

Acton Community Housing Corporation
TOWN OF ACTON
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CONDOMINIUM BUYDOWN PROGRAM

In 2007, the Acton Community Housing Corporation (ACHC) received DHCD approval for a Condominium Buy-Down program. The ACHC chose a Purchase Price Buy-Down model to apply to existing condominium housing units or new construction units in non-40B developments in Acton.

- Purchase price buy-down program involves a payment to the seller at the time of closing, which effectively reduces the principal amount of a first-time homebuyer's mortgage.
- The unit is sold for a pre-determined affordable level to income eligible households below 80% of the Area Median Income.
- In exchange, a deed restriction is placed on the property to keep the unit affordable into perpetuity, to restrict re-sales to eligible households, and to insure the unit will be added to the Subsidized Housing Inventory.
- Community Preservation Funds and Housing gift funds are used for the subsidies.

ACHC began with a small pilot program to place buyers in two units. The first step was generating the Ready Buyer List.

- A lottery agent administered the affirmative and fair marketing plan for a Ready Buyer List good for up to two years.
- A lottery was conducted for income-eligible first-time homebuyers and twelve eligible applicants were placed on the list in rank order of lottery draw.
- The affordable selling price was calculated using the market condo fees since they cannot be discounted in the case of existing condo units. With typical fees at \$300 a month, this drove down the selling price.
- ACHC identified appropriate units for sale and entered into negotiations with owner with an offer for purchase if they were willing to have a prolonged process
- Purchase and sale was contingent on finding an eligible buyer, the buyer getting financing and DHCD approval of the unit and buyer
- Contacted Ready Buyer list until first qualified household is found to purchase the unit
- Apply to DHCD for approval of selected Local Action Unit and schedule a visit if required.
- Verify income and mortgage eligibility for prospective unit buyer, get DHCD LIP approval of buyer, and assist with closing process
- At closing, ACHC pays seller the negotiated subsidy and the new owner will take possession of property, record deed rider and title
- ACHC never takes title to the property

CONDOMINIUM BUYDOWN PROGRAM SELECTION CRITERIA

1). One or two-bedroom units within the Town of Acton will be considered. DHCD minimum square footage requirements will guide the selection of units.

2). The units should be in move-in condition. Only refurbished or updated units will be considered. Refurbishing will be considered as any combination of the following.

- Replacement of carpeting, drapes or floor tile
- Painting of woodwork, walls or ceilings
- Refinishing of floors
- Replacement of wallpaper
- Updated kitchens and baths

3). Units must be in a condition such that no rehabilitation work or replacement is necessary on the following

- Electrical appliances such as stove, refrigerator or air-conditioning unit
- Plumbing appliances such as toilets, sinks, bathtub or shower stall
- Electrical wiring
- Plumbing, i.e., the pipes, valves, etc. servicing the unit
- Windows, doors, walls, floors, sills and/or the associated framing, joists, and bearing partitions

4). Unit location within the building will not qualify or disqualify a unit from consideration

5). Unit will be subject to inspection by a qualified Home Inspector contracted by ACHC. A lead paint inspection will also be required.

6) There must be no deed restrictions that would exclude children under the age of 18. Master Deed, other Condo documents, and Condo budget must be made available for ACHC review.

7) Special assessments or other major capital improvement plans must be disclosed.

8) Preference given to units that include heat in condo fee, that do not have electric heat, are well run complexes, and are either on sewers or package treatment systems, not septic.

9). The Acton Community Housing Corporation may, at its discretion, negotiate certain conditions notwithstanding the above, which, in its judgment will serve to meet the goals of the Program.

6/12/08

TOWN OF ACTON – Acton Community Housing Corporation

Name of Program: Condo Buydown Program

Type of Program: Purchase Price Buydown - Homebuyers purchase properties identified by the Town's affordable housing committee, Acton Community Housing Corporation. The ACHC makes an offer on the unit contingent on finding an eligible buyer, DHCD approval of unit and buyer, passing a home inspection and review of condo docs. The ACHC nominates a buyer who then enters into the Purchase and Sale Agreement with the seller who is given the buydown subsidy directly at the closing.

