

Walpole Housing Partnership

Converting Market Rate Units to Affordable Units

DHCD Peer to Peer Program – Report by Beth Rust

March 2009

Walpole Unit Conversion

As of August 2008, Walpole has a certified affordable housing stock of 472 units currently included on the Subsidized Housing Inventory, representing 5.8% of Walpole's total housing units based on the 2000 census. Walpole would like to implement strategies that not only serve the specific needs of the community but also count towards the State's Housing Inventory, which will assist to protect the community in Chapter 40B permitting as well as providing needed housing diversity.

Walpole has a recent (January 2008) Housing Production Plan approved by the Department of Housing and Community Development (DHCD). This plan, available on the DHCD website under Housing Production Plans in the Chapter 40B Planning section under Community Development, provides valuable information and lays out the Town's housing strategies, developed to serve the specific needs of the community. The strategies include new development of rental and homeownership units, zoning amendments to increase opportunities for affordable units, and unit conversion through the use of public funding and strategic partnerships.

A recent survey of existing rental properties in Walpole by the Board of Selectmen suggests that there are market-rate affordable rental properties in Town which would provide an opportunity to increase the Subsidized Housing Inventory, which DHCD uses to track to the mandated 10%, without having to develop new units.

The results of this survey (see Table 14 below from Housing Plan) have compared existing rents to HUD income limits for moderate and low income. These additional units can help to alleviate development pressure and also maintain homes for residents in need of housing assistance.

In its recognition of the existing housing exploration of implementation of these strategies, Walpole received a grant from DHCD to further explore these unit conversions. This report represents the deliverable from that grant.

As identified in the Housing Production Plan (p 54), the community will need to engage in a multi-step process to establish a program for converting existing market rate units to affordable units:

- 1) identify the types of homes in the community that should be targeted for conversion, including subsidizing existing rental units; purchasing restrictions of single-family and multi-family homes;
- 2) identify potential sources of funding for either subsidizing or "buying down" units (discussed below in more detail);
- 3) forming strategic partnerships with local groups to perform outreach to target households.

These steps are not necessarily sequential and represent an iterative process that will take place over the course of several years. This initial report explores options for the first of these steps.

Subsidize Existing Rental Units: This first category consists of converting existing rental units that could be subsidized by the Town or some other non-profit agency toward making them affordable to people of low to moderate-income levels.

One program that could be considered in this category is the conversion of units of rental housing occupied by households with mobile Section 8 vouchers to project-based Section 8 vouchers. The Section 8 program allows families to choose privately owned rental housing by HUD subsidizing the difference between what the family pays – 30% of annually certified income – and fair market rent (FMR). The vouchers are administered by the local public housing authority. There are specified standards in the program that regulate reasonable rents, physical conditions, income limits and other key components.

The mobile voucher programs (HUD Section 8 Housing Choice Voucher Program (HCVP) DHCD Massachusetts Rental Voucher Program (formerly Chapter 707 Program)) are ineligible programs for inclusion on the State Subsidized Housing Inventory since these programs do not require a long-term affordability restriction.

However project-based voucher programs (HUD Section 8 Project Based Assistance, DHCD Mass Rental Voucher Program (MRVP) Project Based Vouchers Only, HUD Section 8 Project-Based Rental Certificate Program) are able to be included in the SHI. Additionally the SHI allows for increased inclusion on the SHI for rental development.

In a rental development, if at least 25% of units are to be occupied by Income Eligible Households earning 80% or less than the area median income, or alternatively, if at least 20% of units are to be occupied by households earning 50% or less of area median income, and meet all criteria outlined in the regulations, then all of the units in the rental development shall be eligible for inclusion on the SHI. In determining the number of units required to satisfy either percentage threshold, fractional numbers shall be rounded up to the nearest whole number (e.g.: in a 51 unit development, one would restrict 13 units in order to meet the 25% standard).

It is logical and practical then, for Walpole to consider implementation strategies to convert mobile vouchers to Project-based vouchers. In both cases, Very low income or extremely low income households are eligible. Some developments give preference in selection to households where one or more members have a special need or meet other additional selection criteria.

