



CITY OF CAMBRIDGE

Community Development Department

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To: Louis A. DePasquale, City Manager
From: Iram Farooq, Assistant City Manager for Community Development
Date: December 3, 2019
Re: Awaiting Report #19-21 dated February 25, 2019 regarding Affordable Homeownership Programs

In response to the above policy order, we have assembled this report on the City's Affordable Homeownership programs. These programs include HomeBridge, the Resale Pool, new unit lotteries, and a range of programs and services that support stabilization of low- and moderate-income homeowners. Related to these programs, this report includes the following areas: homebuyer programs details & wait times, creating new units, unit locations & composition, buyer analysis, and ownership tenure. Since FY14, the Community Development Department (CDD) has used a system specifically designed for affordable homeownership programs that tracks program metrics and helps staff to analyze data. The data used for this report reflects all information currently available in the database system.

OVERVIEW

There are more than 500 homeownership units subject to affordability restrictions held by the City, in addition to a few dozen units with affordability restrictions held by other entities, including the Cambridge Housing Authority. The City first provided technical and financial assistance to create affordable ownership housing in the early 1980s. This commitment was strengthened after the establishment of the Affordable Housing Trust in 1988, which began to fund the development of all-affordable condominium projects. In the mid-1990s the City first offered direct funding to homebuyers looking to purchase homes on the market. In the early 2000s homeownership units created through the City's inclusionary housing provisions were first offered to homebuyers. These strategies to offer opportunities to homebuyers and expand the stock of affordable homeownership units are ongoing.

The majority of affordable homes in Cambridge are condominium units within all-affordable or mixed-income condominium buildings, with a small number of single-family homes. The City restricted units consist of approximately 20% units purchased on the open market with financial assistance from the City, with the remaining units almost evenly divided between non-profit developed units and units created through inclusionary housing provisions or other zoning-based incentives. The homeownership stock is approximately 25% studio- and one-bedroom units and 75% family-sized units with 2 or more bedrooms.

Most affordable homes created with City funding have been facilitated through the Affordable Housing Trust. In addition to funding the creation of homeownership units, the Trust also guides and supports affordable homeownership with related program funding and policy guidance. The Trust strives to create affordable

homeownership opportunities for moderate- and middle-income buyers and is actively involved in all aspects of the homeownership program.

HOMEOWNER CONTACT & COMMUNICATION

CDD works in several ways to maintain contact and engagement with homeowners after they purchase. Staff are available to work with homeowners when they have questions, such as about refinancing, renovation work, or selling a unit. In FY2019, approximately 10 percent of current owners contacted the Housing Division, which is typical.

Every few years, CDD sponsors a series of workshops for owners of City-assisted affordable homeownership units. Owners are invited to one of several sessions where CDD staff review questions commonly received from owners of affordable homes and discuss support and resources available through CDD and other agencies. Topics include refinancing, home repairs and improvement, and roles and responsibilities of condominium associations. The next series of workshops will be offered in early 2020.

HOMEBUYER PROGRAMS - DETAILS & WAIT TIMES

There are several ways that new buyers can access affordable homeownership units. These include the Homeownership Resale Pool, new home lotteries, and the HomeBridge program. Each program provides a different path for buyers to purchase affordable homes.

Homeownership Resale Pool

The Homeownership Resale Pool is used to select new buyers for affordable homes for every sale after the initial sale of an affordable home. This includes homes that were originally purchased through a lottery process or HomeBridge. The Homeownership Resale Pool is open to applicants earning between 50% and 100% of Area Median Income (AMI).

Minimum and maximum income requirements for homes offered through the Resale Pool vary based on the specific unit and associated monthly costs. When a home becomes available, it is offered to applicants who meet the income and unit size criteria for that home. Following the City's resident selection preference policies, a small group of applicants is invited to view the unit at an open house. After the open houses, applicants may choose to submit an offer to indicate their interest in purchasing the available home. The eligible applicant in the highest preference group who has been in the Resale Pool the longest is given the opportunity to purchase the unit.

It is difficult to predict the wait time for any specific applicant in the Homeownership Resale Pool. Because each unit has unique costs, applicants may not be eligible for every available unit for their household size. There is not a direct correlation between

the number of units that become available and the date that an applicant has the opportunity to purchase. For example, an applicant who is at the low end of the Resale Pool income range may be served after a later applicant for whom more units are affordable. CDD staff work with applicants to help them resolve barriers to purchasing such as credit issues or insufficient savings so that they are stronger buyers when an opportunity arises.