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Funding Commitments: \$500,000 in Community Preservation funding has been approved to date (2010) to use for this program as needed.

Current Status: The ACHC has assisted with the purchase of seven (7) units to date through the program with some units purchased by eligible first time homebuyers and others by the Acton Housing Authority for rental to qualifying low-income tenants. To date, approximately \$380,000 in subsidy funds have been spent. ACHC has found that most of the demand for these units has come from singles and single mothers with children. In addition, funds have been used for closing costs and down payment assistance by five first time homebuyers of these and other 40B units.

Summary Description: The program is directed to subsidize the cost of purchasing an identified condominium in town to enable a qualifying purchaser earning between 70% and 80% of area median income to become a first-time homeowner. The subsidy reduces the principal amount of the mortgage and is provided to the seller at the time of the closing. The affordable purchase price is based on the state's DHCD Local Initiative Program (LIP) formula and, factoring in the condo fees, the maximum purchase price has been about \$110,000, assuming a \$300 monthly condo fee. The subsidy amount can range from \$25,000 to \$150,000. ACHC has targeted a subsidy of \$60,000 per unit for garden style units selling at market prices of \$150,000-175,000.

ACHC contracted with a lottery agent to do the DHCD required marketing and lottery to create a Ready Buyers List that met all LIP requirements. After extensive outreach, this lottery only attracted 12 applicants at the program's inception.¹ ACHC worked with a local real estate agent to identify properties to purchase, focusing on the most affordable segment of Acton's housing market, garden-style condos, and those developments that were not reliant on septic systems.² ACHC put two of these condominiums under agreement with contingencies (e.g., an eligible buyer would be found, unit would be approved by DHCD, property would meet inspection standards) for participation in the program, however, no one on the list was interested in

¹ This summer (2008) ACHC sent letters to all those on their Ready Buyer List and determined that only three were interested in remaining on the List and in possibly participating in the program.

² It should be noted that about one-third of Acton's housing stock is comprised of multi-family dwellings most of which are apartments that have been converted to condominiums.

purchasing this type of unit. The units were then made available on a first-come, first-served basis with additional outreach, and finally a buyer was found for one of the units while the seller backed-out of the other. This initial condo was on the market for \$155,000 and sold for \$100,000, requiring a \$55,000 subsidy.

ACHC found that applicants were not interested in purchasing this type of condominium. Units that were more desirable, such as townhouses, were selling for at least \$235,000 that would require a subsidy of about \$135,000 due to the high condo fees. While the program has the flexibility to go up to \$150,000 in subsidy, the ACHC was reluctant to provide this amount of subsidy to just one household.

The program has maintained some flexibility to be able to respond to opportunities as they arose including:

- Twenty new condominiums were being developed that included one (1) affordable unit as a result of the Town's negotiations with the developer who requested a sewer connection. The unit will be sold for \$160,000 while the market units are priced at \$330,000, beyond what the Town could "buy-down" for additional affordable units. The Ready Buyer list will be used for this unit. The ACHC may buy down the price further to help the buyer meet the affordability requirements.
- Another opportunity arose when the developer who was converting a garden-style apartment complex to condominiums was required by the Town to create four (4) affordable units including a 1BR unit for the Acton Housing Authority. The developer hired a lottery agent to market the units and hold a lottery, no applicants were found so the units went first-come, first-served. Two single household buyers were found to purchase two condos, a one-bedroom priced at \$115,000 and a two-bedroom priced at \$130,000. The Housing Authority purchased the remaining two (2) units, the one that was earmarked for them and a second with ACHC buydown funds. The Housing Authority owns and manages both units, renting them to eligible tenants. The subsidy amount for these four units was \$160,000, averaging \$40,000 per unit.
- ACHC also subsidized three units in a Chapter 40B development. The units were sold to first time homebuyers for \$150,000 (1 BR) and \$167,000 (3BR) and a 3BR unit was sold to the Acton Housing Authority for \$270,000. The program subsidy of \$76,000 came from local Foundation funds. This was an ACHC development.

