

AFFORDABLE HOUSING POSITION PAPER, JANUARY, 1988

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I. The Affordable Housing Problem

Over the past five years housing affordability has been a major concern in Massachusetts. The Commonwealth is significantly lacking in housing units for low and moderate income wage earners.¹ During this time Massachusetts has experienced tremendous economic success which in turn has fueled the real estate boom. The resulting increases in land and housing costs has put home ownership out of reach for many Massachusetts residents.

Nationally the affordability index (median family income needed to purchase median family house) is at 115 percent, a healthy sign that indicates the average wage earner can purchase more house for their dollar. When the affordability index is at 100% this means that the median family income needed to purchase the median family house is at equilibrium. But in Massachusetts, the affordability index is at 75 percent showing a gap between housing stock prices and income earned.² There has been a substantial increase in the cost of housing yet annual incomes earned have not increased at the same rate. The average price of a single family home doubled between July 1984 and December 1987.³

1 A Guide to The Massachusetts Housing Partnerships, P 3.

2 Armand Breault; Director, Greater Springfield Board of Realtors, January 1988.

3 *ibid.*

Average price of a single family home: Jul. 1984 \$62,000
Dec. 1987 \$124,000.

During this same time period land costs rose by more than 200 percent.⁴

This dramatic increase in housing can be attributed to many factors, some of which are; 1. the inflated costs of raw land which has driven up the costs of new housing, 2. lower interest rates which has allowed more people to enter the market, 3. prohibitive land use regulations which have intervened in the development process, and 4. a shortage in the number of housing units where higher incomes outbid lower ones for scarce resources.

Affordable Housing Definition

Affordable housing as it is defined in the State Statute:

"any units of housing subsidized by federal and/or state government and/or local housing authority under any program to assist the construction or substantial rehabilitation of low or moderate income housing, as defined in the applicable federal statute or regulation, whether built or operated by any public agency of non-profit or limited dividend organization."⁵

The working definition of affordable housing for first time homebuyers is based upon the median income earned by a family of four in the Springfield Metropolitan Statistical Area (SMSA) which includes Wilbraham. See Table 2 for income figures.

⁴ ibid.

⁵ Procedural Regulations of The Housing Appeals Committee, 760, CMR 30.02.

Affordable Housing and Wilbraham

It is generally agreed that a small portion of the population will require assistance to rent or purchase housing. Yet, in the Springfield area as in the rest of the state, need for assistance has increased dramatically. Between 1986 and 1987 the average price of a single family home rose by 19 percent, from \$101,396. in 1986 to \$120,946. in 1987.⁶ Although extremely high, this was less of an increase than the previous two years. From 1984-1985 there was a 25 percent increase in the cost of housing, and between 1985 and 1986 there was a 27 percent increase. During 1987 the average price of a single family house rose in price with each quarter. Total yearly sales was 3,100.

First quarter: \$109,544.

Second quarter: \$118,447.

Third quarter: \$125,670.

Fourth quarter: \$126,200.

The average wage earner can no longer afford the average priced dwelling. In Wilbraham the lowest price for a single family home (in December 1987) was \$125,900. A house of this kind is typically a 900-1000 square foot house with two to three bedrooms and one bathroom, usually a small ranch or Cape style house. This 5 room house would be considered a "starter" home. Yet, this "starter" home requires an annual income of \$54,794, an

⁶ Armand Breault, Director, Springfield Board of Realtors, January, 1988.

income substantially higher than the median income for this region. First time home buyers are hardest hit because they do not have the equity or the ability to make a down payment of a substantial amount of money, 10-20 percent or more of the price of a house. In order to determine the ability of first time homebuyers to consider buying in Wilbraham, they must determine their eligibility for a mortgage. Housing eligibility depends on the cost of housing and the minimum requirements for a mortgage. There are certain factors necessary in calculating an applicants ability to pay for housing. The calculation in Table 3 outlines the standard used by mortgage lenders.

Table 1 Qualifying the Borrower

Housing Expenditures	Year 1987
Down Payment	-----
Mortgage Amount	-----
Monthly Payment	-----
Principal Interest	-----
Property Taxes	-----
Insurance	-----
Private Mortgage Insurance (PMI)	-----
Total Monthly Payment	-----
Total ANNUAL PAYMENT	-----
Total INCOME REQUIRED	-----

Assumptions: 10.5% fixed interest rate for 30 year term, 10

percent downpayment, private mortgage insurance = PMI factor:
(.0029 on less than 20 percent down) x mortgage amount -12; home
owners insurance = approximately .004 x sales price -12; and,
closing costs (one-time) are not represented.