Applicants may stay in the Pool for as long as they like and may look at an unlimited number of units before indicating interest in moving forward with one that meets their needs. Therefore, the length of time that a household was in the pool prior to purchasing could be impacted by a buyer's specific interest in a particular location or other factor.

Buyers who purchased through the Resale Pool since Fiscal Year 2017 had been in the Pool for a median of 2.5 years when they purchased. Wait times for those buyers ranged from six months to almost six years prior to purchase. There was not a large difference based on unit size; one-bedroom buyers had been waiting for a median of 2.7 years, while 2- and 3-bedroom buyers had been waiting for 2.1 and 2.3 years respectively.

With the current size of the affordable homeownership stock, roughly 12 to 15 units are offered each year through the Homeownership Resale Pool. As the stock of affordable homes grows, the number of resale opportunities offered each year will likely increase.

Lottery Units

Lotteries are held to select eligible buyers for homes being sold for the first time that are created in new developments funded by the Affordable Housing Trust or through the inclusionary housing provisions. CDD conducts a development-specific marketing and buyer selection process. These lotteries each have their own application process, with a defined open and closing dates for submission of applications. While these lotteries follow the same preference criteria as the Homeownership Resale Pool, buyers are selected randomly from all eligible applicants in the highest preference group who applied during the application period. Many lottery applicants have also applied for the Homeownership Resale Pool, but it is not a requirement that they do so.

In the most recent lottery for six new Inclusionary homeownership units, half of the selected buyers were already in the Homeownership Resale Pool and half were new applicants. Of the three who were also in the Resale Pool, two had been waiting for more than 2.5 years, while the other had been in the pool for more than a year.

HomeBridge

HomeBridge is the most recent in a series of programs designed to assist income-eligible buyers to purchase market-rate units and create permanently affordable ownership housing. This program evolved from the Cambridge Home Buyer Initiative (CHBI), originally created in the mid-1990s. In 2002, the Financial Assistance Program was established to provide funding to middle-income homebuyers. Financial Assistance became HomeBridge in 2017. Funding is available to qualified buyers earning a minimum of 60% AMI who are able to secure sufficient mortgage financing and down payment funds. Approved buyers work independently or with a broker to find a home on the market that meets program criteria, which include price limits and condition requirements. HomeBridge offers between 40% and 50% of the purchase price, depending on the size of the unit for which the household qualifies. Like other affordable homeownership programs, buyers enter into a permanent affordable housing restriction.

HomeBridge funding is committed to eligible applicants on a rolling, first-come, first-served basis. The program does not have a preference system, so it has been an option for some buyers who had difficulty accessing units through either a selection lottery or the Resale Pool. Some HomeBridge buyers had previously applied for other City housing programs; for others, HomeBridge was their first step. Half of recent buyers who purchased family-sized units through HomeBridge would not have received the highest preference category in a lottery or the Resale Pool.

CREATING NEW HOMEOWNERSHIP UNITS

Inclusionary Housing

During the period leading up to the recession of 2008, the private market was creating large numbers of condominiums. 152 new Inclusionary homeownership units were sold in the fiscal years 2006 through 2010. Financing for homeownership construction was greatly restricted and new market homeownership development ceased after the recession and has not returned to its previous pace. Only 13 new ownership units have been offered through the Inclusionary Housing program since that time. Currently, there are a few new homeownership developments underway, including four units on Webster Ave near Inman Square that are almost complete and five units under construction on Fawcett Street. The Inclusionary Housing pipeline remains overwhelmingly rental.

Trust- and City-funded Housing Developments

The Affordable Housing Trust and the City provide subsidy funds for the creation of new affordable ownership projects, typically developed by local non-profit housing developers. The City has not funded multifamily homeownership development since the completion of the Windsor Church Condominium project, where 14 new homeownership units were created in a former church and rectory in 2012. After the recession, subsidy sources to create affordable homeownership were greatly reduced.

Affordable rental projects have more options for subsidy funding, including tax credits. For developments that lack the scale to be competitive for rental subsidy funds, homeownership may be an option that requires less subsidy than an affordable rental development. CDD and the Affordable Housing Trust continue to review these opportunities and pursue them when feasible.