Eligibility Criteria: All units are expected to be counted as part of the Subsidized Housing Inventory as LIP Local Action Units, and consequently must meet all state LIP requirements and be deed restricted for future resales.

Application and Selection Process: The ACHC engaged a consultant to conduct the marketing and lottery per LIP requirements. A Ready Buyers List was initially created that included 12 qualified applicants. DHCD ruled the list could stay active for 2 years due to the sporadic nature of the program. After that a whole new affirmative marketing and lottery procedure has to be initiated. When everyone on the List indicated that they were not interested in purchasing the units that ACHC had put under agreement, the lottery agent began to identify prospective

purchasers on a first-come, first-served basis. At this point there are only three (3) persons on the current Ready Buyer List.

Property Inspection: ACHC hired an independent home inspector to inspect properties and identify any needed repairs, including those in common spaces. Thus far only one unit needed a significant repair, the replacement of an electrical box, and the seller and ACHC split the costs. Lead paint has not been an issue to date, and if lead was found ACHC would likely back away from the deal or insist that the seller do the deleading prior to the closing.

Success Factors in Adoption and Implementation:

As ACHC was processing applications, it found that applicants were having difficulty affording the associated closing costs and down payments so they established a program to provide up to a \$10,000 grant to qualifying first-time homebuyers to offset the purchase of a unit. A half dozen have participated in the program since it was introduced in 2007, three from the Condo Buy-down Program.

ACHC has also maintained the flexibility and foresight to respond to opportunities as they arose such as entering into an agreement on units sold to the Housing Authority rather than have the AHA go through a lengthy RFP process.

Issues to Consider/Do Differently:

The main problem with Acton's Condo Buydown Program was the product itself. The affordable market units are all older garden style units, they are roughly 850 square feet two bedroom units with some amenities such as swimming pools but no inside parking or storage and no washer/dryer hook-ups in the units. Because Acton has so many condo units, there are always more desirable units on the market such as townhouses but at prices that would require a subsidy greater than politically practical (\$150,000+).

In a down market, the gap between the market price and affordable price is not that great, making it less attractive to a first time homebuyer, who not only gives up that eligibility for future 40B units, but also takes on a deed restricted unit with accompanying red tape and documentation of income, assets, etc. and a lack of equity building. There is also strong competition with the current rental market, the large Avalon project has attracted this clientele as have lower market rents in general. It is cheaper to rent than to own in the current market, which reduces the motivation to buy a unit.

Acton's high tax rate is also a factor in the affordability analysis as are the high condo fees. All of the units considered by ACHC had condo fees that included heat and hot water, those fees are destined to rise every year. ACHC also only considered units on sewers or with treatment plants due to the frequency of special assessments for septic repairs. Having to use the market condo fee has a huge impact on the affordability but the fees cannot be adjusted per the Master Deed of the Condo Associations. This is a major hurdle in the success of the program. Townhouse units typically have condo fees of over \$400 a month. The typical total monthly housing cost is limited to \$1200 per DHCD affordability requirements. This means all the other housing costs (mortgage, insurance, taxes, etc.) would have to be no more than \$800 per month.

One revision could be to work with each applicant on the Ready Buyer List and take them around to units on the market to see if they would select something they considered desirable and then work with them to come up with a reasonable subsidy. New construction units are definitely on the top of every buyer's list, buying those down would be a winner for the buyers but not for the longevity of the program. The funds would soon be depleted by the large subsidy required especially since CPA funding is expected to drop.