The factors above represent the standards used. Most banks
require PMI, the purpose of which is to guarantee the full
payment of the mortgage in case the borrower defaults on the
mortgage payments. The mortgage interest rate used is based on
the fixed average mortgage interest rate for a 30 year term. Due
to the limited equity of first time homebuyers, a down payment
figure of 10 percent of the selling price of the house is one
factor estimated. No more than 28 percent of the gross income of
a family or household is permitted toward the housing
expenditure.

Mortgage Calculation For Housing Affordability

Calculations for housing affordability consider the family
median income for a given area. The median value equals the
minimum income earned by one-half of all families. The Department
of Housing and Urban Development (HUD) provides median income
statistics for highly populated urban areas and their adjacent
communities known as metropolitan statistical areas (MSA). The
definition for affordable housing as was mentioned before is
those households earning up to 120% of the median income of the
Springfield metropolitan statistical area. For this area, an
affordable single family home is one in which families earning
120% of the Springfield MSA median income could pay while using

no more than 28% of their gross income for housing debt.

Table 2

1980-1987 Incomes as percent of Median Income
For A Family of Four Springfield Metropolitan Statistical Area

Yearly Income as a percent of median income

<u>Year</u>	<u>80 Percent</u>	<u>100 Percent</u>	<u>120 Percent</u>
* 1987	\$24,160	\$30,200	\$36,240

Table 3

Incomes required to purchase home:

1. Median priced home in Springfield MSA, 1987:

Value of House and Land	\$120,946
Annual Housing Cost	\$14,738
Annual Income Necessary	\$52,634
120% of Median Income	\$36,240

2. Lowest price home in Wilbraham (December, 1987):

Value of House and Land	\$125,900
Annual Housing Cost	\$15,342
Annual Income Necessary	\$54,794
120% of Median Income	\$36,240

3. The average single family home in Wilbraham from October 1, 1986 to September 30, 1987:

Value of House and Land	\$165,016
Annual Housing Cost	\$20,116
Annual Income Necessary	\$71,845
120% of Median Income	\$36,240

The calculations in Table 3 estimate the annual household income required to purchase a single family house in the Greater Springfield area. The calculations were made using the standard lender format.

Wilbraham is in the midst of this affordability squeeze.

With Wilbraham's housing prices being traditionally higher than

most other communities in Hampden County, the affordability problem is that much more acute. In Wilbraham many of those who earn their living here cannot afford to live here. The issue of affordability concerns homebuyers who may want to live in Town. Especially since only a small percentage of wage earners can afford to enter the market at this time.

II. State Housing Programs

In order to increase the available supply and to encourage a balanced, regional distribution of low and moderate income housing, the State Legislature adopted Chapter 774 (Chapter 40-B or the Anti-Snob Zoning Act) in 1969.

Requirements of Chapter 774

Chapter 774 of the Acts of 1969 (also known as Chapter 40-B of the Massachusetts Legislature) was adopted by the Legislature to better address the State's housing needs. This law allows for "comprehensive permits" to develop subsidized low or moderate income housing. The permits are granted by the local Zoning Board of Appeals (ZBA) on a case by case basis following a public hearing. The permits allow housing construction at a greater density than allowed by the local zoning.

Chapter 774 is a law with which municipalities must comply, a powerful tool for the provision of affordable housing. Any public agency, non-profit or limited-dividend organization (developer) may apply for a comprehensive permit. The permit allows for local regulations which are inconsistent with the

provision of low and moderate income housing to be overridden. This allows developers to build multifamily housing in areas zoned for single family residential use.

Chapter 774 has proven effective in the provision of affordable housing. Towns would best be served in developing a public strategy to locate affordable (possibly higher density) units in areas that are environmentally sound and where traffic congestion is minimized. If towns do not decide where affordable housing will go, developers will.

Affordable housing as per Chapter 774 must be constructed or rehabilitated under a state or federal subsidy that provides for a "long-term" commitment (at least 10 years) guaranteeing affordability. Rental as well as ownership housing can qualify as low or moderate income housing. Housing that is offered by a private owner that happens to be "affordable" does not qualify because there is no restriction to keep it affordable.

Prices for affordable ownership housing units generally range from \$70,000 to \$110,000 and are targeted for those households with incomes in the \$17,000 to \$25,000 range.

Mixed_Income_Rental_Housing

SHARP (State Housing Assistance for Rental Production). This program provides assistance for new construction and/or substantial rehabilitation of rental housing. The Massachusetts Housing Finance Agency (MHFA) writes down the interest on mortgages to 5%. Permanent financing is provided for the construction of mixed income rental housing. At least 25 percent

low income occupancy is required. A variety of unit types are allowed and all of the units are counted towards the municipality's required ten percent quota.