UNIT LOCATIONS & COMPOSITION

Unit Distribution

Affordable homeownership units are located in every neighborhood of Cambridge except for MIT/Area 2. Both Inclusionary and City-funded development units mostly follow the same distribution patterns as rental development. Because HomeBridge units are typically located in existing smaller buildings, buyers have purchased in a wider geographic range, including several units in neighborhoods such as Strawberry Hill and Agassiz where they are the only affordable ownership units. Distribution of affordable homeownership units by neighborhood is as follows:

Neighborhood	# Of Affordable Ownership	Percent of Total Housing Stock*
East Cambridge	100	1.5%
MIT/Area 2	0	0
Wellington/Harrington	36	1.2%
The Port	105	3.5%
Cambridgeport	77	1.4%
Mid-Cambridge	10	0.1%
Riverside	55	1.3%
Agassiz	3	0.2%
Neighborhood 9	26	0.4%
West Cambridge	12	0.3%
North Cambridge	111	1.7%
Cambridge Highlands	23	3.0%
Strawberry Hill	5	0.4%
Total	563	1.1%

*Based on total dwelling units. Source: City of Cambridge 2019 Neighborhood Profile

Units by Bedroom Size

As noted above, the affordable homeownership program comprises approximately 45% that are two-bedroom units, 25% studio and one-bedroom units, and the rest three or more bedroom units.

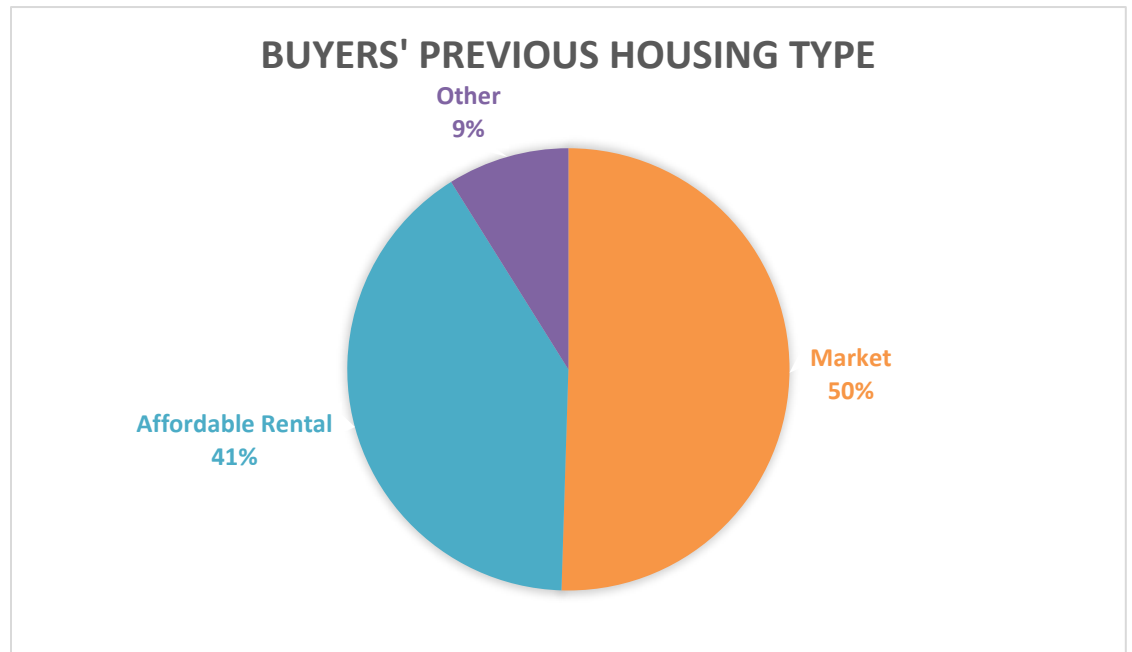
All Affordable Homeownership (Includes units with restrictions not held by the City)

Size of Unit	Total Number	Percent of Program Stock
Studio	9	2%
1-bedroom	124	22%
2-bedroom	244	43%
3+-bedroom	186	33%
TOTAL	563	100%

For additional details by homeownership program, see Appendix A.