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Condo Buydown discussion
Nancy Tavernier, Chair, ACHC
CPC presentation 12/9/10

BASICS OF CONDO BUY DOWN PROGRAM

1. Original ACHC model

- Condo unit is identified as suitable for purchase by a first time homebuyer
- Offer is made on unit and sales price negotiated between ACHC and seller
- ACHC nominates eligible buyer and sets affordable price
- Home inspection and DHCD unit approval
- At closing, ACHC provides difference between the selling price and the affordable price so the seller is made whole
- A deed rider is recorded for the unit making it affordable into perpetuity which means it has to always be sold to an income eligible household for a pre-determined affordable price

2. Grant subsidy model (based on Marshfield)

- Only suitable 2 and 3 bedroom units would be identified, no 1 bedroom units. Preference for condos that are not apartment conversions
- Eligible buyers would qualify for a grant of \$60,000 for a 2 bedroom unit and \$80,000 for a 3 bedroom unit
- Buyers would do their own house hunting
- Buyers would make offer on the selected unit contingent on home inspection and on DHCD, and ACHC approval of the unit
- Buyers would negotiate the price and sign the P&S. The net price (price minus subsidy) would have to be no greater than the allowable affordable price
- At closing, buyers would receive grant to make sellers whole and a deed rider would be recorded for the unit
- In this model, the program administrator (ACHC) serves in a key counseling role, assisting the buyer through shopping, negotiations, rehab analysis, contingencies, escrow accounts, etc

Problems with both models

- Town houses or single family homes preferred by most buyers, they are more expensive and require larger subsidies

- Low buyer interest in program (current mailing list of 10, half are for rentals and most are 1 and 2 person households) NOT a waiting list since new Ready Buyer list must be created
- Units often need capital improvements and costly repairs or special assessments. First time homebuyers cannot be saddled with extraordinary expenses early on
- Buyers need hand holding, ACHC is all volunteer. Marshfield had a half time employee handle housing business including this program
- Clear standards for housing unit quality need to be set by ACHC to insure it is a good investment that will resell in the future

Current housing market creates opportunity for buyers and challenges for deed restricted units

GARDEN STYLE

- Thirteen 1-bedroom units, garden style, on market with price range of \$69,900 to \$125,000. The median price is \$114,000. Using a \$400 a month condo fee in the calculation, the affordable selling price would be \$114,000.
- Seven 2-bedroom units, garden style, are on the market with a price range of \$79,888 to \$167,500. The median price is \$127,500. The affordable selling price would be \$120,000.
- Two 3-bedroom units, garden style, are on the market for \$182,000 and \$199,500. The affordable price for these is \$150,000. These are desirable units that would need subsidies of \$32,000 and \$50,000 well within the \$80,000 grant for 3BR units.
- All of these units have been on the market for a long time, up to a year in some cases. Why? Lenders require 51% owner occupancy, difficulty in qualifying for a mortgage, prefer townhouse condos

TOWNHOUSES, most desirable units

- Seven, 2-bedroom town house units selling for \$139,000 to \$299,900 (new construction). The median selling price is \$224,000. The affordable price would be \$170,000. A subsidy of \$54,000 would be required.

SINGLE FAMILY HOMES

- Three single family homes on the market with 1, 2, and 3 bedrooms and possible major capital issues. Price range is \$269,900 to \$309,900 with the median price of \$274,900. Without a monthly condo fee, the affordable price could be \$200,000. Addressing the capital repairs and likely septic system replacements would be a challenge. Who pays for it?

NEXT STEPS

- ACHC must determine whether or not to proceed with a new model for condo buydown program. This is a time consuming activity, we need member commitment or will need to hire a consultant to do the work
- A new Ready Buyer list has to be established at a cost of \$5000+ for new lottery
- We would focus on Townhouse condos that were built to be condos, not apartment conversions
- All current available townhouse units are 2 bedrooms so a subsidy grant of \$60,000 each would work with the current market for most of the units
- Given current fund balance available for ACHC, we could do 2 units. Two more units could be added with additional funding request.

ALTERNATIVES

- Purchase a garden style unit for the Acton Housing Authority in a suitable condo development to use for their low income rental program. There is no “buydown”, the full selling price must be covered by ACHC. There is no AHA funding or DHCD funding for purchasing condo units.
 - 2 Bedroom units: \$167,000
 - 3 Bedroom units: \$200,000
- Given the current fund balance available to ACHC, we could not do one without wiping out our funds but with additional funding, we could afford to do one.