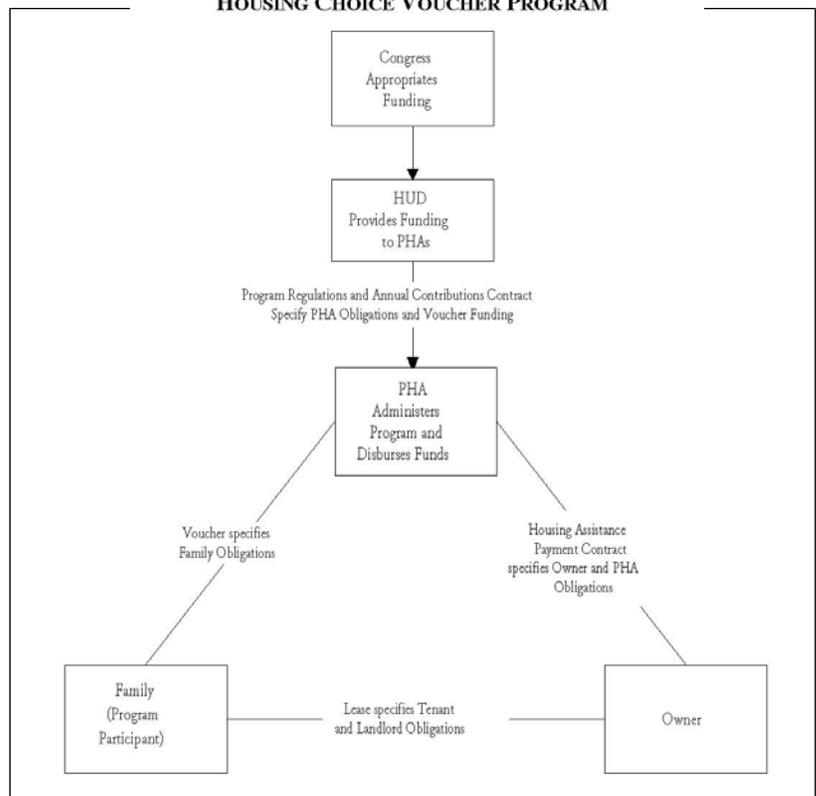
The Section 8 Project-Based Voucher (PBV) program is a component of the Section 8 Housing Choice Voucher (HCVP) program that provides long term project-based affordable housing for very low and extremely low households. Unlike the HCVP, PBV subsidies are not mobile. The subsidy is tied to a specific unit for the term of a Housing Assistance Payments (HAP) contract, which serves as the Regulatory Agreement to satisfy the deed restriction requirement for the SHI.

How does one get PBVs? New developments can arrange for project-based vouchers as a component of the initial financing arrangements. The PBV subsidy can be used for newly constructed or rehabilitated units or for units in existing buildings. PBV subsidy is very effective used in tandem with housing development programs (like the LIHTC and HOME programs) because it guarantees the developer a steady stream of revenue that can help pay debts incurred during construction or rehabilitation. PBV subsidy also helps to ensure that affordable housing is available to voucher-eligible households even when housing markets are tight.

Additionally, public housing agencies can attach up to 20% of their HCVP budget authority to specific housing units for up to ten years, with the option to renew in maximum five year increments during the last year of the PBV contract. As of August, 2008 the Walpole Housing Authority administers 95 mobile section-8 vouchers, and additionally administers 25 vouchers from other Towns. The Walpole Housing Authority could potentially convert 19 vouchers to project-based vouchers. Further research is required to identify the next level of detail : how many of these vouchers are for units in Walpole, how many for units in same apartment complex, ...?

This strategy can be further explored with the administrators: Walpole Housing Authority first and the DHCD Division of Public Housing and Rental Assistance of DHCD. Also an owner of a market-rate affordable rental property might be found with strong ties to the community who see managing these properties as providing a social benefit to the community not just a business.

RELATIONSHIP AND CONTROLLING DOCUMENTS IN THE HOUSING CHOICE VOUCHER PROGRAM



Purchasing restrictions of single-and multi-family homes: This second target for households in the community is single-or multi family homes that would currently sell at or near affordable levels, and thus require minimal subsidy. Although these homes, based on their value, might already qualify as affordable under state guidelines, they lack the subsidizing agent required to formalize the process, and the affordable housing restriction.

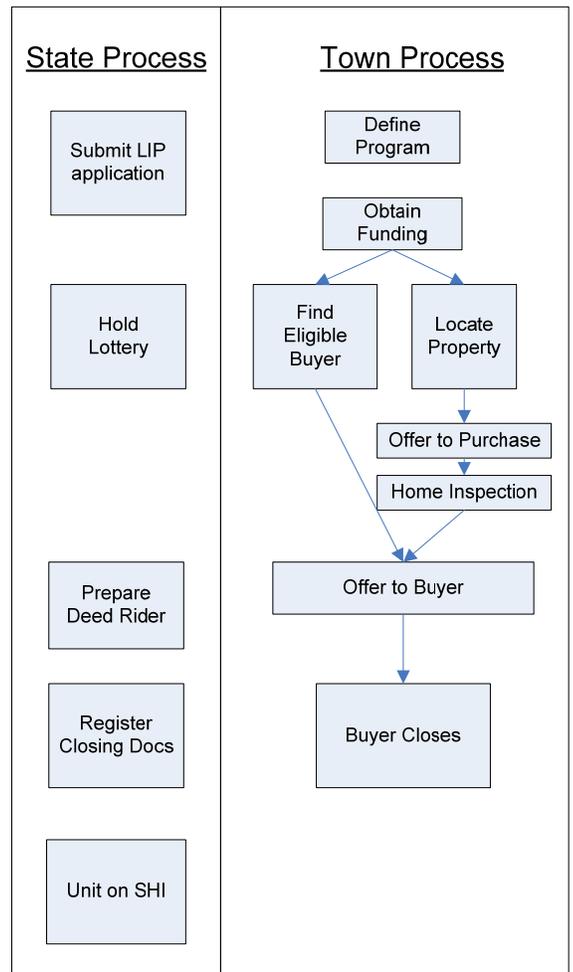
The subsidizing agent provides the regulatory guidance for the program requirements. The Local Initiative Program (LIP) managed by DHCD is an example of such a program that might be appropriate for this activity.