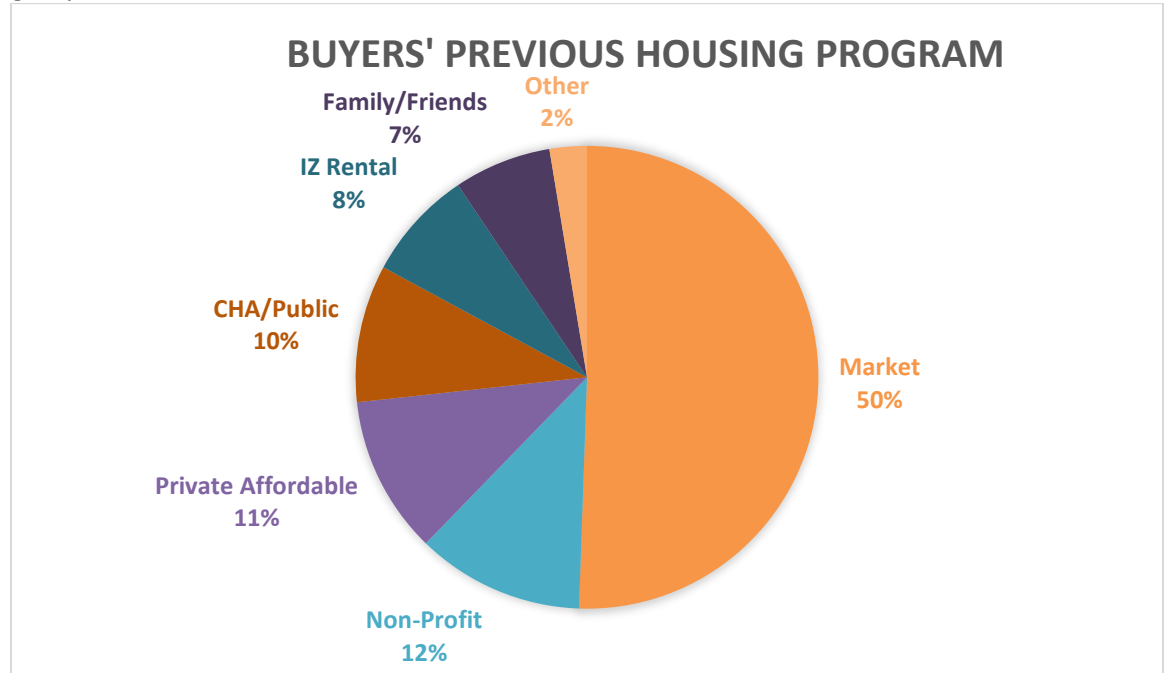
BUYERS' PREVIOUS HOUSING

An analysis of 426 current and past owners found that 50% of buyers were living in market rental housing when they purchased. 41% were living in housing with an affordability restriction, including Inclusionary rental housing, public housing, non-profit-owned and privately-owned affordable housing. The remaining 9% of buyers were living with family or friends, or in university-affiliated housing.



Housing Program	Number of Buyers	Percent of Total Buyers
Market Rental	215	50.5%
Affordable Rental	173	40.6%
Other	38	8.9%
TOTAL	426	100%

For buyers living in affordable rental housing at the time of purchase, residents of privately-owned affordable housing units and non-profit-owned affordable rental housing formed the largest group of buyers. CHA/Public Housing was the third largest group.



Housing Program	Number of Buyers	Percent of Total Buyers
Market	215	50.5%
Non-Profit Affordable Rental	50	11.7%
Private Affordable Rental	47	11.0%
CHA/Public Housing	41	9.6%
Inclusionary Rental	33	7.8%
Family or Friends	29	6.8%
University Affiliated	9	2.1%
Limited Equity Coops	2	0.5%
TOTAL	426	100%

OWNERSHIP TENURE

Turnover

The annual turnover rate is between two and three percent. With the current size of the housing stock, this typically results in 12 to 15 units re-sold annually.

Based on data from 129 sales, the median length of ownership at time of sale by homeownership program and by unit size is:

Homeownership Program	Median Tenure at Time of Sale	Number of Sales
Inclusionary	7.2 years	38
HomeBridge	5.4 years	30
City-funded Development	8.3 years	50
Other Programs	11.1 years	11
TOTAL	7.0 years	129

Unit Size	Median Tenure at Time of Sale	Number of Sales
0/1 bedroom	5.8 years	40
2 bedroom	7.8 years	70
3+ bedroom	10.9 years	19