Rental Rehabilitation and Rental Subsidy

CORE_FOCUS (Commercial Residential Financing Options for Central Urban Sites). The funding procedure is similar to the Small Cities, the maximum grant is \$200,000. Chapter 707 rental assistance is also available. These grants are to assist municipalities in revitalizing abandoned or blighted buildings or vacant land sites. Municipalities are eligible and special consideration is given for partnership communities.

Related Development Resources

Community Development Action Grant (CDAG), Small Cities CDBG, Weatherization Grants, Abandonment Grant Program, etc. These grants are for development related expenses, i.e. site and infrastructure improvements which will be publicly owned. These grants are available to municipalities to be put towards the construction of affordable housing. The financing/funding available differs with each program and size of the project.

Planning and Technical Assistance

1. Strategic Planning Grant: These are short term (usually one year) planning grants for economic development, resource and environmental protection, capital facilities planning, growth controls and management. Single applicants can receive up to \$30,000.

2. Challenge Grant: The MHP Challenge Grant program

encourages and supports innovative housing strategies. The Challenge Grant program seeks to create investment in new tools for creating and preserving affordable housing.

3. Municipal Advance Program - Mini Advance: Mini Advance grants allow municipalities to obtain professional consulting services to carry out preliminary planning tasks, i.e. site surveys and appraisals, title searches, etc. These grants are for \$5000. and are available to MHP partnership communities only.

4. Municipal Advance Program - Development Advance: These are planning assistance grants are for \$20,000. They cover pre-construction activities such as site inventories, project and feasibility analyses, preparation of developer's kits among other. Certain restrictions apply.

5. Technical Assistance Advance Fund (CEDAC): Funding is available of up to \$20,000. for non-profit developers of housing within MHP communities. This loan must be repaid.

These are some of the grants available to municipalities and developers working in MHP partnership communities. This is not an exhaustive list.

III. Wilbraham's Participation in Public Housing Programs

Wilbraham is presently at 5.4 percent of the required 10 percent quota for subsidized housing units. As of January, 1987, there were 4,090 total housing units in town. Of those, 220 were subsidized. The Wilbraham Commons has 136 units of privately owned subsidized housing. There are 108 units of elderly and 28 units of family housing. The Commons project started in 1974

with a comprehensive permit under Chapter 774 of the Acts of 1969. Chapter 774 is a local process for granting Comprehensive Permits for the development of low or moderate income housing. The Wilbraham Housing Authority has 35 elderly apartments and congregate units at the Pines and nine (9) other units around Town. And Miles Morgan, the first elderly apartment complex in Town has 40 units. Presently there is a minimum 3-year waiting list for the Wilbraham Commons and a 1 and 1/2 year waiting list for the Pines and Miles Morgan housing. Some of the surrounding towns' quotas from a 1985 survey are:

Palmer	4.56%
Monson	3.61%
Chicopee	14.06%
East Longmeadow	7.85%
Longmeadow	3.17%

These percentages reflect only subsidized units, not necessarily the diversity of affordable units which may also be available in the town. Also, the smaller town (populations less than 6,000) have a special exemption from the mandatory 10 percent required from the state.

IV. Massachusetts Housing Partnership

The Massachusetts Housing Partnership (MHP) was formed in 1985 to support local housing initiatives. The MHP works in cooperation with a number of state agencies, the Executive Office of Communities and Development (EOCD), the Massachusetts Housing Finance Agency (MHFA), the Executive Office of Human Services

(EOHS), and others to increase the supply of affordable housing in Massachusetts. With support from the legislature more than half-a-billion dollars in financial and technical assistance is available to aid local housing initiatives throughout the state. The MHP works towards 1. producing affordable housing for those in need; 2. growth management at the local level, creating policies to provide for affordable housing; 3. providing specialized housing opportunities for persons with special needs and, 4. assisting in the support of local housing partnerships. After a local partnership has formed, defined its needs, and located available resources, the MHP will help with financial programs and technical assistance. The MHP together with other state agencies offers a variety of mixed income homeownership and public housing development programs.

