first-come, first-served basis will better serve the program, and allow for a more streamlined process within the City's 120-day time period.

Lastly, as the management of this program can be very resource-intensive and at times complicated, we recommend exploring the option of hiring an outside consultant to administer these resale processes on behalf of the City. Over the past two months, staff has experienced first-hand the level of research and communication needed to properly manage a resale. We are in the midst of marketing 101 Hawthorn Street, a three-bedroom single-family home that came into the program in 2012. From researching the deed restriction, mortgages, and past communications associated with the property, to calculating the maximum resale price and monthly housing costs, to reviewing incoming applications and other correspondence, our team has spent many hours administering this resale to ensure that it remains affordable to an income-eligible buyer. While our staff has the expertise and passion to run this program, we do not necessarily have the time to properly manage it when resales come up unexpectedly. To that end, we believe the program would greatly benefit from the management of an outside consultant, who can oversee the detailed process of each resale, and continue to update the portfolio database through additional research and communications.

Financial Request

To successfully implement the restructured program as detailed above, staff kindly requests the following financial assistance from the CPC over the next two years:

1. **\$700,000** - To use towards additional subsidies, as needed, as existing portfolio units come up for resale
2. **\$35,000** - To use towards administrative costs associated with the program, including internal staff time, outside consultants, marketing of units, etc.

Total financial request: \$735,000 over two years

While the program currently has a balance of approximately \$1.5 million in already appropriated CPA funds, we request that the Division retain \$735,000 of that amount over the next two years, as we pilot this newly restructured Newton Homebuyer Assistance Program.

While it is very hard to forecast the future, staff believes, based on the past few years of resales, that we will encounter one to two of these cases per year. Every resale case is very unique and is driven by original subsidy amounts and sources, and the provisions laid out in the property's individual deed restriction. As such, the additional subsidy needed per unit will vary.

Given the calculations that we have run as examples, we feel that an additional per unit subsidy of **\$175,000** is reasonable, knowing that some cases will require less and some more. Again, given that we foresee about two resales a year over the next two years, we are requesting **\$700,000** from the CPC to retain affordability of existing units as they come up for resale.

And in an effort to more properly and efficiently manage this important program, we request **\$35,000** from the CPC over the next two years to be used towards administrative costs associated with the program, including internal staff time, outside consultants, marketing of units, etc.

We appreciate your careful consideration of our request as we strive to strengthen the Newton Homebuyer Assistance Program to preserve the 49 existing affordable units in our portfolio. While our request is for a two-year time period, we plan to assess the restructured program along the way, and update the CPC accordingly.