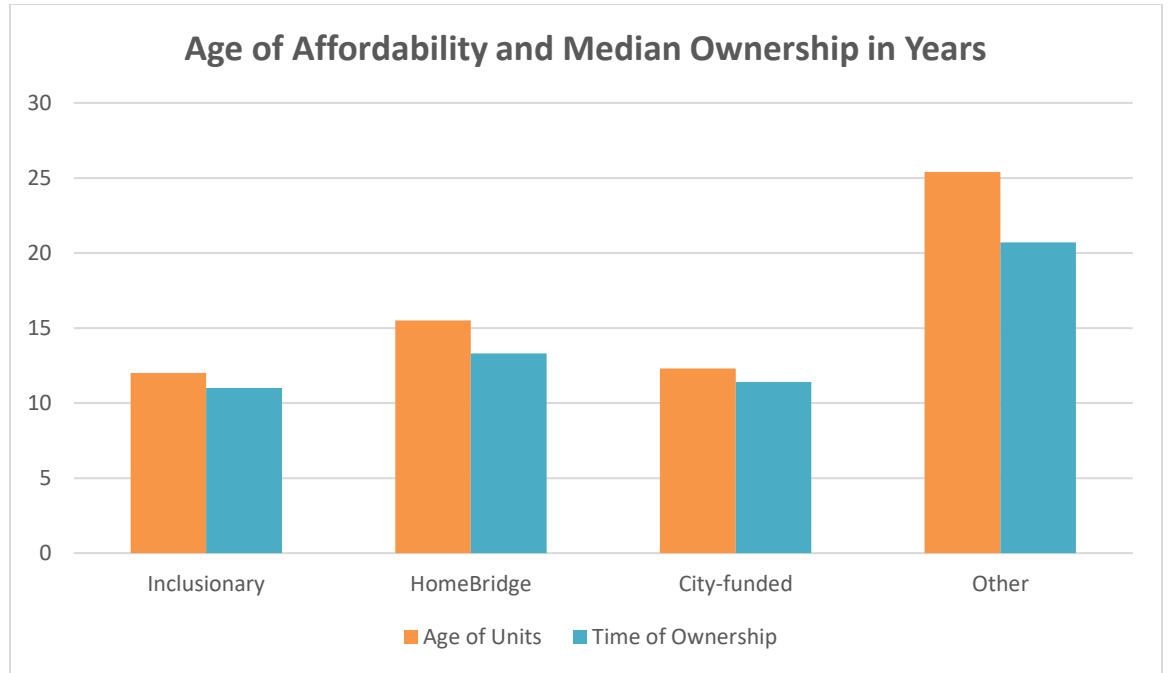
As discussed in more detail later in this report, there are many potential reasons for selling, so it's difficult to predict when units will become available strictly based on how long the current owner has been there. Approximately 75% of affordable homeownership units in Cambridge are occupied by the original purchaser.

Length of Ownership for Current Owners

The median length of ownership for all current owners, across all sizes and programs, is 11.7 years. The median for a one-bedroom is 10.2 years; for a two-bedroom, 11.8 years; and for a three-bedroom, 12.6 years.

Based on the anecdotal information that sellers provide, one reason for the shorter median tenure for one-bedroom units is that these units are less able to accommodate increases in household size. Three-bedroom households are limited by fewer affordable market options in that size range, particularly in Cambridge and adjacent communities, and therefore tend to stay in place longer.

The length of tenure of current owners is greatly influenced by the length of time since the unit was brought into the affordable stock, referred to as the age of the affordability. This may differ from the physical age of the unit. As previously noted, the majority of Inclusionary ownership units were first sold during FY2006 through FY2010, so the median length of ownership for that program reflects that.

