

# The Pursuit of Permanent Affordability

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## What if...

You are a developer interested in setting aside a few affordable units in a traditional subdivision?



## What if...

You are a municipality using incentives to stimulate production of affordable, workforce housing?



## What if...

You are a municipality or housing agency needing to stretch limited housing subsidy dollars?



# What if...

You are a citizen  
concerned about  
maintaining  
diverse  
communities?



## **GOAL:**

Create and maintain  
affordable workforce housing

## Housing gets built when...

# \$

Acquisition/Predevelopment  
Subsidies  
Financing

# Opportunity

Land  
Zoning  
Welcoming Community

## Subsidies

- ☛ Federal or State Grants
- ☛ NH Housing Finance Authority \$
- ☛ Municipal \$
- ☛ Developer \$
- ☛ Foundation \$



## **PROBLEM:** Limited Subsidy \$



## Options

### **Recapture:**

Homeowner pays back \$

#### PROS:

- ☞ Wealth building
- ☞ Easy to administer

#### CONS:

- ☞ Over time, larger and larger subsidies needed to serve same population


### **Retention:**

Subsidy is embedded in the home

#### PROS:

- ☞ Scarce subsidy \$ can help more families who otherwise would be priced out

#### CONS:

- ☞ Limited equity
  - ☞ More complicated
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## Issues & Options

1. Goal
2. Duration
3. Eligibility
4. Use
5. Improvements
6. Resale Formula
7. Restrictive Covenant vs. Preemptive Option
8. Legal Instrument
9. Administration
10. Cost

## 2. Duration

- **Perpetuity:** If a developer is given a density bonus, then the covenant should last the length of the zoning relief
- **30 years renewable upon resale:** effectively in perpetuity

### 3. Eligibility

- According to the ordinance
- At or below **80%** of PMSA Area Median Income (\$55,680 for a family of 4)
- At or below **120%** of PMSA Area Median Income (\$83,520 for a family of 4)

### 4. Use

- Occupancy 8 months of the year  
Residential use
- Transfers resulting from death, divorce, in lieu of foreclosure – restrictions remain
- Leasing, refinance, encumbering, or granting a mortgage on the home needs prior approval

## 5. Improvements

- Homeowner must maintain the home in good, safe and habitable condition
- Owner may make improvements; value to be appraised as part of the Home's Current Appraised Value

## 6. Resale Formula

- **Indexed Formulas**
  - Adjust the original purchase price by applying a single factor, e.g. change in median income, CPI
  - Purchase price x change in index = resale price



## 6. Resale Formula

### ☛ **Itemized Formulas**

- Adjust the original purchase price by adding or subtracting factors that affect the value of the owner's investment in the home and that affect the value of the home itself
- Purchase price + homeowner equity invested or earned to date x inflation factor + value of improvements – depreciation – damage beyond normal wear and tear = resale price

## 6. Resale Formula

### ☛ **Appraisal-based Formulas**

- Adjust the original purchase price by adding a certain percentage of any increase in the home's value as measured by market appraisals at the time of purchase (Appraisal 1) and at the time of resale (Appraisal 2). The homeowner receives a predetermined % of appreciated value.
- Purchase price + [(Appraisal 1 - Appraisal 2) x 25%] = resale price

## Appraisal-based Formula

Formula		Example
Purchase Price	Est. @ purchase	\$100,000
Initial Appraised Value	Est. by appraisal @ purchase	\$120,000
Current Appraised Value	See Sect. 2.2	\$140,000
Current Appraised Value – Initial Appraised Value		$(\$140,000 - \$120,000) = \$20,000$
X 25%		$\$20,000 \times 25\% = \$5,000$
[Owners Limited Appreciation]		\$5,000
+ Purchase Price		\$100,000
<b>= Maximum Resale Price</b>		<b>\$105,000</b>

## WHC Evaluated 3 Formulas

- ☛ Indexed formula based on 2x increase in CPI
- ☛ Discount rate equal to the subsidy at time of purchase
- ☛ Appraisal-based formula
- ☛ ***Appraisal-based method best preserved affordability, even in rapidly appreciating markets***

## 7. Restrictive Covenant vs. Preemptive Option


- ☞ The Housing Partnership (example) has right of first refusal
- ☞ Owner sends THP an Intent to Sell Notice
- ☞ THP has 30 days to reply with a Purchase Notice. Purchase within 60 days after
- ☞ If no eligible buyer, restrictions fall away; however, any excess proceeds go to THP
- ☞ Notice of foreclosure – THP has opportunity to cure; otherwise restrictions fall away

## 8. Legal Instrument

- ☞ Covenant embedded in a deed
- ☞ Covenant is subordinate to First Mortgage
- ☞ Covenant runs with the home
- ☞ No encumbrance shall be in excess of the amount of the Maximum Resale Price
- ☞ % administrative fee recommended



## Administration

- Deed restrictions are not necessarily self-enforcing
  - Housing organization bound by mission
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## Cost

- Owner pays admin fee at time of resale
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## Why work to preserve affordability?

- ☞ Maintain a stock of affordable, workforce housing in high-cost, appreciating markets such as the Seacoast
- ☞ Preserve regulatory concessions
  - Density bonus
  - Waiver or reduction of impact fees, parking, etc.
- ☞ Preserve regulatory exactions
  - Inclusionary zoning
  - Housing replacement requirements
- ☞ Preserve public subsidies



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