Mixed Income Homeownership Housing:

The Massachusetts Homeownership Opportunity Program (HOP) began in 1986, its goal was to give moderate income households a chance to own their first home. The HOP program is a local partnership that is formed by the community and a developer. The community and the developer work together to reduce costs which are normally passed onto the homebuyer. This in turn reduces the cost of housing units to the consumer. Low-cost mortgage financing is provided for these units if they are first time homebuyers. Also, resale of these affordable units is restricted to maintain affordability. The prices for those units is generally 15-50% below "market price", so that their re-sale is

restricted (by deed) to be made available at a similar discount. Also, some of the units (5-10%) will be made available for rental by lower income families; usually sold to the local Housing Authority and then rented to eligible families. The new 1988 guidelines for HOP projects specify that a minimum of 30% of the units be affordable to low and moderate income families. These units must have an average price of \$75,000. Currently there are 123 local housing partnerships serving 135 communities across the state.

Advantages of Participating in the Massachusetts Housing Partnership Program

Housing partnership status offers many advantages with the State. The MHP provides communities with resources from a variety of state agencies.

Development Assistance:

- ___-low-interest mortgages
- financing for mixed-income rental housing
- incentives for landlords to rehabilitate apartments and keep them affordable
- grants for the development and operation of housing for persons with special needs
- infrastructure grants

Technical Assistance:

- to develop a housing strategy
- to identify resources such as land or buildings
- to explain ways to combine growth management techniques with zoning incentives to create affordable housing
- work with private developers to create more affordable housing.

Through local housing partnerships the community can develop specific housing projects to address their own community's particular housing needs.

Additional advantages are that the Town would be eligible for planning and technical assistance funding and professional consulting services. Also with the provision for affordable housing the Town has greater leverage ("points" in the application process) in securing grants from different state agencies. Becoming a local housing partner is not a legally binding agreement. The appointed committee can at any time render themselves powerless by simply not doing anything. The formation of a partnership is for the benefit of the community. The Town, through the auspices of the committee is responsible for the preparation and development of a plan to meet the community's diversified housing needs

V. Steps to Becoming A Housing Partnership Community

1. Commitment to Affordable Housing:

The Town of Wilbraham should demonstrate a public commitment to address its local need for affordable housing. This can be done through a written letter from the chief elected official of the municipality to the Massachusetts Housing Partnership.

2. Assessment of community housing need and local resources available to address those needs:

The municipality should prepare a brief description of the housing needs and local resources available to meet those

needs within the community. Examples:

- potential development sites (publicly or privately owned)
- existing municipal programs or policies to support affordable housing
- local lender or builder willingness to participate in financing of community-supported projects

3. Review of Past Actions and Prospective Plans for Housing Affordability:

The municipality should provide a brief overview of actions the community has taken in the past to further affordable housing and any current or prospective plans it has for doing so.

4. Identification of Lead/Contact person or organization for the Partnership.

The municipality should identify the contact who will be coordinating the housing activities on behalf of the partnership.

VI Examples of Affordable Housing Projects

City of Springfield: The Redevelopment Authority transferred the title to property from vacant city lots to a local community development corporation for the construction of 21 3-bedroom homes at a land cost of \$1000.00 per unit. The Community Development Corporation used a combination of MHP, HOP and CDAG grants to construct the homes and roads and utilities and were able to offer the homes at purchase prices ranging from \$69,000. to \$78,000. to qualified neighborhood residents.

City of Northampton: Through the help of a local partnership,

seven apartments were constructed for physically disabled and mentally ill individuals. These apartments will be staffed and have support services through funding from the Massachusetts Department of Mental Health.

Town of Lincoln: The Town purchased a 30-acre site and then issued a Request for Proposals from developers to develop affordable housing through the MHP Home Ownership Program (HOP) on this site. Within the 30-acre tract, 20 percent will be conservation land. The Town also requested the creation of a buffer area and protection of a 5 acre wetland.

Town of Amherst: Misty Meadows HOP Project: Forty units of mixed income housing were built on 18 acres. Twenty four units of duplex housing and sixteen single family houses. This was not a comprehensive permit project, instead it was done through a non-profit developer.

Currently there are 23 HOP projects under construction or occupied in the State. There are 37 that are in the approval stage awaiting construction, and 40 new applications under review.

Summary:

I recommend the formation of a Local Housing Partnership Committee. This is a necessary response, at this time for the Town of Wilbraham. The Town through the auspices of the committee would prepare and develop a plan to meet the community's diversified housing needs. The committee would be responsible for an inventory of municipally and state owned land, formulating goals and objectives for the provision of affordable housing, and preparing to negotiate with developers on comprehensive permits or town initiated "Request for Proposals". Becoming a "Local Housing Partner" is not a legally binding agreement. Housing Partnership status offers many advantages with the State. The Town would be eligible for planning and technical assistance funding. For these reasons and more I am recommending the appointment of this committee.