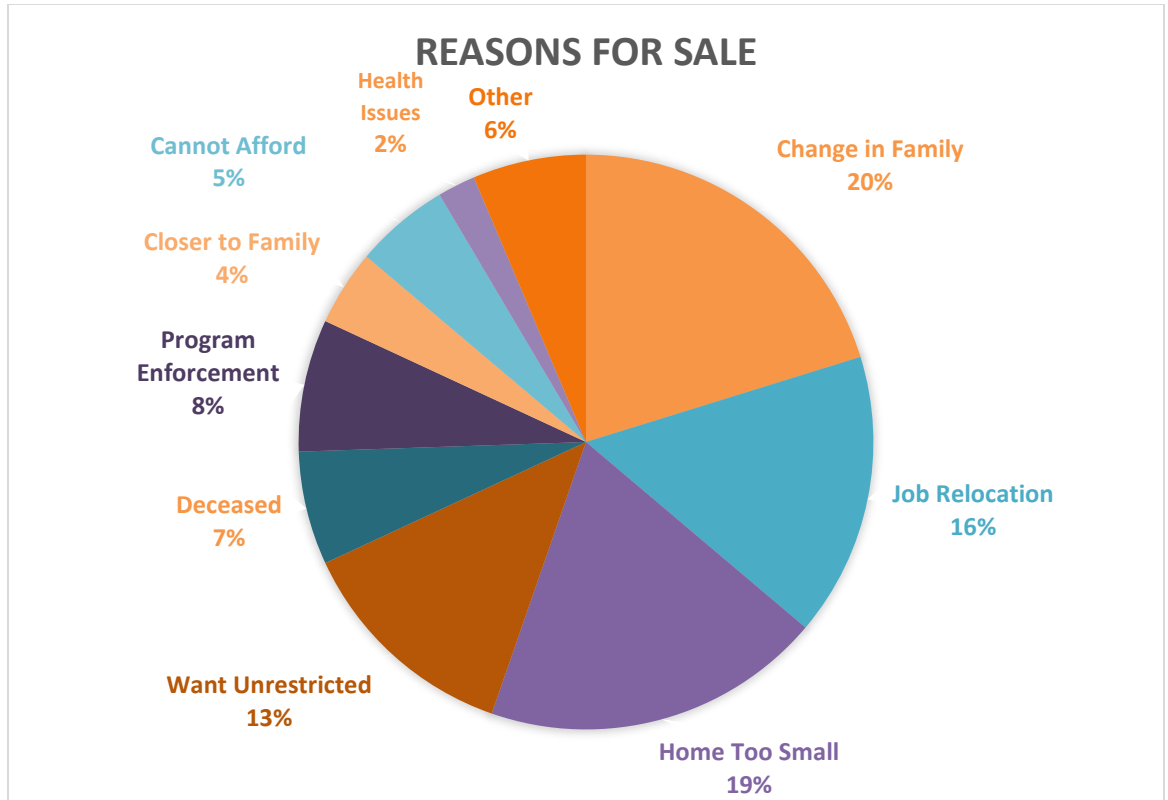


*Based on 446 purchases

Reasons for Selling

In recent years, CDD staff have tracked seller’s reasons for selling. Typically, the reason for a sale is multi-faceted. We only record the primary reason given, and some sellers prefer not to share this information.

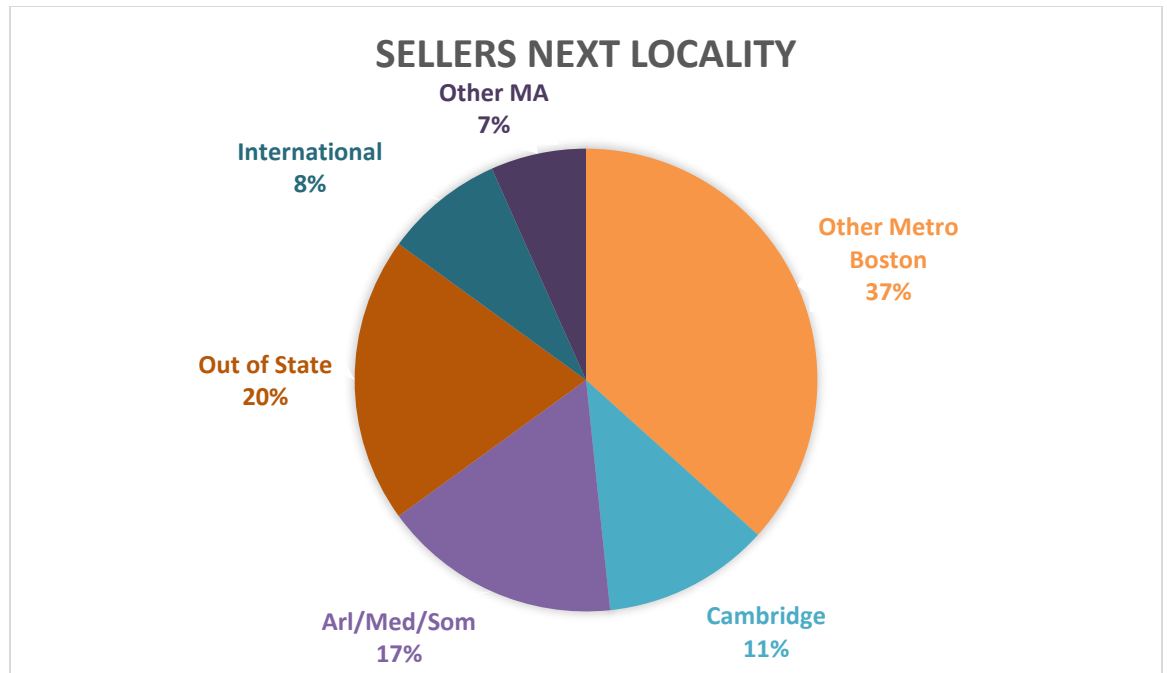
Based on more than 90 sales where sellers provided a reason for selling, the most frequent reasons for selling are either a change in the family size, such as additional children or a marriage, or that the home is too small. Other frequent reasons include a desire to own an unrestricted home and job relocation.