In addition to a subsidizing agent, these properties would require a deed restriction stipulating that re-sale of the property would be done so at a price affordable to households making at or below moderate income levels (80% of the area median).

Multi-family homes, offering more than one unit of housing, are similar in project design. They are particularly attractive for conversion efforts due to the number of units. One of the most effective ways to convert these units is to buy them outright as they come up for sale, place the deed restriction on the home, and sell at an affordable price. In other cases, the house could be sold to a local housing authority who in turn could manage the units as affordable rentals under Section 8 or other program.

The Town of Sudbury has successfully included three units of housing on the SHI through a similar program, through the steps detailed here. The first steps include determining the transactional entities for the purchase. Will the Town take title and then sell to the eligible buyer? This is a straight-forward approach, though requires two closings, and perhaps Chapter 30B procurement procedures. Another option is for the Town to facilitate the closing and bring the buyer and seller together, though the timing for this transactional structure requires a hands-on approach.

The eligible buyer is located through a lottery where the ready-buyer list is generated. This process takes at least 90 days, and up to 180 days in needed to include the planning steps. The top-ranked households prioritized by size are offered the unit. A home inspection will determine whether any repairs are needed prior to closing, and these are detailed and committed to the buyer.



The deed rider and supporting documents area included in the closing documents and the unit is then counted on the Subsidized Housing Inventory.

Using current parameters, including August 2008 interest rate, and Walpole’s FY07 tax rate, a 3BR house in Walpole could be sold for \$176,800 to be included on the State’s inventory. A market rate single detached house offered at \$250,000 or higher would be a candidate for this program offering. Affordable housing restrictions reduce the value of a housing unit from \$50,000 to \$100,000 depending on the property particulars. In housing markets of the past, market prices were much higher, and this was not a consideration. However, given current conditions, this may not hold true. Market prices, even if affordable by the guidelines, will generally not be accepted due to the resale restrictions of the deed rider.

**Sample Affordable Price
Walpole 3BR
August 2008**

| Purchase Price Limits | |
|------------------------------------|----------------|
| Housing Cost: | |
| Sales Price | \$176,800 |
| 5% Down payment | \$8,840 |
| Mortgage | \$167,960 |
| Interest rate | 6.77% |
| Amortization | 30 |
| Monthly P&I Payments | \$1,091.62 |
| Tax Rate | \$10.72 |
| monthly property tax | \$158 |
| Hazard insurance | \$88 |
| PMI | \$109 |
| Condo/HOA fees (if applicable) | \$0 |
| Monthly Housing Cost | \$1,447 |
| Necessary Income: | \$57,885 |
| Household Income: | |
| # of Bedrooms | 3 |
| Sample Household size | 4 |
| 80% AMI/“Low-income” Limit | \$66,150 |
| Target Housing Cost (80%AM) | \$1,654 |
| 10% Window | \$57,881 |
| Target Housing Cost (70%AM) | \$1,447 |

Comments:

Identifying Potential Sources of Funding and Forming Strategic Partnerships: For any of these program strategies to be implemented, funding and/or subsidy sources are needed, as well as partnerships across the public, non-profit and private sector.

Funding sources can include a combination of local subsidy, private donations, grants from public and non-profit organizations, as well as State and Federal housing programs, leveraging funds across multiple sources. Establishing partnerships with local interested stake-holders only strengthens the program success.

An article by Lisa Fowler (attached), Director of the Office of Housing Policy Research at George Mason University's School of Public Policy, published in the June 2008 American Planning Association offers some strategies that are relevant for Walpole. This local jurisdiction may be interested in some of the following to encourage the preservation of market-rate affordable rental properties:

- Require a 'right of first refusal' upon initial permit to a local non-profit or municipal agent
- Offer property tax reductions
- Allowing additional density bonuses upon permitting

These are just some ideas, and each requires detailed analysis to determine feasibility and interest from the housing owner to move forward.