In recent years, we have also begun to track where owners are moving after they sell an affordable unit. While some sellers are moving for a job or to be closer to family, many owners leave Cambridge because they cannot find a larger market-rate unit that they can afford. In addition, many sellers want to move to a single-family or townhouse style home, a housing type that is generally less attainable in Cambridge.

For cases where the seller's next home type is known, three-quarters of sellers purchase another home. They most frequently purchase a home in Massachusetts, but outside of Cambridge.

For all sales since FY2014 where the location of the next residence was known, 11% of sellers during that time period stayed in the Cambridge; 17% moved to Arlington, Somerville, or Medford. Another 28% moved to another state or internationally. While this is most often due to job opportunities or family reasons, in two cases, families relocated to Southern Maine because that was the closest area where they could find a single-family home that met their needs. A plurality of sellers moved to other communities in the Metro Boston area.



GOALS AND BENEFITS OF AFFORDABLE HOMEOWNERSHIP

The affordable homeownership programs offered by the City have several goals. These include providing affordable opportunities for buyers to remain in Cambridge, helping owners build savings by stabilizing housing costs; and helping owners access and enjoy the many benefits that homeownership provides, including control of one’s housing, building equity through mortgage payments, and available tax savings. Another significant goal for the City is to establish and maintain a permanent affordable housing resource that will serve the community into the future.

Stable Housing Costs

Affordable homeownership units are verified to be affordable to the buyer at the time of purchase. In almost all cases, homes become more affordable over time if household income increases and an owner begins to benefit from tax deductions and/or the residential exemption. Mortgage costs are fixed unless an owner refinances the mortgage.

Unlike most affordable rental programs, owners are not required to annually recertify their income. As long as they are eligible at the time of purchase, their income may increase to any level and they may remain in their home. Some owners choose to move to a market-rate home when they can afford to but it is a choice and not a program requirement.

The primary variable expenses associated with homeownership units are condominium fees and home maintenance or improvement costs. While condo fees typically increase each year, an analysis of a range of affordable units found typical increases of no more than 2% annually. Large condo assessments for major repairs or capital improvements may impact the affordability of units for certain owners.

CDD's post-purchase homeownership class includes training on how to plan for home maintenance/repairs. Through the Home Improvement Program (HIP), the City also provides low- or no-cost financing for home repairs, including condo assessments. While many buyers of affordable units qualify for HIP, some may not due to Federal funding requirements.

Asset Building & Savings

The appreciation formula for the City's affordable homeownership program provides an increase based on an owner's equity in the unit. The resale price cannot fall below the original purchase price and will increase each year unless an owner takes on financing in excess of the affordable value.

Owner equity, which includes a buyer's original down payment plus annual principal payments, is multiplied by a designated Treasury Bill rate to determine the "Return on Equity" for each year of ownership. This is the amount of return on the unit. The Treasury Bill rate varies but is typically more than the return for a savings account and less than the stock market. For example, in the past ten years, the Ten-Year Treasury Bill, which is used in most recent appreciation formula, has ranged from a high of 3.85% in April 2010 to a low of 1.5% in July 2016.

Each year, owners build equity by paying their mortgage and building assets through the appreciation of their equity. In addition to what they receive when they sell, owners can use their equity as a resource to pay for college, home renovation, or reduce other debt. The City restriction allows any financing within the affordable value, including home equity lines and cash-out refinancing. Any financing is subject to the approval of lenders and other subsidy providers.

Resident Control

Owners of affordable homes live in housing where they have control of or can participate in the decision-making process for their home. The City's affordable homeownership program stock includes a few single-family homes as well as units in condominium buildings ranging from triple-deckers to multi-family buildings with more than 100 units. Many owners in both all-affordable and mixed-income buildings choose to serve on condominium boards. While condo associations may vote to adopt policies or projects that an owner disagrees with, the owner has a role in the process. Owners may also alter their units as they choose, within condo regulations, as long as they are compliant with the building and other applicable codes and regulations. Homeowners do not need approval to customize their homes to meet their needs.

Low Risk of Displacement

Homebuyers participating in the affordable homeownership programs greatly reduce their risk of displacement, especially those moving from market-rate rental housing. Market-rate renters are increasingly vulnerable to rent increases that may make their housing unaffordable. In many affordable rental programs, participants are recertified annually, and may see their housing costs increase as their income grows. CDD encourages renters in affordable units to explore homeownership options.

Additional City Support

CDD staff provides support for applicants, buyers and owners in a variety of ways. These include:

- Pre-purchase education and counseling: residents interested in homeownership can access the City's free first-time homebuyer class as well as special classes to address budgeting or credit issues prior to buying. Those who complete the class can schedule one-on-one counseling with CDD staff.
- Purchasing support: whether a buyer is using HomeBridge, purchasing a resale unit, or was selected in a lottery, staff assist them through every step of their purchase. This includes working with brokers, lenders and developers to educate them on the affordable program; answering buyer questions about getting an affordable mortgage and the homebuying process in general; and helping to work through any issues that arise.
- Post-purchase programs: in addition to post-purchase homeowner education, the City provides other resources to owners. In partnership with Just A Start and Homeowner's Rehab, Inc. (HRI), the HIP program provides many owners of affordable units with a resource to address needed rehab in their unit or assist in paying condo assessments for building repairs/improvements. In addition to funding, the HIP providers also offer technical assistance, which can often help stabilize vulnerable owners. The City also funds a mediation program to provide owners of affordable units with free mediation services to help address concerns with or within condo associations, neighbors, or to provide training to condo associations in affordable buildings. This service has been a significant benefit to many owners in resolving issues.
- Resale support: when owners want to sell, CDD staff work with owners to support the transition to their next home. In almost all cases, the City exercises its purchase right and finds an eligible buyer. In many other affordable homeownership programs, owners must market and sell their own home, and therefore must find a new buyer that meets program eligibility criteria. This creates uncertainty around the timing and/or price for the seller, which can, in turn, impede their ability to move to market housing. The goal of CDD's resale process is to ensure a timely and low-risk sale for the owner, while also ensuring that the next buyer is eligible, and that affordable homes are again made available to the community through an open process.

Community Development Department (CDD) staff provides the Affordable Housing Trust with an annual update on the homeownership program, including data on applications to the Resale Pool, the HomeBridge program, and on buyer and seller metrics. Staff will continue to track this data and learn from analysis and trends so that appropriate program adjustments can be considered.

APPENDIX A

UNIT DISTRIBUTION - By Program

HomeBridge Units (includes units created through predecessor programs)

Size of Unit	Total Number	Percent of Program Stock
1-bedroom	30	29%
2-bedroom	50	49%
3+-bedroom	22	22%
TOTAL	102	100%

Inclusionary (complete or under construction)

Size of Unit	Total Number	Percent of Program Stock
Studio	5	2%
1-bedroom	70	33%
2-bedroom	101	48%
3+-bedroom	35	17%
TOTAL	211	100%

Affordable Housing Developers Trust and City-funded development/Other Non-Profit

Size of Unit	Total Number	Percent of Program Stock
Studio	4	2%
1-bedroom	22	10%
2-bedroom	80	35%
3+-bedroom	124	53%
TOTAL	230	100%

Other Units (includes pre-Inclusionary zoning/permitting agreements)

Size of Unit	Total Number	Percent of Program Stock
1-bedroom	2	10%
2-bedroom	13	65%
3+-bedroom	5	25%
TOTAL	20	100%

All Affordable Homeownership (Includes units with restrictions not held by the City)

Size of Unit	Total Number	Percent of Program Stock
Studio	9	2%
1-bedroom	124	22%
2-bedroom	244	43%
3+-bedroom	186	33%
TOTAL	563	100%